

## Remarks on the Concept and Essence of Capitalism\*

By Karl Diehl\*\*

### Table of Contents

About Passow's Book *Kapitalismus* – Incorrect Terminology of “Capitalism” – Critique of Passow's Concept of “Capitalism” – Own Definitions.

In an instructive and commendable study on the concept of “capitalism,” Passow<sup>1</sup> has demonstrated the state of dismal confusion that the political economy literature presents about this concept. The ambiguity, confusion, and vagueness in the usage of this catchword is even worse than with the term “socialism.” This is only a symptom of the terminological perplexity which has contributed to the detriment of our science. In this particular case, however, this lack of clarity has also had a very detrimental effect on neighboring sciences as well as on the popular science literature. The applications of the concept “capitalism” are more bearable, despite its apparently objective-scientific untenability, than the frequently encountered custom of using this term without having formed a clear opinion about its meaning and significance. This is simply insufferable. Passow's study ought therefore be credited with having pointed out the many shortcomings and contradictions in the application of this term. In part this confusion emerges from the fact that the concept “capital” is itself such an ambiguous and colorful term, which of course therefore must lead to even greater ambiguity in the concepts “capitalism” and “capitalist mode of production.” This malady is partly also derived from the fact that individual authors have formulated their understanding of a certain economic form through highly subjective value judgments.<sup>1</sup>

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<sup>1</sup> Richard Passow. 1918. „*Kapitalismus*“: *Eine begriffsterminologische Studie*. Jena: Gustav Fischer.

Following Passow's book, a few remarks about the term "capitalism" ensue, which are intended to display that we are in agreement with Passow in rejecting most of the uses of this concept in the political economy literature, but can only agree to his own positive proposal with certain modifications.

1. We reject all applications of the concept "capitalism" which contain *subjective* coloring and a value judgment. As a rule, this is done by authors who, for whatever reason, are generally opposed to the *private economic order*,<sup>II</sup> and who therefore wish to express their opprobrium when employing the word. Compositions such as "capitalism and mammonism" or "capitalism and Manchesterism" imply how the concept is regarded. A certain economic form is to be denounced as mammonistic, materialistic, or antisocial, certainly as objectionable and economically harmful. For these authors, "capitalism" therefore implies a flawed economic order, which stands in contrast to a superior economic order that has existed previously or that is to come about in the future. "Capitalism" is thus understood as a morally reprehensible form of economic organization.<sup>III</sup> Concretely, this ascription can be found especially among socialist authors, among representatives of the so-called *Mittelstandspolitik*, among Christian socialists and socialists of the chair. It is frequently not opposition against "capital" as such, but only against interest-bearing loans, so that "capitalism" in this instance is understood as usurious exploitation on the part of lenders. Passow provides numerous examples of such cases.

It is sufficient here to refer to the quote from Scheinpflug,<sup>2</sup> who in an essay in the "Monatsschrift für christliche Sozialreform" (1892, p. 200), says the following: "From the preceding it follows that in the expressions 'usurious capitalism' the epithet is not merely an ornament, but a distinguishing feature which is indeed necessary for the definition of the concept." Or when Keller<sup>3</sup> says in his writing *Unternehmung und Mehrwert*: "Capitalism ('colloquially') as acquisitiveness and profit-seeking, purely for the sake of profit, which knows no higher goal, no higher value of existence than multiplication of property, this capitalism is mammonism, an irreconcilable contrast to Christianity." Muckle<sup>4</sup> speaks of "capitalism based on selfishness."

It is clear that such a subjectively colored application of the concept "capitalism" is of no use to our science. Of course, everyone is free to make their own personal judgment about one or another of the shortcomings of a particular type of economic form. In that case, one must define the facts sharply and justify one's judgment precisely; however, for this purpose a *catchword* ought not be used which misconstrues capital. Indeed, any such concept must have objec-

<sup>2</sup> Scheinpflug. 1892. "Über den Begriff des wucherischen Kapitals im Lichte des realen Idealismus." *Monatsschrift für christliche Sozialreform*, Vol. 14: 200.

<sup>3</sup> Keller. 1912. *Unternehmung und Mehrwert*. Cologne, 94.

<sup>4</sup> Muckle. 1919. *Das Kulturideal des Sozialismus*. Munich and Leipzig, 37.

tive, neutral meaning which can be applied by any political economist, irrespective of the economic policy position one takes. Any terminology aimed at “emotion-evoking” is scientifically useless.

2. One must also reject a terminology which is geared at a certain theory of an *individual author*, but which is then also subconsciously applied by writers who are not grounded in this theory. This applies in particular to the frequent use of the concept “capitalism” in connection with Marx’s theory of surplus value. It goes without saying that Marx only uses the concepts “capitalism” and “capitalist mode of production” in close connection with his theory of capital and interest. For Marx, the capitalist mode of production entails that the entrepreneur generates surplus value by exploiting the wage earner’s labor. For Marx, surplus value is directly the goal of the capitalist production process:<sup>5</sup> “Just as the production of surplus value is the determining purpose of capitalist production, it is the relative size of the surplus product, rather than the absolute size of the product, that measures the level of wealth.” Clearly, Marx himself and his followers employ this terminology, because these concepts belong to their scientific system. But one also finds the usage of the concept of the capitalist mode of production among authors who are by no means grounded in Marx’s doctrine. So, for example, Traub<sup>6</sup> declares the core of capitalist economic reform with the following words: “The essence of the capitalist mode of operation is the use of third party labor. The heart of capitalist production lies in the possibility of profit formation.” Despite his rejection of Marx’s theory, Oppenheimer<sup>7</sup> notes: “What is capitalism? Seen from a political-social point of view,<sup>IV</sup> it is a class state; seen from the economic point of view, it is a machine of surplus value of the greatest kind.”

3. The concept “capitalism” or “capitalist mode of production” is also completely incorrect as the economic mode in which capital is used in terms of produced means of production.<sup>V</sup> Thus Böhm-Bawerk<sup>8</sup> employs the concept “capital” in his well-known work *Positive Theorie des Kapitals* such that he always understands by it a production that makes use of capital goods (raw materials, tools, machines, etc.).

How completely impossible it is to conceive of capital as a produced means of production can be seen especially in his application of the concept “capitalist mode of production.” Here the concept “capital” has a purely technical meaning. It would thus read: All economic life supported by any devised tools is therefore a capitalist economy. But since all conceivable economic eras and

<sup>5</sup> Marx. 1914. *Das Kapital*. Vol 1. Popular edition. Stuttgart.

<sup>6</sup> Traub. 1904. *Ethik und Kapitalismus*. Heilbronn, 8 ff.

<sup>7</sup> Oppenheimer. 1919. *Kapitalismus, Kommunismus und wissenschaftlicher Sozialismus*. Leipzig.

<sup>8</sup> Böhm-Bawerk. 1909. *Positive Theorie des Kapitals*. Vol. 1. 3<sup>rd</sup> ed. Innsbruck, 21.

organizations, perhaps with the exception of the most primitive cultures, require capitalist instruments in this sense, the capitalist mode of production would then generally be tantamount to economy.

4. The use of the concept “capitalism” in terms of individualistic economic mode must also be rejected. It is used in this sense, for example, when contrasting socialism and capitalism. The proper contrast should be: Individualism and socialism; because by socialism we mean the mode of production based on socialized property,<sup>VI</sup> as opposed to the mode based on private property. In contrast, capitalism – in whatever sense the expression could be used at all – can only constitute an historical era within the individualistic economic mode, an era in which “capital” plays a particularly important role. But one must never identify the capitalist economy with the individualistic one, otherwise any form of economy based on private property would be “capitalist.” That is how Amonn<sup>9</sup> actually sees it. He writes: “If we add – to the preconditions on which all problems of political economy are based – a further precondition: Namely, an *inequality of individual power*<sup>VII</sup> in social relations, i.e. a *social superiority*<sup>VIII</sup> of certain individuals over others, then we have obtained that condition which constitutes those particular political economy problems and which are generally referred to as the problems of capitalism or of the capitalist social order. On this precondition, individualistic social relations of a special kind emerge, which we can therefore justifiably call *individualistic-capitalistic social relations*.” Similarly, Pohle<sup>10</sup> speaks of three components of capitalism: 1) the rule of the individualistic legal principle in economic life, 2) a profit-oriented mode of production, 3) an entrepreneurial form of production.

5. Capitalism is also by no means identical with a “monetary economy.” The definitions of some authors have also given rise to this view. Thus Brentano,<sup>11</sup> in his treatise, *Die Anfänge des modernen Kapitalismus*, places capitalism in contrast to the feudal economic order and describes the *monetary* organization of economic life as the defining feature of capitalism. The money-based economy, not capitalism, forms the contrast to the natural economy; instead, capitalism is a certain manifestation within the individualistic market economy. Capitalism does not appear as a consequence of the money-based economy; instead, with the money-based economy capital in the sense of profit orientation<sup>IX</sup> can only assume the form of money. This, however, does not yet constitute “capitalism,” which forms a particularly developed stage of the market economy. One can only say that with the money-based economy, the possibility for the development of the so-called “money capitalism” is given, but not of “capitalism” in general. Capitalism and the money-based economy did not emerge at

<sup>9</sup> Amonn. 1911. *Objekt und Grundbegriffe der theoretischen Nationalökonomie*. Vienna, 387.

<sup>10</sup> Pohle. 1919. *Kapitalismus und Sozialismus*. Leipzig, 2.

<sup>11</sup> Brentano cited in Passow. 1918, 33.

the same time. This view is easily reached by defining capitalism as a *form of monetary accounting*,<sup>X</sup> as Menger, Van der Borgh, and others have done in the past. Recently Liefmann<sup>12</sup> has also provided a definition of capital that closely relates the essence of capitalism to the form of money.<sup>XI</sup> He writes: “Capitalism is the form of monetary accounting of costs as a means of determining monetary profit.”<sup>XII</sup> In particular, he notes that there can be no doubt that the concept of capital is derived solely from the manifestations of money.<sup>13</sup> Accordingly, he also defines capitalism as “the particular economic era in which the form of monetary accounting becomes a common manifestation.”<sup>14</sup> He argues that the previous notion of the concept of capital makes it impossible to characterize a particular economic order and a particular economic era. However, this is allegedly possible with his concept of capital, since such an estimation of monetary costs and the resulting determination of monetary net income, as he combines it with the concept of capital, has not existed at all times. “That therefore not only sums of money become capital, as in the case of credit (and trade), but also that durable goods and finally also labor services are expressed in monetary terms, and that one is anxious to compare net income after deduction of variable costs, fixed costs, durable goods and operating capital in terms of money,<sup>XIII</sup> in other words: The separation of the independent profit-oriented economy, which employs a pure monetary calculation, from the consumer economy of its owners becomes the defining characteristic of the ‘capitalistic economic era.’”<sup>XIV</sup>

I consider all definitions of capital that place an emphasis on the money form to be misguided. Even if the daily usage of language connects the concept of capital with money, science should not participate in this usage of language. Capital is ultimately profit orientation, and the form of money in which capital frequently occurs and is calculated is irrelevant to the essence of capital. The political economist has every reason to combat the worrisome and widespread confusion between “money” and “capital.” This erroneous mixing of the concepts of money and capital is, however, encouraged if the terminology of the concept of capital is closely related to that of money.

Liefmann’s assertion that monetary capital created capitalism is misleading.<sup>15</sup> Monetary capital has created the money-based economy, but not capitalism, which again represents a special manifestation within the money-based economy.

6. Finally, we oppose all explanations of the concept of “capitalism” which, according to Sombart’s example, regard the essence of capitalism as situated

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<sup>12</sup> Liefmann. 1916. “Kapital und Kapitalismus.” *Zeitschrift für die gesamte Staatswissenschaft*, Vol. 62: 328.

<sup>13</sup> *ibid.*, 49.

<sup>14</sup> *ibid.*, 85.

<sup>15</sup> *ibid.*, 87.

in a particular kind of *mental disposition*,<sup>XV</sup> in a certain kind of economic ethos,<sup>XVI</sup> and then speak of capitalism when the so-called *capitalist spirit*<sup>XVII</sup> emerges.

Let us briefly discuss Sombart's definition here. In chapter 20, page 327 of his *Der moderne Kapitalismus* where he depicts the emergence of capitalism, he explains that capitalism grew out of the depth of the European soul. "It is that spirit which, since the end of the Middle Ages, has torn people out of their quiet, organically grown relationships of love and community, catapulting them onto the path of restless selfishness and self-determination." According to Sombart, the capitalist spirit created capitalism: "The amalgamation of the entrepreneurial spirit and civic spirit, leading to the unified whole as a spirit of the soul, constitutes the spirit of capitalism. It created capitalism."<sup>16</sup> For Sombart, therefore, the economic ethos is decisive, and he distinguishes between a pre-capitalist and a capitalist economic ethos. For the former, the idea of a subsistence economy is decisive. In contrast to this former economic system, he conceives of capitalism as an economic system that could be characterized as follows: "It is allegedly an organization of the market economy in which two different groups of the population continuously work together: On the one hand, the owners of the means of production who are simultaneously in control and are thus economic subjects, and, on the other hand, dispossessed workers as economic objects; these groups are connected by the market and are guided by the principle of the pursuit of profit and economic rationality."<sup>17</sup> As can be seen, in this definition two different facets are linked. On the one hand, an objective, legal-social component, i.e. the formation of two classes: The owners of the means of production and the dispossessed workers; on the other hand, a psychological component, the principle of profit orientation and economic rationality. Sombart places decisive weight on the psychological. He repeatedly emphasizes the capitalist spirit, the pursuit of profit and so on. One must therefore allegedly presuppose a will to capitalism as a component of the new system. Only after this precondition is met, would the state, technology, and precious metal production be the basic requirements for capitalist development. He detected the first signs of the essence of capitalism in the 13<sup>th</sup> century, in capitalist trade at specific places in Italy, for example in Florence. The decisive turn to early capitalism then occurred at the turn of the 15<sup>th</sup> and 16<sup>th</sup> centuries. High capitalism, however, did not develop until the 19<sup>th</sup> century.

It does not seem right to me to regard the essence of capitalism within the confines of an *intellectual attitude*. What Sombart repeatedly cites as typical of the capitalist spirit – the pursuit of gain, profit, sense for acquisition,<sup>XVIII</sup> etc. – are intellectual attitudes that have always existed (albeit in various gradations) as long as private property has existed. Throughout antiquity, the Middle Ages,

<sup>16</sup> *ibid.*, 329.

<sup>17</sup> *ibid.*, 319.

and modern times, people – as economic subjects – have always been animated by the pursuit of profit and acquisition, as long as legal norms, i.e. especially the private property order, offered them the opportunity for acquisition. Here there are only gradual differences, but the pursuit of profit and acquisition are not principal characteristics of so-called capitalism. It seems incorrect to me that a so-called sense for acquisition was only awakened after the end of the craft-based economy.<sup>XIX</sup> For the craftsman, too, the greed to pursue “money and gold” is also present.

It is only possible to define the concept of capitalism clearly by highlighting the *decisive technical* and *legal* aspects that have indeed led to such major upheavals that one speaks specifically of a new *economic era*. The psychological moments,<sup>XX</sup> however, which Sombart always prefers to employ and which he summarizes under the notion “capitalist spirit,” are shared by all individualistic economic modes. Capitalism was neither created by the spirit of selfishness, nor by the pursuit of power nor the quest for enterprise.<sup>XXI</sup> These subjective moments have always played an important role in economic life, but it was only concrete technical and social processes that have produced what must be understood as capitalism. Therefore, because capitalism emerged from objective social institutions, it cannot be said that it is the work of single outstanding men; and therefore the history of the emergence of capitalism cannot be described as a “history of personalities” or claimed to be the result of “single outstanding men.”<sup>18</sup> First and foremost, the objective social institutions and the technical prerequisites are always at the forefront. If these are present, then the personalities will also emerge who are the bearers of so-called capitalism. Which of these objective moments are decisive for the essence of so-called capitalism I will show later; I will now comment on the way Passow himself suggests we should define the concept of capitalism.

Passow advocates the complete avoidance of the concept “capitalism” and proposes a new economic terminology.<sup>19</sup> If one wants to describe our modern economic life, in particular our commercial life, with an accurate and short catchword, it would be best to call it the type of economic mode which has arisen through the predominance of the *entrepreneurial firm* and in particular by the expansion of large enterprises.<sup>XXII</sup> In other words, it is the age of the large enterprises: This clear and proper designation emphasizes the truly essential, new, and characteristic aspect of the modern era. In most cases where there is talk of capitalism, of the capitalist economic system, the capitalist era, etc., the idea of the development and expansion of large enterprises tacitly underlies these concepts. Passow thus undoubtedly emphasized correctly what must be regarded as most characteristic of the capitalist era. But it seems to me that the

<sup>18</sup> Sombart [precise citation unclear – the editors].

<sup>19</sup> Passow. 1918, 125.



whole notion is too general and vague. It lacks the concrete, objective factors that are important for the identification and delimitation of this economic era.

For my part, I make the following suggestion: The concept capitalism should be completely avoided in the scientific literature. However, it will be impossible to avoid the concept *capitalist mode of production*, but it must be concretely defined. If one has done as much, one may then at least call the time or the period in which this capitalist mode of production is predominant the era of capitalism. What is typical and decisive for the so-called capitalist mode of production? In contrast to Sombart and Marx, I would not date this capitalist mode of production prior to the 19<sup>th</sup> century. It was not until the 19<sup>th</sup> century that the moments of economic life which served as a cause for capitalist production came to the fore in a decisive way. This should be understood as a form of production, whereby “capital,” in terms of its profit orientation,<sup>XXIII</sup> takes on superior importance in contrast to both labor and the natural facilities of production. There are, I believe, two important moments in economic history which have inaugurated an important period of very distinct characteristics that the era in which these moments took effect can be defined as a new epoch in economic life. One of these moments is technical, the other is legal. The technical moment is the enormous upheaval that took place around the middle of the 18<sup>th</sup> century in the technology of industrial production. It is the machine-oriented technique which, in the second half of the 18<sup>th</sup> century, caused a complete transformation in industry through the invention of the weaving loom, the spinning machine, and the successful application of steam power. Through these great technical improvements, the whole of industrial life was completely transformed in the 19<sup>th</sup> century. It was only the application of these technical improvements that created the basis for the predominance of large enterprises, first in trade and then in all other branches of economic life. Even if large companies had existed in the past, these had always been exceptions. Now the large commercial enterprise became the rule and small businesses receded into the background. This technical moment was complemented by a legal one. At the same time, at the turn of the 18<sup>th</sup> and 19<sup>th</sup> centuries when this transformation of technology took place, a fundamental legal change in the economic order also occurred. The old controlled economy<sup>XXIV</sup> was replaced by the uncontrolled economy. The abolition of the guilds and of the commercial economy of privileges<sup>XXV</sup> by the legislative measures of the French Revolution, the introduction of the freedom of trade in Prussia, and the abolition of the statute of apprentices<sup>XXVI</sup> in England have created the legal basis by which the aforementioned technical achievements could also practically be carried out in their entirety. Only with the creation of the free contracts of employment and only with the removal of the many restrictions of economic life could the state of affairs develop, which one usually has in mind when one speaks of “capitalism.” Only this created the *social conditions* from which certain economic phenomena of so-called capitalism occurred, such as the tendencies towards accumulation, the



crises and the cartels, which did not become apparent in their economic peculiarity until the 19<sup>th</sup> century. Thus what Sombart calls high capitalism and Marx terms the full development of capitalism – that alone, in my opinion, seems to deserve the name capitalism if one wishes to use it at all. But since it is rather a catchword, I would prefer the more precise expression “capitalist mode of production.” It is also this so-called capitalism that has shown first excesses, which one commonly refers to as the degeneration of capitalism. It is also in this sense that the historical literature tends to understand the era of capitalism. Friedjung, for example, notes: “Around the middle of the 19<sup>th</sup> century, more challenging times announced themselves. Economic liberalism had cherished the hope that the unrestrained rule of forces would lead to harmonious balance, that freedom would heal the wounds inflicted by egoism; instead, however, the excesses of capitalism began to proliferate to unbearable heights.”<sup>20</sup>

I believe that my proposal has the advantage of achieving a truly concrete and distinct demarcation of the so-called capitalist period; for all the earlier phenomena that have been described as either early capitalism or pre-capitalism have nothing to do with the fundamentally new phenomena, such as those that appeared at the turn of the 18<sup>th</sup> and 19<sup>th</sup> centuries. One may speak of the beginning of big business and large commercial enterprises,<sup>xxvii</sup> one may speak of a stronger form of the money-based economy, of a greater expansion of market and money exchange, but all this does not characterize what one wishes to understand by the *capitalist mode of the economy*. Large enterprises have already existed in antiquity and the Middle Ages, but it was only under the influence of the aforementioned moments that they became so typical that they left their imprint on a certain economic epoch. The “predominance of large enterprises,” as Passow suggests, does not seem sufficient to me; to clearly define the concept “capitalist mode of the economy,” it is therefore necessary to add the reference to the concrete technical and social conditions under which, with a certain necessity, the predominance of large enterprises had to emerge.

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<sup>20</sup> Friedjung. 1884–1914. *Das Zeitalter des Imperialismus*, 7.

### Annotations

<sup>I</sup> “daß einzelne Autoren ihre höchst subjektiven Werturteile über eine bestimmte Wirtschaftsform dieser Begriffsbildung zugrunde gelegt haben”.

<sup>II</sup> “*privatwirtschaftlichen Wirtschaftsordnung*”.

<sup>III</sup> “gleich einer sittlich verwerflichen Wirtschaftsorganisation zu achten”.

<sup>IV</sup> “Politisch-sozial gesehen”.

<sup>V</sup> “Wirtschaftsweise, in der Kapital im Sinne von produzierten Produktionsmitteln verwendet wird”.

<sup>VI</sup> “auf Gemeineigentum beruhende Produktionsweise”.

<sup>VII</sup> “*Ungleichheit individueller Verfügungsmacht*”.

<sup>VIII</sup> “sozialen Übermacht”.

<sup>IX</sup> “das Kapital im Sinne von Erwerbsvermögen”.

<sup>X</sup> “*Geldrechnungsform*”.

<sup>XI</sup> “Definition des Kapitals gegeben, die das Wesen des Kapitalismus in enge Beziehung zur Geldform bringt”.

<sup>XII</sup> “Kapitalismus ist die Geldrechnungsform der Kosten als Mittel zur Feststellung eines Geldertrags”.

<sup>XIII</sup> “den Reinertrag in Geld- nach Abzug der laufenden Kosten, die stehenden Kosten, dauerbare Sachgüter und Betriebskapital in einer Geldsumme veranschlagt”.

<sup>XIV</sup> “Charakteristikum der ‘kapitalistischen Wirtschaftsepoche’”.

<sup>XV</sup> “*geistiger Disposition*”.

<sup>XVI</sup> “*Wirtschaftsgesinnung*”.

<sup>XVII</sup> “der sogenannte *kapitalistische Geist*”.

<sup>XVIII</sup> “Erwerbssinn”.

<sup>XIX</sup> “nach dem Ende der handwerksmäßigen Wirtschaftsform”.

<sup>XX</sup> “Die psychologischen Momente”.

<sup>XXI</sup> “Nicht der Geist der Eigensucht und nicht das Machtstreben und Unternehmungsdrang haben den Kapitalismus geschaffen”.

<sup>XXII</sup> “das Vorwiegen des unternehmungsweisen Betriebes, insbesondere durch die Ausbreitung der großen Unternehmungen”.

<sup>XXIII</sup> “im Sinne von Erwerbsvermögen”.

<sup>XXIV</sup> “Die alte gebundene Wirtschaftsweise”.

<sup>XXV</sup> “Die Aufhebung des Zunftwesens und der gewerblichen Privilegienwirtschaft”.

<sup>XXVI</sup> “Aufhebung des Lehrlingsgesetzes in England”.

<sup>XXVII</sup> “Man mag sprechen von Beginn des Großgewerbes und großgewerblichen Unternehmungen”.