

## Max Weber's Central Text in Economic Sociology

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In the mind of many readers, the name of Max Weber is primarily associated with *The Protestant Ethic and the Spirit of Capitalism*. This work is considered a classic in sociology and also in economic sociology since its focus is on a major economic occurrence: the rise of modern capitalism in the West and how it was influenced by certain religious doctrines.

It may therefore seem surprising to be told that Weber's most important writing in the field of economic sociology is not *The Protestant Ethic* but another work. It is *Economy and Society*, a work that in contrast to *The Protestant Ethic* was conceived and written after Weber decided to become a sociologist. Although all of *Economy and Society* can arguably be regarded as a study in economic sociology, certain of its parts fall more obviously in this area than others. This is especially the case with its Chapter 2 (in Part 1), called "Sociological Categories of Economic Action," which can be described as a theoretical account of what constitutes economic sociology and a discussion of its key categories. Chapter 2, it should be added, is about 140 pages long and can be described as a small book (Weber [1921–1922] 1978, pp. 63–211).

### "SOCIOLOGICAL CATEGORIES OF ECONOMIC ACTION": AN INTRODUCTION

The main message of this paper is that "Sociological Categories of Economic Action" provides a solid theoretical foundation for economic sociology, rivaled only by what can be found in

the works of Karl Marx and Karl Polanyi. That this has not been fully realized has a number of reasons, including that this chapter is very laborious to read and has not received much scholarly attention. At the current stage of research, it may therefore be useful to have a reader's guide to this text, and it is mainly to this task that the present paper is devoted.

Like all chapters in *Economy and Society*, Chapter 2 has its own history and also its own problems. It was during 1919–1920 that Weber wrote this text (e.g., Baier et al. 2001, p. 107). During the same time Weber also made use of his economic sociology for his lectures in economic history. One can, for example, find a concentrated version of Chapter 2 at the very beginning of the lecture series that modern readers know as *General Economic History*.

Before Weber wrote Chapter 2 he had written various drafts for *Economy and Society*, some of which contain material that would later be used for "Sociological Categories of Economic Action" (e.g., Weber [1921–1922] 1978, pp. 340–384 and 635–640). But it should be emphasized that there exists a qualitative difference between Weber's early drafts and Chapter 2. Before Weber decided on the final rewrite that resulted in Chapters 1–4 in Part 1 of *Economy and Society*, he was primarily interested in making a sociological analysis of the relationship between different types of groups and the economy. In Chapter 2, in contrast, he wanted to present a sociological analysis of economic life in general (for the history of *Economy and*

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*Society*, including Chapter 2, see especially Winkelmann 1986; Mommsen 2000; Baier et al. 2001).

Like all the chapters in *Economy and Society*, Chapter 2 presents its own difficulties. It is, for one thing, very long and can, to repeat, perhaps best be described as a short book. It is also written in a very dry style and is difficult to penetrate. The chapter begins with some fifty pages that are written in about the same style as Chapter 1: definitions of concepts, followed by explanatory comments (Weber [1921–1922] 1978, pp. 63–113). The way Marianne Weber has described Chapter 1 also fits Chapter 2: “arranged by numbers and letters, sentence follows on sentence, blow upon blow, as it were” (Weber [1926] 1975, p. 676). Weber covers such topics as the concept of economic action, types of economic organizations, and profit-making versus householding.

The second part of Chapter 2 is even harder to read. It is about a hundred pages long and can be described as an attempt from Weber's side to present typologies based on his encyclopedic knowledge of economic history. Topics that are discussed in laborious detail include the division of labor, appropriation, and trade. The second part also contains a long account of a book that is little read today, *The State Theory of Money* (1905) by G. F. Knapp, as well as a discussion of the significance of politics for the economy (Weber [1921–1922] 1978, pp. 114–206).

Chapter 2 does not seem to have been studied very much. We know that Frank Knight and Alexander von Schelting lectured on this chapter in the 1930s at the University of Chicago and Columbia University, respectively. Karl Polanyi also taught Chapter 2 to his students at Columbia University in the 1940s. Edward Shils (1970, p. 823, n. 21), who attended Knight's lectures, has testified that “we studied the text line by line,” and Daniel Bell (1990, p. 217), who attended von Schelting's lectures, that “we spent the entire term . . . mostly on

definitions of economic and rational actions.” Polanyi's ([1947] 1968, pp. 135–138) teaching of Chapter 2 was presumably as thorough.

Although Shils and Bell seem to have appreciated what they learned from Weber's chapter on economic sociology, others have reacted differently. Guenther Roth (1988–1989, p. 149), for example, has called Chapter 2 “a waste of effort” and argued that “economists and sociologists have [with minor exceptions] ignored it.” Alan Sica (1992, pp. 146 and 208) has described it as “almost unreadable accretion of definitions piled upon definition.”

The literature on Chapter 2 is also very small. A pioneering effort to analyze it can be found in Talcott Parsons's (1947, pp. 30–55) introduction to his and A. M. Henderson's translation of Part 1 of *Economy and Society* from 1947. Parsons's effort went largely unnoticed, and the literature on Weber after the 1940s does not contain many references to Chapter 2 (for some exceptions, see Freund [1966] 1972; Bader et al. 1976; Winkelmann 1976, pp. 35–43; Jones 1977; Poggi 1983, pp. 13–26).

In the 1990s, as part of the revival of economic sociology, an effort was made to present Weber's full economic sociology, including “Sociological Categories of Economic Action” (Swedberg 1998a). Chapter 2 was, for example, presented as “Weber's manifesto in economic sociology” (Swedberg 1998b). This attempt to draw attention to Weber's text does not, however, seem to have been very successful, since next to no writings on Chapter 2 have been produced since the 1990s (for an exception, see Jagd 2002 on Weber's concept of the firm and Ford 2010 on Weber's concept of property). Nonetheless, the current paper represents one more attempt to argue that the chapter is an extremely valuable and largely unexploited text in economic sociology. It also represents the author's attempt to go beyond his earlier writings on this chapter (Swedberg 1998a, Chapter 2; 1998b; 2005).

### A READER'S GUIDE TO "SOCIOLOGICAL CATEGORIES OF ECONOMIC ACTION"

As earlier mentioned, I think that at the current stage of our knowledge about Chapter 2 it might be useful to produce a reader's guide to Weber's text. The easiest way for the reader to get into the text is perhaps to read about its key concepts. With this in mind, I have selected the following: (1) *economic action*, (2) *householding vs. profit-making*, (3) *economic rationality (formal and substantive)*, (4) *appropriation*, (5) *the market*, (6) *types of capitalism (especially rational capitalism)*, and (7) *the significance of politics for the economy*.

#### (1) *Economic Action*

Weber's vision of sociology—"interpretive sociology," as he insisted on calling it—is presented in Section 1 of Chapter 1 in *Economy and Society*. "Basic Sociological Terms" begins with a terse, one-sentence definition of sociology, followed by some clarifying remarks and a twenty-page explanatory comment. Weber's vision of economic sociology—what logically should be called "interpretive economic sociology"—is similarly expressed in the opening sentence of Section 1 in Chapter 2 of *Economy and Society*, which reads as follows (and I will cite the German original first, followed by the standard translation in English):

"Wirtschaftlich *orientiert*" soll ein Handeln insoweit heißen, als es seinem gemeinten Sinne nach an der Fürsorge für einen Begehr nach Nutzleistungen orientiert ist. (Weber 1976, p. 31)

Action will be said to be "economically oriented" so far as, according to its subjective meaning, it is concerned with the satisfaction of a desire for "utilities" (*Nutzleistungen*). (Weber [1921–1922] 1978, p. 63)<sup>2</sup>

The original formulation as well as the translation are awkward, and the sentence does not seem to say very much. But this impression, as I will show, is deceptive. To better understand the message of the sentence, one must, I suggest, get at the view of *the economic*

*process* that underlies Weber's concept of economic action. What is at the center of the initial sentence, I suggest, is a concern with what is translated as "the satisfaction of a desire for 'utilities.'" This is what an economy is all about, according to Weber.

Using a different wording of this passage makes it easier to understand what Weber is concerned with, and I suggest that we read it as follows: *making provision for means to satisfy a desire for utilities*.

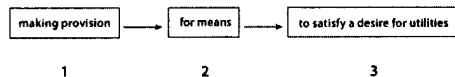
There are two parts to this formulation: *making provision for means* and *satisfy a desire for utilities*. The second part ("satisfy a desire for utilities") comes out very clearly in the English translation, but not the first part ("making provision for means"). As suggested in a footnote, this may be related to the way that the German word *Fürsorge* has been translated.<sup>3</sup> In any case, as I shall show, reformulating the translation and expanding on what is implicit in the term *Fürsorge* allows us to better get at Weber's underlying notion of the economic process.

"Making provision for means" refers to such activities as work and production, while "satisfying a desire for utilities" has to do with consumption or the making of profit by a firm. Weber is very careful to argue that the concept of "utility" must not be limited to the satisfaction of needs but also include the case of profit-making by a firm. Weber's definition of the economy in the opening sentence in Section 1 covers, in other words, roughly the same topics as modern economics ("production, distribution, exchange"). This represents no great surprise, since Weber ([1921–1922] 1978, p. 68) says his economic sociology is based on economic theory.<sup>4</sup>

One can make one more addition to Weber's notion of what constitutes an economy, by dividing up "making provision for means" into "making provision" and "means." The reason for proceeding in this way is that in the modern economy people typically work ("make provision") for pay ("means"). They then, at some

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later stage, use these means to consume ("satisfy a desire for utilities"); alternatively these means are used for reinvestment in a firm. We may summarize the argument, so far, about the different parts of the economic process that underlie Weber's notion of economic action in Section 1:



Just as when Weber discusses "social action" in Section 1 in Chapter 1, however, we immediately have to make two additions to his concept of "economic action" in Chapter 2. Economic action is "action," only if the actor invests his or her behavior with a subjective meaning. And it is only "social" if it is oriented to the behavior of others or to an order.

In the comment that accompanies the definition in Section 1, Weber ([1921–1922] 1978, p. 64) says that all economic phenomena are invested with "a peculiar type of subjective meaning." Why "peculiar"? The answer that Weber gives is that it is oriented to various aspects of the economic process or, in our formulation, with "making provision for means to satisfy a desire for utilities." To take an example from another of Weber's writings: round little metal pieces only become "money" if they are invested with a special meaning (Weber [1907] 1977, pp. 102–103). And this special meaning is related to the task of serving as "means," which can be used either to satisfy one's desires for utilities or to make a profit.

Does not economic theory also deal with subjective meaning, just as economic sociology? Yes, and this is where "utility" comes into the picture.<sup>5</sup> The difference between economic theory and economic sociology on this point becomes clear, however, if we read the explanatory note to what Weber means by "sociology" in Section 1 in Chapter 1. From

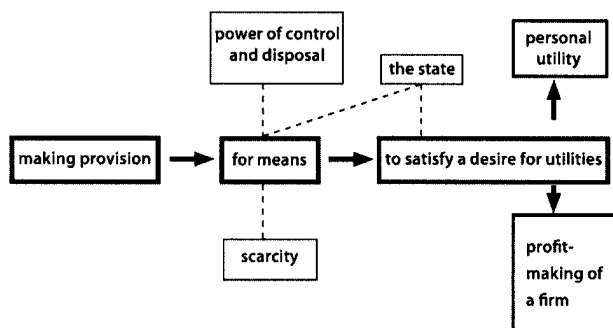
this text it is obvious that the sociologist is much more concerned than the economist with trying to get into the actor's head and to verify his or her conclusions about the meaning with which the actor invests his or her behavior ("evidence," "direct observational understanding," "explanatory understanding," and so on).

Economic action is "social" if it is oriented to some other actor(s) or to an order. Weber ([1921–1922] 1978, pp. 22 and 63) notes that economic action does not always have to be social, and one can perhaps imagine some lone prehistoric individual looking for food in a forest, finding it, and eating it. But most economic actions are clearly social. You buy from someone; you work with someone; you consume with someone; and so on. Money is accepted by a person, Weber also notes, on the silent assumption that others will accept it in their turn (p. 636).

Section 1 in Chapter 2 has more to say about the economic process than has been discussed so far. Weber notes, for example, that economic action is peaceful, that it deals with scarcity, and that it includes "power of control and disposal" (*Verfügungsgewalt*). Translated into our figure, *the making of provisions* has to be nonviolent. The scarcity postulate mainly deals with *the means*, in the sense that if there were plenty of means available, one would not have to make provision to get them. One also has to have control over one's means so that others will not take them. We can illustrate Weber's argument so far with the help of a figure (see Figure 4.1).

Weber ends Section 1 of Chapter 2 ("Sociological Categories of Economic Action") by quickly mentioning three concepts. These are "rational economic action," an "[autonomous] economy," and an "economic establishment." By proceeding in this manner, Weber presumably wants to signal to the reader that much of the remaining chapter will deal with the modern economy and that these concepts are useful for this purpose.

**Figure 4.1 The View of the Economic Process that Underlies Weber's Concept of Economic Action in Chapter 2, Part I of *Economy and Society***



Source: Weber [1921–1922] 1978, pp. 63 and 166–201. The basic idea of this figure is that underlying Weber's definition of economic action is a notion of the whole economic process. Centered around the term *Fürsorge*, the economy can be understood as efforts to make provision for means that are used either to satisfy people's needs or to make a profit. Scarcity plays a role in Weber's definition of economic action, as does the need to keep others away from the fruits of one's provisions (power of control and disposal). Politics is finally directly linked to the economic process, primarily through the monetary system and the need to provide for political bodies.

## (2) *Householding versus Profit-Making*

One of Weber's most interesting and underutilized concepts in economic sociology is that of householding, which is part of the conceptual pair householding and profit-making. Householding is interesting, among other things, because it has been so important in human history. "The two basic types of all economies," as Weber (1923, p. 6) put it in his lectures from 1919 to 1920, "are householding and profit-making."<sup>6</sup>

Householding is also an underutilized concept in the sense that it has received next to no attention in the secondary literature on Weber. One reason for this neglect is the overwhelming contemporary concern, inside as well as outside of academia, with profit-making in the form of "the market." Another is that Weber does not do a very good job of drawing the reader's attention to the distinction between householding and profit-making. Although one would have expected it to be discussed in one of the very first sections in Chapter 2, it does not appear until Section 10—and then in a section that begins with a different topic.

Householding is a type of economic activity that also exists in the present, Weber says, especially in the form of the family. Today, however, it is overshadowed by the profit-making firm, which has taken over production and also replaced the household as a workplace. In the past, in contrast, the household dominated economic activity; it "has been the dominant [economic] form in most periods in the past" (Weber [1921–1922] 1978, p. 90).

Weber defines householding by contrasting it to profit-making. Although householding is oriented to consumption and the needs of its members, profit-making is oriented to opportunities to make a profit. The formal definitions that Weber provides in *Economy and Society* read as follows: "The continual utilization and procurement of goods, whether through production or exchange, by an economic unit for purposes of its own *consumption* or to procure other goods for *consumption* will be called 'budgetary management' (*Haushalt*)" (p. 87). "Profit-making' (*Erwerben*) is activity which is oriented to opportunities for seeking new

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powers of control over goods on a single occasion, repeatedly, or continuously" (p. 90).

Householding aims at wealth and profit-making at capital. This also means that the type of calculation is different. While in householding you periodically look at the difference between what comes in and what goes out, in a profit-making enterprise you want to establish exactly what assets exist at the beginning of some enterprise and what assets one ends up with. The former way of calculation is called budget and the latter capital accounting.

The household is not more primitive than the firm, Weber emphasizes; it just emerged earlier in history. Both of them can be managed in a rational way or in a traditional way. The *oikos* in antiquity is an example of a traditional household, and a planned economy of a rational household. The modern firm represents a rational form of profit-making, while the medieval trading company (*commenda*) was traditional in nature (see Figure 4.2).

While householding and profit-making constitute two very different types of economic action, the difference between the two depends more on the subjective element involved than on the actions per se. "The administration of budgetary 'wealth' and profit-making enterprises may be outwardly so similar as to appear identical," Weber ([1921–1922] 1978) says at

one point. "They are in fact in the analysis only distinguishable in terms of the *meaningful* orientation of the corresponding economic activities" (p. 98).

But even if householding and profit-making constitute two very different types of organizing economic action, they do not necessarily exclude one another. One can find many examples of mixtures of the two throughout history. An *oikos* may, for example, sell its surplus on the market. "In the action of an individual," Weber also says, "the two elements [of householding and profit-making] may be so intimately intertwined, and in the past have typically been so, that only the concluding act—namely, the sale or the consumption of the product—can serve as a basis for interpreting the meaning of the action" (p. 90).

It was earlier mentioned that householding constitutes one of Weber's most interesting and underutilized concepts. My own view is that the conceptual pair of householding and profit-making can become as useful in economic sociology as Polanyi's famous typology of reciprocity, redistribution, and exchange. For one thing, Weber's conceptual pair would make it possible for the analyst to look at economic life from a different perspective than Polanyi. His typology is also more objective. Householding is not identified with what is "good," along the

**Figure 4.2 Householding and Profit-Making: The Two Basic Types of All Economies**

	Householding	Profit-Making
Immediate Goal	consumption	seize opportunities for profit
Long-term Goal	wealth	capital
Form of Calculation	budget	capital accounting
Institutional Expression	individual household, <i>oikos</i> in Antiquity, manorial economy socialistic economic system	the profit-making enterprise (early and later versions of the firm)

*Source:* Weber [1921–1922] 1978, pp. 86–100 (cf. pp. 356–384). The quote in the caption comes from Weber 1923, p. 6. According to Max Weber, economic actions can be divided into two basic categories: householding (*Haushalt*) and profit-making (*Erwerben*).

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lines of redistribution and reciprocity in Polanyi's work. Weber notes, for example, that while there is a strong element of sharing in the household ("household communism"), it has also been the historical seat of patriarchy. Slaves were also part of the *oikos*.

**(3) Economic Rationality  
(Formal and Substantive)**

Another important pair of concepts in Chapter 2 is Weber's notions of formal rationality and substantive rationality. The idea that modern economic life is characterized by a distinct type of rationality represents an important insight but is not original to Weber. It can be found in modern economics starting with Adam Smith. Weber's achievement in this regard has more to do with the way in which he understands rationality in the economic sphere. For one thing, he conceives of rationality not as an assumption but as something that varies historically and socially. Weber also splits the concept of rationality into two: formal and substantive rationality. By doing so, he is able not only to address the issue of efficiency in its narrow sense, but also in its more extended and value-laden sense.

There exists a constant and never resolved tension in Weber's economic sociology between the concepts of formal rationality and substantive rationality. The way that demands for economic growth are today mixed up with demands for economic justice, economic equality, and the like is a reminder of this. And this tension, to repeat, is hard to account for with a single concept of economic rationality.

Weber defines formal rationality as the degree to which "quantitative calculation" is possible and actually carried out in an economic action. The existence of money facilitates this calculation, even if it is possible to achieve a certain measure of formal rationality in its absence. Substantive rationality is defined as follows: "the degree to which the provisioning of given groups of persons (no matter how delimited) with goods is shaped by economically oriented social action under some criterion

(past, present, or potential) of ultimate values, regardless of the nature of these ends" (Weber [1921–1922] 1978, p. 85).

Translated into more straightforward language, substantive economic rationality has to do with economic action informed by a notion of how people *ought to* be provided for. Any kind of value can serve as the standard against which to judge things, Weber makes clear. He also notes that while formal rationality is relatively simple to understand, the concept of substantive is "full of ambiguities" (p. 85).

In his discussion of substantive rationality, Weber suggests that this concept can be applied to different parts of the economic process. It can be applied to the outcome of the economic process; to the mentality that infuses the economic process; and to the kind of instruments that are used. Should we, for example, accept the outcome of the economic process—or should we demand measures to create more equality? Should we encourage people to be methodical in their work—or should they also be sensitive to various forms of injustices in the workplace? Should we use the most efficient piece of machinery—or one that lets the worker participate more equally in the work process?

In his discussion of formal versus substantive rationality, Weber emphasizes very strongly the element of meaning that the actors invest their economic behavior with. Again, this is crucial for the very special type of economic sociology Weber wanted to create: an *interpretive economic sociology* (see Swedberg 2006 on this point). But Weber also makes clear that formal rationality is not just a mentality; for it to exist, certain social conditions have to be present. Calculating the price of a good with full (formal) rationality can, for example, be done only if there is market freedom and the economic actors are autonomous. And calculating the profit in a formally rational way can ultimately be done only if the workers have been expropriated from the means of production. What drives formal rationality, Weber ([1921–1922] 1978) also notes, is not demand per se but

demand backed up by resources ("effective demand," p. 108).

While Weber tends to keep apart the categories of formal and substantive rationality, he also notes that they can coincide in reality. This may happen to "a relative high degree" in advanced capitalism, Weber hints, but he also states that this will only happen in *every* case under "certain very artificial assumptions" (p. 108). This can perhaps be translated into a belief from Weber's side that modern capitalism has led to a rise in the minimum standard of living, but that this development is not automatic. Weber is also careful to note that the existing income distribution can always be challenged on substantive grounds. "Formal rationality itself does not tell us anything about real want satisfaction, unless it is combined with an analysis of income distribution" (pp. 108 and 109).

#### (4) *Appropriation*

The concept of appropriation is central to Weber's economic sociology but also presents some conceptual difficulties. It is central because it is related to his notion of power of control and disposal (*Verfügungsgewalt*), which plays an important role in the economic process according to Section 1.<sup>7</sup> It presents some conceptual difficulties because Weber does not spell out the way it is connected to the power of control and disposal.

Appropriation is defined in Section 10 in Chapter 1 in connection with Weber's discussion of open and closed social relationships. Appropriation means to exclude others from opportunities or advantages. If one has appropriated something that can also be inherited, there is *property*, according to Weber ([1921–1922] 1978, p. 44; cf. Ford 2010). There also exists a section of some twenty-five pages toward the end of Chapter 2, in which Weber enumerates a large number of types of appropriation that can be found throughout history (pp. 125–150). It is considered one of the most difficult parts of Chapter 2.

It is not easy to summarize what Weber says about the different types of appropriation in the later part of Chapter 2, but a few points can be noted. Weber points out, among other things, that the actors who carry out the appropriation can differ. They can, for example, be individual workers or individual owners, just as they can be organizations of workers or organizations of owners. The object of appropriation can also differ. One can appropriate labor and its fruits, land, and the other means of production. Appropriation can finally take place within the context of a household type of economy or a profit-making type of economy.

Weber is also interested in the effect the type of appropriation may have on other parts of the economy. The way something is appropriated may, for example, affect the productivity of labor. If one appropriates a person (slavery), as opposed to just hiring someone (wage labor), this will create a disincentive to hard work.

Weber insists in Chapter 2 that the power of control and disposal must be included in "the sociological concept of economic action" (p. 67). He also notes that the power of control and disposal is not the same as the legal right to something; it is rather a *de facto* power (p. 67). It *can* take a legal expression, and typically does so in a capitalist context. But the power of control and disposal is not identical to legal ownership; it covers more than this.<sup>8</sup> Private ownership in a capitalist society, for example, also entails the expropriation of the workers from the means of production and the power that comes with this. Much more than this, however, Weber does not say, and the reader is especially not told how the concepts of appropriation and power of control and disposal are related to each other.

One way of linking up Weber's concept of power of control and disposal to his concept of appropriation may be the following. Appropriation seems to be a very broad concept, under which the power of control and disposal is subsumed. Appropriation can also be economic as well as noneconomic in nature. One



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may, for example, appropriate opportunities of political advantages, just as opportunities of economic advantages. If this argument is correct, power of control and disposal may be understood as referring to the appropriation of *economic* opportunities. Once you have appropriated something, you have power of control and disposal over it.

**(5) The Market**

Weber ([1921–1922] 1978, pp. 82–85) devotes a fairly brief section to the market in Chapter 2. If one reads this text very closely, one can extract Weber's conception of the market, but since this is spelled out in a perfectly clear manner in an early version of *Economy and Society*, it is easier to use the latter text (Weber [1921–1922] 1978, pp. 635–640). "A market," we here read, "may be said to exist wherever there is competition, even if only unilateral, for opportunities of exchange among a plurality of potential actors" (p. 635).

What makes up a market, in short, is not only exchange, but also another type of social action: competition. Buyers compete about who will be in a position to buy, just as sellers compete about who will be in a position to sell. The exchange then takes place between the buyer who is willing to pay the highest price, and the seller who is willing to sell at the lowest price. Since buyers and sellers have different interests, there will be a struggle ("haggling") between the two before the deal is concluded.

At this point, one may want to stop for a moment and see how Weber ([1921–1922] 1978, p. 81) conceptualizes the two types of interaction that make up the market: competition and exchange. According to Chapter 1 in *Economy and Society*, competition is any type of formally nonviolent social action that allows you to seize control over something that also others want (p. 38). Competition can also be regulated in different ways. Exchange is defined in the same spirit of nonviolence, namely as "a compromise of interests on the part of the parties in the course of which goods or other ad-

vantages are passed as reciprocal compensation" (p. 72). Presumably both parties to an exchange benefit from it—but this is something that Weber does not discuss.

In describing the market, Weber says that the most obvious type of market is the one that can be found in one specific place. Referring to the interactions that make up a market, he says: "their physical assemblage in one place, as in the local market, the fair (the 'long distance market'), or the exchange (the merchants' market), only constitutes the most consistent kind of market formation" (p. 635).

Note that Weber's definition of the market does not exclude that competition for opportunities of exchange also takes place *outside* of the market place, in society at large. The competition to sell, say, a car, starts long before the actual car is ready to be sold. The production of the car first must be financed; workers have to be hired to work on the car; the car has to be marketed; and so on. The reason for pointing this out is to show that Weber's concept of the market can be interpreted in a way that assigns more importance to the market in the economic process. Long before a good arrives to the market, in short, it has been deeply shaped by it.

Weber himself does not make this point, and the reader of Chapter 2 is left with the impression that it is mainly productive labor and technology that account for economic growth in a modern capitalist economy. Weber does, however, assign much importance to the market as an effective price-making mechanism. Socialism lacks a mechanism of this type, something that makes it hard to have a fully rational economy in this type of society.

Weber explicitly states that he will introduce neither the concept of value nor a theory of price in his economic sociology (pp. 63 and 116). This means that he avoids both the labor theory of value and marginal utility theory in its demand-supply version. He says only that power and interests play central roles in the formulating prices. "Money prices are the product

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of conflicts of interest and of compromises; they thus result from power constellations" (p. 108). All a price can tell you, in other words, is how much one actor, who has certain interests and a certain power, can get for something, in exchange with someone with another set of interests and power. "Prices . . . are instruments of calculation only as estimated quantifications of relative chances in this struggle of interests" (p. 108).

In the section on the market in Chapter 2, Weber devotes much attention to the regulation of the market. At one end of the spectrum, there is the "free market" and at the other, a market that is fully regulated—by tradition, convention, or the structure of interests. The most interesting of these three types of market regulation is the one caused by the structure of interests or economic power. This represents an example, according to Weber, where there is "substantive regulation" of the market, even if it is "formally free" (p. 83).

Just as Weber emphasizes that the market has helped to break up "status monopolies" throughout history, he also notes its tendency in modern times to create "capitalist monopolies" (p. 639). There is, in other words, an inherent tendency in modern capitalism to create monopolies, according to Weber. While he seems to have feared the power of capitalist monopolies, he does not argue that state action is needed to break them up.

**(6) *Types of Capitalism***  
**(Especially *Rational Capitalism*)**

As mentioned earlier, Chapter 2 is constructed in a very systematic fashion. It begins with economic action and continues over economic organization to economic life on a macro level. Weber's ([1921–1922] 1978) discussion of different types of capitalism falls in the last category and can primarily be found in Section 31 (pp. 164–166). Although Weber's work, including the rest of *Economy and Society*, contains references to a great number of types of capitalism, Section 31 is useful in that it narrows

these down to three basic types. These are rational capitalism, political capitalism, and what may be called traditional commercial capitalism.

Weber starts out the section by discussing different types of orientation to profit-making. He presents seven of these, each with its own distinct form. Most of them, he adds, have existed for thousands of years, while two are unique to the modern West. These two constitute rational capitalism. The first of the two forms, Weber specifies, consists of trading in a free market and producing goods according to the principle of capital accounting. The second form of rational profit-making includes speculation in standardized commodities, securities, and related forms of finance.

Political capitalism (or politically oriented capitalism, to be exact) has been around for a long time and is characterized by the fact that the profit, in one way or another, is made possible by the political system rather than the market. The financing of wars or of political parties is one example. Making a profit under the direct protection of the political powers—say, in a colony—is another.

What I call traditional commercial capitalism has similarly been around for a long time and is described by Weber as small-scale trade in goods, and the buying and selling of currencies. Just like political capitalism, this type of capitalism is still around.

Although Weber's typology of capitalism in Chapter 2 is useful, it is also incomplete on several points. Two topics that need to be added, in order to get a better picture of what constitutes rational capitalism, are capital accounting and the capitalist firm. These two phenomena are also closely related.

Capital accounting is indispensable to rational profit-making, according to Weber. More precisely, it constitutes a form of calculating profit, by looking at the value of the profit-making assets before and after the profit-making opportunity. Or to cite Weber's definition: "Capital accounting is the valuation and verification of opportunities for profit and of the

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success of profit-making activity by means of a valuation of the total assets (goods and money) of the enterprise at the beginning of a profit-making venture, and the comparison of this with a similar valuation of the assets still present and newly acquired at the end of the process; in the case of a profit-making organization operating continuously, the same is done for an accounting period" (p. 91).

Although capital accounting presupposes a certain calculative mentality, Weber is careful to make clear that it is not just something subjective but possible only under certain conditions. In its formally most rational form, he says, capital accounting presupposes "*the battle of man against man*" (p. 93).

Weber devotes one whole section in Chapter 2 to the conditions that underlie the formal rationality of capital accounting (pp. 161–164). In extremely terse language, he enumerates eight of them. If one bundles these together, they can be reduced to the following two: conditions that maximize calculability and conditions that minimize regulations. The demand for calculability essentially translates into the demand for rational technology and a special type of formally rational monetary system.

The economic arena itself, Weber says, must not be regulated in any way. For one thing, there must be general "market freedom" (p. 61). There must also be a "complete absence of substantive regulation of consumption, production, and prices, or of other forms of regulation which limit freedom of contract or specify conditions of exchange" (p. 162). Nothing must block rational capitalism from working smoothly.

To repeat, capital accounting is closely linked to the key actor in rational capitalism: *the firm*. Given the centrality of the firm in modern capitalism and that its impact on economic life has been "revolutionary," it is surprising that no section in Chapter 2 is exclusively devoted to this topic (pp. 202 and 205). A few words on Weber's view of the firm are therefore in order.

From a historical perspective, Weber says, the firm emerged out of the household. A crucial step in the firm's development came during the Middle Ages in Europe, when the firm's property got separated from that of the household. Around the same time, and in a related process, the firm became conceptualized as an actor in its own right. It took another couple of centuries before the modern shareholding firm emerged.

In sociological terms, the firm constitutes a special type of what Weber calls an economic organization. An organization is defined in Chapter 1 as a closed social relationship that is also an order, supported by a staff (Weber [1921–1922] 1978, p. 48). An economic organization primarily engages in economic actions and has a certain type of autonomy (p. 74). A firm, to sum up the argument, is an economic organization that is oriented to capital accounting (pp. 91 and 116). A rational firm is oriented to profit-making in the market, in a methodical and calculating manner (p. 91).

### (7) *The Significance of Politics for the Economy*

Weber ends Chapter 2 and his presentation of the key categories in economic sociology not with a discussion of the economy at the macro level, but with a discussion of the relationship of the economy to political bodies. A full quarter of the text is devoted to the argument that *politics is an integral part of the economic process* (Weber [1921–1922] 1978, pp. 166–201).

As already mentioned, Weber says that the actors in rational capitalism have to be able to count on predictable actions from the side of the administration as well as the legal system. Toward the end of this chapter, in contrast, Weber looks at a number of cases in which there is a much more direct link between the economy and the political bodies. These cases are enumerated in Weber's usual terse style (pp. 193–194). Two of them are discussed in more detail, and presumably they are the most important.

The two most important ways in which political bodies are directly linked to the economy are the following: through the monetary system and through the financing of political bodies.<sup>9</sup> When Weber was writing Chapter 2, he was influenced by the so-called state theory of money as developed by G. F. Knapp ([1905] 1924). Like Knapp, Weber emphasizes that the modern state has a monopoly on creating money and on regulating it. The state ensures what Weber calls the formal validity of money and also attempts to affect its substantive validity, through monetary policy.

But even if he admired the ideas of Knapp, Weber also thought that his colleague had exaggerated the role of the state in monetary affairs. Weber ([1921–1922] 1978, pp. 78) explicitly states that when it comes to the theory of money, he prefers the work of von Mises. While Knapp, for example, viewed stability as the only goal of monetary policy, Weber argued that the state could have other goals as well. He also made clear that the state had ultimately little power to influence the substantive validity of money. “In the future as in the past it will be the ‘interests’ of individuals rather than the ‘ideas’ of an economic administration which will rule the world” (p. 184).

The second important way in which the political system is directly linked to the economy, according to Weber, is through the financing of political bodies. He says there are many ways in which this type of body can acquire economic resources. There is, for example, taxation of the modern type, administered by the staff of the state. But the right of taxation can also be farmed out, as was often the case in antiquity. Contributions from the population can be secured on an intermittent or on a permanent basis; they can be in kind or in money; and so on.

Weber was also very interested in the effect that the financing of political bodies had on the economy in general. He noted that modern taxation went well with the rational type of capitalism, while the farming out of taxes was better suited to political capitalism. But Weber also

emphasized that there was no inevitability involved in these relationships. Many other factors than the way the political bodies are financed have influenced the development of the major forms of the economy. For one thing, there is also the impact of science and technology. The social forms of economic organizations, such as the firm, have not appeared automatically but have had to be invented. Finally, and recalling the theme of *The Protestant Ethic* and related studies, ethical and religious values have often played an important role in blocking the economic development in certain directions.

### CONCLUDING REMARKS

In this paper I have singled out the most important concepts in Chapter 2, commented on them, and in this way provided a reader's guide to Weber's text. Although I have chosen only a handful of concepts, some of them have in turn been constructed with the help of other concepts. Weber's concept of the market, for example, draws on his concepts of exchange and competition.

But I have not only wanted to give an account of the key concepts in Chapter 2. I have also wanted to capture the unitary conception of the economic process that underlies the whole chapter. With this in mind, I presented Weber's basic model of the economy in Figure 4.1 when I discussed his concept of economic action.

The other concepts I chose to present were, however, not chosen just because they are important, but also because they are related to the basic economic process as Weber viewed it. To show this, I have constructed two versions of Weber's basic model, one for an early household economy and one for a modern profit-making economy (see Figure 4.3). In the household type of economy there is no money, no market, and no legal regulation of the power of control and disposal. In the profit-making type of economy, in contrast, money is used, everything goes through the market, and the power of control and disposal often takes the form of contracts.

**Figure 4.3 Weber's Basic Model of Economic Action in Chapter 2 in *Economy and Society* as Applied to a Non-monetary Household Economy and to Modern Capitalism**

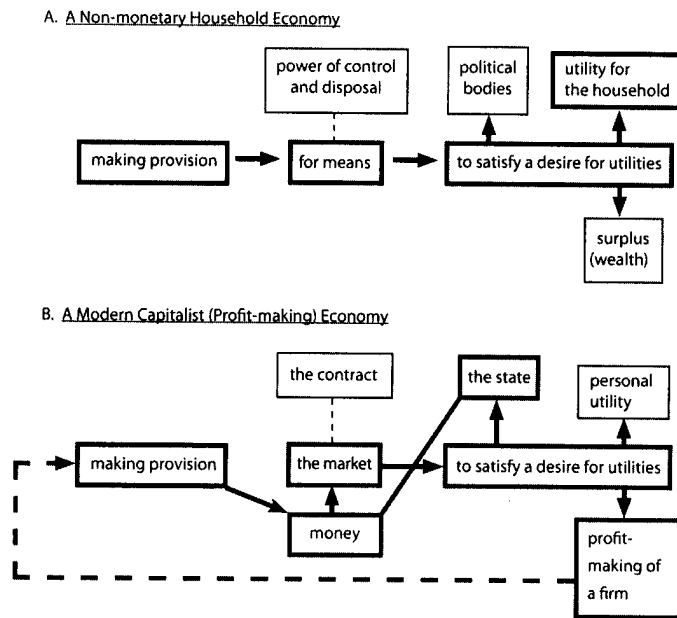


Figure 4.3 represents Weber's notion of the economic process, as implicit in Section 1 in Chapter 2 in *Economy and Society*. This figure makes the same attempt, but this time his notion is applied to a household economy and a rational profit-making capitalist economy. The broken line from the profit-making firm to "making provision" represents the continuous reinvestment of profit.

So far I have spoken about the need for a reader's guide to Chapter 2 and have drawn attention to the character of the economic process that informs this chapter. Before ending, however, I also should say something about the status of this chapter for economic sociology in general. Just as important as aiming at a better understanding of Weber's work, it seems to me, is to diffuse Weber's ideas among those who are doing work in economic sociology. Although we still have a way to go before we have properly penetrated Chapter 2, there is the equally important task of making economic sociologists understand the full value of this chapter. As I stated in the first sentence of this paper, "Sociological Categories of Eco-

nomic Action" provides a solid theoretical foundation for economic sociology, rivaled only by what can be found in the works of Karl Marx and Karl Polanyi.

**Editors' Notes on Further Reading:**  
**Richard Swedberg, "Max Weber's Central Text in Economic Sociology"**

This article contains a reader's guide to one of Weber's most central but also most difficult texts in economic sociology, Chapter 2 in *Economy and Society*, titled "Sociological Categories of Economic Action." Weber's chapter is the length of a small book and can be characterized as his theoretical manifesto in economic sociology. While very important, it has attracted few attempts at an interpretation.

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Although the secondary literature on the work of Max Weber is enormous, there are only a few writings devoted to his economic sociology more generally. A bibliographical guide to the existing literature can be found on pp. 287–302 in Max Weber (ed. R. Swedberg), *Essays in Economic Sociology* (1999). This work also contains a glossary to the key terms in Weber's economic sociology and a collection of his most important writings in this field. A translation of Weber's pamphlet on the stock exchange can be found in the Summer 2000 issue of *Theory and Society*. Relevant works by Weber also continuously appear in his collected works, such as his two volumes on the stock exchange (*Börsenwesen* [1999–2000]).

An introductory, book-length analysis of Weber's economic sociology, centered around *Economy and Society*, can be found in Richard Swedberg, *Max Weber and the Idea of Economic Sociology* (1998). The enormous literature on *The Protestant Ethic* has not been properly summarized and discussed; and the most complete listing of these writings so far is to be found on pp. 32–106 in Richard Hamilton, *The Social Misconstruction of Reality* (1996). An excellent introduction to the key issues in *The Protestant Ethic* can be found in the writings of Gordon Marshall, especially *In Search of the Spirit of Capitalism* (1982).

Several interesting essays focus on some single work or on some special aspect of Weber's economic sociology, broadly conceived. One of these is the article on Weber's *General Economic History* by Randall Collins, which can be found in this reader (Chapter 20). For Weber's relationship to Austrian economics, see Robert Holton and Bryan Turner, *Max Weber on Economy and Society* (1989). The relationship of Weber to Pareto is covered by Alan Sica in *Weber, Irrationality and Social Order* (1992), and to Schumpeter, Schmoller, and the German Historical Economists in the articles by various authors in Wolfgang Mommsen and Jürgen Osterhammel, eds., *Max Weber and His Contemporaries* (1987). Weber's concept of closed economic relationship is at the center of Raymond Murphy, *Social Closure* (1988), while the evolution of his concept of property is discussed in "Max Weber on Property: An Effort in Interpretive Understanding" by Laura Ford (available on the Web from the Social Science Research Network). Søren Jagd's interesting analysis of Weber's concept of the firm can be found in the May 2002 issue of

*Max Weber Studies*. For the history of how *Economy and Society* was written, see, for example, Chapter 13 in Wolfgang Schluchter, *Rationalism, Religion and Domination* (1989). For one of the few overall pictures of Weber's work on economic topics, including his economic sociology, see Hinnerk Bruhns's well-researched "Max Weber, l'économie et l'histoire," *Annales* 51 (1996):1259–1287. For Weber as an economist, see Richard Swedberg, "Max Weber as an Economist and as a Sociologist," *American Journal of Economics and Sociology* 58 (1999):561–582.

## Notes

1. I am grateful to Keith Tribe for sharing not only his views on Chapter 2 in Part 1 in *Economy and Society* but also an early version of his new and unpublished translation of this chapter. I am also very grateful to Laura Ford, Søren Jagd, and Andrea Maurer. A somewhat different version of this paper will appear in the forthcoming Wolfgang M. Schröder, ed., *Max Weber: Wirtschaft und Gesellschaft* (Berlin: Klassiker Auslegen).

2. The standard translation (which will be used in this paper) was made by Parsons-Henderson and kept by Roth-Wittich in the current English edition of *Economy and Society* (cf. Weber 1947, p. 158). In his forthcoming translation of *Economy and Society*, Keith Tribe translates this sentence as follows: "An action will be called 'economically oriented' inasmuch as it is intentionally oriented to meeting (*Fürsorge*) a desire for utilities." The reader may also want to compare Weber's definition of economic action in Chapter 2 to the one that can be found in an earlier draft for *Economy and Society*: "We shall speak of economic action only if the satisfaction of a need depends, in the actor's judgment, upon relatively *scarce* resources and a *limited* number of possible actions, and if this state of affairs evokes specific reactions. Decisive for such rational action is, of course, the fact that this scarcity is subjectively presumed and that action is oriented to it" (Weber [1921–1922] 1978, pp. 339–340). Weber adds that there exist "two types of economic action": "the satisfaction of one's wants" and "profit-making by controlling and disposing of scarce goods."

3. It would seem that the way Weber uses the term *Fürsorge* roughly covers the idea of making provision for means. This is, for example, how it and similar terms are translated elsewhere in Chapter 2

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(e.g., Weber [1921–1922] 1978, pp. 64, 65, 85, and 109). Weber also uses two other terms in approximately the same meaning as *Fürsorge*: *Vorsorge* and *Versorgung* (Weber 1976, pp. 31, 32, 34, 44, 45, and 59). Parsons's translations of these three terms include "making economic provision," "provision for the means," "satisfaction of needs," and "provision."

4. In Weber's outline for a textbook in economics from the 1890s, one can find the following definition of economic action: "Under 'economic action' we understand a specific kind of *external and purposive aspiration*—i.e., conscious well-planned behavior with respect to nature and humans—that is *compelled* by those needs, which require *external means* for their satisfaction, regardless of whether they are 'material' or 'ideal' in kind, and which serves the purpose of providing for the future" (Weber [1898] 1990, p. 29; translation from Scaff 1989, p. 32).

5. There is more to utility than its subjective dimension. Note also that Weber (like some economists) emphasizes that it is not so much a question of utility directly causing satisfaction as utility constituting an opportunity for satisfaction. Weber, in brief, inserts one additional step between the actor and his/her satisfaction.

6. The German term *Erwerben* is rendered as "profit-making" by Talcott Parsons and as "exchange" by Keith Tribe. For *Haushalt* Parsons uses "budgetary unit" and Tribe "householding." I will be using "profit-making" and "householding," since I am interested in a sharp contrast between the two. An argument can, however, be made that acquisition or exchange better captures Weber's term. See Weber 1947, p. 207, n. 16; 2006; Tribe forthcoming.

7. Parsons translates *Verfügungsgewalt* as "power of control and disposal," while Tribe uses "power of disposal" (Weber forthcoming, p. 5).

8. I owe this point to Laura Ford and Søren Jagd.

9. The following examples of cases, where there is a direct link between economics and politics, are mentioned without any further comments. Political bodies, Weber says, are in a position to influence imports and exports through a foreign trade policy. They can also regulate economic activities within the geographic area they control. Related to this, political bodies can exert an influence on society by virtue of their authority and power, and in this way affect, among other things, attitudes toward profit-making. When political bodies compete, they need resources, and this will lead to opportunities for

profit and earning in society. Finally, Weber says, political bodies tend to favor their own members when it comes to providing supplies.

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