

A Note on Global Capitalism

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This text defines, presents and briefly discusses the notion of global capitalism. Capitalism is defined as "accumulation of wealth", and this implies profit making. Profit is generated in markets. A market is a social structure for exchange, which enables people, firms and products to be evaluated and priced. The notion of globalization catches how culture, economy, politics as well as other fields are transformed in terms of dependence patterns. Global capitalism is defined as profit making in global markets.

Introduction¹

In this short text I will present, discuss, and define the notion of global capitalism. This is a highly public and political issue, and it may stir up emotions. Contribution of this text is not for political debate, but to analyze the notion the light of scientific reasoning. I have restricted myself to a discussion of capital and globalization, concentrating on the former.²

At the beginning of the third millennium, capitalism is highly correlated with globalization, and these notions are often used in combination. This reflects the change in society that has taken place especially during the 20th century.

The change results from a mixture of political, economical and technological reasons, all of which ultimately can be seen as social.

Though people disagree about what constitutes capitalism, it is clear that profit accumulation is essential. Capitalism can be described as "accumulation of wealth", and this implies profit making. To this one may add various aspects, such as private ownership. This short definition, however, covers situations found in virtually all kinds of societies. Furthermore, profit is usually made in markets, and the contemporary capitalism cannot be understood unless it is related to markets.

The notion of globalization catches how culture, economy, politics as well as other fields, are transformed in terms of dependence patterns. In other words, how people depend on each other, which used to be local, regional, or national, is becoming more global. The increased number of contracts, including business contacts, correlated with a greater flow of commodities and services around the globe, manifest the process of globalization in the economic sphere.

To speak of global capitalism is to refer to an economy that connects actors from all over the world via production and consumption markets. This means that there are global markets where buyers and sellers operate from many different corners of the globe. The following is a definition of global capitalism: profit making in global markets. This definition keeps the logic of capitalism, profit maximizing in markets, but it captures this phenomenon on the global level. There may, side by side, exist many forms of capitalism, such as political and rational capitalism. Furthermore, capitalism is not a natural system, it is a result of social processes and conditions.

The Origin of Capitalism

The origin of the word capitalism is "head", and it refers to the time when wealth was measured in the number of heads of cattle a person owned. The word also means interest, and a capitalist, in the late 18th century in France, was a person who aimed for high interest, or simply a wealthy person.

Capitalism as a phenomenon has existed for a long time, but the notion is much younger. Scientists have identified the phenomenon even in Ancient Greek. It is generally agreed that no modern form of capitalism existed before the 16th

century, and that it existed in the 19th century. A further distinction should be made between capitalists and capitalism. Capitalism refers to the social system and the corresponding values that enable people to become capitalists. The system hinges on competition among capitalists, but the individual capitalist may strive to be the sole actor, either as monopolist (one seller) or as monopsonist (one buyer), to be able to set the price in the market.

There are several theories of the origin of capitalism. The first theory of capitalism was developed by Karl Marx (1818-1893), who argued that change in the social structure ultimately was caused by technological development. Marx never used the word capitalism himself, though he wrote on capitalism as a phenomenon. His analysis is deterministic, and his predictions about the developments and ultimately demise of capitalism are not correct. On these and other grounds, one may conclude that the scientific value of his theory of capitalism is limited. Marx, however, foresaw a global capitalism, and the influence of his theories in society is unparalleled.

It was Max Weber (1864-1920) who developed the most well known scientific theory of capitalism.³ Also Weber stresses the social process that eventually leads to rational capitalism. Weber acknowledges that various types of capitalism had existed long before the Western rationalistic type emerged, for example in China, India, and medieval Europe. Thus, Weber ([1921-22] 1978:164-166) distinguishes between several forms of capitalisms, such as political authoritative and predatory, each with a different form of profit opportunities.

Weber defines a (rational) capitalistic action, "as one which rests on the expectation of profit by the utilization of opportunities for exchange, that is on (formally) peaceful chances of profit" ([1904-05] 1968:17). One important aspect of capitalistic actions is the market, which is a precondition for rational calculations.

Though Weber discusses many different aspects of capitalism, his ideas of rational capitalism are the most developed and most well known. This is a central part of his description of a process of rationalization. The surfacing of rational actions and rational organizations are parallel processes; one cannot simply say that one caused the other.

On the level of individuals, Weber identifies a shift in the Western world, from traditional and affectual, to value rational and in particularly instrumental rational actions. As is known, the main difference of instrumental rational actions and other forms of actions is that the former includes a calculation that considers both the means and the ends of the action. As Weber himself pointed out, stability is a condition for calculability (Parsons 1929:37), which is vital to rational capitalism (Weber [1920-21] 1978:296).⁴

Other thinkers, for example, Vilfredo Pareto and Frank Knight, have been more explicit on this matter. One should mention the connection between Pareto's ideas, and Knight's distinction between uncertainty and risk, where uncertainty is turned into risk only when one can assign probabilities to outcomes. To achieve probabilities, three conditions for the means-ends relations must be met: "(1) similarity across cases; (2) similarity over time; and (3) sufficient large numbers of past observations" (Guseva and Rona-Tas 2001:626).⁵

To understand the logic of rational modern industrial capitalism, one must realize that Weber's thinking encompasses the idea of bureaucracy as its leading organizational form, and that this form is suitable for a reasonably stable economic and political situation. In addition, though the idea of bureaucracy is connected to the state, the principles are valid also for firms.⁶ The logic of organization and action is in largely similar in the two spheres.⁷ Modern capitalism—as well as other spheres of modern society—is distinguished by its organizational principle of bureaucracy (Parsons 1929:37).

Following Parsons, the main characteristics of bureaucracy are: "rationality, resting on a complex, hierarchically organized division of tasks, each with a sharply marked off sphere of 'competence'; specialization of functions, whereby a special premium is placed upon expert knowledge...and impersonality" (1929:37). This form of organization is appropriate for calculation, which Weber (and interpreters such as Parsons), argues is the core of modern capitalism. Moreover, from what has been said so far on bureaucracy, rationality and calculability, it is not hard to agree with Swedberg that, "The main theme of rational capitalism is no doubt predictability and, in this sense, stability" (1999:30).

Weber sees a clear connection between bureaucracy and especially the calculability of the Taylor system, or "Scientific Management" principles of organizing labor and work (cf. [1920-1921] 1978:101-103, 150, 974-975, 1156-57; cf. Kocke 1980:97). One should, at the same time, remember that his discussion of bureaucracy largely refers to the upper segment of administration. Taylorism lends itself well to rational industrial capitalism since it facilitates calculations of cost and planning of production.⁸ Hierarchy, calculability, subordination, "tell the workers what to do and supervise them", an assumption that actors are rational and self interested, are key-components of this school (for a more detailed discussion of Scientific Management, see Braverman 1974; Guillén 1997). This way of organizing work voids workers of initiative, and the analogue made already by Marx, that the worker becomes an appendix of the machine, is largely correct. The point is that much of what is true of bureaucracy is also true of Taylorism and both organizational forms correspond well with industrial capitalism; in fact one cannot think of one without the other when discussing the economy.

The process of capitalism that Weber describes means that money became an end in itself, and this fundamentally changed the values of society. A further consequence is that people not only made some money, and then settled down. Capitalisms also means, according to Weber, that people accumulate money, and reinvest it in industries, and thereby boost the economy. Weber argues that rational industrial capitalism only emerged in the Western world, and this is part of his general argument of rationalization of the West. The decisive impetus toward capitalism, Weber says, "could come only from one source, namely mass market which again could arise only in a small proportion of the luxury industries through the democratization of the demand, especially along the line of production substitutes for the luxury goods of the upper classes" ([1923] 1981:310). Thus Weber stresses the importance of both consumption and markets for the development of capitalism.

There are also some more modern theories of Capitalism. Liah Greenfield (2001) has argued that the driving force behind capitalism is nationalism. Her argument also opens up more to the global dimension than Weber's. She claims that people in certain states, such as England, France, Germany and Japan begun to formulate ideas of nationalism, which happened in relation to the perceived threat from

other nations. This occurred at a time when countries competed for global dominance. As a result, nations began to develop political, economical, and military strategies to increase the national strength through enhancement of national awareness and identity. This created a breeding ground for economic virtues such as being frugal and industrious, and striving to make profit. Many countries saw a strong economy as a way of strengthening the nation, and capitalism became a means in this process.

There are other explanations of the rise of the Western capitalistic economy. The economist Douglas North, together with Paul Thomas, has argued for the importance of institutions, especially property rights (North and Thomas 1973). They say that the prosperity and wealth of the West could only emerge when individuals' interests were directed so that they corresponded with the public interest. To achieve this, institutions that established and upheld property rights were crucial. This only happened in the West, and this is the explanation of the rise of the Western capitalistic society.

The idea that several different forms of capitalisms exist is also heralded in the literature on capitalism published towards the end of the 20th century. It is argued that the role of aesthetic, knowledge, networks, and the Internet are important for understanding the changing conditions of capitalism. However, it is not clear if these issues are of great importance, or if they will alter the logic of capitalism in any substantial manner.

Ideology and Economic Systems

The decisions on what and how to produce and consume are by necessity made in capitalist, fascist, socialist as well as all democratic societies. It is the forms for decision-making and organization that differ. In a pure capitalistic society it is the logic of the market that decides, where money translates into power, "one dollar one vote". The other extreme solution is that the state makes all decisions concerning production and consumption, which is the case in socialistic economies. Most democratic countries let the state make some of the economic decision, and the market and the civil society do others, though with different emphasis on these spheres. Capitalist democracies can be divided into (1) those led by the Market (for example, the US and the UK), (2) those led by the state

(for example South Korea) and (3) those characterized by consensus (for example Scandinavian countries).

People who actually perform capitalist actions maintain the capitalist market system. They, however, may be supporters or more critical of capitalism. There are also a number of academic supporters of capitalism, such as F.A. Hayek, Ludwig von Mises, and Milton Friedman. They argue, in sum, that a deregulated market economy, with limited state involvement, beyond securing basic rights and upholding the law, is the most efficient model for production of wealth. Hayek's book, *The Road to Serfdom* ([1944] 1991), is a manifest of this form of economic and political liberalism.

Throughout history, capitalism has been criticized. In the past the nobilities, who looked down on capitalists and merchants, criticized capitalism. Later on, during the period of industrialization and the large factory production, capitalism became associated with a greedy and raw form of exploitation, as argued by Karl Marx. In Marx' version the rivalry is not between the nobility and capitalism as mentioned above, nor between various types of capitalists; the rivalry is between workers and capitalists. Marx eventually saw a global struggle coming with capitalists on the one side, and the unified workers army on the other.

Capitalism has been seen as the road poor and less developed countries should travel in order to flourish. Free trade in markets, rather than protectionism, is the suggested remedy from global economical-political bodies, such as the International Monetary Fund. The empirical evidence seems to support this view, many countries, and its inhabitants, especially in Asia, have seen great improvements in their conditions of living from the 1970s and onwards, due to international trade, which has increased (Kim and Shin 2002).

At the same time as many people have seen improvements, due to increased international trade and global competition, others have not. In some countries there is a gulf between those who have and those who lack economic resources. In other words, global capitalism is the most superior economic system of increasing the total amount of wealth, but it may also create wealth gaps between countries and also among people within the same nation.

The critique of capitalism is not only directed to these effects, it is also argued that it is ecologically unsustainable, as discussed by Leslie Sklair (2002). Though capitalism *per se* perhaps cannot be blamed for pollution and other effects of industrial development, it has become the target of critique. It may be because there is no global organization capable of fulfilling the role of protecting and policing the global arena. Legislation and politics is at the dawn of the 21st century still essentially national, though markets and the economy at large are becoming increasingly global. This may cause tensions.

Market Capitalism in the Global World

Capitalism is intimately related to markets. A market is a social structure for exchange, which enables people, firms and products to be evaluated and priced (Aspers 2005 a: 427). An essential part of any market is competition. This social structure gives actors tools for calculating, which, to recall, is a precondition for finding opportunities for profit. Markets do not exist in isolation, but are embedded in other markets and the rest of society, represented, for example, by legal and informal institutions. They are also often connected in production chains, which may bind producers, consumers and various experts together from the corners of the globe. Some markets, such as business-to-business and consumer markets, exist in all industries, such as markets for banking, cars, and garments.

Traditionally, a market was a place, where people met to barter. Later on, money was introduced, and trade has gradually become international. When a market has no particular place, and when actors who compete in the market come from all over the world, one may speak of a purely global market.

To better understand the global dimension of capitalism, we can look at a special industry, and I will focus on the garment industry (Aspers 2005 b). This industry, and its markets, epitomize the process of globalization of capitalism. The garment industry has a long history, and it is in many countries the first step towards industrialization and factory production, as argued by Alice Amsden (2001:93ff). The garment industry was first analyzed in relation to global capitalism by the global commodity chains school (Gereffi 1999), originally developed by Immanuel Wallerstein. The theory has a Marxist outlook, and it has been used by social scientists from different disciplines. The central idea is

the emphasis on how the economy—via production networks—is tied up in chains. This school stresses that capitalism is not only tied to one place, or one nation, instead it emphasizes how actors in different parts of the world are connected. The school essentially argues that the chain is governed from the center, located in developed countries, which exploits the periphery, located in developing countries, where the production takes place.

Over time, production of garments has moved from northern Europe and northern America, to the southern parts of Europe and the United States. Later countries like India, Mexico, Turkey, Romania, Bangladesh and China have become major producers. A tendency in the industry is that firms in a country start by performing only the simplest form of production, and then they may upgrade. At the same time, firms from other countries have moved in and taken over the simple form of production. Gery Gereffi (1999), for example, describe this. This process has increased the wealth in countries, though much of the public debate has been centered on exploitation and sweatshops.

Also other social scientists have discussed the notion of global markets. Neil Fligstein speaks about global markets and control, but he puts more emphasis on the state, and less on the firms than the Global Commodity Chain school does. Fligstein concludes that there is hardly any evidence of a global economy (2001:191). This conclusion is possible since Fligstein essentially argues that global market must share all characteristics with a traditional local market.

It is, however, seldom fruitful to see real markets as either global or local. The notion "glocal" refers to cases when a producer who sells a product at different markets makes the product more local to increase the selling. This indicates that markets may neither be local nor global. Global advertising campaigns often exemplify glocalization, as discussed by, for example, Don Slater and Fran Tonkii (2001:190). Another concrete example of a market with both local and global dimension is found in Papua New Guinea. Their tribes and its members used to form identities in relation to each other, particularly in exchange of gifts in the form of *raimbow* war, but more recently they may also generate identities through the role in the global commodity chain of coffee and other farm products (Benediktsson 2002).

Perhaps one of the best examples of a global dimension of markets come from the financial markets, in which actors, for example, buy and sell currencies, and profit is made on arbitrage. Knorr Cetina and Brügge discuss this in the article *Global Microstructures: The Virtual Societies of Financial Markets* (2002). Arbitrage means to trade one currency for another with the aim of taking advantage of differences in conversion rates among currencies to achieve profit. Money used to be physical, and people had to carry it to settle debts. Much later, when computers could be connected around the globe an online market was created. In this market, actors can operate, without connection to a designated physical space or the commodity itself. The trade has become deterritorialized and it goes on round the clock, transcending the socially constructed time zones. The commodities sold, such as different currencies, are extremely standardized, and vast sums can be moved within seconds between market actors.

A further important aspect in the discussion of global capitalism is the dependence between the center and periphery. Saskia Sassen (2001) has put emphasis on this. She argues that a small number of so-called global cities function as central nodes, where a large portion of the value added activities, such as corporate control, design, marketing, financial transactions, as well as other expert functions are concentrated. Production of commodities, when this is part of what a firm does, is in many cases outsourced to the periphery.

Another trend related to global cities is migration. It has been argued that migrants, by taking on low paid service jobs, support the better-paid functions concentrated in global cities. Furthermore, ethnic groups tend to concentrate in certain trades. This is a combined consequence of the skills they have from their native countries and the lack of skills, credentials, and sometimes knowledge of the language, which often is needed for the high wage jobs. One may find immigrants working in low skilled industries, often employed by an employee originating from the same country. This has been demonstrated to be the case in the US garment industry (Bonacich and Applebaum 2000), as well as in many other industries.

What, then, is a global market? It is a market in which the actors that depend on each other are situated in different parts of the world. It can be investor or

producer markets, the important aspect is that the dependency pattern is global and that the interaction form is across the market-interface. It is a global capitalism if one, or in practice many interconnected markets, are oriented to accumulation of wealth. The contemporary economy is characterized by rational capitalism, which means that calculation is central in these global capitalistic markets.

Conclusion

Global capitalism is defined as profit making in global markets. Global capitalism is still in an early stage, and in the same way as capitalism caused social commodification in the West during its early phases, global capitalism does in the developing world. Many countries have quite rapidly modernized and also seen great social change, such as Japan and South Korea. Others have traveled yet different paths to capitalism, or have developed hybrid forms, such as China. Transition is not easy, and new economic and social institutions have quickly been set in place. It is important to realize that global capitalism cannot be reduced to an economic process, it is related to, underpinned by, and affecting the rest of society. That liberal capitalism appears to be superior to other political economic systems does not come naturally. Only if backed by social institutions, enforcement of property rights and some form of redistribute mechanisms that guard those who are worst off, may economic development and social stability be combined.

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Endnotes

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- 2 See the volume edited by Nee and Swedberg (2005) for a discussion and examples of sociological accounts of Capitalism.
- 3 I do not here discuss Sonbar's theory, but see Parsons (1928, 1929).
- 4 Weber, of course, outlines this in detail in *Economy and Society* (1921-22) 1978:24. About the same time, Pareto made an even clearer statement about the conditions for a rational action (see e.g., Aspers 2001b). Weber speaks of formal rationality, referring to the possibility of making calculations (Swedberg 1999:17).

- 5 Though the difference in many senses is semantic; calculability, needless to say, is a precondition for predictions; however, one may be able to predict without making a calculation, which here is viewed as a task performed to establish means-ends relations. Predictions can be made of outcomes, though the knowledge of the means or process is non-existent. Moreover, actors, whose behavior is included in the calculation need not act rationally; traditional actions can be at least as easy to predict as rational actions. Swedberg (1998:18) singles out calculation as one key-item in Weber's thinking at a more abstract level, cf. Weber ([1920-21] 1978: 161-2, 336-7, 1946:331).
- 6 Most likely does Weber think of great German corporations (Swedberg 1998:63).
- 7 Weber ([1920-21] 1978:1156-57), without pursuing this track in detail, argues that the discipline, which is a necessary component in bureaucratic organizations (economic as well as non-economic), applying the scientific management ultimately comes from the military.
- 8 Whether one calls it Taylorism, Scientific Management or Fordism is of less importance, the main thing is the rational process of organization of work in details, according to a piece-rate method of production and pay, and producing standardized products (Guillén 1997; Veblen [1902] 1945:197).

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