

A STUDY OF WERNER SOMBART'S  
WRITINGS

by

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## PREFACE

In presenting my thesis, I would like to offer one or two preliminary comments about sources and method.

My sources have been entirely German except for an English translation of Sombart's "A New Social Philosophy", and a short list of works originally written in English, viz. F. Nussbaum's "A History of Modern Institutions in Europe", M. Plotnik's "Werner Sombart and his Type of Economics" and about half a dozen journal articles. All quotations are my translations with the exception of those English texts I just mentioned.

My short biography on Sombart is based upon the information given in the treatise of M. Plotnik that I have just cited.<sup>1</sup>

I have restricted myself to analyzing Sombart's activities as an economist, including his studies in socialism and national-socialism. These studies must be included because they had a great bearing on the economic theory and policy he advocated. But it is to be noted that Sombart was not only an economist, but also in the last years of his life, Professor Sombart made extensive studies in the field of sociology, philosophy and also anthropology.

I would like to extend my thanks to Professor J.C. Weldon, my Director of Studies, under whose guidance I developed my thesis, and who was assisted by Mr. A. Deutsch, lecturer at the University.

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<sup>1</sup> M. Plotnik: Werner Sombart and his Type of Economics, pp. 24-43.

## CHAPTER I

### INTRODUCTION

In the first decades of this century, Professor Werner Sombart was regarded as one of the greatest German economists, but a controversial figure even within his own country. The task of these pages is to analyze his teachings and doctrines, to assess his contributions to economics, and to determine how his approach to economics differed from that of his great western contemporaries.

Few economists have been as prolific as Sombart. He wrote many books and treatises and innumerable journal articles. This work, which culminated in his description of the economies of societies in all epochs from the Carolingians to his own, must be added to many compilations of a statistical kind. The total is enormous. It represents an amount of work and research seldom found in the lifetime of one man.

His style was clear, but sometimes verbose, a fault not unknown in German science. He was an excellent speaker and when he was professor of economics at the Handels-Hochschule in Berlin, the equivalent of faculties of commerce, of North American colleges, his lectures were so popular that the largest auditorium was always assigned to him. Not only the students of the Handels-Hochschule, but from the University of Berlin and the other colleges attended his courses. Every time he opened or finished his lectures he was greeted by ovations seldom experienced within the walls of an



institution of higher learning, ovations similar to those given to a great orator by an audience carried away by the wonderful performance of a brilliant mind.<sup>1</sup>

Economists have often wondered how to classify him. There are those who regard him as a member of the Historical School; others think of him as a socialist theroetician, still others think that he was as much a sociologist as an economist and a sociologist preoccupied with racial problems.

The chapters that follow are an exposition and an appraisal of the Sombartian system. On the basis of this account, it is possible in a final chapter to offer conclusions as to the place of Sombartian writings in the general body of economic doctrine.

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<sup>1</sup> This is the writer's own experience, as a student in the years 1913-1914.

## CHAPTER II

### SOMBART'S LIFE

Sombart was born in Emmersleben am Harz on January 19, 1863. He was only four months old when Ferdinand Lassalle laid the foundation of the labor-movement and was fourteen years old when von Bismarck passed the "Sozialistengesetz." His later life was greatly influenced by these two extremes of German social policy.

His father, Anton Ludwig Sombart, came from a poor family. He was first a land surveyor, then a wealthy manorial farm-owner who also became an industrialist, and later a statesman. As a land surveyor, the older Sombart came in contact with many people of different social levels and experience. With the passage of time he accumulated not only a profound knowledge of land surveying, but also of agriculture, farm industries and economics. He became a member of the Prussian Diet in 1861 and, in 1867, a member of the German Reichstag, the German Federal Parliament. Sombart's father retired in 1875, settled down in Berlin, and devoted his full time to working in Parliament. Werner Sombart was highly impressed by life on a country estate and in Plotnik's words "his view on economics is an abstraction of his father's estate, a going concern, an economy in the material, objective sense ..."<sup>1</sup>

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<sup>1</sup> M. Plotnik: op. cit. p 26.

Sombart obtained his high-school education at "gymnasia" in Berlin and Schlessingen, institutions of high reputation. At that time Bebel and Liebknecht the great German socialists made their denunciatory speeches in the Reichstag, at that time two attempts were made on Kaiser Wilhelm I, at that time Bismarck pressed forward with his wellknown "Sozialistengesetz," martial law was proclaimed and social-democrats were persecuted. Sombart's mind absorbed the ideological conflict of his time: Capitalism versus Socialism.<sup>1</sup>

In 1882 Sombart entered the University of Berlin. This was the time when the famous "Methodenstreit", a sharp controversy concerning basic methodology developed between Professor Karl Menger of the University of Vienna, a founder of marginal utility theory, and Professor Gustav Schmoller, the founder of the German historical school. At the University of Berlin, where Schmoller was lecturing, there were two groups. One followed the inductive method, the other the deductive. Schmoller represented the first group and Professor Adolf Wagner led the second. Sombart attended the lectures and seminars of both professors, but he came to accept Schmoller's views on the superiority of the realistic-empirical approach. This influenced and even dominated the methods he employed throughout the rest of his career.

After his graduation in 1885, he went to the University of Pisa, spent two years there and wrote his dissertation on

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<sup>1</sup> M. Plotnik: op. cit. p 26.

"The Roman Campagna" a study in the spirit of his father, and backed by a knowledge of agronomy. In Italy he studied the conditions under which the industrial and the rural proletariat lived in great misery. He saw the uncertain, rootless small holdings of the Italian tenant farmers, conditions which greatly contrasted with those of Germany's well rooted peasantry.

In 1888 Sombart submitted his dissertation in Berlin, obtained his Ph.D. and then became counsellor of the Chambers of Commerce in Bremen, where he worked until 1890.

Sombart never again made a special study of agricultural conditions. He found that the German peasantry never questioned "the instinctive certainty of existence" (das Instinktmaessigsichere des Daseins).<sup>1</sup> But the same was not true of the labor-masses of the cities. Consequently, he turned his attention to the social conditions of the masses of the industrial proletariat. This led him to an analysis of the economic system of capitalism.

His most famous work, "Der moderne Kapitalismus"<sup>2</sup> deals exclusively with this field. It can be regarded as his "chef d'oeuvre", a work consisting of three parts, each of two half-volumes, about five hundred pages per half-volume and altogether more than 3,000 pages. The first volume was published in 1902, the second in 1919, the third, subtitled "Hochkapitalismus",<sup>3</sup> in 1927.<sup>4</sup>

<sup>1</sup> W. Sombart: Das Proletariat. p 9.

<sup>2</sup> "Modern Capitalism"

<sup>3</sup> "Full (or High) Capitalism"

<sup>4</sup> cf. for more detailed information the attached "Bibliography", p 180.

Sombart's professional career began at a time when laissez-faire had brought the lower classes in Germany into a condition of destitution. So great was the inequality in the distribution of national income as to threaten the welfare and stability of the nation. One response to this danger was the founding by Schmoller and others of the "Verein fuer Socialpolitik". The aim of this association was to make accessible to the lower classes the economic and cultural values from which they were excluded. Sombart's first journal articles were in support of Schmoller's position and were studies in welfare economics.<sup>1</sup>

When Wilhelm II became Emperor of the Reich in 1888, he requested Bismarck's retirement. In 1890 the "Sozialistengesetz" was repealed and political conditions became more liberal. But the liberal times did not last long, and between 1894 and 1899 a reaction in defense of the "Junker" (the East-Prussian gentry) and big industry set in.

In this period Sombart also came under the influence of Marx. The rise of revolutionary movements had coincided with Sombart's youth. Engels later was to say about him: "It is the first time that a German University Professor has achieved the fact of seeing in Marx's writings, by and large, what Marx actually said."<sup>2</sup>

Because of his socialistic views, Sombart did not get an appointment in Berlin, but was able to obtain a post at the

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<sup>1</sup> M. Plotnik: op. cit. p 31.

<sup>2</sup> Ibid. p 31.

University of Breslau, where in 1890 he became an Associate Professor.<sup>1</sup>

Despite his socialism Sombart in these same years became on many points a critic of Marx. In his "Socialism and Social Movement"<sup>2</sup>, he attacked a number of important Marxian doctrines.

He rejected the theory of concentration. Marx's view was that the small business man loses his independence to the big, to the rich business man. Sombart thought that Marx overestimated the importance, the impact and especially the tempo of this trend.<sup>3</sup>

Sombart also criticized Marx's view that social production increases productivity a thousand times, a trend that must lead eventually to socialization. Sombart contended that Marx exaggerated in this case also. He suggested that output would increase no more than five times instead of the thousand times, on the introduction of social production. The case for the inevitability of socialization was accordingly weakened.

He disputed the Marxian theory of accumulation. Marx said that the number of the rich decreases, whereas their individual wealth increases. According to Sombart the statistics showed just the opposite to be true.

Marx had maintained that the misery of the working class

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<sup>1</sup> Ibid. p 33.

<sup>2</sup> W. Sombart: "Socialism and Social Movement". The first edition of this work was published in 1896. (The writer read the 8th edition, published in 1919.)

<sup>3</sup> Ibid. p 83.

grows steadily. Sombart disputed the theory of misery.<sup>1</sup>

And finally Sombart denied the theory of catastrophe, the theory that capitalism is digging its own grave. Crises are supposed to be growing larger and larger, beyond the capacity of the capitalistic system to deal with them. Sombart thought the evidence at best inconclusive.<sup>2</sup>

Sombart summed up his objections in these words:

"The highly unusual scientific talents of Marx and Engels had their reverse side in their lack of practical phantasy. Their system is remarkably poor if one examines it as far as the practical content of their ideas is concerned."<sup>3</sup>

In 1904, near the end of his stay at Breslau, Sombart together with Max Weber took over "Braun's Archiv". The new editors of the journal changed the name to "Archiv fuer Sozialwissenschaft und Sozialpolitik", but they determined to keep the two subject matters, social-science and social-policy in separate departments. Weber and Sombart had already achieved a certain reciprocal intellectual influence on each other, and this force was now considerably strengthened by their common work.

In 1906 the Commercial College in Berlin offered him a Professorship. He accepted. The College was an undergraduate institution, with no graduate Faculty.<sup>4</sup>

In the years, which now followed, Sombart worked on the second part of his "Modern Capitalism" and a series of other works

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<sup>1</sup> According to Sombart the greatest part of the workers in England, France and even in Germany lived better in 1897 than they had in 1835.

<sup>2</sup> Ibid. p 96.

<sup>3</sup> Ibid. p 102.

<sup>4</sup> M. Plotnik: op. cit p 34.

closely connected with this topic.<sup>1</sup> In 1915 he published his "Haendler und Helden", a book inspired by the war. In 1917 his reputation as a scholar was such that he was at last offered the post at the University of Berlin, and indeed a post as Full-Professor, the successor of Professor Wagner whose student he once was. He later said of this appointment: "I was then a convinced Marxian and I was at the same time a Royal Prussian University Professor."<sup>2</sup> I have tried to solve the inner conflict that resulted from this contradiction by this perception: Value-judgments do not belong in a science, hence I can carry on scientific work, independent of my personal beliefs."<sup>3</sup>

Sombart as a member of Western civilization loved individual freedom and in addition discovered that the socialist movement, in the process of realization, lost much of its idealistic charm. He was now in a period of transition from self-critical Marxist to anti-Marxist.

He continued as a Full-Professor at the University of Berlin. In 1924 he read a paper on "Klassenkampf"<sup>4</sup> before the "Verein fuer Social-Politik." It was a paper in which freedom of science from value-judgment was no longer regarded as a cornerstone of the system. Subjective statements, judgments and sentiment dominated his argument. In the same year his "Der Proletarische Sozialismus ('Marxismus')"<sup>5</sup> was published. Here at last he vehemently repudiated Marx and indeed attacked him as "Godless",<sup>6</sup>

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1 The writer refers to the Bibliography pp 180-182.

2 Koeniglich Preussischer Universitaetsprofessor

3 M. Plotnik: op.cit. p 35.

4 The class war

5 W. Sombart: The proletarian Socialism ("Marxism").

6 M. Plotnik: op.cit. p 35.



In 1930 he wrote his "Die drei Nationalökonomien",<sup>1</sup> a major work on methodology of economics. In 1931, at the age of 68, he was made Professor Emeritus of the University of Berlin. At that time, when German politics had taken a drastic swing to the right, the politicians, still conscious of Sombart's socialistic past, wanted to get rid of him. His response to this event was characteristic. In 1934 he published his "Deutscher Sozialismus".<sup>2</sup> In this work he appraised and praised national-socialism.

During the last years of his life, Sombart turned from economics to philosophy, anthropology and sociology. He died on May 19, 1941.

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<sup>1</sup> W. Sombart: The three types of economics.  
<sup>2</sup> " " : A new social philosophy.

CHAPTER III

GUIDING PRINCIPLES OF THE SOMBARTIAN SYSTEM

According to Sombart, the purpose of science is to recognize and to ascertain that which is in existence. Economics seeks to find the laws of the economy and analyzes its actual shaping. It is a study of causal relationships. Science must thus acquire perceptions of general validity, acceptable to any person of sound mind. Such knowledge is not kept secret, but is publicly taught.

Science should not, however, invade the sphere of the transcendental, where nothing can be proven by facts. One does not know where the beginnings of the universe are, but one does know that there are problems which human intelligence cannot solve. These problems are in the sphere of the transcendental, beyond human knowledge.

The first rule for any scientist, in Sombart's opinion is, that science must be free of value-judgments.<sup>1</sup> One might attempt to prove the advantages of free trade or for that matter, of a system of protective tariffs. That, however, would be value-judgment and value-judgments are intentional having their roots in the transcendental.<sup>2</sup> They are the expressions of a personality and are, therefore, essentially subjective.

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<sup>1</sup> It is true that Sombart violated repeatedly this first principle (cf. the discussion of his "Klassenkampf" on p 9. of this thesis) but he none the less always adhered to it as a theoretical proposition.

<sup>2</sup> W. Chemnitz: Allgemeine Nationaloekonomie, p 41.

Sombart differentiates between formal and realistic sciences, the latter are sciences of facts, the former have no factual content. Mathematics and logic are, for instance, formal sciences; they are not based on experience, on facts. Economics, on the other hand, is a science of facts; it is a science based on experience.

Within the science of facts, Sombart again makes a distinction, and differentiates them according to the object with which the science is concerned. There is thus a group of natural sciences, and a second group of cultural sciences. Natural sciences deal with things created by God, while cultural sciences deal with anything created by men. This distinction is of great importance in the Sombartian system.

Culture is made by man, whereas nature is given to man without his cooperation, without his participation. Everywhere in culture human spirit is found. Man's way in dealing with cultural concatenations Sombart calls "Understanding". Cultural phenomena are said to be understood, because they are a product of the mind, of the spirit. This, it is said, is: "to understand something from inside."<sup>1</sup> Nature, in its many manifestations, man does not understand. He sees it "from outside", he only "comprehends" it.<sup>2</sup> He can even observe certain regularities, from which he can develop rules, laws. He does not, however, understand the rules he has devised.

<sup>1</sup> W. Chemnitz: op. cit. p 42 cf. W. Sombart: Die drei National-oekonomien, pp. 193-195.

<sup>2</sup> W. Chemnitz: op. cit. p 42 cf. W. Sombart: Die drei Nationaloekonomien, p 112.

Sombart considers economics a cultural science. He also acknowledges it to be a social science. Economics deals with social concatenations and every cultural science is, to a certain degree, a social science. Every manifestation of man in the realm of culture is in a social context and every cultural science has a social basis. The essence of the economy, as of law, is the plurality of people. The notion of private property, for instance, has no meaning if there are not several persons living together. The concept of private property in the world of Robinson Crusoe would not make any sense.

In the Sombartian system, one can regard economics, the realistic science<sup>1</sup> from two different points of view. One may focus on the problems themselves. Alternatively one may analyze the domain in which the problems present themselves.

In focusing on the problems as such, one distinguishes between empirical and theoretical sciences. Empiricism shows how things happen; it deals with real life; it explains the real, actual economy as it exists or existed at a certain period of time and at a certain place. Empiricism is a study of facts.

Theory means the analysis of anything of which one can conceive; it exists only in the field of reflection. Sombart asserts, there are three kinds of reflections:

a) One is to establish all possibilities in an area of analysis. The theory of transportation, for instance, is

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1 cf. p 12 of this thesis.

based on the different possibilities which can be thought of in this field.

b) The second is to ascertain so-called necessities, That is laws, which state that certain principles are basic and unalterable. According to Sombart the notion has its root in jurisprudence, where it identifies commands which may not be disobeyed.

One may note that the laws of natural science are quite different in kind. These are formulas which establish the regularity of events. Anything which can be deduced from experience is not an absolute necessity; it is only a probability of greater or lesser degree. The task of Economic Theory is to promulgate absolute conclusions, i.e., laws.<sup>1</sup>

c) The third field of reflection is to establish probabilities. One infers events in the future from observation of the past and present. One observes certain tendencies and from these tendencies draws certain conclusions for the future.<sup>2</sup>

Further categories of the Sombartian system are found by dividing the science of economics in accordance with the domain of our perceptions. This means in particular a division of Economics into General and Special Economics. General Economics is identified as the study of notions that are valid for any kind of economy. The concept of production, for example, is inseparable from the concept of an economy; an economy without

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<sup>1</sup> W. Chemnitz: op. cit. p 45.  
<sup>2</sup> " " : op. cit. p 45.

production is unthinkable.

One can observe, however, that there are notions which are valid only for a certain period of time and for a certain territory. The domain of such concepts is demarcated by the so-called Economic System, historically defined for a certain period of time and for a certain territory.<sup>1</sup>

Special Economics deals with notions specific to a particular economic system. The theory of interest, for example, has according to Sombart its place only in the system of capitalism.<sup>2</sup> The notion of guilds has a place only within the economy of the craftsman, as it existed until the end of the eighteenth century.<sup>3</sup>

The goal of General Economics is, therefore, to study all those notions which are basically and inseparably connected with the economy, everywhere and at any time. General Economics is always theoretical. It is completely independent of the actual form of any economic system. It deals with categories, and concepts, which are equally valid in any economy. It gives attention to that which is timeless in historical (cultural) events. As its assertions are not based on any previous experience, Sombart uses the words "a priori."<sup>4</sup> in describing them.

Special Economics is theoretical and empirical.<sup>5</sup> It

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<sup>1</sup> Ibid: p 46.

<sup>2</sup> As a matter of fact interest is not limited to capitalism.

<sup>3</sup> W. Chemnitz: op. cit. p 46.

<sup>4</sup> Ibid: p 7..

<sup>5</sup> Ibid: p 46.

deals with actual economic events at a certain period of time and at a certain place. It is therefore always historical and empirical. It is, however, also theoretical, which means it analyzes possibilities, necessities and probabilities, always abstracted from space and time. Sombart maintains that his famous "Modern Capitalism" contains both theory and history. Dr. Walter Chemnitz explains this in the following words:

"Thus my teacher's 'Modern Capitalism' contains both theory and history. It is theory, as it analyzes the relationships in the European and American economy in their space-and timeless form. It is, however, also empiricism as it describes actual events. Every statistic which one can find in this wonderful work, and I think it contains very many of them, is a proof of its historical content."<sup>1</sup> 2.

Empiricism requires scientific observation of what is experienced. The results of the observation must then be coordinated with the theory: that which exists "a priori" ought to tie in with experience. The fruitfulness of empirical observations depends, therefore, on a good theory, just as the results of a fishing expedition depend on the quality of the nets,

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<sup>1</sup> Ibid: p 7. "So enthaelt der "Moderne Kapitalismus" meines Lehrers sowohl Theorie als Geschichte. Er ist Theorie, insoweit er die Sinnzusammenhaenge in der eurpaeisch-amerikanischen Wirtschaft in ihrer raum- und zeitlosen Gestalt der Untersuchung unterzieht, Empirie aber, sofern er tatsaechliches Geschehen zur Darstellung bringt. Jede Zahl, die das bewunderungswuerdige Werk enthaelt, und ich glaube, es enthaelt deren eine Menge, weist hin auf seinen geschichtlichen Inhalt."

<sup>2</sup> The writer translated the word "Sinnzusammenhange" as "relationships". Verbatim it should be: "Sense-relationships".

other conditions being equal.<sup>1</sup>

To turn now to narrower aspects of the system: in the field of the theory of value, Sombart developed the following theory:

One calls the economic value of goods the importance one attaches to them in aiding people's way of life. This refers to "economic goods" only and value is a function. The goods by themselves have no value at all. Value becomes a fact only through the relationship between the human being and the goods, a value, which is called use-value.<sup>2</sup> Only the concept of use-value belongs in the domain of General Economics, and not the concept of exchange-value.<sup>3</sup> The latter can be spoken of only when an exchange takes place. Exchange does not belong, however, to the economy in general. It is a concept, which belongs to a later development of mankind and is still unknown by underdeveloped peoples.

Within the concept of use-value Sombart makes a distinction between utility-value<sup>4</sup> and cost-value.<sup>5</sup>

Utility-value is a function of two variables, i.e. usefulness and scarcity. Cost value depends on the cost, which consists of three elements: time spent on labour; land, and raw materials used in producing goods.

Exchange-value, which is no part of General Economics has its importance in certain historical economic systems. Utility

<sup>1</sup> W. Sombart: Die drei Nationaloekonomien, p 308.

<sup>2</sup> Gebrauchswert.

<sup>3</sup> Tauschwert.

<sup>4</sup> Nutzwert.

<sup>5</sup> This cost value is not expressed in money. Money is an historic-economic concept. Cf. W. Chemnitz, op. cit. p 59.



and cost value exist, however, in every economy.<sup>1 2</sup>

It is the "Economic System" which is the critical element in the whole of the Sombartian System. It is the supreme system building idea. The whole body of his economic theory stands and falls with the "Economic System".<sup>3</sup> This central idea is supported by two other theories, the banning of value-judgment from scientific analysis and a theory of the cultural scientific approach.<sup>4</sup>

As an illustration of the role played by the "Economic System" in Sombart's thinking one may note his view of capitalistic development. He believed that capitalism shows a number of very different stages of development, and that these stages are themselves very different from the late-capitalistic period.

He is clearly right that men will act very differently in a non-profit seeking, self-contained static economy than they will when they bring their products to the market, as in the more highly developed early-capitalistic economy, and very differently again in the highly dynamic full-capitalistic economy.

Quite another matter, however, is his differentiation between the full-capitalistic and late-capitalistic systems which is open to criticism. This theory will be dealt with in a later chapter.<sup>5</sup>

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<sup>1</sup> W. Chemnitz: Allgemeine Nationaloekonomie, pp. 57-59.

<sup>2</sup> Professor Suranyi-Unger, in his "Wirtschaftstheorie bei Sombart" (Sombart's Economic Theory) in the "Jahrbuecher fuer Nationaloekonomie und Statistik" Vol. 73. 1928, claims that Sombart accepted the labor theory of value.

<sup>3</sup> W. Sombart: Die drei Nationaloekonomien, p 185.

<sup>4</sup> "Verstehende Nationaloekonomie" i.e. "understanding economics" cf. footnote No. 3. p 35 of this thesis.

<sup>5</sup> pp. 155-158 of this thesis.

Today, it is clear that value, price and cost are the focal points in the economy, whether it be a capitalistic or even a communistic economic system.

Sombart evidently placed too much importance on his theory of the "Economic System".

Admittedly, in principle capitalism is built on private ownership of the means of production, while the communistic economic system rests on the principle of socialized ownership. Capitalism is associated with freedom of enterprise; the communistic economy is in principle completely planned. As has often been noted, however, in many sectors of the capitalist economy, where investments are too expensive and risks too great as, for instance, in rocket research and use of outer space, one can observe an increasing participation of government in the entrepreneurial field. As government has also become the greatest consumer in the capitalistic economy, by the building of highways, waterways, schools, and by procurement for military, central planning on a significant scale has been inevitable.

Sombart himself said in his "Der moderne Kapitalismus",<sup>1</sup> Vol. III.: "The difference between stabilized- regulated

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1. W. Sombart: Modern Capitalism, Vol. III. p 1016.

capitalism and technicized-rationalized socialism is not so great..."<sup>1</sup>

To deal with the political aspect of these two systems is not the subject matter of this thesis.

The second pillar of the Sombartian structure is the banning of value-judgments from scientific analysis.

In 1909, at the Congress of the "Verein fuer Socialpolitik" in Vienna, Sombart rejected value-judgments from economics "... so long as there is no scientific proof as to whether blondes or brunettes are prettier".<sup>2</sup> In his "Weltanschauung, Wissenschaft und Wirtschaft"<sup>3</sup> he summed up his reasons why value-judgments should not belong to science. This summary

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<sup>1</sup> There are two recent events, which again show how wrong Sombart was in overemphasizing the importance of the concept of the "Economic System". Not only the capitalistic, but also the communistic economic system, regards concepts like demand, supply, price, profit, etc., as important. The Soviet Government lately increased the prices of meat and butter. Premier Khrushchev, in a speech in his native town of Kalinovka, in the province of Kursk, said, in part: "The Soviet people know we took this important step to stimulate animal production, create an adequate supply of meat and raise production to such a level that prices can again be lowered." (Cf. "The New York Times" August 4, 1962, page 2.) The second, characteristic event was that Professor Y.G. Liberman, a Russian economist, submitted a study to the Russian Government stating that, in order to increase production, bonuses should be given to plants which show adequate profits. At the same time Liberman called for a "drastic limitation of directives issued to factories by the state". (Cf. "Soviet Profit Plan Seeks to Spur Efficiency" in the "New York Times" October 20, 1962.)

<sup>2</sup> W. Sombart: Schriften des Vereins fuer Socialpolitik, Volume 132, page 572. He maintained this position when he became "Royal Prussian University Professor" cf. p 9. above.

<sup>3</sup> There is no corresponding expression for Weltanschauung in English. In circumscribing it, one could say that it means the conception of the world from the point of view of a particular person. The title of the English translation is: "Weltanschauung, Science and Economy".

is largely a repetition of what Sombart had said several years earlier, in his "Die drei Nationaloekonomien".<sup>1</sup>

Value-judgments are "relative" truths, related to a particular person. No one can require another person to accept them. Values are established by a certain person, and accepted by other persons who have similar ideas. Valuations are transferred from person to person, in an often irrational way since the power of personality is inexplorable. If necessary, people live and die for values.<sup>2</sup>

"Values, however, cannot be proven .. It is an old prejudice of the epoch of enlightenment to evaluate .."<sup>3</sup> Proving the "correctness" of values would mean degrading them to the sphere of sense-understanding, the equivalent of an attempt to make value-judgments scientific. "Values have their place much deeper and science cannot reach these depths." One must recognize that judgments concerning value, are beyond the sphere of experienced knowledge ... that is, they are beyond that which can be called science. They belong to philosophical (or religious) perceptions.<sup>4</sup> If one analyzes "value" as it "works", it must become clear that all those researchers who were interested in preserving the capitalistic system, used a psychological value-theory, more specifically, the marginal utility

<sup>1</sup> W. Sombart: "Die drei Nationaloekonomien", pp 83, 84, 288, 289, 290, 291 and 293.

<sup>2</sup> W. Sombart: "Weltanschauung, Wissenschaft und Wirtschaft" p 15.

<sup>3</sup> Ibid. p 15.

<sup>4</sup> Ibid. pp 15-19.

theory. They hoped to be able to prove, by using this theory, that capitalism is the best among all economic systems. In contrast, opponents of capitalism regarded the "labor theory of value" as their own. They either wanted to prove how unjust the present system is, or wanted to deduce, like Marx, that capitalism has to come to an end.<sup>1</sup> <sup>2</sup> Sombart maintains that a frequent objection to his "understanding science" is that it depends on a sequence of arbitrary interpretations, a fact which must lead to a glittering subjectivism. A further objection is that it relies too heavily on empiricism, failing to see any objective regularity and refusing to create a theory. According to Sombart both objections are wrong.<sup>3</sup> He then goes on by saying that cultural-scientific economics is well aware of the idea of "regularity" of laws, and has a high appreciation for theory. Such concepts, however, have a different significance in this branch of economics than they do in the natural sciences. To Sombart natural scientific economics has untrue laws. Because laws here cannot be deduced from experience, real laws, as they are recognized by sense-understanding economics, have to be "a priori", i.e. must be based on the evidence of reflection. Economic laws are not at the end, but at the beginning of any noological analysis. They are not the purpose, but only the means of sense

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<sup>1</sup> Ibid. p 20.

<sup>2</sup> How the marginal utility theory should be a means to justify the existence of capitalism, is not clear.

<sup>3</sup> Ibid. p 27.

understanding economics ...<sup>1</sup> There is, says Sombart, one objection to the old economists; their way of thinking is obsolete.<sup>2</sup>

As one consequence of these ideas, Sombart refused to accept the marginal utility theory. By transferring the concept of value judgment into the domain of metaphysics, he developed a theory acceptable to very few modern economists.

One of the pillars of progress surely rests on value judgments. If one wants to establish the direction of any scientific research, one must first evaluate the different approaches which could be employed and, based on these evaluations - value-judgments - decide on the final choice.

As previously mentioned Sombart was not faithful to his own theory. Many examples of this inconsistency are found in his "Heroes and Traders", his "New Social Philosophy", and other treatises.

Dr. Edith Landmann of Kiel, had this pointed comment to make on Sombart's treatment of values.<sup>3</sup>

"Indifference vis-a-vis value is very often only blindness or stupidity in connection with value."

"... Sombart wants to compensate 'value' for its expulsion from science. It should have an even better place. He exiles it to metaphysics. He transfers to philosophy only

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<sup>1</sup> Ibid. pp 27-32.

<sup>2</sup> Ibid. p 33.

<sup>3</sup> E. Landmann: "To Know and to Evaluate", Schollers Jahrbuch fur Gesetzgebung, Verwaltung und Volkswirtschaft im Deutschen Reich, Vol. 54, 1930, pp 287-301.

things which are transcendental, and value belongs - to him - in this domain. What a pity! ... Values and value-judgments are within the domain of experienced knowledge ... they can only be formulated by experience."

Before dealing with "understanding economics" the third pillar of the Sombartian system, to which the next chapter will be devoted, it will be useful to say something more about the stages of Sombart's socialism. Sombart, in his earlier years, was a Marxian socialist so much so that he had to pay for his political views very heavily.<sup>1</sup> In 1924, when he published his "Der proletarische Sozialismus ('Marxismus')", a great change could be observed.<sup>2</sup>

Dr. Waldemar Zimmermann, Professor of Economics at the University of Hamburg, wrote:<sup>3</sup>

"Sombart, as a young idealist, was greatly influenced by Marx's annihilating criticism of the capitalistic system and he hoped for an improvement of the social position of the great masses through the social movement. He was, however, highly disappointed by the actual circumstances ... The ninth edition of 'Socialism and Social Movement', which was published in 1920, did not contain important changes in Sombart's attitude towards socialism."

"The Proletarian Socialism ('Marxism')" however, which

<sup>1</sup> cf. p 6 of this thesis.

<sup>2</sup> The Proletarian Socialism ("Marxism").

<sup>3</sup> W. Zimmermann: "Der proletarische Sozialismus (Marxismus) von W. Sombart" in Schmoller's Journal, 1932, p 437.

he surprisingly called the tenth edition of the same work, showed a very different picture of modern socialism and the life-work of Marx."

" ... Sombart again and again reiterated that he does not want to make value-judgments .... but still Sombart's new work is a pointed, grandiose critical attack on the democratic-proletarian-revolutionary socialism. It sounds like a sharp criticism of a man who gave his life to somebody unworthy of his love: Karl Marx ..... Whereas in the chapter on class war (before World War I) he was full of praise and happiness, he now envisages the war of the classes as infernally senseless.<sup>1</sup> Marx now became to Sombart the devilish volcano, who threw the poisonous principles of class war into the central stream of proletarian socialism. In the final analysis, Sombart blames Marx for the depravity caused by socialism. Sombart now examines Marx's life very thoroughly and regards him as the incarnation of evil .. a Lucifer."

Subsequently,<sup>2</sup> Professor Zimmermann says: "The great masses already infuriated this aristocrat of mind between 1900 and 1914. At the time of his journey to Russia before World War I, Sombart showed signs of becoming alienated from the proletarian-socialistic movement ..... Even where Sombart is mistaken, we can learn from him ..... However, a later sociologist-historian will regard the happenings around the

<sup>1</sup> W. Sombart: Proletarian Socialism ("Marxism"), Vol. I. p 384.

<sup>2</sup> Schmoller's Journal, 1932, p 445.



imaginary notion of 'Proletarian Socialism' in a different way."

In 1926 Friedrich Pollock made a heavy attack on Sombart and his book: "The Proletarian Socialism ('Marxism')".<sup>1</sup>

"One starts reading this book with the expectation of finding in it a scientific analysis of socialism, which one missed for a long time. Such hopes soon vanish, however. There is very little of science in it. It is a pamphlet which uses the tools of demagoguery and the spirit of romantic-reactionarism. It should suffice to say that Sombart changed his previous opinion completely."<sup>2</sup>

Sombart maintains that most of the socialists are former bourgeois who were unsuccessful.<sup>3</sup> He further states<sup>4</sup> that "Marx did not contribute anything to socialistic ideas ... The proletarian-socialistic system has its roots in the Greek philosophy of decay and in the Jewish spirit. It is Non-German."<sup>5</sup> "The work of destruction of the proletarian spirit starts by destroying religion. The consequence is a perfect atheism."<sup>6</sup> "Unbelieving materialism takes the place of real philosophy and religion. The authority of tradition is refuted."<sup>7</sup> "Jews developed this system, Tartars executed it and Slavs endured it

<sup>1</sup> F. Pollock: "Sombarts Widerlegung des Marxismus", in Beihefte zum Archiv für die Geschichte des Sozialismus und der Arbeiterbewegung.

<sup>2</sup> Ibid. pp 1-2.

<sup>3</sup> F. Pollock, op. cit. p 4., cf. W. Sombart: Proletarian Socialism ("Marxism"), Vol. I. p 75.

<sup>4</sup> F. Pollock, op. cit. p 5., cf. W. Sombart: Proletarian Socialism ("Marxism"), Vol. I. p 174.

<sup>5</sup> F. Pollock, op. cit. pp 5-6, cf. W. Sombart: op. cit. Vol. I. p 84.

<sup>6</sup> " " op. cit. p 7, cf. " " op. cit. " I. p 127.

<sup>7</sup> " " op. cit. p 7, cf. " " op. cit. " I. p 139.

until the present time."<sup>1</sup> To Sombart the "Communist Manifesto" is the greatest masterpiece in the art of demagoguery.<sup>2</sup> "Two different worlds are confronting each other, which are like light and darkness, truth and lie, like God and devil."<sup>3</sup>

Views such as those, led Pollock to say:<sup>4</sup> "Instead of empirical research Sombart employs a way of reasoning which is equivalent to a perfect disregard of the most elementary rules of scientific work. The specific way in which Sombart expounds his ideas is what we call 'romantic'." Pollock also criticizes the way Sombart quotes from other scientists' works and maintains - rightly enough - that in using quotations certain rules have to be followed and that quotations should reproduce the opinion of the author quoted and should not be distorted. Such distortions are very common in Sombart's works. Pollock stresses the fact that he does not want to criticize Sombart because he employs value-judgments, but because of his distortions his book became a pamphlet, a falsification of reality. As an historian, Sombart presents false reports; his intentions are transparent. Therefore, his book *The Proletarian Socialism* ("Marxism") is without any value.<sup>5</sup>

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<sup>1</sup> F. Pollock, op. cit. p 19, cf. W. Sombart: op. cit. Vol. II. p 517.

<sup>2</sup> " " op. cit. p 18, cf. " " op. cit. Vol. II. p 328.

<sup>3</sup> " " op. cit. p 27, cf. " " op. cit. Vol. I. p 120.

<sup>4</sup> " " op. cit. p 29.

<sup>5</sup> F. Pollock, op. cit. pp. 51-52.

## CHAPTER IV

### SOMBART'S METHODOLOGY

Sombart expounded his views on methodology in his lectures and in his writings. In 1930 he published his "Die drei Nationaloekonomien," which deals extensively with his methodology.

J.M. Clark, when reviewing this work, wrote:

"The reader may not agree with all Sombart's conclusions, but he can hardly fail to profit by following the treatment of fundamental problems by a mind of unusual scope and very positive convictions .... Perhaps the main thing is that he has spoken boldly for the scientific validity of theoretical methods adapted to grappling with living historical realities .... Sombart's erudition continues to command respect."<sup>1</sup>

The "Die drei Nationaloekonomien" with the subtitle "History and System of the Science of Economics", consists of three parts:

- Part I      The actual condition of Economics
- Part II     The three types of Economics
  - A)    Normative Economics (Die richtende Nationaloekonomie)
  - B)    Natural Scientific Economics (Die ordnende Nationaloekonomie)

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<sup>1</sup> Quarterly Journal of Economics, Vol. 45, pp. 517-21.

C) Cultural Scientific Economics (Die  
verstehende Nationaloekonomie)

Part III The Study of the economy as a whole.

According to Sombart there are three approaches to human culture and economics:<sup>1</sup> the metaphysical, the natural-scientific, the cultural scientific, and therefore there are three methods: the normative (die "richtende"), the nomological (die "ordnende"), the noological (die "verstehende"), and consequently three types of economics: the normative, or metaphysical, the natural-scientific (nomological) and the cultural-scientific (noological).

Pure systems are rare. Sombart considers these as pure: Thomas Aquinas', the representative of the normative type of economics (richtende Nationaloekonomie); Pareto's, of the natural-scientific (ordnende Nationaloekonomie); and his own as representative of the cultural-scientific system (verstehende Nationaloekonomie).

Most other writers overlap the boundaries of Sombart's classification and represent various combinations, which explains their presence in several groups. Sombart finds a mixture of the first two groups (normative and nomologic) in the representatives of the historical school, in the physiocrats, classicists, liberals and marginalists. Elements of the second and third groups can be found in several economists of the

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<sup>1</sup> W. Sombart: Die drei Nationaloekonomien, p 19.

historical school. Karl Marx's work is a mixture of all three.<sup>1</sup>

#### Normative Economics

This type of economics attempts to show that which ought to be.<sup>2</sup> Economics here is the science of norms. Its central ideas are: the "Just Economy," "Just Prices," "Just Wages," and "Just Distribution".<sup>3</sup> According to Sombart this type of Economics is not a science, but is part of metaphysics.

The purpose of normative economics is to establish norms for practical behaviour according to Eternal Laws. These govern the world of good moral standing and also prescribe a pattern of action to the economic man. The main aim of Normative Economics is therefore to discover the economic system of greatest value.<sup>4</sup>

There are three groups of Normative Economists:

- a) the Scholastics,
- b) the Harmonists and
- c) the Rationalists.<sup>5</sup>

The Scholastics are represented by Aristotle, who distinguished between natural economy, in which wants are satisfied and the unnatural economy in which profits are made. This school of thought reached its apex in the 13th century with Thomas Aquinas.<sup>6</sup> Later economists of the same type were Anthony of Florenze and Bernard of Siena both in the 15th century. Their system was based on private ownership. By the 19th century

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<sup>1</sup> Ibid. p 20.

<sup>2</sup> Ibid. p 21.

<sup>3</sup> Ibid. p 22.

<sup>4</sup> Ibid. pp 21-22.

<sup>5</sup> Ibid. p 23.

<sup>6</sup> Ibid. p 25.

the school was represented by the romantics such as Adam Mueller (1779-1829)<sup>1</sup> with his treatises: "Of the Importance of a Theological Basis of Political Science" (1819) and "Kameralistics Systematically shown on a Theological Basis" (1820). Another representative was the Jesuit priest, Liberatore, (1810-1892).<sup>2</sup>

Othmar Spann, the well known German economist also based his teachings on Scholastic Economics.<sup>3</sup>

The scholastic, or it might be called the Catholic system of Political Economy was very wide-spread. There was no corresponding Protestant system. The Protestants lacked the "Lex Eterna", or natural law, associated with canon-law.

The next group, the Harmonists played an important role since the 18th century. According to Sombart their principal teaching was that not God, but man is predominant. The idea of "Natural Order" (ordre naturel) was their guiding principle. Natural order is, for them, the "Law of Nature".<sup>4</sup> Their first representatives were the physiocrats, Quesney, Mercier de la Riviere and Dupont de Nemours, but Sombart also included Adam Smith, Bastiat and even the marginalists and the socialists.<sup>5</sup>

The final group, the Rationalists, believed that "Just Economy" means "Reasonable Economy". The first of this school was Schuetz, who maintained that speculative elements also have their place in Political Economy and that this science is composed

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<sup>1</sup> Ibid. p 29.

<sup>2</sup> Ibid. p 32.

<sup>3</sup> Ibid. p 37.

<sup>4</sup> Ibid. pp. 38-39.

<sup>5</sup> Ibid. pp. 40-43.

of both experience and human intelligence.<sup>1</sup> The aim of this group - in writing what Sombart called Ethical Political Economy - was to show the logic of justice, of morality and of humaneness.<sup>2</sup> Other representatives of this group were: in Italy, Fuoco and Gioja; in Germany, Soden, Adam Mueller, v. Thunen, Hildebrand, Roscher, Rau, List, Knies; in England, McCulloch, Scrope, Chalmers and J.S. Mill; in France, Droz, Chevalier, Ott and Aubry.<sup>3</sup>

Sombart then asks whether one should make use of Normative Economics?<sup>4</sup> His answer begins: "Every system of an economy 'as it ought to be' goes in the direction of a social ideal, that is, toward a system of transcendently-based aims". "There are several such ideals, because there are several possibilities of supposing the highest absolute value."<sup>5</sup> He later says: "The 'just' economy cannot be found through the use of knowledge nor by experience. Normative Economics is therefore not science, but metaphysics, or even religion."<sup>6</sup> There can be as many norms as there are people in the world. The metaphysical approach has its place in the philosophy of economics, but not in the science of economics.

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<sup>1</sup> Schuetz wrote his treatise: "Ethical Elements in Economics" in 1844. Cf. W. Sombart, *op. cit.* p 53.

<sup>2</sup> W. Sombart: "Die drei Nationaloekonomien", pp. 45-53.

<sup>3</sup> Ibid. p 54.

<sup>4</sup> Ibid. p 64.

<sup>5</sup> Ibid. p 69.

<sup>6</sup> Ibid. p 84.

The Natural Scientific Economics.

The nomological approach, in Sombart's view, in contrast with Normative Economics is the first form of scientific economics.<sup>1</sup> Criticism represents the real scientific spirit. Its spirit is coolness, sobriety, and distrust. "Distrust is the highest virtue in the realm of sciences."<sup>2</sup> "If something is not proven it cannot be accepted by any science."<sup>3</sup> When mercantilist theories appeared, they still reflected the normative economic approach, but they also contained germs of a much later school of thought, the ideas of the nomological system.<sup>4</sup> The direction of this development was then interrupted by classical economics. This was the epoch of the "ordnende", the natural-scientific method.<sup>5</sup>

The magical, theological and metaphysical, i.e., every interpretation of nature which went beyond experience had to disappear. This goal was reached by making concepts elementary, in other words, by finding basic facts and by explaining everything quantitatively. Galileo's principle was adopted: "To measure everything that can be measured."<sup>6</sup> This principle was then crowned by the use of mathematics. Sombart quotes Kant: "If something is intended to have general validity, mathematics ought to be employed."<sup>7</sup>

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<sup>1</sup> Ibid. p 85.

<sup>2</sup> Ibid. p 90.

<sup>3</sup> Ibid. p 96.

<sup>4</sup> Ibid. p 98.

<sup>5</sup> Ibid. p 99.

<sup>6</sup> Ibid. pp. 102-106.

<sup>7</sup> Ibid. p 107.



Natural science, however, renounces the understanding of essence. Essence is totality: quality, reason, and purpose. "Natural science comprehends only and its sphere of interest is limited to magnitude".<sup>1</sup>

Among the natural-scientific writers, Sombart again mentions three groups, the Objectivists, the Subjectivists and the Relationists.

The first group, the Objectivists, explain economic events by the movement of magnitudes, quantities of money, of goods, work, etc. In this group Sombart puts the physiocrats, the English classicists, and also such great socialist theoreticians, as Rodbertus and Marx.<sup>2 3</sup>

The second group, the Subjectivists, explain all economic happenings psychologically. Here Sombart mentions Jevons, Menger, Wieser, Marshall, J.B. Clark.<sup>4</sup>

The final group, the Relationists instead of using a causal-genetic explanation, use the approach of equilibrium. This mathematical school includes Cournot, Walras, Pareto, Edgeworth, Schumpeter, Barone.<sup>5</sup>

Characteristic of all three groups is that their approach is scientific. They want to know: what really is? They all

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<sup>1</sup> Ibid. pp. 112-113.

<sup>2</sup> Ibid. p 120.

<sup>3</sup> It should be remembered that according to Sombart most writers overlap the boundaries of his classification and represent various combinations. Cf. p 29 of this thesis.

<sup>4</sup> Ibid. p 121.

<sup>5</sup> Ibid. p 121.

stripped themselves of every element of metaphysics. Cairnes maintained that Political Economy is a positive science as long as its basis is experience, and hypothetical if it deduces from general statements. According to Schumpeter, economics is closer to natural sciences than it is to the other sciences.<sup>1</sup>

The main goal of the natural scientific Political Economy is to find laws, so that events can be properly classified.<sup>2</sup> The first economist who introduced this notion of law into economics was Jean Baptiste Say. Until a law is abstracted the only access to natural phenomena is exterior observation. The law is the epitome of this approach.

#### Cultural Scientific Economics

Sombart identifies noological economics with the heterodox or cultural scientific method.<sup>3</sup> He calls all those economists who "rebelled" against the physiocrats and the classicists, the heterodox, the opposition.<sup>4</sup>

In Sombart's view, the orthodox school neglected to focus on the national, the socio-political, and the ethical point of view.

He affirmed - and this was his main argument - that, as free-traders, this school favoured internationalism, failed in the field of labor-problems, and had no remedies against the

<sup>1</sup> Ibid. pp. 123-124.

<sup>2</sup> Ibid. p 124.

<sup>3</sup> Cf. M. Plotnik, op. cit. p 81. Plotnik states in part: "From the peculiar way of obtaining knowledge in the realm of culture called 'verstehen' the whole type of work received the adjective 'verstehende' ... 'The English equivalent would be 'cultural scientific' or 'heterodox economics'".

<sup>4</sup> W. Sombart, op. cit. p 125.

devastating influence of capitalism on matters of culture and the spiritual life of mankind.<sup>1</sup>

Sombart regards the cultural-scientific approach as superior to the natural scientific. "To understand", to him means to gain insight into sense.<sup>2</sup> Cultural-scientific knowledge is essence-understanding, whereas natural-scientific knowledge is only partial understanding. It is "Comprehension" only.<sup>3</sup> The noologic method permits an insight into causality that natural scientific knowledge does not grant. What Sombart stresses is the difference between natural scientific comprehension and understanding in the sphere of culture, in the sphere of essence-understanding. The law in cultural sciences is, for Sombart just the starting point. Man understands ultimately only that which he can create, which he can do, i.e. culture.

In the sphere of nature - for Sombart - the cause of physical events cannot be ascertained with absolute certainty. "All physical phenomena remain a riddle. Why do things happen in nature? Even the wisest man cannot answer why they happen just as they do."<sup>4</sup>

To Sombart the heterodox type of economics is the culmination of the science. The orthodox economics, which accepted the natural scientific method, can be regarded, however, as the first appearance of scientific procedure in economics as

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<sup>1</sup> Ibid. pp. 140-141.

<sup>2</sup> In German: Sinn.

<sup>3</sup> " " : Begreifen.

<sup>4</sup> W. Sombart, op. cit. p 194.

opposed to the preceding metaphysical system. Sombart regarded methodology as the most important aspect of any science. "Those who did not know how to make the method of inquiry their own, were condemned to sterility."<sup>1</sup>

Within cultural scientific economics Sombart distinguished among three forms of "verstehen" (understanding): Abstract understanding (Sinnverstehen), Concrete understanding (Sachverstehen) and Psychic understanding (Seelenverstehen).

Abstract understanding means essence grasping, through which one understands that which is timeless in historical or cultural phenomena.<sup>2</sup> In the realm of economics it means to understand the systembuilding ideas; to understand the different possibilities of economic development.<sup>3</sup> All conclusions that can be drawn with the help of abstract understanding are of "a priori" nature, based on reason and not on experience.<sup>4</sup>

Concrete understanding, on the other hand, means the understanding of phenomena as they developed in time and space. It is understanding of the real economy.<sup>5</sup>

Psychic understanding means insight into motives.<sup>6</sup> For instance, one can understand the psyche of the capitalistic entrepreneur, because one knows the capitalistic spirit from where all his motives originate. Motives are the ultimate causes of human

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1. W. Sombart: Modern Capitalism, Vol.III. p XIX.

2. W. Sombart: Die drei Nationaloekonomien, p 206.

3. Ibid. p 206.

4. Ibid. p 209.

5. Ibid. pp 210-211.

6. Ibid. p 219.

behaviour.<sup>1</sup>

The inquiry into the interrelationships of social events is, says Sombart, causal inquiry. He distinguishes between mechanical causality, which is manifested in the sphere of nature, and motive causation, which appears in the sphere of culture.<sup>2</sup> Only in cultural sciences is causal inquiry possible, says Sombart - inquiry into the sphere of nature leads to metaphysics.<sup>3</sup> "In cultural happenings ... causality is an evident reality that I can verify in every human work."<sup>4</sup>

The most important laws in economics are identified by Sombart as fictions. The law of demand and supply, for example, the law of marginal utility, the law of indifference, the law of substitution are all laws based not on empirical evidence, but on rational necessity. The orthodox economists, of course, deny that such laws are mere fictions.<sup>5</sup> 6

In Part III of his "Die drei Nationaloekonomien", Sombart violently attacks subjective opinion. He poses three questions:

1) Should one study the philosophy of economics, so different from the science of economics? This he answers yes.

2) Should one renounce the science of economics, as a discipline, in favor of a philosophy of economics? This Sombart refuses to accept.

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<sup>1</sup> Ibid. pp. 219-224.

<sup>2</sup> M. Plotnik, op. cit. p 87.

<sup>3</sup> M. Plotnik, op. cit. p 88.

<sup>4</sup> W. Sombart: Die drei Nationaloekonomien, p 222.

<sup>5</sup> Ibid. p 261.

<sup>6</sup> Ibid. p 92. Cf. Sombart's explanation: Fictions are functions of the human spirit with the help of which the world can be better understood.

3) Should the science of economics contain metaphysical elements, making the science "ethical", which would mean, in the Sombartian sense, that it would be interwoven with value-judgments? In other words, should cultural scientific economics be mixed with ideas of normative economics? This Sombart energetically denies.<sup>1</sup>

"Conclusions in economics can be right or wrong, but they can never be good or bad, they can never be useful or dangerous."<sup>2</sup>

"We do not want to know what Mr. A thinks good or bad, useful or harmful, we are only interested in how the economy is developing." "Subjective statements on 'what should be' are an arrogance." "In scientific analysis we want to have information concerning the causal relationships of the economy, but these we cannot obtain through economics which evaluates." "Nobody should impose upon us his value-judgments." "The evaluating science contributes to a reduction of the authority of the science and of the dignity of value-judgment."<sup>3</sup>

Sombart was interested in the evolution of economic institutions. According to his theory, the social economy was the same thing as the economic system. Because economic systems developed, economics became an evolutionary science. He therefore classified the whole field of economics into three further divisions: the philosophy of economics, economics, the science and applied economics, the art.<sup>4</sup>

The philosophy of economics should inquire into the

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<sup>1</sup> Ibid. p 288.

<sup>2</sup> Ibid. p 289, quoted from Luigi Cossa.

<sup>3</sup> Ibid. pp. 289-291.

<sup>4</sup> Ibid. p 293.

metaphysical interrelationship of the constituent elements of the economy. It must also contain cultural philosophy, which is concerned with the cultural values of the prevailing economic system. "To what extent does an economic system increase or decrease culture"; "are economic values cultural values"; "what ideas governed the world's spirit when it endowed upon mankind the monster of capitalism?"<sup>1</sup>

Philosophy of economics should also be concerned with the ethical basis of the economy. For instance, "what should the goals of the economy be? What things should be produced? In which sequence? What is the national welfare? Is luxury wrong?" "It is this field with which Normative Economics is concerned, and which it misuses."<sup>2</sup> <sup>3</sup>

As a science, economics contains both theory and history. Economics as an empirical, positive science is concerned with the actual state of things, as they have taken place; that is history. To understand history, we need theory. Theory and history are inseparable. Empiricism is scientific experience. If the theory is good, the fertility of empirical knowledge will increase.<sup>4</sup>

"He who does not employ theory and empiricism together is not a perfect economist ... Any economics which has sense is a unification of theory and empiricism."<sup>5</sup> Sombart quotes Kant:

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<sup>1</sup> Ibid. p 294.

<sup>2</sup> Ibid. p 295.

<sup>3</sup> Here Sombart again refers to "Normative Economics" which, in his opinion, is preoccupied with that "which ought to be". Cf. p 32 of this thesis.

<sup>4</sup> Ibid. p 308.

<sup>5</sup> Ibid. p 319.

"Economics without theory is blind, without empiricism empty."<sup>1</sup>

Applied economics, economics as an art, is the study of the means to be employed in order to achieve certain practical ends.<sup>2</sup> Sombart quotes John S. Mill:<sup>3</sup> "Science is a collection of truths, art a body of rules or directions for conduct. The language of science is: this is or is not; this does or does not happen. The language of art is: do this, avoid that."<sup>4</sup> Science is indicative. Art is imperative.<sup>5</sup>

Among the arts of economics, Sombart lists: Business Administration, Public Finance and Practical or applied economics. In his lectures on General Economics and in his "Die drei National-oekonomien" he develops the following scheme:<sup>6</sup>

General Economics	...	theoretical
Special Economics	...	theoretical empirical
Theoretical Economics	...	general special
Empirical Economics	...	special <sup>7</sup>

In the works of Sombart one does not find theories developed in the Marshallian or Keynesian sense. He emphatically rejected the theory of marginal utility, Jevons and the Austrians. As far as the "Methodenstreit" between Menger and Schmoller is concerned, he of

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<sup>1</sup> Ibid. p 319.

<sup>2</sup> Ibid. p 324.

<sup>3</sup> Ibid. p 325.

<sup>4</sup> John S. Mill, Essay on Political Economy, p 124.

<sup>5</sup> W. Sombart, op. cit. p 325.

<sup>6</sup> For detailed information cf. pp. 15/16 of this thesis.

<sup>7</sup> W. Sombart, op. cit. p 321.



course, took sides with his former Professor, Schmoller. He never used diagrams, or the mathematical approach. He depended upon a long series of definitions.

Dr. Walter Chemnitz, who was Sombart's last assistant at the University of Berlin, published his "Allgemeine National-oekonomie" in 1960. In the preface of his book, Chemnitz stated that the basis of his book is the lectures and seminars of Sombart from 1921 to 1934.<sup>1</sup>

According to Chemnitz, Sombart stressed the importance of the church in the development of the economy. Although he was a Protestant, he highly praised the Catholic Church. He was said to be religious but if so, his religiousness was based on scientific conviction. In his lectures, he maintained that none of the great socialist writers could ever advance decisive arguments against a Monarchy, an institution which can associate itself with every type of economic system. He maintained that the optimal development of social wealth depends on family, church, and state. He regarded the period of Queen Victoria in England as a model of wealth-optimum. He maintained that constitutional

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<sup>1</sup> Chemnitz's book consists of seven chapters:

- I. Basic facts of the economy.
- II. Economy and the science of economics.
- III. Wants.
- IV. Production.
  - a) The process
  - b) Performance and success
  - c) Location
- V. Transportation.
- VI. Distribution.
- VII. The process as a whole.

monarchy along parliamentary lines<sup>1</sup> is the most perfect attainable form of state. It secures tradition, the steady tranquility of political life, the existence of civil servants who do not belong to any political party and judges who serve the Kingdom and not corrupt politicians. He stressed the importance of a State-church,<sup>2</sup> based on the Catholic example.

He regarded the corrupt French Republic as a prime example of decadence and maintained that a large part of its population was in distress. This contrast was the reason, Sombart said, why Ranke (who in his opinion, was the greatest historian who ever lived), why Mill, Marshall, Roscher, Wagner, and other great economists praised the parliamentary monarchy. There was no one of any standing among the scientists, who favored the republican form of government, said Sombart, a form which always leads to party-dictatorship.<sup>3</sup>

Earlier, in the second chapter of this thesis, Sombart's arguments against the Marxian theories were set out. In the third chapter Sombart's "The Proletarian Socialism ('Marxism')" was discussed. The greatest difference between Marx and Sombart was that Marx was an internationalist and an atheist, whereas Sombart was a nationalist and had religious sentiments. His way of thinking and feeling was rooted in German rural life and was assimilated with what he saw and experienced in his formative years on his father's farm. He was highly impressed by the great

<sup>1</sup> "Parlamentsmonarchie"

<sup>2</sup> "Staats Kirche".

<sup>3</sup> Dr. W. Chemnitz: Allgemeine Nationaloekonomie, pp. 209-211.

socialists of his time on the one hand, but by Bismarck's great personality, German militarism, and the Prussian "Junkertum", on the other. When one adds to these factors his temperament, it is no wonder that his books and treatises show great oscillations between left and right, between socialistic-radicalism and nationalistic-ultraconservatism, and no wonder too that this oscillation later settled into a reactionary-racialistic attitude.

It seems to be appropriate to refer to Plotnik's statement, which says in part:

According to the individualists, the purpose of the state is the welfare of the individual. The universalists regard society as an organism with its own life. According to this latter school of thought, the state ranks above the individual. The first concept is Anglo-Saxon; the second is the basis of fascist and communist states. Sombart rejected the Anglo-Saxon view.<sup>1</sup>

The reactions of academic economists toward "Die drei Nationaloekonomien" are worth attention. Professor J.M. Clark's view has been outlined above. Dr. Alfred Amonn, Professor of Economics at the University of Bern, had a very different opinion. In an article in Schmoller's Jahrbuch he vigorously attacked Sombart on several grounds.<sup>2</sup>

"Sombart wants to clarify the chaos in our science. This however, is an undertaking which is doomed to failure from the

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<sup>1</sup> M. Plotnik, op. cit. p 54.

<sup>2</sup> "Wirtschaft, Wirtschaftswissenschaft und 'Die drei Nationaloekonomien'", in Schmoller's Journal, Vol. 54, p 193.

start. It is an experiment with inadequate means and from a prejudiced starting point. We are confronted with an apology - with all shortcomings of an apology - and not with an objective and unprejudiced criticism and evaluation. We are furthermore confronted with wrong means, with inadequate, unclear and equivocal notions and also Sombart's procedure is unacceptable."

"Sombart is at his best in Chapter 16. Natural-scientific method becomes democratized... The general validity of its results is the aim ... Science's purpose is to acquire knowledge for everyone, for any normal person. To reach this goal Sombart wants to eliminate the magical, the theological and metaphysical, these ideas which governed in the past." <sup>1</sup>

According to Amonn, Sombart is completely wrong when he stresses that the optimum goal of natural science is to form "laws". "Natural sciences show only regularities of co-existence. For example, the law of gravitation shows the relationship between weight, distance and acceleration, three magnitudes in co-existence..." "What Sombart says concerning the mathematical formulation of natural laws is so confused and unclear that not only the economist, but even the scientist will not understand him." 'Natural science is not essence-understanding' <sup>2</sup> or on the same page 'Natural science is only partial understanding'....

Such statements are grotesque exaggerations to Amonn. <sup>3</sup> "The goal of natural sciences is to understand the essence, but Sombart

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1 Ibid. pp 216-218.

2 W. Sombart: op.cit. p 112.

3 A. Amonn: op. cit. pp 220-221.

wants to prove the opposite ... It is a Sombartian dictatorship."<sup>1</sup>  
"Sombart's way is to misinterpret the meaning of notions. Thus making it possible to contradict anything said by other people. This, however, is not science".<sup>2</sup> Amonn contradicts Sombart's view that the magnitudes ascertained by natural sciences are without quality.<sup>3</sup> "Sombart discounts any achievement of economics to date, because he is afraid that this could reduce the value of his own achievements ... Sombart maintains that his own cultural-scientific approach is superior. It must be clear that, in this case, Sombart uses value-judgment".<sup>4</sup> "Although economics is within the domain of the 'social' it does not follow that economics is sociology".<sup>5</sup> "The idea of 'Formation' as used by Sombart refers to a certain economic system ... No modern economic theoretician would deal with such an economic system as an historical fact ... To maintain that concepts in economics are related to a given economic system only is absolutely unacceptable".<sup>6</sup> "Sense understanding or essence-grasping as a method was also used by natural-scientific economics."<sup>7</sup>

For Amonn, "Modern Capitalism" is not science, but literature.<sup>8</sup> "It does not contain those elements which the historian would call 'science of history' and also not those which could be accepted by the economist as theory, i.e., the theory it

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<sup>1</sup> Ibid. p 222.

<sup>2</sup> Ibid. p 224.

<sup>3</sup> Ibid. p 229.

<sup>4</sup> Ibid. p 232.

<sup>5</sup> Ibid. p 241.

<sup>6</sup> Ibid. p 244.

<sup>7</sup> Ibid. p 249.

<sup>8</sup> Ibid. p 279.

contains is a wrong theory".<sup>1</sup> "In spite of these facts it must be said that 'Modern Capitalism' contains ideas, which could be the inspiration for further scientific research ... This is very often the case in connection with Sombart's works ... Sombart sometimes has the ability to perform excellent scientific work too ... However, he is primarily an artist and not a scientist ... This can explain something which cannot otherwise be explained in a logical, scientific way - how he changed from a Marxian Socialist (through "Heroes and Traders" during the war, and through his Theologism in the first years after the war) to his present attitude."<sup>2</sup>

Amorn goes on: "Sombart always wants to prove too much and therefore he cannot prove anything ... He develops each and every momentary idea into a thesis which he thinks must be proven by any means ... Therefore this work of his (Die drei Nationaloekonomien), in spite of the fact that it contains some excellent passages, does not make us happy ... It is a pity that science lost a man of such caliber".<sup>3</sup> With this harsh judgment the article ends, an article written eleven years before Sombart's death.

Still an important appraisal was that of Dr. L. von Mises, Professor of Economics, at the University of Vienna. In an article entitled "To Understand and to Comprehend", von Mises wrote:<sup>4</sup> "Sombart claims that he and his followers are the only theoreticians

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<sup>1</sup> Ibid. p 280.

<sup>2</sup> Ibid. p 281.

<sup>3</sup> Ibid. p 285.

<sup>4</sup> Prof. Mises' article in Schmoller's Journal, Vol. 54, 1930, p 331.

in the 'real sense' of the word. Any other theory is wrong. Why? Sombart never gave the answer ... By refusing to accept the marginal utility theory he employs value-judgment ... He has already explained previously, and very exactly, just how value-judgments are to be appreciated ... His fiery temperament makes him employ value-judgments all the time and so he becomes unfaithful to his own former views".<sup>1</sup>

In 1953 Professor George Weippert's "Werner Sombarts Gestaltsidee des Wirtschaftssystems" was published.<sup>2</sup> He introduced his work by saying that, years ago, inspired by Sombart, he had promised him, the esteemed "Altmeister",<sup>3</sup> that he would write on this theme. Weippert says: "Sombart went so far as to maintain that without the 'Idea of Formation' there is no science at all. Every science - says Sombart - needs a specific 'Gestaltungs-idee', and this 'Idea of Formation' in economics is the 'Economic System'." Weippert says that Sombart's method of drawing the boundaries of "understanding" was incorrect: he made the field of "understanding" too narrow.<sup>4</sup>

"The field of 'understanding' can be enlarged into a domain which Sombart regarded as metaphysics ... But Sombart also devoted much more space to the natural-scientific system than is necessary."<sup>5</sup> "Sombart overstated the significance of the concept of 'understanding' ...<sup>6</sup> He himself, by accepting the idea of

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<sup>1</sup> Ibid. p 341.

<sup>2</sup> G. Weippert, Werner Sombart's Idea of Formation of the Economic System.

<sup>3</sup> In the writer's opinion "Great teacher" would be the right translation.

<sup>4</sup> Ibid. p 17.

<sup>5</sup> Ibid. p 17.

<sup>6</sup> Ibid. p 19.

culture as an actual fact, dealt in the domain of metaphysics. In his own terminology, this meant acknowledging the reality of a transcendant world and to cross the boundary which he himself has drawn ...<sup>1</sup> The lines of demarcation which Sombart drew between cultural sciences, with their tool of sense-understanding on the one hand and metaphysics on the other, are to be dealt with very cautiously, even by those who, in principle, accept his distinctions ...<sup>2</sup> The weaknesses in Sombart's theory of the sciences are just these lines of demarcation."<sup>3</sup> Weippert then continues: "Sombart was not the founder of a school of thought and was convinced, at the end of his life, that his work was a failure ... He was certain of the value of his theory of the "economic system", but he was disturbed about his theory of "cultural scientific economics".

"Carl Brinkmann, Kurt Singer, Edith Landmann and Edgar Salin are right - although their reasoning differs - in stressing the necessity of cooperation between the cultural scientific and natural scientific approaches ... If one's theory is based on essence-necessities (and Sombart belongs to this category together with Dilthey, Spranger, von Gottle and Heidegger, a group which greatly developed this field), then he has already formed 'value-judgments'," concludes Weippert.<sup>4</sup>

Dr. Theo Suranyi-Unger, Professor at the Law-School in

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<sup>1</sup> Ibid. p 38.

<sup>2</sup> Ibid. p 40.

<sup>3</sup> Ibid. p 43.

<sup>4</sup> Ibid. p 161.



Miskolc and later at the University of Budapest (Hungary), and now at the University of Syracuse wrote:<sup>1</sup>

"Our science takes the right path when it accepts, next to the purely explicative approach, the solid grounds of good Normative Economics. Even Othmar Spann made it clear some time ago that explicative perception is only possible by evaluating ...<sup>2</sup> Sombart rejects the subjective value-theory ...<sup>3</sup> It is regrettable that he completely ignores the world-wide endeavours since Marshall, to fuse objective and subjective value-theories. He also disregards Walras and Pareto."<sup>4</sup> 5

In closing this chapter, it should be said that the writer agrees with Professor Amonn that the goal of "natural scientific" economics is in fact, to understand the essence. Professor Suranyi-Unger is also right in accepting normative economics. The Western science of economics, as a matter of fact, combines all of that which Sombart calls "The Three Types of Economics"; it applies all three types. The writer believes that Sombart highly overestimated the importance of his "Third Pillar".

To take examples; when one analyzes the conditions under perfect or monopolistic competition, and under duopolistic or monopolistic conditions and draws demand and supply curves, one

<sup>1</sup> Prof. Suranyi-Unger, in "Jahrbuecher fuer Nationaloekonomie und Statistik", Vol. 73, 1928, p 161. Cf. p 18 of this thesis.

<sup>2</sup> Ibid. p 168.

<sup>3</sup> Ibid. p 171.

<sup>4</sup> Ibid. pp. 172-173.

<sup>5</sup> Carl Brinkman in his "Sombart's Drittes Reich" in Schmoller's Journal, Vol. 55, 1935, finds the quarrel about "natural-scientific-economics" fruitless.

employs the "natural scientific approach", to use the Sombartian nomenclature.

Studying the conditions in the field of unemployment, or the problems of the balances of trade, and payments, or the difficulties with which agriculture is confronted, induces economists to look for means to improve the situation. This is a search for "what ought to be" and would be labelled, in Sombartian terminology as the sin of employing the "normative approach".

And finally, no matter what problems the economist has to deal with, he must search out and understand the interrelationships among events. If, for instance, the economy suffers from an adverse balance of payments it is the task of the government and its economists to take the necessary steps in order to terminate this position. The causes which led to this situation, must first be found, which means that the concatenations in the economy must be understood. It must be ascertained and explained, step by step, which effects are the results of certain causes. This is certainly what Sombart calls "understanding economics".

To repeat: Sombart overestimated the importance of his "Third Pillar". It should be added that the "noological approach" alone, without the "normative" and the "nomological approach" is an unbalanced, insufficient system and provides inadequate means for solving the problems with which the modern economist is confronted.

## CHAPTER V.

### MODERN CAPITALISM

It was said in an earlier chapter that Sombart's "magnum opus" was his "Modern Capitalism". In order to demonstrate the essence of Sombart's teachings, it is, in the writer's opinion, of great importance to give a short summary of this work. The present chapter will be devoted to this task. The picture would not be complete, however, without indicating at least briefly, important features of some of his other characteristic treatises, for example *Der Bourgeois* and *Heroes and Traders*. These will be dealt with in later chapters. The writer, however, does not deal directly with one of Sombart's major books, the so-called "Jew-book".<sup>1</sup> Instead, by way of short reports of critical reviews, written by some of Sombart's contemporaries, the writer tries to convey at the end of this chapter, the scope of this study.

In the three volumes of "Modern Capitalism", Sombart showed the development of the various European economies from their beginnings to his own time in a genetic-systematical way. He described the different economic systems which were dominant from about 800 A.D. to 1914.

These systems, according to Sombart, were:

- a) the self-sufficient or sustenance economy, which was not profit-seeking. It had two forms; the village (or peasant) economy and the manorial system;
- b) the handicraft economy; and

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<sup>1</sup> W. Sombart, The Jews and Modern Capitalism. (Juden und das Wirtschaftsleben.)

c) capitalism.

In the first volume he primarily treats the epoch from the Carolingians until about the end of the 15th century, although he also deals with various problems belonging to a later period. (The first printing appeared in 1902, and the second revised edition in 1916). This is the epoch he calls the pre-capitalistic. What he calls early-capitalism appears in the period from the 16th century to about 1800: this epoch is dealt with in the second volume. Full-capitalism (High-capitalism), the third period, is the object of the third volume and covers the period to the beginning of World War I.<sup>1 2</sup>

Sombart begins by analyzing the economic principles of the pre-capitalistic period, a purely self-sufficient, sustenance economy, with no profit-motive, when empiricism dominated.

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<sup>1</sup> Professor Wesley C. Mitchell wrote in part on Sombart's "Modern Capitalism" in the Quarterly Journal of Economics, Vol. 43, 1928/29, pp. 304-323:

"... No one has ventured to translate the three thousand pages of "Der moderne Kapitalismus" into English. The books which have been translated are less impressive than the magnum opus. And German is a glass through which most English-speaking economists see but darkly. The competent scholar who presents us with a full-length sketch of Sombart's work and its bearing upon other approaches to economics will merit our thanks. Meanwhile, the best service a reviewer of the volume on Hochkapitalismus can render is to tell what the book contains."

<sup>2</sup> John R. Commons and Selig Perlman (University of Wisconsin) wrote in the American Economic Review 19 (1929), on pp. 78-88, in part, in connection with Sombart's "Der moderne Kapitalismus":

"Enthusiasm must be the response of anyone who studies this life work of Werner Sombart. The wide range is astonishing. It does not pretend to be his own original researches in the documentary sources. He has rather put together in a truly "genetic-systematic" manner the research of others. The volumes are an encyclopaedia and bibliography of nearly everything and everybody that an economist wishes to know or guess about, from Charlemagne to Stinnes, from religion to war, natural resources, inventions, overpopulation or the future of capitalism. His one grand synthesis of a thousand years rises to the level of a genius ..."

The Celts, the Slavs and the peoples of the Teutonic race, however, from their beginnings had an exchange economy; even more was this the case where Roman Culture was prevalent.<sup>1</sup> Still these were only rudiments of an exchange economy and their presence does not change the main characteristics of the economy.

An increase in the production of precious metals, in the 10th and 11th century, was most important for the development of capitalism. This was mostly in the form of silver.<sup>2</sup> Capitalistic organization can be found at an early date in the textile industry of Florence, which ceased to be of the handicraft type by the end of the 13th century. A similar development appeared in linen and silk-production. The latter soon became an exporting industry and by the end of the 15th century showed capitalistic organization.<sup>3</sup>

The capitalistic production of iron and weapons was much longer delayed, however, and the commerce of the day was closely tied to a handicraft-type of production: foreign trade usually had a pre-capitalistic form.<sup>4</sup> Quantities traded were very small. The grain business of Stettin, a place of some importance, had a turnover of no more than 200-300 tons a year even in the 16th and 17th centuries. Hamburg's grain business amounted to only about twice this quantity. Wool exports from England in 1277 consisted of no more than 14,311 bags, weighing about 3000 tons.<sup>5</sup> Most of the businessmen could not read, write and had no knowledge of

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<sup>1</sup> W. Sombart, Der moderne Kapitalismus, Vol. I, p 94.

<sup>2</sup> Ibid. p 109.

<sup>3</sup> Ibid. p 273.

<sup>4</sup> Ibid. pp. 275-278.

<sup>5</sup> Ibid. pp. 282-283.

arithmetic. Accountancy was therefore unknown. One finds records only of the most primitive kind, and even these were prepared only by the better type of businessmen.<sup>1</sup>

Sombart then goes on to analyze the historical foundations of modern capitalism. He gives the following definition of the capitalistic system: "It is an exchange economy in which two groups of the population always exist. The two groups are connected by the market and they cooperate under the rule of the profit motive and the rule of economic rationalism." These two groups are, the owners of the means of production, who at the same time direct production, and whom Sombart calls economic subjects, and those who own nothing but their capacity to work, whom Sombart calls the objects of the economy.<sup>2</sup>

Profit-motive and economic rationalism came into existence to replace the principle of sustenance and traditionalism.<sup>3</sup>

The capitalistic entrepreneur appears, whose functions are threefold: organizational, those of the trader, (who must be a good negotiator and mediator) and finally those of a man, who knows how to calculate his costs.<sup>4</sup>

The state, technology and the production of precious metals were for Sombart of basic importance in the development of capitalism.<sup>5</sup>

The state, through its army, creates a large market and penetrates the economy with the spirit of order and discipline.<sup>6</sup>

<sup>1</sup> Ibid. pp. 295-298.

<sup>2</sup> Ibid. p 319.

<sup>3</sup> Ibid. p 320.

<sup>4</sup> Ibid. pp. 322-324.

<sup>5</sup> Ibid. p 332.

<sup>6</sup> Ibid. p 332.

It creates colonies and with the help of slaves the first large-scale capitalistic enterprises. It increases capitalistic development through its planned intervention.<sup>1</sup>

Only through technology does large scale production and transportation become possible.

The production of specie influences the economy in several ways. It increases capitalistic spirit by augmenting the drive for profit. Gold and silver make possible bourgeois wealth. Precious metals produce the funds, which are necessary as the demand for goods shifts. They help to obtain the necessary workers and they help to create the entrepreneurship.<sup>2</sup>

The importance of the state consists of creating an organization, an administrative apparatus. Early-capitalism is characterized by absolute monarchies. These were dependent in the first instance on the development of armies. The small armies of the Middle Ages developed into mass armies.<sup>3</sup> By the end of the 16th century armies were armed by the state, since the 17th century armies were provisioned by the state and in the 18th century the uniform was introduced by the state.<sup>4</sup> "Without uniform no discipline" said Frederic the Great.<sup>5</sup> One can observe mass-procurement at reduced prices.<sup>6</sup>

The King's power was based upon the army and upon the

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<sup>1</sup> Ibid. p 332.

<sup>2</sup> Ibid. p 333.

<sup>3</sup> Ibid. p 344.

<sup>4</sup> Ibid. pp. 352-359.

<sup>5</sup> Ibid. p 360.

<sup>6</sup> Ibid. pp. 360-361.

officials of his administration. For this purpose he needed money. The money was obtained through taxes and loans. It was, therefore necessary to have at least a minimum stock of specie within the country. An increase in the production of precious metals was very advantageous for the power and the development of the state.<sup>1</sup>

"From the silver mines of Peru and Mexico and from the gold of Brazil the modern state developed."<sup>2</sup>

"Around the drive for gold were placed all the ideas and rules of mercantilistic policy."<sup>3</sup>

In addition to taxes and loans there were other ways to increase the monarch's holdings of gold and silver; an embargo on gold (silver) export and the acquisition of mines. These were the direct ways.<sup>4</sup> An important indirect way was through foreign trade. Monopolies were granted. Embargoes and tariffs were introduced. Colbert's policy was: high export duties on raw materials and high import duties on finished products.<sup>5</sup>

In the field of transportation policy, the mercantilists employed similar means to raise the volume of goods to be transported. They granted monopolies and privileges as a means to develop the facilities of transportation. They gave premiums for the construction of ships, they unified the laws of transportation and they improved highways and waterways.<sup>6</sup>

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<sup>1</sup> Ibid. p 365.

<sup>2</sup> Ibid. p 366.

<sup>3</sup> Ibid. p 366.

<sup>4</sup> Ibid. p 367.

<sup>5</sup> Ibid. pp. 374-391.

<sup>6</sup> Ibid. pp. 394-397.



As far as currency was concerned, one could observe between the 14th and 18th centuries a constant depreciation of the coins, either through a reduction of their gold (silver) content or through a reduction in their weight. The reason for this was the profit-seeking of the princes, but sometimes also the lack of a good coining technique. Very often coins that were nominally the same had different weights and specie-content. "This situation gave traders (goldsmiths) and usurers (Jews) a good opportunity to make profits, by removing from circulation the good coins, which they melted or brought to a foreign country, where they could exchange them on good terms. The less valuable coins drove out the good ones."<sup>1</sup>

There were great incentives therefore to weigh the coins or to use ingots. The gold pound was introduced in Florence in 1252, at a constant value. It weighed 3.519 grams.<sup>2</sup> Banco-Money was introduced. The desire to have a means of exchange of stable value led the merchants to deposit coins of prescribed gold-content with a bank. These coins remained in the vaults of the bank(s) and the depositor could issue warrants, which could be transferred in a clearing system from one merchant to another.<sup>3</sup>

Banks involved in this kind of business were for instance the Banco di Rialto (1587), the Amsterdam Wieselbank (1629), the Hamburger Girobank (1629) and also others. Sombart mentions altogether nine institutions of this kind; all of them at the end

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<sup>1</sup> Ibid. p 417.

<sup>2</sup> Ibid. p 420.

<sup>3</sup> Ibid. p 424.

of the 16th and the early 17th century.<sup>1</sup>

The colonial policy of most European countries in the 16th and 17th centuries can be described as follows: the colonies were permitted to sell only to the mother-country (tobacco, sugar, indigo etc.), they could buy only from the mother country, (mostly industrial products), the colonies were not permitted to produce anything the mother-country produced, and the mother country had a monopoly in transportation in and from the colonies. However, the importers in the mother country had to pay custom duties on the commodities imported from the colonies.<sup>2</sup>

The most important colonial powers in the 16th century were Spain and Portugal, and in the 17th century France, Holland and England.

As far as State and Church were concerned, there was a growing incentive to religious intolerance. The Church now had to serve the state. "The realm of the Churches and the realm of the State became united."<sup>3</sup> This fact appeared first in Spain in the middle of the 14th century and also in some of the German city-states. This intolerance culminated in making the State-Church the sole power, which suppressed heresy. It either burned the heretics or compelled them to emigrate.<sup>4</sup> If the city states and Spain gave the example, France soon followed suit. In 1535 policies of intolerance were adopted that were to govern

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<sup>1</sup> Ibid. p 425.

<sup>2</sup> Ibid. p 433.

<sup>3</sup> Ibid. p 448.

<sup>4</sup> Ibid. p 451.

events.<sup>1</sup> The Edict of Ecouen required the judges to sentence all Protestants to death. A law in England in the year 1664 ruled that every person above the age of 16, who did not belong to the Anglican Church, had to be jailed or exiled.<sup>2</sup> Similar events occurred in Germany.<sup>3</sup> The Jews suffered persecution in many countries; they were expelled from Spain in 1492, from Portugal in 1497, and from several German and Italian cities in the 15th and 16th centuries.<sup>4</sup>

"It is clear that this policy of intolerance and of persecution, (which was very great at the time of the counter-reformation, when capitalism was already in the stage of development) exercised a great influence on the formation of the economy ..."<sup>5</sup>

At the same time the beginnings of tolerance were also to be seen. There were some people, who observed the great political repercussions of intolerance, which resulted in deep divisions within their nations. Others stressed the importance of the economical aspect. Men like Vauban, William IV of Holland, Cromwell, who permitted the immigration of Jews to England and James II are particularly to be mentioned.

After this discussion of religious influences Sombart goes on to treat the problem of technology. In the pre-capitalistic stage it was empirical-traditional, he says, whereas in the early-capitalistic period it became empirical-rationalistic. Modern technology of a

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<sup>1</sup> Ibid. p 451.

<sup>2</sup> Ibid. p 452.

<sup>3</sup> Ibid. p 453.

<sup>4</sup> Ibid. p 454.

<sup>5</sup> Ibid. p 454.

capitalistic kind is scientific-rationalistic.<sup>1</sup>

Sombart stresses the great technical developments in the mining, smelting and textile industries. Whole new industries such as chocolate, gobelin, lace, linen, piano, carriage, lamp, mirror, china, tapestry-industries, and others were created.

The armament industry developed through the invention of gunpowder and the introduction of fire-arms.<sup>2</sup> Great changes occurred in the field of the techniques of measurement and navigation.<sup>3</sup>

Changes in the technique of transportation and the invention of the printing-press had great consequences.<sup>4</sup>

But Sombart comes back again to a dominant theme. "It is a basic notion of this work that modern capitalism as it developed, could do so only because historical chance led people to large and rich deposits of precious metals."<sup>5</sup>

From the production of these metals there developed the two main epochs of capitalism: early-capitalism and full-capitalism.<sup>6</sup> Every time new gold or silver mines were found, capitalism began to grow stronger and when the flow of gold (silver) diminished, capitalism weakened, its growth came to a standstill and its strength lessened. The history of capitalism is also a history of the production of precious metals.<sup>7</sup>

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<sup>1</sup> Ibid. p 479.

<sup>2</sup> Ibid. p 504.

<sup>3</sup> Ibid. p 505.

<sup>4</sup> Ibid. pp. 510-512.

<sup>5</sup> Ibid. p 513.

<sup>6</sup> Ibid. p 513.

<sup>7</sup> Ibid. p 513.

Early-capitalism coincided with an epoch, which we could rightly call the silver-epoch of capitalism, whereas full-capitalism might rightly be called the gold-epoch. Silver was most important during the mediaeval ages and in the first centuries after the discovery of America. Gold, which appeared for a short period of time in the 13th century, again became very important with the discovery of Brazilian gold. Brazilian and African gold, however, were not enough for the development of full-capitalism. This was only made possible by the Californian and Australian gold-influx around the middle of the 19th century.<sup>1</sup>

The stock of precious metals within the Roman Empire in the first century was about 10 billion German Marks (of Sombart's time) and consisted of about 50% gold and 50% silver.<sup>2</sup> The greatest part of this stock was later lost to Western Europe ... Gold production in Spain fell, and gold flowed to the Empire of the Caliphs and to Byzantium.

Between the 8th and 13th centuries the stock of specie again began to grow in Western Europe, at first only slowly, then more rapidly. The first mines to return to production were those in Spain, and then those in Bohemia, Hungary and Transylvania.<sup>3</sup> From the 13th century to the 15th century, (around 1450) the production of silver fell.<sup>4</sup> Then came a great increase in gold and silver production in the period from the middle of the 15th century to the middle of the 16th century. New gold and silver

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<sup>1</sup> Ibid. p 514.

<sup>2</sup> Ibid. p 518.

<sup>3</sup> Ibid. pp. 518-519.

<sup>4</sup> Ibid. pp. 522-523.

mines were established in Germany and Austria, the Portuguese settled in gold-rich countries of Africa and Asia, and Spain plundered Mexico and Peru.<sup>1</sup> From about 1545 to about 1620, new gold mines were established in America; German production fell, but the American increased. This gold went mostly to Holland, England and France.<sup>2</sup> In the remainder of the 17th century, there was at first a decrease, then an increase in production of gold, but silver production in Europe diminished.<sup>3</sup> In the 18th century a steady increase took place in the production of gold.<sup>4</sup> The period between 1810 and 1848, was marked by a great decrease of output, especially of silver.<sup>5</sup> A new upturn in 1848. "The golden age of capitalism develops."<sup>6</sup> Sombart then continues: "If I had to show one single problem as the most important, I think I would say: it is the cost of production of precious metals."<sup>7</sup> He had in mind the building up of bourgeois wealth.

In dealing with changes in the formation of demand for goods Sombart says: "In my two studies 'Luxury and Capitalism' and 'War and Capitalism' I showed the great influence, exercised by the way of life of the rich and the increased needs of the armies and navies upon the demand for goods, changes which favored

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<sup>1</sup> Ibid. p 524.

<sup>2</sup> Ibid. pp. 529-532.

<sup>3</sup> Ibid. pp. 532-533.

<sup>4</sup> Ibid. p 533.

<sup>5</sup> Ibid. p 534.

<sup>6</sup> Ibid. p 535.

<sup>7</sup> Ibid. p 571.

the development of capitalism ..."<sup>1</sup>

"The courts of the princes were the most fertile soil for prodigal luxury ... and their predecessors were the princes of the church." ...<sup>2</sup> "Rivalry developed between the courts of the Popes and the royal courts ..."<sup>3</sup> The greatest luxury could be found at the courts of the kings of France and Spain, then came England under the Stuarts.<sup>4</sup> This royal luxury was accompanied by the luxury of the "nouveaux riches". Luxury was developing in furniture, buildings, and apparel. In addition, there was luxury in eating, in the use of tropical foodstuffs like coffee, tea, sugar, tobacco. Luxury was found in the cities: theaters, music halls, elegant restaurants, luxury hotels, luxury shops, luxury apartments and also the everchanging fashion.<sup>5</sup>

The demand of the armies was extended through the enlargement of army, and intensified because of the increasing improvement of equipment. There developed a uniformity in arms, equipment and the uniforms themselves.<sup>6</sup> The demand for food for the great masses of troops constituted a demand for people who consumed without producing. The Spanish Armada in 1588 and the English Navy in the 17th century bought huge amounts of provisions within a short period of time.<sup>7</sup> The Dutch in 1672 paid Fl 6,972,768 for the maintenance of their Navy.<sup>8</sup> The purchase

<sup>1</sup> Ibid. pp. 717-718.

<sup>2</sup> Ibid. p 720.

<sup>3</sup> Ibid. p 721.

<sup>4</sup> Ibid. p 725.

<sup>5</sup> Ibid. pp. 731-743.

<sup>6</sup> Ibid. p 750.

<sup>7</sup> Ibid. p 754.

<sup>8</sup> Ibid. p 754.

of clothing was a mass procurement of uniform material. Spain in 1610 spent on its army not less than 93% of the total revenues of the state.<sup>1</sup> France's expenses for the army were in 1639 60% of the budget. The Napoleonic Wars between 1801 and 1814 cost England 633,634,614 pounds at a time, when its total population amounted to only about 12 million people.<sup>2</sup>

The costs of ship-building increased, when more and larger ships were built. They further increased, when more ships were built at the same time. If, in a certain period of time, one hundred ships were built in the same shipyard instead of ten, the increased demand raised the costs.<sup>3</sup> As a matter of fact the demand for ships increased both in quantity and in size and also the tempo was heightened. The merchant marine and the navy grew at about the same time, mainly because the colonies became larger and more important. England possessed in 1754, 4,000 ships totalling 320,000 tons and in 1802, 13,446 totalling 1,642,224 tons.<sup>4</sup>

At the same time a marked mass-demand developed in the cities, because many people lived together, who could not produce many of the goods they needed. Cattle, coal, bread, liquor, beer, eggs, fruit and many others had to be bought.<sup>5</sup>

At the beginning of the early-capitalistic period, there was an abundance of man-power in some places and a shortage in others. Mass-misery was prevalent. In Germany, in the 18th century, there

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<sup>1</sup> Ibid. p 759.

<sup>2</sup> Ibid. p 759.

<sup>3</sup> Ibid. p 761.

<sup>4</sup> Ibid. p 763.

<sup>5</sup> Ibid. p 769.



were 260 beggars for every 1000 people.<sup>1</sup> In 1719 there were 386 beggars among 6246 people in Vienna.<sup>2</sup>

The reasons for this situation were various. A number of peasants lost their land because of the enclosures. Between the years 1450 and 1550 common land of the villages was enclosed and also the amount of cultivated acreage was reduced in order to increase pasture. Sombart maintains, however, that the importance of the enclosures in creating misery was exaggerated. Enclosures increased the number of unemployed only to a small extent. According to Sombart, in England the following factors were much more important.

644 monasteries and 2374 chantries, (where alms had been distributed), were dissolved and 88,000 people had to find other means to survive.<sup>3</sup> There was a great increase in population. Gregory King estimated England's population at the end of the 17th century at 5½ millions and in 1780 at 8 millions. This increase was accompanied by a step by step impoverishment of independent producers, like peasants and tradesmen. Many of them became beggars or, at least, had to find additional income.

This, however, was the situation only in England. On the Continent the reasons for impoverishment were the wars and heavy taxation, especially in France and Holland.<sup>4</sup>

At the same time, surprisingly enough, one can observe a

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<sup>1</sup> Ibid. p 791.

<sup>2</sup> Ibid. p 792.

<sup>3</sup> Ibid. p 794.

<sup>4</sup> Ibid. pp. 796-798.

shortage of workmen for the following reasons: lack of communications and information, education and ambition to work.<sup>1</sup> In the 17th century in the Carinthian (Austria) iron-industry there were less than 100 workdays per year at 8 hours a day. In Paris, the authorities wanted to reduce the holidays from 103 a year to 80 in 1660, an intention which was met by demonstrations, with the result that 6 more holidays were declared. People did not want to work more, when they had enough to exist.<sup>2</sup> This was the spirit of the age.

Serfdom of the rural population in Central-Europe existed until the end of the early-capitalistic system. In Eastern Europe it is found even in the 19th century. It served capitalistic interests not only in agriculture but also in industry, thus in a great part of the mining and other industries in Germany, Austria, Poland, Russia and even Scandinavia.<sup>3</sup> The state wanted to educate people to work.<sup>4</sup>

There was competition between the different countries for skilled workers. The development of the capitalistic system was based, to a great extent, on those whom Sombart calls "strangers", a fact of considerable importance in understanding European history. Indeed most of the subjects of the economy (entrepreneurs) as well as most of the objects (workmen) in the new system, were strangers.<sup>5</sup> In the first years of capitalism the princes were

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<sup>1</sup> Ibid. pp. 798-802.

<sup>2</sup> Ibid. p 806.

<sup>3</sup> Ibid. pp. 812-813.

<sup>4</sup> Ibid. p 823.

<sup>5</sup> Ibid. p 824.

interested in getting tradesmen; later they looked for entrepreneurs. In many countries, in the period of early capitalism, emigration of skilled workers was prohibited and, at the same time, their immigration was encouraged.<sup>1</sup>

Governments influenced work contracts by fixing the duration of the contract, by making severance difficult, by fixing the hours of work and by fixing wage rates. Workmen had no right to communicate in order to come to an understanding. Organization of any kind was prohibited.<sup>2</sup>

As to the class of entrepreneurs, Sombart says that: "Capitalism is the product of certain excellent personalities ... The history of capitalistic development is the history of personalities."<sup>3</sup> The manorial system and capitalism have many things in common. To a certain extent, the capitalistic entrepreneur is the continuation of the manorial landowner; the difference, however, is that the former acts in much the more revolutionary way.<sup>4</sup> Certain groups of the population have specific qualities which give them great advantages in becoming capitalistic entrepreneurs. These groups are heretics, i.e. those of another religion; the strangers, i.e. immigrants and the Jews, who have an exceptional position because they are a "peculiar people", who were also in a socially different position.<sup>5</sup>

In addition the princes and statesmen were eminently

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<sup>1</sup> Ibid. p 825.  
<sup>2</sup> Ibid. pp. 831-832.  
<sup>3</sup> Ibid. p 836.  
<sup>4</sup> Ibid. p 837.  
<sup>5</sup> Ibid. p 840.

important among those who created capitalism for instance Gustav Wasa in Sweden, and Francis I in Austria. Among the statesmen Colbert in France should be mentioned.<sup>1</sup>

The manorial system, which had been governed by the idea of sustenance (self-sufficiency), changed its character: it developed into a system of profit-seeking and became a capitalistic undertaking. The land-owner became a capitalistic entrepreneur and an important personage in the development of capitalism.<sup>2</sup> He wanted to increase his power and his wealth. The next stage was to make the noble-man a bourgeois.<sup>3</sup> The undertakings of the noble land-owners had, in the epoch of early-capitalism, a more important role than . was generally thought; very much so in Italy (both in business and in banking), in England (mining, smelting, textile), in France (mining, smelting and textile), in Germany (iron, copper), in Austria (mining, iron, textile), in Sweden and in Russia.<sup>4</sup>

But another group: the bourgeois, the courageous businessman was the real capitalistic entrepreneur. One should also note the "Promoters" (Sombart calls them "The Projectants"), who wanted to have their ideas financed by others.<sup>5</sup>

The heretics were only half-citizens, they belonged to another religion, for instance the Jews, or the Protestants in the catholic countries, and the Catholics in the protestant countries.<sup>6</sup>

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<sup>1</sup> Ibid. pp. 842-844.

<sup>2</sup> Ibid. p 850.

<sup>3</sup> Ibid. pp. 852-853.

<sup>4</sup> Ibid. pp. 858-864.

<sup>5</sup> Ibid. pp. 866-872.

<sup>6</sup> Ibid. pp. 877-879.

These groups were significant because of their interest in profit. Their commercial virtues were increased for very simple reasons. Being excluded from the socio-political life they used all their energies and knowledge in the economic sphere. Because of their reduced opportunities they had to be very conscientious, they had to calculate exactly and adapt themselves to the wishes of their customers, in order to achieve good results.<sup>1</sup> The Spaniards used to say: "Heterodoxy increases business-spirit."<sup>2</sup>

William Petty had much the same view: "In India the most important merchants are the Hindus (Mohammedanism was the recognized religion there at that time), in Turkey the Christians and Jews, in Venice the Jews and Non-catholics ... Trade is not connected to any kind of religion as such, but rather .... to Heterodoxy".<sup>3</sup> Heretics became emigrants, and emigrants became the strangers in the new country.<sup>4</sup>

Sombart then continues: "Those persons who decide to emigrate - more specifically in earlier times, when the change of home and especially moving to a colony was a courageous undertaking - are the most active, have the greatest will-power, are the coolest, the most calculating and the least sentimental individuals; it is not important, whether they emigrate for religious or political reasons or whether they do so for profit-motives."<sup>5</sup>

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<sup>1</sup> Ibid. p 878.

<sup>2</sup> Ibid. p 879.

<sup>3</sup> Ibid. p 879.

<sup>4</sup> Ibid. p 882.

<sup>5</sup> Ibid. p 885.

"Migration develops capitalistic spirit, because the old way of life, the old connections are cut off."<sup>1</sup> "Environment means for him (the emigrant) nothing else than the means for the purpose of profit. As a consequence economic-technical rationalism will be developed." <sup>2</sup>

Sombart draws attention to three mass migrations affecting early-capitalism: the migration of the Jews; the colonisation of countries overseas, and specifically the USA and, the migration of persecuted Christians, especially Protestants.<sup>3</sup> France, he says, was the country which suffered the greatest losses. Since the withdrawal of the Edict of Nantes in 1685 about 250,000 - 300,000 Protestants left the country and participated very actively in developing capitalism elsewhere. <sup>4</sup>

The Jews had a particular role. "The particular and decisive importance of the Jews seems to be the fact that by their influence the transition of early-capitalism to full-capitalism was accelerated."<sup>5</sup> Their main activities as entrepreneurs in the years of early-capitalism were many. They greatly extended international trade. They increased the importance of the Leipzig-fair. On the average, between the years 1767 - 1839, 3185 Jews and 13,005 Christians were among the visitors of this fair.<sup>6</sup> Jews had a leading role in the commerce with the Levante,

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1. Ibid. pp. 885-886.

2. Ibid. p 887.

3. Ibid. p 889.

4. Ibid. p 890.

5. Ibid. p 896.

6. Ibid. pp. 897-898.

Spain and Portugal.<sup>1</sup>

When the Jews were expelled from Spain, many of them went to the Orient, others to the North of Europe. Later on, through the European Jews, Holland became an important world-trading country. Thus in a Magistrate's report it was clearly acknowledged that the Marans (Jews) were the founders of the big overseas-trade.<sup>2</sup> They monopolized trade in luxury-goods such as jewels, pearls and silk. Furthermore they were found wherever staples like grain, wool, flax, tobacco, sugar, cotton etc. were traded. The Jews were active in all those territories from which large amounts of cash could be brought home. The establishment of modern economy meant indeed to bring home as much of the precious metals as possible. Nobody participated in this field more than the Jewish merchants.<sup>3</sup>

The first American merchants and industrialists were Jews. Portuguese Jews in St. Thomas entered the sugar-producing industry. They also were purveyors of the armies, a particular field of theirs. In England it was A.F. Carvajal, "The Great Jew" who emigrated to London around 1635. In the wars of William III, Sir Solomon Medina became the "Great Contractor"; he was the first noble man among the Jews in England.<sup>4</sup> Jews had a similar role in France. Jacob Worms was called "The principal army-contractor" of Louis XIV, a role he shared with a contractor named

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<sup>1</sup> Ibid. p 898.

<sup>2</sup> Ibid. p 898.

<sup>3</sup> Ibid. p 902.

<sup>4</sup> Ibid. p 906.

Beer. Jews had an important role in the same occupation (called "Fournisseurs" in French) during the French revolution, at the time of the "Directorium" and also during the Napoleonic Wars. In 1720, Jonas Mayer, who had the title of a "Jew of the Court" saved Dresden from famine by delivering large quantities of grain.<sup>1</sup> Both in Germany and in Austria one finds that many Jews were army-contractors. "It is particularly their capability as traders and calculators as well as their bourgeois virtues which made them eminent."<sup>2</sup>

Branches of the same family, says Sombart, settled down in many different centers of economic life. They established great, world-firms with many branch-offices. There were thousands of Jewish firms that were represented in at least two important business-centers. Because many of them had fled from Spain, they now redirected the colonial business and the stream of silver to new commercial powers, like Holland, England, France and Germany.

The Jews, says Sombart, were most active where they were new-comers. Being a small minority, they almost always dealt with strangers and had to adapt themselves, something they did very well.

They were limited in the choice of their activities. They were not accepted by the guilds and could not enter public life; they were excluded from state employment. Wherever they had

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<sup>1</sup> Ibid. p 902.

<sup>2</sup> Ibid. p 910.



a role in business, they were wealthy. Money-lending was one of the Jews' foremost activities and money-lending is one of the most important roots of capitalism.<sup>1</sup>

In general one can see, from what Sombart says in this first volume of "Modern Capitalism", that the pre-capitalistic period defines a period of a static economy. The pages of history which show dynamism cover a period of time belonging to the next stage: early-capitalism, with which Sombart deals in detail, but not exclusively, in his second volume.

One can already observe the great importance Sombart attributed to the production of specie, the development of technology, to migration and more specifically to the migration of the Jews as elements in developing capitalism. He hated capitalism and was no friend of those, who, in his opinion, played such a great role in the development of this "monster".

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<sup>1</sup> Ibid. pp. 911-918.

Modern Capitalism. Volume No. 2.

"The European Economy in the Epoch of Early-Capitalism".

In the second volume of his book, Sombart deals with the next stage of capitalism. He regards this, the early-capitalistic period as the one, in which the most characteristic qualities of capitalism are to be found.

The reasons for this are several and Sombart mentions these:

New and important gold and silver mines were opened in Germany and Austria; America was discovered, an event which produced a huge influx of precious metals into Europe; the sea-way to India was discovered and Arabs were displaced from their position as intermediaries and therefore from direct exploitation of the Orient; the first effects of religious persecution were experienced. Jews and later Protestants settled in Holland, Great entrepreneurial spirit developed in Germany and Western Europe.

Large, modern states and large modern armies were created, technology advanced and double-entry book-keeping was introduced.

The effects of these were: the concept of the firm and of exact business management was developed; Stock and Commodity Exchanges were created and developed; the first warehousing

business began in Antwerp; commercial agencies commenced their operations; a collective message-system (Post Office) on an international basis was put in operation; the first large-scale industrial plants were established.

In addition to these, one can find in the 17th century new powerful entrepreneurs, a new capitalistic business philosophy, a quick increase in bourgeois wealth and the blossoming of mercantilist trade policy.

These improvements had been accompanied by the establishment of the capitalistic enterprise, by the beginnings of limited companies in the field of large-scale overseas enterprises. It was the time when the beginnings of commercial information, advertising, trade-journals and price catalogues could be observed.

New industries developed in the field of mining, smelting and transportation. An increasing number of socially producing large-scale industrial plants were established.<sup>1</sup>

The end of early-capitalism coincides with the beginnings of full-capitalism. Early-capitalism is a period of transition. Everywhere elements of the economic system of the past are mixed with new ones. To analyze early-capitalism is to show the change from traditionalism to rationalism, from the static economy to the dynamic economy. Economic development during the early-capitalistic period means the first steps to a change from subjective to objective relationships.<sup>2</sup>

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<sup>1</sup> W. Sombart, Modern Capitalism. Vol. II, pp. 10-12.

<sup>2</sup> Ibid. pp. 19-20.

The most important virtues of the citizen who wants to become a capitalistic entrepreneur, says Sombart, are to abide by his contracts and to be economical.<sup>1</sup> He has to be thrifty and diligent. In the period of early-capitalism neither profit-seeking nor rational calculation were sufficiently developed. Business men thought in terms of becoming "Rentiers", people living on their revenues from interest and rent.<sup>2</sup> They worked only a few hours a day. Their principle in business was a small turnover with large profits.<sup>3</sup> They wanted to produce superior products. They refused to make their technical knowledge public and were reluctant to make any change in production methods. Impeccable conduct was regarded as vital.<sup>4</sup> Only with the establishment of the capitalistic enterprise did the profit-motive become the governing principle. Economic acts became objective. Without regard to other peoples' interests, everybody's aim was to increase his own profit.<sup>5</sup>

Here again Sombart stresses the important influence of book-keeping in developing capitalism. At first it was employed by such public bodies as states and municipalities and in the private sector by the banks.<sup>6</sup> The city of Genova used double-entry book-keeping as early as 1340, and this system was later improved in Venice.<sup>7</sup> In 1494 Fra Luca wrote the first systematic

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<sup>1</sup> Ibid. p 30.

<sup>2</sup> Ibid. p 56.

<sup>3</sup> Ibid. p 58.

<sup>4</sup> Ibid. pp. 59-63.

<sup>5</sup> Ibid. p 102.

<sup>6</sup> Ibid. pp. 111-112.

<sup>7</sup> Ibid. p 113.

study on book-keeping.<sup>1</sup> He did not know, however, what the yearly closing of the books meant, nor did he know anything about the balance-sheet.<sup>2</sup> Simon Stevin was the first (in 1608) to arrive at the idea of closing books every year.<sup>3</sup>

"The rationalization of our economy," Sombart affirms, became complete through the employment of double-entry book-keeping and "only through it did the well-planned systematic enterprise become possible."<sup>4</sup> "In creating the notion of capital, it is double-entry book-keeping which creates the concept of capitalistic enterprise, an organization of the economy which regards as its goal the utilization of capital."<sup>5</sup> Entrepreneur and enterprise are separated through its employment.<sup>6</sup>

The principles of double-entry accountancy were not fully developed till well after the 16th century. One must not forget that it took many years until the use of Arabic figures was made general by Leonardo Pisano.<sup>7</sup> It took many years until Germans knowledge reached the level of Italian.<sup>8</sup> The Swiss did not introduce the Italian system of accountancy until the 17th century.<sup>9</sup> In England the first man to write on double-entry accountancy was Hugh Oldcastle, in 1543.<sup>10</sup> In 1569 James Peele

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<sup>1</sup> Ibid. p 114.

<sup>2</sup> Ibid. p 115.

<sup>3</sup> Ibid. p 115.

<sup>4</sup> Ibid. pp. 120-121.

<sup>5</sup> Ibid. p 122

<sup>6</sup> Ibid. p 123.

<sup>7</sup> Ibid. p 131.

<sup>8</sup> Ibid. p 131.

<sup>9</sup> Ibid. p 132.

<sup>10</sup> Ibid. p 132.

wrote in the introduction to a book on double-entry accountancy that it was a new art in England and that business men learned it through him.<sup>1</sup> It was only in the 17th century that major improvements (and together with them the notion of capital) were introduced in double-entry accountancy as employed in England. This -most probably- happened through contacts with Italy.

In analyzing the whole period of early-capitalism, one can observe how business technique adapted itself in accordance with the new principles. Capitalistic enterprise came into existence everywhere. However, until the second part of the 17th century only a small number of enterprises went beyond the level of the unsystematic, personal form of business-management. In its totality this system of business-management, even in the last part of early-capitalism shows the form and style of a transition-period.<sup>2</sup>

Sombart declares that principal requirements of capitalistic companies are:

They have to be long-lasting, they have to be separated from the person and they must possess wealth and systematic book-keeping.<sup>3</sup> The highest form of capitalistic enterprise is achieved in the limited company.<sup>4</sup> "The capitalist is separated from the enterprise."<sup>5</sup> Research in this field shows that its beginnings seem to have been in the early 1600's, or late in the 1500's.

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1. Ibid. p 132.

2. Ibid. p 136.

3. Ibid. p 142.

4. Ibid. p 150.

5. Ibid. p 151.

6. Ibid. p 154.

During the early-capitalistic period the limited company was still in an immature state. This was the case until late in the 18th century.<sup>1</sup>

The limited companies of the 18th century showed more and more the character of capitalist enterprises. They had a capital account, and drew up a Profit & Loss account. The full-capitalistic period is closer.<sup>2</sup>

One might indeed say that limited companies in their developed form, like commercial banks, and the railways, like the stock-exchange, like the steam-engine, and the commercial crises, do not belong to the early-capitalistic period. They do belong to the full-capitalistic period, even though their beginnings are found a few centuries earlier.<sup>3</sup>

Although one can regard the business cycle as a specific characteristic of the period of full-capitalism, one can also observe in the early-capitalistic period, certain simple market crises. They have their origin in:<sup>4</sup> wars and conflicts arising from a commercial policy governed by mercantilistic interests, and in the increasing vulnerability of the economy in the Middle Ages, as the ties of the exchange-economy became more and more numerous. There were many defects in the economic organization of the state, in fiscal management, and in the monetary system; in credit-management, with fraudulent manipulations; in

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<sup>1</sup> Ibid. p 156.

<sup>2</sup> Ibid. p 162.

<sup>3</sup> Ibid. p 162.

<sup>4</sup> Ibid. p 221.

the field of commercial and transport organization. There was also the fact that countries, affected by heavy emigration lost much of their gold, as these emigrants took their money with them. For instance the Huguenots carried their gold with them out of their old country to their new homeland.<sup>1</sup>

The sale of goods in the early-capitalistic period had the form of the "Handkauf" as Sombart calls it, which means that the goods were often sold at auctions or from stock. Commodity exchanges were unknown at that time.<sup>2</sup> Sales based on samples were also unknown before the 17th century.<sup>3</sup> The latter system developed only in the 18th century, mostly in army supplies.<sup>4</sup> In the early-capitalistic period nearly all purchases were made for cash. The same was true in the trans-oceanic business, until the 19th century and was also true for the business transacted at the European fairs.<sup>5</sup>

The stature of merchants as a class was greatly enhanced by the constantly growing quantities delivered to the army and navy. In the period of early-capitalism wholesale and retail-business became separated.

Agriculture did not show much development in the early-capitalistic period. If more agricultural products were needed, the acreage was increased. The manorial system was still dominant and old-fashioned technique was employed.<sup>6</sup> Cattle-breeding

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<sup>1</sup> Ibid. p 224.

<sup>2</sup> Ibid. p 502.

<sup>3</sup> Ibid. p 506.

<sup>4</sup> Ibid. pp 510-511.

<sup>5</sup> Ibid. pp 518-520.

<sup>6</sup> Ibid. pp. 646-650.



remained, until the middle of the 18th century, where it had been for 1000 years.

In order for the capitalistic type of production to develop, it was necessary, to find people, who were willing to take entrepreneurial risks and who possessed sufficient willpower and capital.<sup>1</sup> These entrepreneurs needed to be provided with an improved technique of production, large enough turnover at adequate prices, enough manpower of adequate quality, enough means of production, an adequately developed commercial and transport organization, postal and forwarding systems and adequate legislative help, such as privileges, concessions etc.<sup>2</sup>

It was very difficult for tradesmen to adapt themselves to the new circumstances.<sup>3</sup> "If craftsmen lost the battle, the reason was not the higher prices, but the lesser quality."<sup>4</sup>

Assisting the cause of the capitalistic entrepreneur, however, were several forces. Sometimes he alone could produce the goods requested, because they had to be produced in large quantities. Uniformity in the quality of goods, and quick production (for instance in the case of production for the army) were required.<sup>5</sup> Luxury merchandise ought to be new and fashionable. Handicraft lacked the adaptability and lacked capital.<sup>6</sup> Quality and precision were required as in the

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<sup>1</sup> Ibid. p 887.

<sup>2</sup> Ibid. pp. 888-889.

<sup>3</sup> Ibid. p 890.

<sup>4</sup> Ibid. p 894.

<sup>5</sup> Ibid. pp 894-895.

<sup>6</sup> Ibid. p 896.

production of weapons.<sup>1</sup>

Sombart goes on to analyze mercantilistic theories.<sup>2</sup> The mercantilists were "activistic-idealistic". This means, according to Sombart, that they wanted to influence economic events by their own ideas in contrast to the later, the classical system, which regarded events as results of "natural law", a "passivistic-materialistic" way of thinking.<sup>3</sup> Two systems of economics can be clearly distinguished, the static-mechanical exchange theory, the classical theory, represented by the English versus a dynamic-organic production theory.<sup>4</sup>

The Continent was influenced by the mechanistic ideology for one hundred years. A revolt against this English spirit was tried by some German economists, like Friedrich List, but "they did not succeed in getting rid of this yoke".<sup>5</sup>

The system of mercantilism was a battle for precious metals. The goal of the trade was to get in possession of more and more specie.<sup>6</sup> Holland owned most of these metals in the early-capitalistic period.<sup>7</sup> In the 18th century the Dutch business men reverted more and more to trading with money. Their main lines in this field were: trade with bills of exchange against commissions, discount of bills of exchange, insurance against risks at sea, hypothecation, participation business, with

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<sup>1</sup> Ibid. p 897.

<sup>2</sup> Ibid. p 909.

<sup>3</sup> Ibid. p 919.

<sup>4</sup> Ibid. pp. 920-922.

<sup>5</sup> Ibid. p 923.

<sup>6</sup> Ibid. p 966.

<sup>7</sup> Ibid. p 982.

capital,<sup>1</sup> and loans to the governments. Most European governments were in debt to Dutch bankers.<sup>2</sup> At the middle of the 18th century one third of the shares of the Bank of England and one third of the shares of the British-East Indian Company was owned by Dutchmen.

Furthermore England became a creditor country in the 18th century.<sup>3</sup> Its main assets arose from interest income from loans to foreign governments, profits made on transportation at sea, taxes from India, profits from foreign trade, and profits from British owned plantations.<sup>4</sup> The liabilities, on the other hand, consisted of war expenditures. These wars, helped England to obtain markets for its products, annihilated England's political enemies and reduced every industry, which was not English.<sup>5</sup>

The power of the state was increasing. Early-capitalism was helped to a great extent by the state, but it returned to the state much of what it received.<sup>6</sup> Through the capitalistic economy the state obtained many advantages, e.g. state-nationalistic sentiment was increased. The importance of the well-being of the state was acknowledged. The new generation was nationalistically inclined. There was a strong connection in interests between early-capitalism and the princes. At the

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<sup>1</sup> Ibid. p 983.  
<sup>2</sup> Ibid. p 984.  
<sup>3</sup> Ibid. p 986.  
<sup>4</sup> Ibid. pp. 986-987.  
<sup>5</sup> Ibid. p 988.  
<sup>6</sup> Ibid. p 1043.

same time feudalistic powers were repressed. Those engaged in banking and finance were highly patriotic. International finance was still far away.<sup>1</sup> The state became economically independent. There were national fairs, national industries and, more specifically war industries.<sup>2</sup> The population was growing.

England's population was, in	1500	3,840,000
	in 1700	5,500,000
France's	" " in 1600	14,000,000
	in 1785	23,000,000
Prussia's	" " in 1617	329,000
	in 1774	628,000
Austria's	" " in 1754	6,134,000
	in 1784	7,397,000 <sup>3</sup>

Wealth increased at the same time also. There are estimates according to which the National Income in England was 40 million pounds in 1679 and in 1900 it increased to 1710 million pounds. France's National Income increased from 1,020 million francs in 1690, to 25,000 million francs in 1890.<sup>4</sup> Davenant estimated Holland's National Income around 1700 at about 18 million pounds, nearly half of England's.<sup>5</sup>

One of the reasons for the increase in wealth was increased production both because of an increase in the working force, and also because of an improvement in the methods of

<sup>1</sup> Ibid. pp. 1043-1044.

<sup>2</sup> Ibid. p 1045.

<sup>3</sup> Ibid. pp. 1045-1047.

<sup>4</sup> Ibid. p 1050.

<sup>5</sup> Ibid. p 1050.

production.<sup>1</sup> At the same time, one can observe an increased use of land put into cultivation,<sup>2</sup> and what Sombart calls the "plundering" of the forests, too much use of wood with no economic planning.<sup>3</sup> There was increased production in the mining and in the fishing industries; canalization improved and there was an improved use of waterfalls.<sup>4</sup> There was an improvement in the organization of transportation, industrial production and commerce, both domestic and international.<sup>5</sup> At the same time the colonies were exploited. England and France made use of all these factors and became rich.<sup>6</sup>

Capitalism in this early period developed very slowly. The reason for this was partly psychological, partly political and partly technological.<sup>7</sup>

For many capitalist families then develops a preference to live the quiet life of their ancestors, what Sombart called the "life of fattening", in which the second and third generation retires from business. They buy land or live from the returns of their possessions and cease to be an animating power in the economy. Sombart maintains that this was true even in his time. The retarding influence of this behaviour on the development of capitalism reduced the number of entrepreneurs and slowed down capital creation. It increased production of consumer goods for

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<sup>1</sup> Ibid. p 1059.

<sup>2</sup> Ibid. p 1064.

<sup>3</sup> Ibid. p 1065.

<sup>4</sup> Ibid. p 1067.

<sup>5</sup> Ibid. p 1069.

<sup>6</sup> Ibid. p 1075.

<sup>7</sup> Ibid. p 1113.

luxury and investment in land, and stimulated the acquisition of revenues through the purchase of bonds and the purchase of public offices. The amount of bonds issued by governments greatly increased during the 16th and 17th centuries. The more the government borrowed from the public, the less remained for capital accumulation, unless the state invested the borrowed money.<sup>1</sup>

The purchase of public offices was often the case in the Latin countries; a good example of this was France. The higher the offices were, the more they cost. For instance, the office of a "conseiller de parlement" (councillor of parliament) in the 17th century cost 42-45,000 livres.<sup>2</sup> The French economist Clamageran estimated the amounts paid for public offices in France to have been: in the period 1684-1699 65,000,000 livres, in the period 1700-1707 324,000,000 livres, in the period 1707-1715 150,000,000 livres.<sup>3</sup> As to political (and administrative) obstacles, the administration's quality was of great importance to the development of capitalism.<sup>4</sup> The finances of England were managed well and in a businesslike manner for at least a century before a similar method was employed in other countries like France and Spain. This was of great advantage to England's capitalism and a great disadvantage for the others.<sup>5</sup>

Similarly, bad consequences of religious intolerance in

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<sup>1</sup> Ibid. p 1115.

<sup>2</sup> 1 livre was equal to 3 francs.

<sup>3</sup> Ibid. p 1116.

<sup>4</sup> Ibid. p 1118.

<sup>5</sup> Ibid. pp. 1119-1120.

Spain and France, and the advantages of a tolerant policy in England were enormous.<sup>1</sup>

As far as technological obstacles are concerned, lack of hygiene must be mentioned as an important reason to reduce population.<sup>2</sup> For instance, in 1790 in Vienna 5193 people were born and 6320 died. The corresponding figures were for Stockholm 2120 and 3378, for London 14951 and 19830 and for Paris in 1740 18632 and 25284 respectively.<sup>3</sup>

The backward technique in transportation and production were other important elements.<sup>4</sup>

In the early-capitalistic epoch textiles were the most developed industry. Spinning, however, lagged in development and so reduced the productivity of weaving. This is what Sombart calls the "Law of the Minimum".<sup>5</sup> If a certain industry consists of several branches, its least productive branch determines the productivity of the whole.

Second to textiles in importance was the mining-industry and, more specifically, the production of iron. In this field, productivity was low because, at that time, charcoal was used for smelting. Both the preparation of charcoal and the extraction of the ore, as well as the transportation of these materials to the place of production, was slow. Technique was at the level of handicraft production, demanding much work. The quantities

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<sup>1</sup> Ibid. pp. 1120-1121

<sup>2</sup> Ibid. p 1123.

<sup>3</sup> Ibid. pp. 1125-1126.

<sup>4</sup> Ibid. p 1126.

<sup>5</sup> Ibid. p 1127.

produced were, of course, very small and the costs per unit high. The means of transportation were pack-horses.<sup>1</sup>

According to Sombart, the basis of people's existence in the period of early-capitalism was the forest, the pasture, and cattle and agricultural land.<sup>2</sup>

Wood was all important for the development of the economy. Survival, before the 19th century, was based on wood.<sup>3</sup> It was used as raw-material for building houses, and for making tools. Even the first steam-engine, spinning wheels, bridges, ships - all were made of wood. Wood was used to produce tar and potash. It was the most important fuel, both in the home and in industry (china, glass, mining, lime, brick production etc.). A very great quantity of wood was used in mining and smelting of silver, in iron-production, and in the timbering of mines. But iron-production was the greatest user of wood. To produce 100 lbs. of iron, 350-1400 lbs of charcoal were necessary. In fact, the forest had been plundered during the whole Middle Ages and nobody questioned whether this could go on forever.

Italy was the first country to become deficient in forests. One of the reasons was its large ship-building industry. Evidence of lack of wood then showed in countries with a large silver-production, such as Bohemia and Saxony, or in countries where iron was in great demand, mainly for the needs

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<sup>1</sup> Ibid. p 1129.

<sup>2</sup> Ibid. p 1138.

<sup>3</sup> Ibid. p 1138.



of the armed forces.

Governments found it necessary to issue regulations to reduce the amount of wood used. "It all looked like a battle for the forest".<sup>1</sup> However the admonishments of experts, and the endeavours of the governments were of no avail. The forests became smaller and smaller year after year. The 18th century saw even greater damages than the two centuries before.<sup>2</sup>

Three types of solutions were employed. To import wood from countries where it was in abundance. Trade therefore expanded between Western, Eastern and Northern Europe. This, however, was not sufficient. Only timber for shipbuilding was imported, but none for heating purposes, because of the high costs of transportation. And even in timber-rich countries, the stock dwindled. A trend toward forest conservation developed and there were improvements in the technique of burning fuel.<sup>3</sup> The substitution of other materials for wood took place for instance, by employment of soda in the production of potash, and the employment of coal instead of wood. Coal, unfortunately, at that time could only be used for heating purposes. It could not be used for smelting of metals. There was no substitute for timber in shipbuilding.

One result was that iron production came to a standstill. It was feared in the 18th century that this industry had arrived at its final point of development.<sup>4</sup>

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<sup>1</sup> Ibid. p 1145.

<sup>2</sup> Ibid. p 1148.

<sup>3</sup> Ibid. p 1149.

<sup>4</sup> Ibid. pp. 1150-1151.

The dearth of wood became the most important problem in the economy. "It was not the only signal, however, showing the approaching breakdown of European culture."<sup>1</sup>

Wealth until the end of the 18th century, was based on the exploitation of foreign peoples and their culture. This exploitation, however, came to a limiting point. Most countries were devastated and their populations exhausted. Africa was emptied.<sup>2</sup> An expansion of overseas-trade was further limited by the increasing cost of shipbuilding.

The economic energy was weakening. The courageous entrepreneur was disappearing; in his stead came a society of fat "rentiers" and parasitical finance-men, money lenders.

One may according to Sombart, characterize the European economy at the end of early-capitalism by exploitation of foreign countries, large business in commodities, money lending in great dimensions, which was connected with the flourishing of a highly developed financing business. One can also observe the beginnings of large-scale industry.<sup>3</sup>

Not every country succeeded in reaching the next stage of development. There were indeed countries which showed a decline in their development. Some reached a point of decay, while others formed societies of placid peasantry.

Why did the European economy not come to a complete standstill, but increased instead and developed with

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1 Ibid. p 1153.

2 Ibid. p 1153.

3 Ibid. p 1154.

unexpected strength and energy?

This is the question analyzed in dealing with the essence and the origin of full-capitalism, which is the subject of the third volume of Sombart's great work.<sup>1</sup>

Before closing this part of the chapter, it would be worthwhile to illustrate the way in which Sombart reacted to the criticism of other economists. He replied sharply to Professor Richard Passow of the University of Kiel, who had publicly disagreed with Sombart's views.<sup>2</sup> Sombart wrote in part: " ... this desperate polemic against me, the man said to be responsible for the fact that the word 'Capitalism' became fashionable in science, is a troublesome affair, and it would have been better not to write this article. The judgment of the writer is completely unimportant, because he has no idea of the problems of our science in general. His ignorance corresponds with the arrogant tone he uses, as it is so often the case, in writing about things of which one does not know anything ... "3

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<sup>1</sup> Ibid. p 1155.

<sup>2</sup> Richard Passow: "Kapitalismus" Jahrbuecher fuer National-oekonomie und Statistik, 107. Band, III. Folge. 52. pp. 433-494.

<sup>3</sup> W. Sombart: Modern Capitalism, Vol. II. p 1137.

"Economic Life in the Epoch of Full-Capitalism" is the subtitle of the third volume, which was published in 1927. As mentioned earlier this volume covers a period of about 150 years, ending with August 1914.

In the introduction to this final volume, Sombart dwells at length upon the Marxian analysis. He says in part: "Now I would like to say some words concerning my relationship to Karl Marx. This is the more necessary, as it might look that I oppose this genius in every respect. This is absolutely wrong and I can state that this work is nothing else than the conclusion of Marx's work, in a sense. To the same degree as I refute his "Weltanschauung" and all that which one calls today "Marxism", I have the greatest admiration for him as a theoretician and a historian of capitalism ... And everything that is good in my work, I owe to Marx. This fact does not exclude that my opinion differs from his, not only in some detail ... but also in essentials."<sup>1</sup> "At Marx's time capitalism was in a chaotic stage ... and it was not yet possible to say with certainty, what the outcome would be ... Marx defined its future according to his own ideas ... as the necessary step toward a better and ideal society ... He regarded capitalism as something excellent ... He loved capitalism. One cannot stress sufficiently that Marx's position toward capitalism was a positive one." Then he continues: "How could he have hated the mother, having in her womb the child he was waiting for with so much anxiety - the new,

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<sup>1</sup> W. Sombart, Modern Capitalism, Vol. III. p XVIII.

improved world ... " "The whole system of Marx was built to give the executor of his wishes, the proletariat, an effective weapon in its battle for freedom."<sup>1</sup> "As we know, however, much more than our ancestors, we can no longer believe in the creative genius of capitalism, as did Marx, who stood at the beginning of the road... We must take our optimism from some source other than the sphere of ideas of the capitalistic world in the Marxian sense ... We can only hope for an improvement in that sphere by leaving it ... we therefore cannot regard capitalism as the 'Holy Mother', who bears the Saviour in her womb. For this reason, our knowledge of capitalism can no longer be used for developing great practical-political programmes, as was done by the classicists, which also became the scheme of the Marxian system ..."<sup>2</sup> " ... we can therefore say, what Marx wrote was the first proud work concerning capitalism, but in this work,<sup>3</sup> we shall say the last humble words concerning this economic system ... The Marxian 'magic spell' will have to disappear; this means a treatment of this system in a scientific and sober way."<sup>4</sup> 5

Then Sombart returns to the task he has set himself.

The man-in-charge of the early capitalistic period is very

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<sup>1</sup> Ibid. p XIX.

<sup>2</sup> Ibid. p XXI.

<sup>3</sup> Sombart's work.

<sup>4</sup> W. Sombart, *Modern Capitalism*, Vol. III. p XXII.

<sup>5</sup> Sombart shows here a remarkable change in mind. Only three years earlier he published his: *Der proletarische Sozialismus* ("Marxismus"), where he criticized Marx with the sharpest possible words, and now he wrote these words of great respect. This attitude changed again, some years later, when in 1934 he published his *"Deutscher Sozialismus"*.

different from the leading figure of full-capitalism.<sup>1</sup>

Limited companies with their boards of directors, tend to separate the enterprise from the owners of capital. One can observe an increasing specialization according to function. In early-capitalism, traditionalism was prevalent. In full-capitalism, the new entrepreneur is free from it.<sup>2</sup> In the 1880's a new mercantilistic trend followed free-trade, which, earlier, had been the ideal in England and also to some extent in Prussia, Sweden, Norway, Spain, France and Denmark.<sup>3</sup> But "Neo-mercantilism" began again where the earlier mercantilism had come to an end in the 18th century. At the same time, one can observe a tendency toward concentration of capital, which was greatest between 1894 and 1900.<sup>4</sup> One can call the last 30-40 years before World War I the epoch of Imperialism, the extension of the sphere of power of a state beyond the borders of the mother-country.<sup>5</sup> According to Sombart the best known theory of Imperialism is the Marxian, according to which Imperialism is a function of capitalism at a certain stage of development, whether it be industrial-capitalism, in the stage of forming cartels, or finance-capitalism, the somewhat vague notion used in Marxian socialist literature to denote the last phase of development, of "full-capitalism". Lenin gave "the phrase": "Imperialism or the dominance of finance

<sup>1</sup> W. Sombart, op. cit. p 13.

<sup>2</sup> Ibid. p 29.

<sup>3</sup> Ibid. p 61.

<sup>4</sup> Ibid. p 63.

<sup>5</sup> Ibid. p 66.

capitalism".<sup>1</sup>

This, however, says Sombart, is an erroneous theory, or at least one which is biased. Imperialism existed where cartel or finance-capitalism did not exist, as for instance in Russia and Japan before World War I. On the other hand, one can find these forms of capitalism without imperialistic tendencies as, for instance, in Switzerland.<sup>2</sup> It is not correct to connect such an important concept as Imperialism only with economic motives. There is no other instance, says Sombart, where the shortsightedness of the Marxians can be shown better than in the case of Imperialism.<sup>3</sup> The real motives of imperialism are political (the interest in power), military and national. There is the desire of a nation to increase its power on the globe, as for instance Panslavismus, but not Pan-Germanism. There is also a religious motive (the Russian desire to conquer Constantinople) or the desire to have colonies, in order to find a place for the surplus-population, or finally capitalistic.<sup>4</sup>

The main factor in economic imperialism is the enlargement of the political sphere of power, whereby the capitalistic countries have the opportunity to increase the sphere of investments for their surplus capital.<sup>5</sup> Then Sombart goes on: "Internationalism is not the right path to peace."<sup>6</sup>

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<sup>1</sup> Ibid. p 67.

<sup>2</sup> Ibid. p 67.

<sup>3</sup> Ibid. p 68.

<sup>4</sup> Ibid. p 69.

<sup>5</sup> Ibid. p 71.

<sup>6</sup> Ibid. p 72.

Here one can observe two cases, where Sombart makes statements that seem to be contradicted by the facts. To maintain that there was no Pan-Germanism is false. The Germans themselves, before World War I, created the expression "Der Drang nach dem Osten", (The Drive toward the East). They settled in the Balkans. The so-called German D-banks (the Deutsche Bank, the Discontogesellschaft etc.) opened many branch-offices in Rumania, Bulgaria and Turkey. It is also a wellknown fact that the Kaiser (William II) aimed to reach Bagdad. Wherever the Germans came, it was their intention to bring with them German culture. They established German schools; Pan-Germanism was a wellknown, indisputable fact. The "export" of German culture might have been a very good thing, if it would have served cultural and commercial purposes only. However, it served the idea of Pan-Germanism, of German Imperialism which, one might hope, reached its peak at the time of Hitler.

Sombart's opinion of Internationalism is equally open to objection. International trade and international communication may surely serve peace rather than subvert it. It is precisely nationalism, especially in its exaggerated forms of chauvinism and isolationism - both economically and politically - that has in the past been the greatest danger to peace.

All of the international agreements, which are enumerated by Sombart<sup>1</sup> such as the International Danube-Commission, the International Union for Telegraphy, the Latin Union, the

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<sup>1</sup> Ibid. p 72.



World Postal Union, the International Meter-Commission and others, served not capitalism alone, but the general welfare.

Sombart contends that the period of full-capitalism is characterized by an enormous increase in all kinds of inventions.<sup>1</sup> A great and sudden growth of full-capitalism can be observed in the early 1890's, when the production of gold was on the upswing, through new mines in California and South Africa, and by the invention of the cyanide-process, which made it possible to produce gold from low grade ores. At that time, the production of gold increased from 20,000 kilograms in 1761 to 150,000 - 200,000 kilograms per annum in 1890. The next period of a great increase in gold production was in the years before World War I, when output increased to about 700,000 kilograms. This increase coincided with a rapid growth of capitalistic economy.<sup>2</sup>

Modern technology brought about an improved system of manufacturing.<sup>3</sup> It is probable that productivity in the full-capitalistic epoch increased by about 100%.<sup>4</sup> More important even, according to Sombart, was the growth in agricultural production and the increase in cattle-breeding. Cultivated acreage was increased at first in Western, then in Eastern Europe and finally in America. Wheat production in the whole world increased from 50 million metric tons in 1866, to

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<sup>1</sup> Ibid. p 91.

<sup>2</sup> Ibid. p 205.

<sup>3</sup> Ibid. p 235.

<sup>4</sup> Ibid. p 243.

105,674,000 metric tons in 1913.<sup>1</sup> Cotton production in 1826 was 68,000 tons, in 1913 it was 4,380,000 tons, half of which was produced in the United States.<sup>2</sup> Capitalism consumed enormous quantities of timber and ores.<sup>3</sup> At the same time oil production, which in 1890 stood at 10,300,000 kilograms, by 1913 stood at 53,300,000 kilograms. World production of iron in 1850 amounted to 4,187,000 tons, which by 1910 increased to 54,000,000 tons.<sup>4</sup> World production of coal increased from 15 million tons in 1800 to 1245 million tons in 1912.<sup>5</sup> Sombart called this "Raubbau", an abuse, a plundering of reserves.<sup>6</sup> There was also a large increase and improvement in the field of transportation, both in highways and in waterways.

Railways in the United States in 1835 had only 1766 miles of trackage, in 1915 257,569 miles.<sup>7</sup> In 1841 investments in railways represented in the world 829 million German Marks, this increased to 4769 million German Marks by 1913.<sup>8</sup>

Sombart maintained that the development of the cotton-industry in the United States depended on slavery, which continued in existence for a long time during the full-capitalistic epoch. There were 1,002,000 slaves working in this industry in 1800, and they produced 73,200 bales of cotton at 500 lbs. a bale. By 1860 their number increased to 4,441,000, and their production

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<sup>1</sup> Ibid. p 255.

<sup>2</sup> Ibid. p 256.

<sup>3</sup> Ibid. pp. 264-272.

<sup>4</sup> Ibid. p 266.

<sup>5</sup> Ibid. p 266.

<sup>6</sup> Ibid. p 260.

<sup>7</sup> Ibid. p 287.

<sup>8</sup> Ibid. p 290.

was 3,841,000 bales.

Slavery was terminated in the English colonies in 1833, in the French colonies in 1848, in the United States in 1864, in Cuba in 1880, in Brazil in 1888 and in Egypt in 1895. In Central Africa slavery was still in existence at the time Sombart wrote the third volume of "Modern Capitalism".<sup>1</sup>

The increase in population, which in Sombart's opinion was a very important element in economic growth, reached historical highs during the period of full-capitalism. The population of Europe was 180 million in 1802, in 1914 it was 452 million.<sup>2</sup> The reason for such an increase is, according to Sombart, the decline in the number of deaths, not a rise in the number of births.<sup>3</sup> Whereas the birth-rate in Europe between 1841 and 1905 was, generally speaking, constant, the rate of deaths fell. The reasons for this were progress in hygiene and medicine as well as increased wealth, which was accompanied by better nourishment of the population.<sup>4</sup>

Sombart goes on to argue that productivity increased through the piece-wage system, through the payment of premiums and through automation and specialization.<sup>5</sup> Another reason for greater productivity, says Sombart, was increased demand. Sombart distinguishes between exogeneous and endogeneous demand.<sup>6</sup>

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<sup>1</sup> Ibid. p 327.

<sup>2</sup> Ibid. p 355.

<sup>3</sup> Ibid. p 359.

<sup>4</sup> Ibid. pp 359-362.

<sup>5</sup> Ibid. pp 427-429.

<sup>6</sup> Ibid. p 482.

Under the first kind of demand, which originates outside the industry, Sombart considers the demand of the big land-owners, the demand of high finance and the demand of public corporations.<sup>1</sup> To exogeneous demand belongs also the one originating in foreign trade, through which excess production could be sold. Sombart also maintains that through foreign trade higher profits could be achieved.<sup>2</sup>

New types of buyers appeared. The peasants and the small tradesmen, who, in earlier periods produced what they needed, now appeared on the demand-side of the market. This meant the commercialization of the economy.<sup>3</sup>

Endogeneous demand, according to Sombart, originates within the industry.<sup>4</sup>

The textile industry developed to a very great extent. It needed machines. To produce machines, iron was needed. This brought about the invention of the blast-furnace. Artificial lighting was needed and so the next invention was gas-lighting; this further developed the coal industry. Coke-production's by-product, tar, was employed in aniline production. Artificial bleaching brought about sulphuric-acid production, which then was followed by the nitric-acid industry, when in 1825 salpetre deposits were found in Chile. Sulphuric-acid and nitric-acid were necessary in the soda industry, in the production of

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<sup>1</sup> Ibid. p 483.

<sup>2</sup> Ibid. pp. 489-498.

<sup>3</sup> Ibid. p 499.

<sup>4</sup> Ibid. p 504.

explosives, in the metallurgy of copper, silver and gold, in the oil, fertilizer, and some other industries. The fertilizer industry brought about the intensification of agriculture.<sup>1</sup>

The extensive development of these industries was followed by the growth of cities; this meant an increased demand for agricultural products. Agricultural prices rose very quickly. The improved situation in agriculture was followed by an increased demand for the products of industry, for agricultural machinery, fertilizers, and soon,<sup>2</sup> in addition to this, there were improvements in transportation, accompanied by new inventions, like the steamship, steel ships and railways. This again meant more wood for railway ties and much more iron. Then came electrification in the first half of the 19th century, the introduction of electric railways and electric lighting. More copper was needed. All these developments brought about such an increase in the building trade that growth there overshadowed growth in all other fields.<sup>3</sup>

At the same time the demand for consumer goods increased. Real wages increased. Using index figures the following estimates can be shown.<sup>4</sup>

		1790	1810	1910
France, base year	1900 = 100		55.5	106
United Kingdom, base year	1913 = 100	37	41	102
United States, base year	1913 = 100		<u>in 1830</u> 48	103

<sup>1</sup> Ibid. pp. 507-508.

<sup>2</sup> Ibid. pp. 509-510.

<sup>3</sup> Ibid. pp. 510-512.

<sup>4</sup> Ibid. p 513.

Real wages thus increased by more than 100% in the full-capitalistic epoch.<sup>1</sup> This change was accompanied by a growth in productivity of about the same size. To assume, however, that the working class participated in the distribution of goods at an unchanged rate, would be wrong: Surplus-value grew faster than wages. It was the capitalists who came into possession of the difference in surplus-value, without paying for it. But the fact, however, remains that the purchasing power of wage-earners increased.<sup>2</sup>

Sombart regards as an important characteristic of the period of full-capitalism the everchanging demand for consumer-goods, caused by changing fashions.<sup>3</sup> Furthermore an increased demand for the means of production (tools, machines etc.).<sup>4</sup>

Nourishment which was once rich on carbohydrates, now became much lighter in quality. In earlier days people used heavy material for their clothing, later lighter materials were used, materials which cannot easily be repaired.<sup>5</sup> The same thing can be observed, says Sombart, in the building industry, with thinner walls, lighter doors etc.<sup>6</sup> These are all weapons of capitalism against the old-style handicraft-production. Tombac is used instead of gold, cotton is substituted for wool, artificial leather for genuine leather, nailed shoes for sewn shoes. An increased demand for uniform goods developed.<sup>7</sup>

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<sup>1</sup> Ibid. p 513.

<sup>2</sup> Ibid. p 514.

<sup>3</sup> Ibid. p 603.

<sup>4</sup> Ibid. p 617.

<sup>5</sup> Ibid. p 619.

<sup>6</sup> Ibid. p 621.

<sup>7</sup> Ibid. p 627.

According to Sombart, even the trade-unions contributed to the development of capitalism. Through them the workers increased their wages, and this compelled the entrepreneurs to find ways and means to increase productivity. The trade-unions also contributed to a higher degree of economic stability; they had a great interest in the faithful fulfillment of contracts. Without trade-unions there would be more strikes, not less. There is no better means to reduce irrational strikes than a well administered trade-union. All these factors serve, of course, the interests of capitalism.<sup>1</sup> Sombart quotes David Dale, in the early 1900's the owner of the largest coal-mines in England, who said: "Based on long experience, I wish to stress the fact that strong trade-unions with capable leaders and workers, who trust their representatives, give the greatest degree of security to the entrepreneurs, insofar as the predominance of reason and a correct observation of the contracts is concerned."<sup>2</sup>

As capitalism grows, conditions improve for the establishment of cartels. In the first quarter of the 19th century, both the advantages and the possibilities for reducing competition increased.<sup>3</sup> Big firms developed in mining, railways and also in such other industries of mass-production as cement, brick, sugar, and petroleum. Production became concentrated; entrepreneurs, being only a few and having uniform products, found

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1 Ibid. pp 687-689.

2 Ibid. p 689.

3 Ibid. p 693.

it easier to eliminate cut-throat competition. But if all of them were of about the same size and wealth, then competition might be a battle for life and death, even for the greatest among them.<sup>1</sup> The importance of cartels to the development of capitalism is found in such things as a changed pattern of prices, with mostly higher prices at home and lower ones in the export-market, providing an extra profit. This spurs capital-investment and also capital-creation. On the other hand, the lower export-prices enlarge sales and increase profits.<sup>2</sup> Cartels also reduce the expenses of travelling, advertising, credit, freight, (the delivery of goods takes place from the nearest plant), and record keeping especially where there is a separate cartel-office. Cartels lead to more rational production. As the member firms cannot increase their sales at will, but have to adhere to their cartel-agreements, their interest is concentrated entirely in rationalising production and in increasing productivity.<sup>3</sup> Cartels are children of full-capitalism.<sup>4</sup>

According to Marx's theory of crises, cyclical ups and downs ought to become larger and larger. This statement was made at the time of the "Communist Manifesto" in the year of the great crises of 1847, but even in 1894 Engels forecast an ever increasing tendency toward crises. But says Sombart: "Experience shows, however, just the opposite."<sup>5</sup> (In 1927, when "Modern

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<sup>1</sup> Ibid. p 693.

<sup>2</sup> Ibid. p 697.

<sup>3</sup> Ibid. p 698.

<sup>4</sup> Ibid. p 698.

<sup>5</sup> Ibid. pp. 701-702.



Capitalism," Volume III was published, Sombart did not foresee the disastrous crisis of the 1930's.)

Marx developed his "Theory of Catastrophies". From the correspondence between Engels and Marx, one can learn how happy they were when prosperity came to an end in 1857. They thought that their theory of crises had been proved correct. However, the crisis of 1857 was soon over and this was the last depression - says Sombart - England has had.<sup>1</sup> (Sombart did not foresee England's great crisis after World War I in the 1920's and its subsequent difficulties.)

Germany and Austria-Hungary experienced their great crises in 1873.<sup>2</sup> However, argues Sombart, since that time, there was a clear tendency in the European economies toward reduction in the amplitude of extremes in the cycles. This continued until the beginning of World War I.<sup>3</sup> Sombart maintains that this stabilization of business cycles is valid only for Europe and not for the United States, where, says Sombart, there are still great problems of crises. This is the reason that the science of economics in the United States emphasizes this problem to a great extent, in the same way as the European economists were interested in this question in the years between 1825 and 1860.<sup>4</sup>

This is again a case, where Sombart seems to misread

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<sup>1</sup> Ibid. p 702.

<sup>2</sup> Ibid. p 702.

<sup>3</sup> Ibid. p 702.

<sup>4</sup> Ibid. p 703.

history. The European economy cannot be separated from the rest of the world. The economy of one country, or one continent, cannot be treated in isolation. The impact of one country's depression can be reduced by such things as currency-restrictions, import and export regulations, fiscal and monetary policy and so on. But the economies of our time are intimately linked. When the depression in the United States began in 1929, it did not take long, to spread over to Europe and to bankrupt Central Europe. The fall of the Credit-Anstalt in Vienna, was the direct consequence of the economic situation in the United States. At the present time we are witnessing the similar spectacular impact of the Common-Market.

Stabilization, according to Sombart, is the end-effect of rationalisation. He maintains that stabilization is a great danger to the survival of capitalism. The same rules are valid for the economy as for the human life: rationalisation is the equivalent of old age. In Sombart's opinion there then comes a time in the economy when equilibrium is reached. It is then that bureaucracy comes to power.

Stabilization of economic activity brings the economy to a point, where full-capitalism changes to an epoch of "late-capitalism".<sup>1</sup>

In his days - says Sombart - sole proprietorships are in the majority in every country. However, in the economically

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<sup>1</sup> Ibid. p 711.

developed countries, the importance of limited companies is by far predominant.<sup>1</sup>

It is in the corporations, where the spirit of capitalism can be fully developed.<sup>2</sup> The corporation is mostly large, has the power of resistance, is elastic and is immortal. By the interweaving of different corporate structures (like holding and subsidiary companies) a very powerful concentration can be achieved. Sombart puts the question, whether this, again, is not a sign of aging? He answers that this tendency leads to monopoly and thus to stabilization, which very often reduces vitality.<sup>3</sup>

Sombart defines "late-capitalism" as the bureaucratic stage of capitalism in which certain functions of commerce are eliminated.<sup>4</sup> He comes to this recognition as he shows that, with the increasing wealth of industry and retail-business (department stores), the middle man, (the wholesaler) is increasingly eliminated. This is the process he calls "Decommercialization".<sup>5</sup>

Concentration in industry, mining and transportation becomes very strong; one cannot find it in agriculture. Marx erred, according to Sombart, when he maintained that, in agriculture, the same "laws" of concentration are present as in other fields of the economy.<sup>6</sup> Big enterprise in agriculture does not have the advantages of large-scale industry. If one

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<sup>1</sup> Ibid. p 729.

<sup>2</sup> Ibid. p 735.

<sup>3</sup> Ibid. p 747.

<sup>4</sup> Ibid. p 806.

<sup>5</sup> Ibid. p 806.

<sup>6</sup> Ibid. p 822.

finds concentration in agriculture, it is through co-operatives.<sup>1</sup>

Sombart noted that in 1910-1911 the number of employees in commerce were, in France 10%, in Switzerland 11.4%, in the U.S.A. 12.2%, in the U.K. 14.4% and in Australia 18.8% of the total working population.<sup>2</sup> According to Sombart, here one does not find impressive signs of concentration. Until World War I, small firms were predominant, especially in the whole-sale business. Concentration was, however, much more important in the retail-trade, in the form of department stores.<sup>3</sup>

Concentration in banking was very strong, mostly in the great business-centers. Incorporation of private banks often took place.<sup>4</sup>

Simultaneously with the tendency toward concentration in industry and transportation<sup>5</sup> the small enterprises tended to disappear, mostly in the European mining and also in certain branches of the textile industry.<sup>6</sup>

In spite of all these facts, Sombart maintains that, in 1910 in Western Europe only 27% of the working population were of the industrial proletariat, whereas in the same year their number was as high as 40% in the United States.<sup>7</sup>

The rest of the working population were peasants, craftsmen, and shopkeepers or worked in the service industries

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<sup>1</sup> Ibid. pp. 825-826.

<sup>2</sup> Ibid. p 858.

<sup>3</sup> Ibid. pp. 861-862.

<sup>4</sup> Ibid. p 872.

<sup>5</sup> Ibid. p 881.

<sup>6</sup> Ibid. pp. 882-883.

<sup>7</sup> Ibid. p 955.

and repair trades. One also finds them for example as restaurant-owners.<sup>1</sup>

At the end of full-capitalism, a very large part of the population - nearly 50% without counting agriculture - was still working on its own. The tradesman of this time was, however, different from his earlier counterpart; now he was very often dependent on capitalism. He had to satisfy himself with the crumbs of bread left for him by capitalism. Mostly he failed to go in for new business and his activities consisted chiefly of patchwork.<sup>2</sup>

In Europe, by 1920, three fourths of agriculture was in the hands of peasants, of small land-owners. In the United States about 33.8% of the acreage was taken into cultivation by them.<sup>3</sup> On the whole globe they represented about 1000-1200 million people at that time, equal to about two thirds of mankind.<sup>4</sup>

However, the farmer in the United States, Denmark and Australia was adopted to a capitalistic spirit;<sup>5</sup> although as far as can be observed, they lived under very precarious conditions.<sup>6</sup> According to Sombart, the most important reasons for this fact are: the dissolution of the old agricultural conditions (he calls them "agricultural-constitution"<sup>7</sup> - like the manorial system), the fall in prices of agricultural products since the 1870's and

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<sup>1</sup> Ibid. pp. 957-961.

<sup>2</sup> Ibid. pp. 963-964.

<sup>3</sup> Ibid. p 968.

<sup>4</sup> Ibid. p 969.

<sup>5</sup> Ibid. p 970.

<sup>6</sup> Ibid. p 971.

<sup>7</sup> Agrarverfassung.

money-lenders' (mostly Jewish) usury.<sup>1</sup>

The countries of the old oriental culture (Russia, India etc.) were the most important sources of grain and rice for capitalistic Europe, and, at the same time, were places of chronic misery. The reasons for this situation were several. The productivity of the peasant land-holdings was small, not only because of their size, but also because of the primitive techniques employed. Bad harvests reappeared periodically, because the soil was abused. Often, too, in relation to income, there were high taxes and high interest rates.<sup>2</sup>

Even in the United States and in Canada the farmers' situation was not good. Their method of land cultivation was not intensive enough, they did not use enough fertilizers, the interest rate was high and the farmers depended on grain elevators, on transportation companies and on grain dealers, too greatly.<sup>3</sup>

As far as co-operatives are concerned, Sombart thought credit-co-operatives were most highly developed in Germany, agricultural co-operatives in Denmark, France and Switzerland, consumers' co-operatives in Switzerland.<sup>4</sup>

Sombart then turns to the problem of state intervention and says that today one can observe the interference of the state in the economy in a variety of ways.

It interferes with the private sector of the economy by

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<sup>1</sup> Ibid. pp. 972-975.

<sup>2</sup> Ibid. p 978.

<sup>3</sup> Ibid. pp. 981-982.

<sup>4</sup> Ibid. pp. 988-994.

social-insurance, other social and welfare regulations and by the system of taxation. The state participates in the economy with its own activities - the public sector of production (Post, railways, gas). There is a coexistence of public and private enterprises.<sup>1</sup>

Sombart gives a picture of the future. He maintains that the driving forces of capitalism are losing their strength, the development of the economy is accompanied by an ever-increasing stability, the machinery of enterprise is becoming more and more clumsy, the activities of the entrepreneurs lose in vitality and vigor, the rate of population increase will decrease. Then he draws attention to the future of the planned economy.<sup>2</sup> The future will retain many capitalistic enterprises (big enterprises), in addition to these, other types will develop: the co-operatives, nationalized enterprises and semi-governmental enterprises.

It is very doubtful whether he was right in speaking of the lessening vitality of the entrepreneurs. One need only to watch, what companies do today in sales promotion, in improving their system of production and administration and mechanization of accounting. And, of course, he was flatly mistaken in looking for a decrease in the rate of population increase.

"The difference between stabilized-regulated capitalism and technicized-rationalized socialism is not great. The shaping

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<sup>1</sup> Ibid. p 999.

<sup>2</sup> Ibid. pp. 1013-1014.

of the circumstances of work are the same here and there."<sup>1</sup>  
Craftsmanship will remain in certain fields, like repairs, service trades, barbers, grocers etc.<sup>2</sup> "Peasentry will grow", predicts Sombart.<sup>3</sup> We know that just the opposite happened in North America. Within one century the farm population of North America was reduced from about 80% of the total population to about 8%. Simultaneously the total amount of farm production has increased greatly. The tendency to decrease further the farm labor force is very strong.<sup>4</sup>

Sombart returns to the problem of future development at the end of his "Der Bourgeois"<sup>5</sup> and also in his "Die Zukunft des Kapitalismus",<sup>6</sup> which will be dealt with in the next chapter.

Joseph Schumpeter, then Professor of Economics at the University of Bonn, wrote an article in "Schmoller's Journal".<sup>7</sup> It deals with the third volume of the "Modern Capitalism".

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<sup>1</sup> Ibid. p 1016.

<sup>2</sup> Ibid. p 1016.

<sup>3</sup> Ibid. p 1019.

<sup>4</sup> It should be referred to the "News Summary and Index" of The New York Times, of July 16, 1962, page 25, which reads: "The Committee for Economic Development proposed a 'massive adjustment' of agriculture, including a reduction of 2,000,000 persons in the farm labor force, to solve the problem of growing surpluses and low incomes ..." And on the front page of the same copy this same report is entitled: "Farm Study Urges Action to Get 2 Million off Land."

As far as the alleged decrease in population increase is concerned, two new studies of the United Nations found that "The world population has raced well past the 3,000,000,000 mark and is rushing ahead at an annual rate of increase of 1.8%".

Cf. The New York Times, September 2, 1962, p 59.

<sup>5</sup> W. Sombart: The Quintessence of Capitalism.

<sup>6</sup> " " : Future of Capitalism.

<sup>7</sup> J. Schumpeter: "Sombart's Third Volume". Schmoller's Journal Vol. 51, 1927, p 349.



Schumpeter says that "Modern Capitalism" is an important step forward. Schumpeter regards Sombart a descendant of Marx and the Historical School. "Not one single person has contributed so much as Sombart to the problem of detailed historical research."<sup>1</sup> "The great difference between Marx and Sombart is that Marx analyzed, Sombart only makes sketches. Marx worked his whole life on one line of ideas, Sombart records impressions. Marx wrestled with solving problems, Sombart scatters ideas and does not care what their fate will be ... Marx is interested in the answer, Sombart in the question."<sup>2</sup> "To be inaccurate is unbearable for Marx, for Sombart there is nothing more unimportant than inexactitude ..."<sup>3</sup> "Marx sticks to his position ... Sombart makes experiments with his view-points, which have often their value only in the fact that they provoke opposition ... Sombart will survive, although he did not solve most of the problems he was dealing with - or, even more appropriately, just for this reason will he survive".<sup>4</sup> "In spite of the great abyss between Marx and Sombart, it remains a fact that nobody else had such a great influence on Sombart, as did Marx."<sup>5</sup>

Later on, Schumpeter criticizes Sombart for having regarded 1913 as the time when late-capitalism began. One cannot take one year as a border-line in the stream of the economy, Schumpeter

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<sup>1</sup> Ibid. p 353.

<sup>2</sup> Ibid. p 356.

<sup>3</sup> Ibid. p 357.

<sup>4</sup> Ibid. p 357.

<sup>5</sup> Ibid. p 357.

maintains.<sup>1</sup> Schumpeter also refused to accept the Sombartian position that fluctuations in the production of specie have any influence on cycles.<sup>2</sup>

Schumpeter stressed the fact that, in Sombart's work, the theoretician misses the theory of monopoly, of imperfect competition, of dumping, and of discrimination. He continued: "If only it would be possible to fuse Sombart with Edgeworth; but the future will do something in this respect."<sup>3</sup>

Sombart was heavily criticized by other writers for his "The Jews and Modern Capitalism".

Alfred Philipp, in his Dissertation entitled "Jews and the Economy", refers to Brentano, Rachfahl, Guttmann, Feuchtwanger, Epstein and Cohen who, as he says, do not share Sombart's opinion that the shifting of the economic center - a fact they do not deny - was in any way connected with the Jews and their wanderings. The role of the Jew was not dominant in the development of Western-European commerce.<sup>4</sup> In referring to Epstein he says that, in England, capitalism was already highly developed before Jews settled in this country.<sup>5</sup> According to Guttmann the North-German cities' economic position was excellent, even after the Jews were expelled from them. This was also true of Augsburg and Nuremberg.<sup>6</sup> Philipp says: "Sombart was

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<sup>1</sup> Ibid. p 358.

<sup>2</sup> Ibid. p 360.

<sup>3</sup> Ibid. p 365.

<sup>4</sup> Alfred Philipp: Jews and the Economy, p 11.

<sup>5</sup> Ibid. p 16, cf. Epstein: "Jews as an economic force" in Fortnightly Review, Vol. 95. II. N.S., p 695.

<sup>6</sup> Ibid. p 17, cf. Guttmann's article: "Jews and the economy" in the Archiv fuer Sozialwissenschaft und Sozialpolitik Vol. 36. 1913. p 153.

mistaken: he thinks that the finance business men in Genoa were disguised Jews."<sup>1</sup>

Philipp then continues: "Felix Rachfahl maintains that Frankfurt on Main was highly developed when the Jews began their activities there."<sup>2</sup> Rachfahl also says that the description Sombart gives of the Board of Directors of the East-India Company is incorrect: the Governor-General's name was not Cohn, but Jan Pieterszoon Coen from Horne and Coen in Dutch is the equivalent of the German "Conrad".<sup>3</sup>

After these and many other quotations of a similar kind, Philipp says: "Sombart also exaggerated as far as the influence of the Jews in America is concerned ... The banks there do not employ Jews."<sup>4</sup>

Jaques Hanak not only attacked, but even ridiculed Sombart in his article in the "Kampf" a Viennese socialist Journal.<sup>5</sup> Among others he also referred to Professor Lujo von Brentano, a well known contemporary of Sombart's, who rejected Sombart's "Jew-Book" and characterized it as "a pityful occurrence in German science". Brentano also called this Sombartian book a "zuchtloses" Book, ("zuchtlos", in English, means want of discipline, or disorderly conduct) and then continued by saying:

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<sup>1</sup> Ibid. p 18, cf. Epstein, op. cit. p 696.

<sup>2</sup> Ibid. p 18, cf. Felix Rachfahl's article in the Prussian Yearbooks, Vol. 147, p 68, entitled: "Jewry and the genesis of modern capitalism."

<sup>3</sup> Ibid. p 34, cf. Rachfahl, op. cit. p 56.

<sup>4</sup> Ibid. p 47.

<sup>5</sup> Jaques Hanak: "Werner Sombarts tragische Sendung" (Werner Sombart's tragic mission), in Der Kampf, Wien 1926, Jahrgang 19, pp. 73-85.

"A 'zuchtlos' spirit in science is similar to the beauty of a 'zuchtlos' woman."<sup>1</sup>

Rabbi Dr. M. Hoffmann, was the author of "Jews and Capitalism, a critical evaluation of Werner Sombart's 'The Jews and modern Capitalism'". The author quotes the following lines from Sombart's book: "Whether Law himself was a Jew, as is many people's opinion (Law - Levy), I could not find out. It is, however, possible. As it is well known, his father was a goldsmith (and banker). The fact that he was a Protestant is no proof at all, that he was not a Jew. His exterior is more that of a Jew .. I have seen several pictures of this man."<sup>2</sup> Whereupon Dr. Hoffmann rightly says: "Under no circumstances is this a scientific way to establish historical facts .."<sup>3</sup> Sombart maintained that the so-called "Bearer-securities" (Bills of Exchange, bearer's shares etc.) were invented by Jews. This, according to Hoffmann, is completely wrong.<sup>4</sup> Then Hoffmann deals with the problem of interest-taking and finds that Christians took interest from Non-Christians in the same way as Jews have taken interest from Non-Jews.<sup>5</sup> Later on he makes the following statement: "It is remarkable how many contradictions are in this book. This, however, is easily accounted for, if one takes into consideration that Sombart started his work when his

<sup>1</sup> Lujo von Brentano: "Judentum und Kapitalismus", cf. Der wirtschaftliche Mensch in der Geschichte, Leipzig 1923, p 489.

<sup>2</sup> W. Sombart: The Jews and modern Capitalism, p 109.

<sup>3</sup> M. Hoffmann: Jews and Capitalism, p 8.

<sup>4</sup> Ibid. p 12.

<sup>5</sup> Ibid. p 26.

system was already clear in his mind. The material he had on hand simply had to be adapted to his already established system. Furthermore, it is a fact that Professor Sombart is witty and talented and likes to fuse his own feelings and witty ideas with his descriptions ... and he does not take notice of the fact that these children of his spirit and mind, like so many other children, are so naughty that they cannot come to an understanding."<sup>1</sup> "He (Sombart), although Professor of economics and Rector<sup>2</sup> of the Commercial College, he has no idea of contemporary history."<sup>3</sup> ... "Sombart seems to have read, with great interest, a variety of anti-semitic literature, which appears obvious when one reads sentences, like: 'The believing Jew best served his faith, when he swindled.'<sup>4</sup> According to Hoffmann, Sombart quotes falsely from the Jewish Talmud, when saying: "Even the best of the 'Gojim'<sup>5</sup> should be killed." Then Hoffmann goes on: "The Antique, the Middle Ages and the Modern Age are full of examples of credit and usury. All peoples and members of the different religions take part in this type of business."<sup>6</sup> " ... Instead of an analysis of scientific value, Sombart shows us fifty weak and unimportant instances out of the immense material of the biblical-talmudical writings."<sup>7</sup> "What Sombart gives us, is his History of the Jewish Economy, which was rightly called a myth by one of his critics:<sup>8</sup>

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<sup>1</sup> Ibid. p 54.

<sup>2</sup> This is equivalent to the Principal of a Canadian University.

<sup>3</sup> M. Hoffmann, op. cit. p 58.

<sup>4</sup> Ibid. p 59.

<sup>5</sup> Gentiles.

<sup>6</sup> M. Hoffmann, op. cit. p 81.

<sup>7</sup> Ibid. p 94.

<sup>8</sup> Ibid. p 106.

" ... Sombart's statement that in the 'Thora' credit- and loan-business plays an important role and that rabbis were highly interested in this type of business is not only shallow, but frivolous."<sup>1</sup>

George von Below, Professor at the University of Freiburg in Breisgau (Germany) in an article<sup>2</sup> states that he was repeatedly attacked for being too tolerant of Sombart. According to von Below there is a lack of discipline of ideas in Sombart's works. Von Below criticizes "Modern Capitalism" and Sombart's theory concerning the development of cities. Then he continues: "Sombart is complaining that I (v. Below) do not regard a 'specific spirit' characteristic of the development of capitalism."<sup>3</sup> Von Below also refuses to accept the Sombartian notion that capitalism is the equivalent of a limitless profit seeking.

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<sup>1</sup> Ibid. p 124.

<sup>2</sup> "G.v. Below: "Sombart's Conception of Economic History" in Schmoller's Journal, Vol. 45, 1921, p 237.

<sup>3</sup> Ibid. p 256.

CHAPTER VI

Der Bourgeois.<sup>1</sup>

Just as Sombart was completing the first and second versions of the first volume of his "Modern Capitalism", his "Jew Book", his "Luxury and Capitalism" and his "War and Capitalism", he began to work on a parallel study, dealing with the same subject from another viewpoint.

Whereas in "Modern Capitalism" Sombart showed the historic development of capitalism, in "Der Bourgeois" he analyzes the driving spirit behind this development.

Sombart says in the preface of this treatise that he wants to illustrate how the spirit of the present time developed. For this purpose, he says, the genesis of the bourgeois spirit has to be described. It is the human being and the psyche of the human species known as the "bourgeois", which must now be the focal point of the analysis, and not his social interrelationships. But Sombart emphasizes the importance of coupling historical material with psychological analysis, and in fact documents his psychological discussion with many illustrations that would be known to any reader of "Modern Capitalism".

Sombart argues that to say, an economic system is characteristic of a period, means that it is the governing system

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<sup>1</sup> One will speak of "Der Bourgeois" rather than of "Bourgeois" or "The Bourgeois" because of the awkwardness of the English title. The first edition of this work was published in 1913, the second in 1920 and the third in 1923. The writer, when referring to this work, has the third edition in mind. **The writer finds the title of the English version misleading. This is "The Quintessence of Capitalism."**

of the economy.

From the time that the Germanic-Slavic-Celtic peoples entered history, the economic spirit underwent a basic change, by developing from the pre-capitalistic to the capitalistic stage. This capitalistic spirit was something new and its beginnings go back to the early Middle Ages. The early-capitalistic man had to produce as much as he consumed. He had to adjust his income to his expenses. Sombart calls this type of economy: The Economy of Expenses. The idea that everybody had to live according to his position in society was a basic principle governing pre-capitalistic economy. Everybody had to live according to his social status. There were the rich and the poor, the landowners on the one hand and the peasants, the artisans and the little shopkeepers on the other. To conduct a seigneurial life meant to spend a great deal which fact gave many others the possibility of making a living. Expenses were tending to be greater than revenues. It was therefore necessary to increase revenues, and this was usually done by increasing rents to wipe out the deficit. The seigneur despised money: "Usus pecuniae est in emissione ipsius." "Money should be spent."

Almost inevitably this way of living was followed by economic disaster. History shows that many noblemen in every

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1 W. Sombart: Der Bourgeois, p 7.

2 Ibid. p 9.

3 Ibid. p 11.

4 Ibid. p 12.

5. Ibid. p 13, a quotation from St. Thomas.



country went bankrupt. For the masses, however, it was necessary that their expenses be kept in balance with their incomes, as their expenses were traditionally dictated by status. What they had chiefly to do was to secure subsistence. This was a characteristic trait of the pre-capitalistic period. The self-sustaining, self-sufficient economy became the governing principle. Work was directed to two things: to make a good, solid product and to secure the necessities of life. But otherwise work was not vital.<sup>1</sup>

It was a time of empiricism and traditionalism.<sup>2</sup> The basic trait of the pre-capitalistic period was the quietness of life. Sombart judges that his task is to show how society developed from a static to a dynamic stage. He finds that the spirit which is necessary to bring about this change is the capitalistic spirit.

One can safely state that the history of capitalistic spirit had its beginnings in the battle of men and Gods for the possession of gold, the source of calamities.<sup>3</sup> The treasures of the princes and the churches consisted of gold, silver and jewels: "Pecuniae obediunt omnia", said Erasmus.<sup>4</sup> Dante condemned the craving for money of the Trecento in his "Description of Florence" in 1339. He said that the symptoms

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<sup>1</sup> Ibid. p 20.

<sup>2</sup> Ibid. p 21.

<sup>3</sup> Ibid. p 29.

<sup>4</sup> Ibid. p 38.

of "Mammonism" were increasing. Offices could be bought for money, the noble-men intermarried with the bourgeois and the states' policies were directed toward increasing their possession of gold. (Mercantilism.)

There were many other ways to increase the possession of gold, than through business-activities. In quoting Alberti, Sombart enumerates the following:<sup>1</sup> the search for treasures, becoming good friends of the rich in the hope of inheriting their wealth, usury and lending animals. A strange list; it becomes stranger when added to it are these notions of another writer of the 17th century.<sup>2</sup> Service at the court of princes, service with the army and alchemy.<sup>3</sup>

Sombart says that all these observations were correct and enumerates in addition to these: robbery on the highways, profit through inventions. Innovations became a real force in the 16th century. Sombart speaks of the "Projectants" who could be found at the court of the Spanish Kings. The real epoch of the "Projectants", however, was the 17th century. Defoe, in his "Essay on Projects" written in 1697, said that the epoch of the "Projectants" began in 1680. Defoe thought that the French were less resourceful in this field than the English; Sombart, however, maintains that Defoe was wrong, and that the

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<sup>1</sup> Leon Battista Alberti's ancestors were noble-men who possessed many castles and later in the 13th century became wool-merchants. Leon Battista wrote on business and economics in the 14th century in a strongly bourgeois (perhaps better in a petty-bourgeois) spirit.

<sup>2</sup> Vinc. Tanara, L'economia del cittadino in Villa (1684).

<sup>3</sup> Ibid. pp. 44 and 45.

French were the classical example of this type of people, as the French themselves called them "donneurs d'avis".<sup>1</sup>

Sombart mentions gambling as an important element in developing the capitalistic spirit and gambling at the stock exchange, more specifically.<sup>2</sup> Sombart again quotes Defoe: "At the end of the 17th century, stock jobbing in England began to develop. Through the stock brokers (Jews, according to Sombart) it became a trade of intrigues and tricks."<sup>3</sup> "The important fact is that the craving for money now became coupled with the enterprise and from this fact then developed the real capitalistic spirit."<sup>4</sup> According to Sombart's definition, enterprise is the realization of a far-reaching plan. For this purpose it is necessary that several people cooperate under one sole will.<sup>5</sup> The entrepreneur has to be a conqueror, an organizer and a negotiator.<sup>6</sup> As a conqueror he has to have the power to fight against obstacles, he must have courage. This courage makes him almost a gambler.<sup>7</sup> As an organizer he has followers whose activities he must co-ordinate. To be a good business man he must negotiate to buy or sell. Whether be it the little shopkeeper, be it the Jew buying or selling secondhand clothes, or Nathan Rotschild (then the wealthiest banker in Europe), who gave a large loan to the Prussian State, or the representative of the

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<sup>1</sup> Ibid. p 56.

<sup>2</sup> Ibid. p 66.

<sup>3</sup> Ibid. p 67.

<sup>4</sup> Ibid. p 68.

<sup>5</sup> Ibid. p 69.

<sup>6</sup> Ibid. p 70.

<sup>7</sup> Ibid. p 71.

Standard Oil Company (signing a contract), or Carnegie, discussing with J. P. Morgan the giant, billion-dollar transaction, to buy the Carnegie-Works, the soul of every modern business is negotiation.<sup>1</sup>

According to Sombart, there were four basic outlets for enterprise that were decisive to developments in European history: Wars, large estates, the State and the Church.<sup>2</sup>

Sombart maintains that war is an enterprise in which men with great willpower and courage emerge from the masses of indolents. They are able to force their will upon others. This differentiation between leaders and masses, between intelligence and the body, the subjects and the objects, is the life element of every modern undertaking. These leaders became similar to entrepreneurs also in the sense that they had to take risks.<sup>3</sup> To show the close relationship between the entrepreneur and the good general, Sombart refers to the chapter "The Warrior Genius" in Clausewitz' "About War".<sup>4 5</sup>

As far as the great land-owners are concerned, it is again important that, in this instance also, many people work under the leadership of one person. In the course of the centuries, a good organization developed in this field. This was later used in the self-sufficient and also in the profit-seeking economy, and it had a great role in the development of the capitalistic spirit. The main point remains: great

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1. Ibid. p 73.

2. Ibid. p 77.

3. Ibid. p 79.

4. von Clausewitz was a famous Prussian General.

5. Ibid. p 81.

landholdings were enterprises.<sup>1</sup>

The State, especially the state as it began to develop at the end of the Middle Ages, is simultaneously an enterprise of war and peace. The basic phenomenon is the large number of people who are directed by the will of one person. It is an organization of great dimensions; the will of the state interferes with the private life of those who are "objects". The idea of the modern state was born in the tyrannies of the Trecento and Quattrocento, where the basic ideas of the absolutist modern states of rationalism and a great power can already be seen. The princes of the Italian states were characterized by ability and a talent for planning.<sup>2</sup>

Next to the State the Church was the greatest organization. Here again rationalism was the governing principle. Sombart then goes on by saying that the founding of a monastery or a new diocese was basically similar to the foundation of a spinning mill or banking business.<sup>3 4</sup>

In analyzing the genesis of entrepreneurship and entrepreneurial spirit, Sombart distinguishes three types: the buccaneer, the feudal landlord and the bureaucrat.

There are certain types of war-activities which are directed only and solely toward the making of profits. Here military organizations and expediency are used to serve the idea of profit-making. Sombart says, one can find piracy originating

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<sup>1</sup> Ibid. p 82.

<sup>2</sup> Ibid. pp. 83 and 84.

<sup>3</sup> A tasteless, blasé and trivial comparison.

<sup>4</sup> Ibid. p 85.

in the Italian coastal cities as early as the Middle Ages. Amalfi, Genova, Venice all were bases of organized piracy. The first form of capitalistic enterprise was the predatory wars. "Many a business man, who could not get payment from his debtor in Greece, became a "Corsair"<sup>1</sup> in order to obtain his money."<sup>2</sup>

England and the American New England states in the 16th and 17th century were pirate nations, par excellence.<sup>3</sup> English pirates were exactly the same type as the Italian bandits.<sup>4</sup> They were men who possessed both the spirit of the adventurers and their great will-power. These formed one group of the fathers of capitalism. Foremost among them was Sir Walter Raleigh, "The Great Raleigh", whose motto "Tam Marti Quam Mercurio" (equally serving the God of wars and money) can be applied also to the rest of this group: Sir Francis Drake (the noble pirate), Sir Martin Frobisher, Sir Richard Grenville (the Valiant), Cavendish and others.<sup>5</sup> The reason why Sombart regards these people as capitalists is that the spirit which directed their activities, in his opinion, was the same that can be observed in big business or in the colonial economy before the 18th century.<sup>6</sup> Adventurers, pirates and business men of grand style, (to belong to these last one must go overseas) unnoticeably

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<sup>1</sup> Corsair is a synonyme for pirate.

<sup>2</sup> Ibid. p 91.

<sup>3</sup> Ibid. p 93.

<sup>4</sup> Ibid. p 95.

<sup>5</sup> Ibid. pp. 95 and 96.

<sup>6</sup> Ibid. p 96.

became merged.<sup>1</sup>

According to Sombart John and William Hawkins were simultaneously discoverers, state officials, pirates, shipmates and business men.

Even in Germany one can find the same type. Ulrich Kraft was a business man, and an adventurer at the same time. The expression "Armateur" in French is used to express this idea.<sup>2</sup> The large companies in the 16th and 17th centuries were partly war-organizations, conqueror companies, and organizations of buccaneers. Until the 17th century, piracy in the old style, was one of their main activities. The military apparatus, used by them for business purposes, was maintained on a very large scale. To engage in big business meant, at that time, to build and arm ships, to have soldiers, to conquer countries, to rob the natives (and to sell the stolen goods in the mother-countries at public auctions) and at the same time to capture as many ships as possible. The spirit of business and colonial enterprise was the spirit of buccaneering. Then Sombart says: capitalism has its genesis in many different kinds of outlook. The warrior spirit is one of them.<sup>3</sup>

As to the second type, the feudal landlord, Sombart maintains that in the Manorial System the land-owner does not seek profits. This system represented for a long time the principle of self-sufficiency, with no interest in profit-making.

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<sup>1</sup> Ibid. p 96.

<sup>2</sup> Ibid. p 97.

<sup>3</sup> Ibid. p 101.

Later, however, its character changed.<sup>1</sup> It often happened that influential noble-men and bourgeois-financiers (or even poor inventors) joined forces for the purpose of common action. This was the case in both France and in England in the 17th and 18th century. Feudal enterprises in the years of early capitalism were much greater than is commonly thought.<sup>2</sup> Not only in agriculture, but also textiles, in the mining and smelting, a preferred industry of landowners in England, France, Germany, Austria and Sweden.<sup>3</sup>

Within the third group, the bureaucrats, (state-officials) Sombart points to Gustav Wasa of Sweden, who was said to have been the first entrepreneur of his nation; he was the leader in the ore mining industry, he directed and advised his officials in negotiating trade-agreements with other countries, introduced a tariff system, initiated overseas-trade and set an example for the business men of his country.<sup>4</sup> State-activities in the field of business became increasingly large. The state at that time employed many gifted people.<sup>5</sup> Later on, as capitalism developed, it was said that state-bureaucrats were slow, and bureaucracy too great. All of this however, was of less importance in the early period when the state-official had an important role as an entrepreneur.

To those three types, the buccaneers, the feudal landlords and the bureaucrats, Sombart adds the speculators and, more

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<sup>1</sup> Ibid. p 102.

<sup>2</sup> Ibid. p 103.

<sup>3</sup> Ibid. pp. 103-107.

<sup>4</sup> Ibid. p 112.

<sup>5</sup> Ibid. p 114.



specifically, the promoters of the 18th century and those business men, who developed capitalistic enterprises through their merchandising or financing activities. In many cases such merchants became the leaders of industrial companies in the textile, mining and other areas.<sup>1</sup> They were entrepreneurs who had their origin mainly among the Florentines, the Scots and the Jews.<sup>2</sup> There was a great difference in conduct between the Florentines on the one hand and the people of Venice, Genova and Pisa on the other, at least from the 13th century onward. Florence conducts business; the others fight, and have armies and navies. The Florentines, when they were most prosperous, had no navy, not even a merchant-marine of any importance. They chartered foreign ships, and if they needed defence, they hired soldiers. They preferred to circumvent any danger and made long, roundabout detours to avoid pirates. Reasons for their success: they were money-lenders first and their merchandising business was mostly connected with money-lending and financing, they were excellent negotiators and they had a great knowledge of business-technique and geography. It was in the 14th century that the Medici, one of their money-lending families, became their princes.<sup>3</sup>

The Scots were the Florentines of the North. It is unique in history that the Scots sold their kind (Charles) for cash to a foreign nation. (Sombart, when speaking of Scots, means the Lowlanders, who, he thought, differed greatly from the

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<sup>1</sup> Ibid. p 125.

<sup>2</sup> Ibid. pp. 125 - 126.

<sup>3</sup> Ibid. pp. 126-129.

Highlanders). Just like the Florentines, although they also lived at the sea-shore, the Lowlanders never became sea-farers of any importance, but chartered ships from the English. They were characterized by their trader-spirit.

In connection with the Jews it was said - reports Sombart - that they show such a business spirit that for the sake of profits they will go anywhere in the world. In the Roman Empire they made fortunes while others fought wars. They made their profits during wars, whereas the other peoples tried to make their profits through wars. Without a navy, without an army, they became the lords of the world.<sup>1</sup>

Then Sombart goes on: Bourgeois or citizen virtues are those qualities, which make a good father and a good prudent business man. He regards the most perfect citizens to be the Florentines at the end of the 14th century.<sup>2</sup>

Being industrious, on the one hand, and frugal on the other, are the two ways to become rich. To be a good citizen is one element of the capitalistic spirit.<sup>3</sup> A great part of capitalistic activities consists in making contracts, where everything, in the last analysis, is expressed in a sum of money. Therefore, calculation was soon found to be an important part of the capitalistic spirit. The cradle of business-arithmetic was Italy, more specifically Florence.

It was in Italy that the capitalistic spirit first

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<sup>1</sup> Ibid. pp. 131-132.

<sup>2</sup> Ibid. p 135.

<sup>3</sup> Ibid. p 159.

developed, in the 13th century in the North-Italian Republics, and as stressed before, first of all in Florence. Alberti was the first to teach bourgeois-virtues in Florence. Commercial arithmetic was taught by Fibonaccio and Pacioli.<sup>1</sup> But soon the entrepreneurial spirit suffered a setback in Italy. One can observe that by the 15th century in the southern part of the country and by the 16th century in other parts of Italy, interest in making profits and in industriousness declined and gave place to a quiet and sometimes to a seigneurial life. Living was often based on rent-income. Even Florence showed the same tendency.

In Spain capitalistic ideas were also noticeable quite early, but then the interest of this nation shifted from economic problems to matters of Church, Court and chivalry. The dominant view became that it was improper for a man of high standing to deal with matters of agriculture or business.<sup>2</sup>

France had many great and ingenious entrepreneurs with notable speculative talent. They were quick, aggressive and possessed much imagination. Montaigne characterized his own people by saying: "I am afraid, our eyes are greater than our stomachs ... we embrace everything, but keep in our arms nothing else than wind."<sup>3</sup> It is therefore no contradiction if one encounters complaints that since Colbert, the French business men show a lack of entrepreneurial spirit. Colbert himself once

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<sup>1</sup> Ibid. p 173.

<sup>2</sup> Ibid. p 175.

<sup>3</sup> Ibid. p 178.

said: "Our business men have no initiative for beginning things which are unknown to them."<sup>1</sup> In addition there was another trait of French business men, the preference for a secure and respectable job as an employee. This showed itself in the 16th century and still has not disappeared. Laffemas said in 1601: "If there is disdain, it is for the merchant."<sup>2</sup>

In Germany it was in the time of the Fuggers that one can observe the development of capitalistic spirit. One should not, however, overestimate its magnitude. The intellectuals and public opinion as a whole refused to accept its development. Erasmus von Rotterdam rejected its ideas and in Germany as well as in other countries, feudalist tendencies were predominant even in the 16th century. Only in the 18th century did a more active industrial and business life begin, which again weakened at the beginning of the 19th century. Capitalistic spirit, in the real sense of the word, began only in the 1850's. It was elastic, it showed a great talent to organize, for instance in the shipping-business, in the field of banking and in electric companies. It is also a well accepted fact that large industry in Germany has recognized the importance of science and economics for the development of industry.<sup>3</sup>

Holland, in the 17th century, was an example of a capitalistic country. Amsterdam developed enormously. Industry flourished and the quality of its products was excellent. The rich were thrifty. In the 18th century, however, one can observe

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<sup>1</sup> Ibid. p 178.

<sup>2</sup> Ibid. p 181.

<sup>3</sup> Ibid. p 184.

even in Holland a retrograde direction in the development of the businesslike spirit. The bourgeois was "fattening" himself. He preferred to obtain his living from income as a money-lender or income returned from the colonies. In the 18th century, Holland became the money-lender for the whole European continent.<sup>1</sup>

As to Great Britain's capitalistic spirit, Sombart believed that it developed in a quite different way in Ireland, in Scotland and in England.<sup>2</sup>

No country was less capitalistic than Ireland, so it can be dismissed at once. As to England itself, its capitalistic spirit had roots in the conqueror and adventurer of the 16th century. Later on land-owners became capitalistic entrepreneurs, all kinds of speculative undertakings came into existence by the 17th and were rapidly extended to the early 18th century. Modern industrialism was born in England.<sup>2</sup>

After the union with Scotland, at the end of the 17th century, capitalistic development in England was greatly influenced by the Scottish spirit. Referring to G. v. Schulze-Gaevernitz' "British Imperialism and English Free Trade" (1906), Sombart maintains that at the present time - the beginning of the 20th century - one is confronted with a slackening of capitalism in England compared with other countries, Germany for instance. The English entrepreneur was less progressive than the German and made less use of scientific improvements.

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<sup>1</sup> Ibid. pp. 185-188.

<sup>2</sup> Ibid. p 189.

German business men brought their products to their clients. The British expected their customers to come to them. Their packaging was too heavy. English business men did not take into consideration the need for credit of their overseas customers. They did not advertise, their products were often of too high quality and too expensive. They delivered their merchandise according to their own taste, without considering the wishes of their clients. English business men's entrepreneurial spirit, their interest in business, their industriousness were slackening; they were living too luxuriously, in a seigneurial way. Furthermore too many sporting activities reduced their economic energies. It all contrasts with the United States where the transformation from early- to full-capitalistic spirit has been the fastest and strongest.<sup>1</sup>

According to Sombart, all the peoples of Europe have various talents for capitalism, but these talents are of different magnitudes. Celtic peoples, for instance, belong to the less talented groups and particularly the Scots (the Highlanders) and even more the Scottish noblemen and the Irish. The French also bear traces of Celtic blood, which Sombart regards as the reason that the French show a tendency to become "rentiers" and state-officials. The Celtic and the Gothic peoples repressed capitalistic spirit. The increasing capitalistic spirit in Spain and Portugal had its origin neither in Celts nor Goths who once occupied the Pyrenean peninsula, but

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<sup>1</sup> Ibid. pp. 191-193.

in Jewish and Moorish blood.<sup>1</sup>

Of much more interest to us - according to Sombart - were the peoples with a "surplus" of capitalistic talents. Here again he differentiates between two groups. The first group showed a leaning toward freebooting and piracy, whereas the second had a talent for peaceful business-activities and preferred the bourgeois way of life. Sombart calls these two groups the hero-peoples versus the trader peoples. He attacks what he calls the "fanatics of the environment",<sup>2</sup> who do not believe in the importance of blood (heredity) in building human character.

He also maintains that no trader-people ever developed heroes in the period of Western European history.<sup>3</sup>

He regards as "heroes" the Romans, the Normans, the Langobards, the Saxonians and the Franconians.<sup>4</sup> The other group, the traders, had the capacity of conducting successful and profitable business through peaceful negotiations. Among this group Sombart lists the Florentines, the Scots (the Lowlanders) and the Jews.<sup>5</sup> It is a fact that Etruscan blood was an important element in Florentine blood and that the Etruscans, Phoenicians and Carthaginians were the "genuine" trading people of antiquity.<sup>6</sup> The Florentines, the Scots and the Jews were all religious, as the Etruscans had been.<sup>7</sup>

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<sup>1</sup> Ibid. pp 269-271.

<sup>2</sup> Milieu fanatiker, in German.

<sup>3</sup> Ibid. p 271.

<sup>4</sup> Ibid. p 273.

<sup>5</sup> Ibid. p 273.

<sup>6</sup> Ibid. p 274.

<sup>7</sup> Ibid. p 275.

Sombart declares himself as belonging to those who believe in the importance of blood in the "biological sense" as opposed to the theoreticians of the "milieu" (environment). He calls himself a "Blutgläubiger", a "believer in blood".<sup>1</sup> It is only logical that the final step for him, in the 1930's, was to become a Nazi.

In dealing with the importance of religion for early-capitalism, Sombart says that, although the philosophy of antiquity was of great influence in this respect, its effects should not be overestimated. The influence of religion, more specifically Roman Catholicism, was much greater. The beginnings of capitalism coincided with a period of time when social life was under the influence of religion. So even those who read the ancient writers, would have been horrified at the thought of doing or saying something against the rules of the Church; they were and remained pious. Religious zeal was greatest in Florence, the "Bethlehem" of the capitalistic spirit.<sup>2</sup> In the "Summae theologiae" the Church gave advice on how to behave also in matters of business.<sup>3</sup> In the countries of the Reformation, people were particularly religious, mostly so in Scotland, where the capitalistic spirit developed to a high level in the 17th century.<sup>4</sup> Sombart quotes Thomas Buckle, who, in his "History of England's Civilization", gave a detailed

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<sup>1</sup> Ibid. p 281.

<sup>2</sup> Ibid. pp. 292-293.

<sup>3</sup> Ibid. p 295.

<sup>4</sup> Earlier Sombart dismissed the Highlanders as having fewer of the talents required for success in capitalism.



description of the powers of the ministers of the Church, which seemed almost to have had no limits. Calvin's and John Knox' God was a frightful, a terrible God, a God of terror, a ruthless tyrant. Religion became of overwhelming importance.

The views of ministers concerning the right behaviour of the faithful were described in England in the so called "Directories" a work similar to the Catholic's "Summae". The ethics of business formed a great part of their content.<sup>1</sup> Similarly the influence of the Jewish religion was of utmost importance in the early-capitalistic period, an ever present guide to the Jews for their way of living. Religion penetrated Jewish life completely. There were no other peoples who followed the rules of their religion as exactly as the Jews did. They were the most God-fearing, pious people in the world. They lived in constant anxiety, in shivering anguish, afraid of God's wrath.<sup>2</sup>

Other factors contributed to the increasingly religious attitude of the Jews. The Jews lost their country and as a consequence the Pharisees, those elements that preached the tradition of Esra, the importance of law-abiding, became the leaders of all Jewry. The power of the rabbis was thus secured. The more the Jews became isolated from the other economies (or the more they isolated themselves) the greater became the influence of the rabbis. The piousness of the Jews

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<sup>1</sup> Ibid. pp. 296-299.

<sup>2</sup> Ibid. pp. 299-300.

not only governed the masses, but, even more, the intelligentsia and the rich, those who were the foremost creators of capitalism. The rabbis too laid down their views concerning conduct of life in the so-called Response-Volumes, which then became the source of jurisprudence in later epochs.<sup>1</sup>

It is true that Catholicism became an obstacle to the development of capitalistic spirit in Spain, where religious feelings became so strong that they overshadowed any other interest. Most historians found the reason for this fact in the history of the Pyrenean peninsula, where for almost one thousand years the battle between Christianity and Islam was centered. The Christians regarded as their ultimate objective the expulsion of Islam. Lafuente spoke of a constant battle against the non-believers.<sup>2</sup> <sup>3</sup> Whether Catholicism had the same retarding effects on Ireland would be difficult to say. In all other countries, however, Catholicism had an accelerating effect on capitalism, most of all in Italy. The system of taxation of the Popes from the 13th century onwards gave a great impetus to business.<sup>4</sup> Italian business men became important bankers with international connections, becoming important catalysts in the development of capitalism.

Still more important, however, are the ethics of the Thomistic Laws. St. Thomas contended that the virtues of the

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<sup>1</sup> Ibid. p 302.

<sup>2</sup> Ibid. p 304.

<sup>3</sup> Cruzada perpetua y constante contra los infedele.

<sup>4</sup> Ibid. p 304.

citizen depend on putting limits on erotic impulses.<sup>1</sup> He thought also that prodigality, the arch-enemy of bourgeois thinking, is closely connected with love-affairs. He also contended that chastity and prodigality are opposite poles. The abstinent, in his view, must be a more active entrepreneur.<sup>2</sup> Frugality makes for better economic management. According to the Scholastics "Liberalitas" is the right attitude in conducting economic affairs, contrasting the two extremes of "Avaritia" and "Prodigalitas". Sombart uses the word "Liberalitas" to denote an adequate organization of the economy, balance between revenues and expenditures and refers to the Scholastics who used this word in this sense. Besides prodigality, Christian ethics condemn also idleness. (Otiositas.)<sup>3</sup> Industry and Frugality are virtues of the good citizen, so the Scholastics teach, and so is Honesty. They regarded malpractices in negotiating contracts as: "Mortaliter peccant."<sup>4</sup> St. Thomas taught his contemporaries to become open-minded, courageous, intelligent and active men.<sup>5</sup>

In all the writings of the Late-Scholastics, one can observe their deep interest in the improvement, in the growth, of the economy of their time. The ban on taking interest meant for the moralists of the 15th and 16th century that: "You should not prevent the transformation of money into capital".<sup>6</sup>

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<sup>1</sup> Ibid. p 309.

<sup>2</sup> Ibid. p 309.

<sup>3</sup> Ibid. p 310.

<sup>4</sup> Ibid. pp. 309-311.

<sup>5</sup> Ibid. p 311.

<sup>6</sup> Ibid. p 319.

St. Thomas distinguished between a simple loan and capital investment. He repudiated profits on loans, but regarded them as permissible on capital-investments. The notion of capital is clearly explained by Antonius of Florence and Bernardus of Siena. Antonius very clearly saw the importance of the velocity of capital turnover, something which resulted in increased profits. Capital investment and loans are put clearly in contrast. Money, in the form of loans, is unproductive, but it is productive in the form of capital. Interest-taking is unlawful, profit on capital is acceptable.<sup>1</sup> The Church authorities requested, however, that the capitalist participate both in profits and in losses.<sup>2</sup> The Scholastics repudiated idleness more than anything else.<sup>3</sup>

Protestantism meant a great danger for capitalism and for capitalistic-economic thinking. Religious feeling produces indifference toward economic affairs, and is then followed by a weakening of capitalistic spirit. As the Reformation was accompanied by an increased interest in metaphysics, it is quite logical that capitalistic interests were neglected in the same proportion as the Reformation spread. The anti-capitalistic spirit was even increased by the self-contained, handicraft-economic spirit of Luther himself, who, in his economic philosophy was far behind Thomism. One can safely state that in countries where Lutheran-Protestantism spread, the influence of religion

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<sup>1</sup> Ibid. p 320.

<sup>2</sup> Ibid. p 320.

<sup>3</sup> Ibid. p 321.

on the economy was in the direction of obstructing capitalistic tendencies.<sup>1</sup> But even in countries, where the other type of Protestantism, namely Calvinism, came to the fore, one could observe at first a strong hostility of the Church towards capitalism. The ideal of poverty is the governing principle in the ethics of Puritanism. The repudiation of earthly wealth is much stronger here than with the Scholastics.<sup>2</sup> The Puritans refuted profit-seeking even more than the Scholastics.<sup>3</sup> In fact, people in Scotland, the home of Puritanism, lived for a long time according to this principle. However, quite unintentionally, it also served capitalism, because it led to a more rational life. Puritans regarded as the capital sins, sensuality, flesh-pleasing and voluptuousness.<sup>4</sup> The increasingly rational and methodical life of the Puritans can only be explained through their deeply religious sentiment in the 17th century.<sup>5</sup>

There is however, one great difference between these two schools of thought. Puritanism annihilates every artistic want for greatness, pomp and splendour. But St. Thomas praised the beauty of harmony in the world. The artistic sentiment finds its expression in the acknowledgement of a virtue of high rank - the love for splendour - magnificentia. Magnificentia is the striving to create something great and wonderful.<sup>6</sup>

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<sup>1</sup> Ibid. p 323.

<sup>2</sup> Ibid. p 324.

<sup>3</sup> Ibid. p 326.

<sup>4</sup> Ibid. p 329.

<sup>5</sup> Ibid. p 330.

<sup>6</sup> Ibid. p 332.

This sense of magnificentia is absent in the teachings of Protestantism. According to Sombart virtue was for them what the Scholastics regarded as a great sin - parvificentia - misery. The development from parsimonia to parvificentia, (from economizing to misery) says Sombart, was perhaps the greatest merit of the Puritan ethics in the interest of capitalism.<sup>1</sup>

Sombart returns to the influence of Judaism. He writes: "In my book 'The Jews and modern Capitalism' I gave a detailed description of the Jewish religion and its impact on the economy and especially on the development of capitalistic spirit... I have, generally speaking, the same opinion today, in spite of strong criticism mostly expressed by rabbis, who of course dislike the fact that somebody who is an outsider discovered some traits of their religion, which had to appear as a 'Schoenheitsfehler'".<sup>2 3</sup> Jewry was interested in wealth, whereas Christians had an ideal of poverty. Jewish moral-theology taught a robust (Sombart uses in his German text the word "rabi" i.e. rabid) and extreme rationalism, at a time when Christians still believed in the Paulist-Augustinian religion of love. All the elements of ethics capable of developing the capitalistic spirit were active a thousand years longer in the Jewish people ... and the Jews were prepared to serve capitalism at a time when the Christian religion had only

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<sup>1</sup> Ibid. p 333.

<sup>2</sup> This last word, in English, literally means "beauty-flaw". In this context it could perhaps be translated as an offence against the ethics.

<sup>3</sup> Ibid. p 337.

started its pedagogical work. Therefore, at the beginning of the capitalistic epoch, the Jews - because of their religion - were on a much higher level than any Christian people.<sup>1</sup> However, said Sombart, Jewish ethics had two faces. Their moral laws were different when dealing with Jews and Non-Jews. The Jewish religion contained specific laws against aliens, the most important of which was that permitting the taking of interest from aliens. Jews were free, through the Middle Ages, to take interest from Non-Jews, something that Christians could not do, and rabbis never took a stand against this behaviour. It is a fact beyond any doubt, says Sombart, that there were periods when taking interest became an obligation, in order to abuse aliens by means of usury. It became traditional to lend money to Non-Jews usuriously.<sup>2</sup>

As far as price is concerned, the Talmud and the "Schulchan Aruch" is governed by "Justum pretium" (the just price), when dealing with Jews. When it comes to Non-Jews, the concept of "Justum precium" is abandoned. Jewish law forbade monopolies.<sup>3</sup> Sombart then goes on: It depends on the people, their blood and their social circumstances, whether they accept a certain religion or a certain philosophy and it depends on their mentality, how a certain religious system will develop in the future. A certain disposition of the population is necessary for the development of a religion in a given direction. The

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<sup>1</sup> Ibid. pp. 339-340.

<sup>2</sup> Ibid. p 342.

<sup>3</sup> Ibid. pp. 347-348.

more one approaches the present, the more this "disposition" will be affected by the economic situation, because economic interest shows a growing importance in man's spiritual life, at least as far as West-European history indicates.<sup>1</sup>

Thus Scholastic moral theory was greatly influenced by the economic development of the 14th and 15th century. One can also observe the influence of capitalistic development on Calvinism. At a later stage, Puritanism was compelled to accept the bourgeois way of life.<sup>2</sup>

The preachers of the 16th and 17th century attacked mammonism and would have preferred a simple peasant-handicraft economy. It was too late. They could not ignore the advances made by capitalism; they had to accept its existence, so they tried to reconcile it with their religious teachings. At a time when religious sentiments were lessening, Christians began to accept principles which they had rejected earlier, principles similar to Jewish ethics in the early-capitalistic epoch. These ideas became generally accepted in the full-capitalistic epoch, in which the influence of Jewry became increasingly great. It can be accepted as a fact, contends Sombart, that moral elements and, specifically, religion played an important role in the development of full-capitalism, the Christian religion by its failure, the Jewish by its success.<sup>3</sup>

One should, however, not overestimate the influence of

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<sup>1</sup> Ibid. pp. 350-351.

<sup>2</sup> Ibid. p 352.

<sup>3</sup> Ibid. p 356.



moral elements on the economy. Talents and social circumstances are of great importance, and still more important is the influence of the State. An exaggerated "fiscalism" can be of great hindrance as far as the spirit of the entrepreneur is concerned. Ranke found that the economic decline of Spain in the 17th and the decay of Dutch industry in the 18th century had its origin in excessive taxation in these countries. A badly conducted commercial or industrial policy can be just as harmful as a poor policy of taxation. The importance of the impact of public debt is also to be stressed. In the 17th and 18th century large amounts of money were borrowed by the English, French and Dutch governments, amounts that were lost to commerce and industry.<sup>1 2</sup> The buying of public offices, was also harmful to capitalism.

On the other hand, the state can and did induce capitalistic development. In many instances, the state itself established enterprises. It happened quite often that the state prevailed upon its citizens to start business: Colbert, for example, tried to convince his indolent fellow citizens of the advantages of business. Of great importance was the system of privileges by which the state tried to instigate the capitalistic spirit, by giving titles, naturalizing foreigners, reducing or cancelling of tariffs, granting interest-free loans and pensions, giving away building sites and so on. The value

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<sup>1</sup> Ibid. p 363.

<sup>2</sup> Sombart seemingly overlooked the stimulating effect of Government spending and the importance of the multiplier effect, which was unknown in 1923.

of education was recognized. From the schools of arithmetic in 14th century Florence, to the Commercial Colleges and Universities of the present, all these institutions served the development of the capitalistic spirit.<sup>1</sup> Earlier the importance of the army was mentioned in this respect. It is safe to assume, argues Sombart, that through this new institution a certain element of the population - the Jews - climbed so high that they will explode the old structure of the state.<sup>2</sup> They lent the money so that princes could conduct wars. These loans were either personal loans or they were given against debentures, which were sold on the Stock Exchange. The Jews were important in building up the Stock Exchange. They were important as purveyors of food, clothing and weapons to the armies. By this they not only acquired wealth, but also improved their social position, so much so, that one can assume the growth of the modern army was one of the reasons for the "emancipation" of the Jews.<sup>3</sup> Methods of finance also contributed to this development of the capitalistic spirit, primarily their reliance on Jewry, especially those Jews who financed the princes. Everything which elevated Jewry, says Sombart, increased its influence on the economy and at the same time, contributed to capitalistic spirit and to full-capitalism.<sup>4</sup>

To a certain extent, one can regard the emancipation

<sup>1</sup> Ibid. pp. 365-367.

<sup>2</sup> Ibid. p 371.

<sup>3</sup> Ibid. p 371.

<sup>4</sup> Ibid. p 372.

of the Jews as an act of ecclesiastical policy. This was vital to the development of capitalistic spirit.<sup>1</sup> The Jews were half-citizens until the 18th century and in many countries until even later. In Catholic countries the Protestants were also in a similar position and in Protestant countries, the Catholics. Hereticism is an important element in the development of the capitalistic spirit. The heretics, having been excluded from public life, used their entire strength to perform economic activities. In heretical circles "money" was valued much more highly than in other groups of society. Money was their sole means to achieve power. The Spaniards said: "Hereticism increases the business-spirit."<sup>2</sup> Heretics always had the greatest role in banking, commerce and industry. But they were compelled to emigrate.

The Jews have been migrants since Babylonian times. Their migrations that particularly interest Sombart, are those which began towards the end of the 15th century. It is highly probable that 300,000 Jews left Spain and migrated to Navarra, France, Portugal and to the East. Many of them went to England, Holland and the German cities, like Frankfort on Main and Hamburg. In the East, after their persecution by the Cossacks in the 17th century large numbers fled from Poland, which itself had been a refuge during the Middle Ages.<sup>3</sup>

Migrating Protestants left France after the nullification

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<sup>1</sup> Ibid. p 374.

<sup>2</sup> Ibid. p 376.

<sup>3</sup> Ibid. p 383.

of the Edict of Nantes in 1685. According to Ch. Weiss, they numbered between 250,000 and 300,000 persons of the one million, who at that time inhabited France. The ancestors of Immanuel Kant (Cant) came from Scotland. In the 16th century large Scottish colonies were to be found in Cracow and Bromberg. Wherever they settled, they were among the most respected business men. Next to the Jews the Dutch were the most important bankers in Frankfort on Main. There were 10,000 French immigrants of 25,000 going to Germany, who settled in Berlin under King Frederic William I and Frederic III. The great development of Amsterdam is said to be a consequence of migration.<sup>1</sup> England's cotton industry in Manchester was started by foreigners. London's waterworks were planned by an Italian by the name of Genell. Knife manufacturing in Sheffield became famous by the Flemish.<sup>2</sup>

But it was migration to the United States that was the largest in scale. Germany alone contributed in the 18th century about 80,000 to 100,000 people. The main stream developed in the years between 1820 and 1870, when 7,553,865 persons immigrated into the United States. England and Germany contributed two thirds of this amount. During the whole 20th century about 20 million people migrated from Europe to the States.<sup>3 4</sup>

Sombart argues that a further prerequisite of a flourishing capitalistic spirit is an increased amount of money.

<sup>1</sup> Ibid. pp. 386-388.

<sup>2</sup> Ibid. p 389.

<sup>3</sup> Ibid. p 390.

<sup>4</sup> These, of course, are figures from the early 20th century, as the 3rd edition of "Der Bourgeois" appeared in 1923.

"The money economy is the preparatory-school of the capitalistic spirit."<sup>1</sup> In the Middle Ages one can observe a craving for gold among priests and Jews. There was an increase in the quantity of money that brought about a much more speculative spirit.<sup>2</sup> Holland succeeded in obtaining Spanish-Portuguese gold. From Holland the gold went to France and England. In the same manner American silver and Brazilian gold made France's and England's economy fertile.<sup>3</sup> The enterprising spirit in Germany in the 16th century was based on the specie mined in Schwaz and Joachimsthal.<sup>4</sup>

Sombart now asks the question, which came first, the capitalistic spirit or capitalism itself?<sup>5</sup> Did the capitalistic spirit develop from a capitalistic organization or capitalistic organization from the capitalistic spirit?

As any kind of organization is the product of human endeavour, man and his spirit must have been in existence earlier. A capitalistic organization cannot produce a capitalistic spirit because logically the next question would be: "And what brought capitalistic organization into existence?" To say it was the pre-capitalistic spirit could not be satisfactory because the pre-capitalistic spirit cannot bring into existence capitalistic organization. On the other hand, there is no doubt that capitalism, when already in existence, can encourage the

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<sup>1</sup> Ibid. p 401.

<sup>2</sup> Ibid. pp. 402-404.

<sup>3</sup> Ibid. p 409.

<sup>4</sup> Ibid. p 410.

<sup>5</sup> Ibid. p 441.

capitalistic spirit. As capitalism develops in one generation, it can exert its influence on the next generation. Even within the same enterprise, the spiritual structure of the subject (the entrepreneur) may change, affecting him through his own activities, through his own experiences.<sup>1</sup> It would be illogical, however, to regard capitalism as the first source of capitalistic spirit.<sup>2</sup> It is absolutely sure and logical that, in the beginning, a capitalistic spirit must have been present to create capitalistic organization. Capitalism itself, however, then becomes an element in strengthening the capitalistic spirit. The more capitalistic development advances, the more important it becomes to the formation of the capitalistic spirit, until a point is reached where capitalism alone creates and forms capitalistic spirit.<sup>3</sup>

In the course of capitalistic development experience is accumulated from generation to generation. This in turn makes it possible to carry economic rationalization to a high degree of perfection. The entrepreneur of a later generation is compelled to use the experience of his ancestors, because he wants to make a profit and because he has to meet existing competition. He has to conduct his business as rationally as possible. One can furthermore observe that if man creates a certain system, this system becomes something, which has its own life. An economic rationalism became a necessity, it became a

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<sup>1</sup> Ibid. p 443.

<sup>2</sup> Ibid. p 444.

<sup>3</sup> Ibid. p 445.

fact. Thousands of people today, do nothing else but invent new methods and procedures for improving management.<sup>1</sup> Economic rationalism becomes something by itself. It achieves independence and brings about an extended development of entrepreneurship and the capitalistic spirit. The entrepreneur is then relieved of certain duties. This is evident when he "buys" rationalization by hiring his salaried personnel. Energies are set free. In the soul of modern economic man there is a will to achieve something very great that will always try to create new and better things. There is a compelling power within that Sombart calls "the objectivization of profit-seeking".<sup>2</sup>

It is a consequence of this fact that every successful capitalistic economy is a surplus economy. Whatever the aims of the entrepreneur may be (whether additional wealth, power, the active employment of his strength or social deeds) his enterprise must always give him a profit. One conceives of a psychological law, whereby an increase in wealth stimulates further increase in wealth. One might also designate a second psychological law, namely, that with a growing range of tasks, the capacity and also the will-power for increased activities mounts. Alberti - whom Sombart often cites - stated that, with increased business, the diligence and the activity of the entrepreneur grow equally, whereby his profits increase automatically.<sup>3</sup> <sup>4</sup>

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<sup>1</sup> Ibid. p 446.

<sup>2</sup> Ibid. p 449.

<sup>3</sup> Ibid. p 449.

<sup>4</sup> Alberti: Della famiglia, p 137.

Indeed, Sombart argues, when one analyzes modern economic man and his psyche, one can observe that his deliberations are subject to psychological pressure from two sources, from the technology of the economy and from the economic organization itself.<sup>1</sup> If the entrepreneur wants to keep pace with the new techniques, and he is compelled to do so by competition and by the fact that he seeks profits, he must enlarge his plant and the enterprise itself.<sup>2 3</sup>

Then there is the pressure from the economic organization itself. The economic man not only wants to achieve something great, but must also seek the infinitesimally small, which he expresses by trying to use every second, with the consequence that the tempo of economic life becomes even more frantic.<sup>4</sup> There is a tendency to increase the turnover, a power which produces dramatic results. The more often capital turns over in a certain period of time, the cheaper the price of the product will become and the greater the profit: technique then helps this endeavour to increase turnover. But as the entrepreneur engages only in business, his soul dries out. Nature, the arts, literature, the state, friends, all these values no longer exist, he has no time left for them. In this desperate situation, he must create new values - and he again

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1. Ibid. p 450.

2. Ibid. p 450.

3. It often happens though, that when new machinery is acquired and employed, the old and less productive one is discarded, or often sold to scrap dealers, to smaller enterprises or to a backward country.

4. Ibid. pp.452-453.



finds these new values in his business.<sup>1</sup>

When one tries to summarize what Sombart wants to convey to his reader, one comes to the following conclusion :

In his "Modern Capitalismus" he describes the four types of capitalism: pre-capitalism, early-capitalism, full-capitalism and finally late-capitalism. He adds to these descriptions more detail in his "The Jews and modern Capitalism", his "Luxury and Capitalism" and his "War and Capitalism". In these books he wants to give additional support to his hypotheses.

One can see the four capitalistic epochs as four layers, one above the other. Sombart tries to give the historical reasons for this pattern. Now in "Der Bourgeois" and especially in its concluding sections , he shows the importance of the capitalistic spirit, which he finds is personified in the bourgeois. It is the bourgeois, with his capitalistic spirit, who "pierces" through the lower layers of capitalism to arrive finally at the top layers, full-capitalism and late-capitalism.

In the development of the economy and modern capitalism, Sombart recognizes the importance of elements such as population growth, economic organization, technology and the amount of money (gold). He particularly stresses, however, the importance of the spirit, the spirit of the bourgeois. Migration, especially migration of the Jews, is for him ~~one~~ of the bases for the development of this spirit. Sombart contends, as always, that

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<sup>1</sup> Ibid. pp 454-455.

the Jewish spirit is the one for which, in Marx's words, capitalism is so very convenient.

In concluding "Der Bourgeois" Sombart contends that there is an immanent tendency to make profits, big profits. The reasons which made possible the development of these tendencies were, according to Sombart: the German-Roman knowledge of nature, which made it possible for modern technology to develop as it did; the Stock Exchange, a child of Jewish spirit; the influence which Jews exerted on the European economy and which was characterized by limitless profit-seeking reinforced by religion. "The Jews acted as catalysts in the development of modern capitalism." Sombart also lists the lessening of religious feelings among Christians and migration. <sup>1</sup>

Now Sombart asks: "What will the future bring? Will the raging capitalism continue? Or will it get tired?" He answers the last question in the affirmative. He thinks that fatness, "rentiers" -people living on their rents- and a human propensity to seigniorial life will be decisive for this change.

He sees another reason in the growing bureaucracy of capitalistic enterprise. Further there is a prospect that the rate of population growth will decrease. <sup>2</sup>

One may observe several difficulties with this position. As the average age increased in the 20th century, it is a matter of course that the percentage of the population, which lives on

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1. Ibid. pp. 461-462.

2. Ibid. pp 463-464.

rents must grow. As the life-span becomes longer, people have more opportunity to save for their old age. In addition, the welfare-state (which is not the same thing, of course, as the socialist state) continuously gains in importance.

As enterprises become larger and the economy more and more complex, it is inevitable that bureaucracy will also grow. Big companies like General Motors, Ford, General Electric, and others obviously need a large and often highly complicated administration.

Neither of these two facts seem to indicate that capitalism is getting tired; just the contrary is indicated.<sup>1</sup>

As to the point that the rate of population increase is decreasing, one can look at the record.<sup>2</sup>

In his "Future of Capitalism" Sombart returns again to the problems discussed in the closing chapter of his "Der Bourgeois".

"The economy is no product of nature, it is a cultural institution, and has its roots in the free will of mankind ... The future of a particular economy depends on the decisions of people free to express their own will ... The future development of an economy is not a problem of knowledge, but a question of will. Its course is not the business of a scientist, who has to determine what is, but has not to

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<sup>1</sup> Many companies show a remarkable tendency toward expansion, helped by sales promotion and by improved techniques in both production and administration.

<sup>2</sup>, cf. p 113, footnote 4, of this thesis.

decide or to give opinions of what should be ..."

"Capitalism has lost its predominance."<sup>1</sup> One can observe a change in the economic psyche, its structure and technique.

As far as economic spirit is concerned, one can state - says Sombart - that enterprises of today are based on knowledge; intuition is declining. Companies increasingly show their administrative character, their managers being employees. The interest in profits is decreasing, the courage of the entrepreneurs and their style as conquerors and buccaneers is diminishing. The "rentier" types are growing in number, and the "fattening process" goes on.<sup>2</sup> As for structure: the economy becomes increasingly planned, it loses its individual traits. Freedom is curtailed through cartels, by the State, by labour-laws and regulations, unemployment insurance, committees. Trade-unions greatly influence the level of wages. The mechanism of the market does not work any more. Supply and demand are no longer decisive in establishing price levels. Cartels decide the price, and trade-unions wages.

This epoch of "Late-Capitalism" began with the outbreak of World War I. A small smelting company in the old days could do, (within the economic possibilities) as it pleased. Not so the large steel trusts. The past is characterized by freedom without planning and perfect

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<sup>1</sup> W. Sombart: The Future of Capitalism, pp 5-6.

<sup>2</sup> Ibid. p 7.

individualism; the presence is an epoch of contractual bindings, without planning; the future belongs to the planned economy.<sup>1</sup>

Private and socialized economies will co-exist.<sup>2</sup>  
The world economy depends on peace, free-trade and good-will; all of these are decreasing. Tariffs, the quota-system, and import-regulations will play an increasing role. Credits will be restricted, and distrust prevalent. The next step will be: autarchy.<sup>3</sup> State trading, customs unions, preferential tariffs, and quotas will dominate.

A growing agriculture is a must.<sup>4</sup>

Then Sombart goes on: "We can only hope that our Fatherland will have the will to achieve all these things. This is what we would like, because it is clear in our mind that otherwise we shall disappear in the chaos."<sup>5</sup>

One can observe the usual argumentation: Sombart shows the same attitude again and again, repeating the same thing (perhaps in other words, but with the same content). He is a romantic, dreaming in the Middle Ages far from the present.

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<sup>1</sup> Ibid. p 13.

<sup>2</sup> Ibid. p 20.

<sup>3</sup> Ibid. p 27.

<sup>4</sup> Ibid. p 28.

<sup>5</sup> Ibid. p 30.

CHAPTER VII

POLITICAL ECONOMY: "TRADERS AND HEROES" AND

"A NEW SOCIAL PHILOSOPHY".<sup>1</sup>

Economics and politics often overlap, sometimes to the detriment of economics and of the economy itself. This baneful intrusion of politics into economics can be particularly seen in two Sombartian treatises written in times of crises. The first, *Traders and Heroes*, was written in the seventh month of World War I, the second, *A New Social Philosophy*, in 1934, shortly after the national socialists came to power in Germany. The shallowness, the complete lack of objectivity and the repeated outbursts of Sombart's temperament speak for themselves.

The basis for everything, that is English, Sombart now says, is the unbelievable stupidity of the nation, its incapability of elevating itself above the concrete "reality" of every-day life.<sup>2</sup>

The English are all insane about money.<sup>3</sup> All of them are interested only in business. They are not afraid to deal usuriously. They are characterized by arrogance, today even as they were in the 16th century.<sup>4</sup> Sombart continues his indictment: both English culture and English noblemen have become commercialized. "Only a few among the aristocrats of our day are of feudal origin. Nearly all of them have their

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<sup>1</sup> *"Haendler und Helden" and "Deutscher Sozialismus"*.

<sup>2</sup> W. Sombart: *Traders and Heroes*, p 9.

<sup>3</sup> *Ibid.* p 12.

<sup>4</sup> *Ibid.* p 13.

origin in business. Through the institution of an army of mercenaries, the heroic instinct of the general masses has been eliminated."<sup>1</sup>

He goes on: the lower levels of the population are on a much lower spiritual plane than the corresponding social circles in Germany. This is true not only for the English workers and the English salesmen. Compare the spiritual capacities of Grey with those of Bethmann-Hollweg.<sup>2</sup>

English ethics were shallow and so was the English theory of the state. Every idea is the child of a trader's spirit.<sup>3</sup>

"The greatest pleasure for the greatest number of people" was the rule set out by Jeremy Bentham, thus defining most shameful of ideals.<sup>4</sup>

The theoretical position of traders is implicit in their basic ideas. Their theme must be peace for ever.<sup>5</sup> The logic of the trader leads by necessity to the condemnation of war, and the formation of an army of mercenaries. These are the principles of the trader morality.<sup>6</sup> Great Britain is unique in history. Never before has a world-power been built on a purely mercantilistic spirit. Britain's empire is like a big business firm. The mother-country is like the main-office,

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<sup>1</sup> Ibid. p 15.

<sup>2</sup> Once German Chancellor.

<sup>3</sup> Ibid. pp. 18-19.

<sup>4</sup> Ibid. p 19.

<sup>5</sup> Ibid. p 28.

<sup>6</sup> Ibid. p 29.

where the head-cashier's office and the head-accountant's office are located. The colonies are the branch-offices.

It is obvious, says Sombart, that a country, where a majority of inhabitants do not belong to agriculture is a mis-organization. In England only 8% of the population is active in agriculture, but one fourth is in commerce and nearly 50% in industry. A country showing this type of distribution is a caricature ... <sup>1</sup>

Brilliance in negotiation is the main cause of England's greatness. It is only too obvious that connected with this ability are swindling, breach of contract, cheating, theft and robbery. This is well-known to anybody who knows England's history. To a great extent its moral insanity is the secret of its power.<sup>2</sup> It is also a well-known fact that maintaining equilibrium among European states is the leading principle in English politics. This idea of balance of power was also born of a trader's spirit. It reveals the spirit of the grocer, weighing raisins and pepper on his scale.<sup>3</sup> This "business firm" called England was compelled to employ war when it noticed that a competing "firm" endangered its position on the world market.<sup>4</sup> Then it had a most "dignified" idea, not to conduct war, but to have it conducted by others.<sup>5</sup> Its true war was always a mercantile and money war, the war of

<sup>1</sup> Ibid. pp. 35 and 36.

<sup>2</sup> Ibid. p 38.

<sup>3</sup> Ibid. p 39.

<sup>4</sup> Ibid. p 41.

<sup>5</sup> Ibid. p 42.



real traders. It is always the business man (the trader), who is in the fore-front. Nobody in the past, not even England, conducted a war in such a trader spirit, as the present war is being waged.<sup>1</sup> What is most disgusting is that it is regarded by the English as a kind of sport.<sup>2</sup>

Sombart goes on: "One might remember that Cromwell permitted the immigration of Jews into England, because he found them necessary for England's finances and business. "Persecution was unfavourable to population and to trade," - said James II in his Declaration of Indulgence in 1687.<sup>3</sup> No spiritual values can be created by traders; they do not want to possess this type of culture. All things spiritual are disliked by them.<sup>4</sup>

German thinking and German feeling, in sharp contrast, represent a definite repudiation of anything, close to English or West-European thinking or feeling.<sup>5</sup> To be a German, means to be a hero. Traders and heroes are opposites.<sup>6</sup> There is no doubt that traders' culture nearly conquered the world before the World War. If we remember our cultural life before the war, we Germans - says Sombart - must concede that there were many important elements of English culture present. But we can state that neo-English culture consists

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<sup>1</sup> Ibid. p 46.

<sup>2</sup> Ibid. p 47.

<sup>3</sup> Ibid. p 49.

<sup>4</sup> Ibid. p 50.

<sup>5</sup> Ibid. p 55.

<sup>6</sup> Ibid. p 64.

of only two genuine concepts and only these were acquired by us, comfort and sport.<sup>1</sup> These two products of the English trader spirit are, of course, opposed to any real culture, and have a destructive effect on a people.<sup>2</sup> The whole body of the population becomes sick from comfort; and sport is the twin-brother of comfort.<sup>3</sup> The real origin of socialistic ideas, namely liberty, equality and fraternity goes back to 1789. These are the real ideals of the trader. They have only one purpose, to bring some advantages to certain individuals. They are not suited for building up heroic idealism.<sup>4</sup> The war will show that all international economic relations are a necessary evil and that Germans should reduce them as much as possible. Without any doubt, this will become, the most important task of German economic policy after the war. "We shall have to find ways and means of establishing the greatest possible German economic autonomy."<sup>5</sup> "We Germans - continues Sombart - basically need nobody as far as a spiritual culture is concerned."<sup>6</sup> "We must regard West-European ideas, or anything, which has to do with commercialism as being far below our own level."<sup>7</sup>

The English feel our spiritual superiority. The Jews were despised during antiquity, because they regarded themselves as God's representatives on earth. They separated themselves

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<sup>1</sup> Ibid. p 99.

<sup>2</sup> Ibid. pp. 99-100.

<sup>3</sup> Ibid. p 103.

<sup>4</sup> Ibid. p 113.

<sup>5</sup> Ibid. pp. 132-133.

<sup>6</sup> Ibid. p 135.

<sup>7</sup> Ibid. p 136.

from everything that was foreign to their character, because they were afraid that the holiness within them could be destroyed by contact with non-believers. The Greeks conducted a similar life. The Germans should take the same attitude. They should be proud, with the safe feeling to be God's people.<sup>1</sup>

Although nineteen years elapsed between "Traders and Heroes" and "A New Social Philosophy", it is best to discuss these two writings together. One has already drawn attention to Sombart's exaggerations, his lack of scientific objectivity, and his tendency to dramatics. In "A New Social Philosophy" as in "Traders and Heroes" he reaches a point of culmination.

When he wrote his "Traders and Heroes" a curious thing happened. As one has seen, he recommended to his fellow-Germans to take the Jews as an example - together with the Greeks of antiquity - in regarding themselves as God's people.

Now he has this to say, that democracy in an economic age means nothing more than the legalization of horse trading.<sup>2</sup> Such an age is essentially subjective, critical, destructive and unbelieving.<sup>3</sup> Yet in Sombart's opinion the godless Nazi despotism, where criticism and all subjectivism was suppressed, was constructive. Sombart longed for: " ... an exclusive, well-bred social class, such as the nobility ... before

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<sup>1</sup> Ibid. p 143.

<sup>2</sup> W. Sombart: A New Social Philosophy, p 25.

<sup>3</sup> Ibid. p 26.

1789."<sup>1</sup> He goes on to criticize the Marxian theories. He poses the question: what is "German Socialism"?<sup>2</sup> "By German Socialism one could mean those tendencies of Socialism which correspond to the German spirit, whether they are presented by Germans or non-Germans. One might possibly regard a Socialism as being German, when it is unified (national), voluntary and heroic ... which - a fortiori - one might call National Socialism."<sup>3</sup> Then he says, that such a "German Socialism", in spite of the excellent achievements of some of its adherents, is still not perfected. For Sombart "German Socialism" signifies nothing less than a Socialism which applies to Germany alone and exclusively, and in fact to the Germany of today.<sup>4</sup> What is German? Sombart considers the question from three aspects, as he says, of the body, the soul and the spirit.<sup>5</sup> As to the body of things German, Germany is poor in forests, it lacks soil, but, on the other hand, it is rich in coal. It has no natural boundaries and, being surrounded by enemies, is in a constant danger of invasion.<sup>6</sup> As far as racial structure is concerned, about 1% of the population are Jews defined in religious terms. But the statistics do not give a true picture, as there are many converted Jews, who according to Sombart, should also be listed as Jews.<sup>7</sup>

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<sup>1</sup> Ibid. p 26.

<sup>2</sup> Ibid. p 113.

<sup>3</sup> Ibid. p 113.

<sup>4</sup> Ibid. p 114.

<sup>5</sup> Ibid. p 115.

<sup>6</sup> Ibid. p 116.

<sup>7</sup> Ibid. p 118.

The distribution of the population among the main economic divisions (in 1925) was as follows:

Agriculture, forestry and fishing	30.5%
Industry and mining	41.4%
Trade and commerce	16.5%

He complains about the first figure being too low, without mentioning how much of the 30.5% belonged to agriculture itself.

In 1926 only about 1.5% of the population had an income of 12,000 to 50,000 Marks (well to-do) while the rich (more than 50,000 Marks income) did not exceed 15,000 persons out of 65 million. Ten millions received less than 1,200 Marks yearly income in wages and salaries.<sup>2</sup> As to the aspect of soul: Sombart characterizes the Germans as earnest and thorough in their ways. They are the best officials in the world, but with no sense for beauty. Germans are good organizers. Germans - he says - cannot write well or speak well. Germans have a high degree of individualism and self-glorification. They are "a metaphysical folk" and doctrinaire. They are loyal. But at the same time, the German soul is contradictory and unbalanced.<sup>3</sup>

And then as to spirit, Sombart says that the Germans are called barbarians. Very well, Germans accept this reproach and will make of it a word of honor. They are barbarians and are proud of it and wish to remain barbarians. They are still

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<sup>1</sup> Ibid. p 120.

<sup>2</sup> Ibid. p 122.

<sup>3</sup> Ibid. pp. 124-139.

young and prepared for everything new.<sup>1</sup>

To lead Germany out of the desert of the "Economic Age", says Sombart, is the task which German Socialism has set for itself. Insofar as it denies the entire spirit of its age, it is far more radical than any other movement, even proletarian Socialism. German Socialism is anti-capitalism.<sup>2</sup>

"As it comprehends the entire people, it also includes every branch of culture, not merely the field of economics: it is totalistic."<sup>3</sup> But Germans do believe that there are conditions of collective life that are more favourable for the fulfillment of man's mission on earth than those which have been set up by the economic age ...<sup>4</sup> German Socialists endeavour to bring about a condition which is destined to change the present state of civilization ..<sup>5</sup> "... That the new world-values should bear a German stamp is self-evident." Germans recognize as their problem, the cultivation and unfolding of spirituality, heroism and multiformity.<sup>6</sup> ... Germans must free themselves entirely from the fatal belief in progress, which ruled the ideal world of proletarian Socialism, even more than the world of liberalism.<sup>7</sup> "For that reason no healthy, strong epoch has ever subscribed to the mania for progress."<sup>8</sup> ... German Socialism is not doctrinaire. For the sake of

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<sup>1</sup> Ibid. p 145.

<sup>2</sup> Ibid. p 146.

<sup>3</sup> Ibid. p 146.

<sup>4</sup> Ibid. p 147.

<sup>5</sup> Ibid. p 147.

<sup>6</sup> Ibid. p 148.

<sup>7</sup> Ibid. p 149.

<sup>8</sup> Ibid. p 149.

Germany's greatness, power and glory, Germans will gladly sacrifice every "theory" and every "principle", whether it bears a liberal or any other stamp.<sup>1</sup>

Sombart examines the so-called "Jewish Question", regards it a "burning issue" and states that "the Jewish spirit, after all, largely controls our entire age ..."<sup>2</sup> He agrees with Marx, who said that "the real nature of the Jew has realized itself in the bourgeois society."<sup>3</sup> Then Sombart declares that the Jewish spirit has become part of the Germans, it became evident in a thousand regulations and practices: German law, the German constitution, the German style of life, the German economy, etc. The German economy above all, its very stamp was received, in no small part from the Jews.<sup>4</sup> In order to free Germany from the Jewish spirit, the chief task of the German people and, above all, of Socialism, it is not enough to exclude all Jews, not even enough to cultivate an anti-Jewish temper. It will be far better to so transform the institutional culture that it will no longer serve as a bulwark for the Jewish spirit.<sup>5 6</sup>

When analyzing the concept of the state, Sombart takes his thesis further. The Ruler of a state receives his commission from God, which means in the last analysis: "All authority

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<sup>1</sup> Ibid. p 152.

<sup>2</sup> Ibid. pp. 176-178.

<sup>3</sup> Ibid. p 178.

<sup>4</sup> Ibid. p 178.

<sup>5</sup> Ibid. p 179.

<sup>6</sup> This so-called "transformation" later meant the murdering of six million Jews.

comes from God." He is not required to listen to the "voice of the people" insofar as he does not recognize in it the voice of God. The leader cannot ascertain it - the general will - (the 'volonte de tous') through a plebiscite; he must recognize it, and can only have experienced it, through revelation. For this reason the approval of the "people" is not necessary for a justification of a leader's conduct.<sup>1</sup> 2 German Socialism regards the order of values and its corresponding hierarchy as fundamentally wrong, as one which impairs human dignity.<sup>3</sup>

In the order of rank, of the future, military affairs will stand first while the last place will be held by economics. Within the field of economics, agriculture will occupy the first rank. Big business, and especially big industrial enterprises in their modern form, are in every case to be regarded as an evil, even, if under certain conditions, a necessary evil. Military science is to be placed higher than the history of literature.<sup>4</sup> "The love-creating power of war is overlooked only by cranky pacifists."<sup>5</sup> "If Germans have fallen into a culture-misery, the business men must bear the blame for it, because the Germans were a cultureless race with low instincts. Germans have brought about - in part with the help of modern technology - all the misery of which Germans now complain,

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<sup>1</sup> Ibid. pp. 194-195.

<sup>2</sup> The typical phraseology of a demagogue.

<sup>3</sup> Ibid. p 200.

<sup>4</sup> Ibid. p 209.

<sup>5</sup> Ibid. p 219.



primarily because economics pursued entirely wrong paths and because Germans placed themselves under the spell of economics."<sup>1</sup>

These tendencies may be readily understood - Sombart believes - if one brings into causal connection the decline of West-European humanity with modern technology - the beginnings of which go back to the fourteenth and fifteenth centuries - and thinks of its beginnings in connection with three inventions which have been particular enemies of culture: gunpowder, the compass, and the printing press. These have severed the connection which mankind obviously needs to create what we call culture.<sup>2</sup> It seemed to Sombart that freedom and power are greater in the case of a renunciation of a technical achievement than in case of its use.<sup>3</sup> <sup>4</sup> Nothing is farther from German Socialism than a proletarian culture. Germans desire a gradation based on affluence and have a thought for the cultural prosperity of a few. Germans wish to extend the number of well to-do.<sup>5</sup> There should be a rooted, permanent well to-do, a great peasant class.<sup>6</sup> ... Germans shall shed no tears over the haughty bourgeois luxury. That will disappear. To unfold elegance and splendour will not be prohibited in the future, but it will be left to the state and its dignitaries

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<sup>1</sup> Ibid. p 236.

<sup>2</sup> Ibid. p 238.

<sup>3</sup> Ibid. p 240.

<sup>4</sup> These statements - as so many others in this book - speak for themselves and need no comment.

<sup>5</sup> Ibid. p 247.

<sup>6</sup> Ibid. p 248.

to determine, to what extent it will be permitted.<sup>1</sup> German Socialism repudiates global economic organizations.<sup>2</sup> German Socialism demands a return to the land movement.<sup>3</sup> "In striking contrast with Proletarian Socialism it (German Socialism) places in the central point of its participation not the proletariat, but the middle-class, and may, therefore, be designated as a middle-class Socialism."<sup>4</sup>

For that reason industrial workers should not comprise more than a certain limited part of the population. In Germany, at the present moment, there are too many large industries.

Germans should therefore endeavour to extend handicraft activities.<sup>5</sup> Sombart advocates the placing under public control the following activities, great bank credits, the management of raw-materials and the natural resources of the country, the international, interlocal - and metropolitan trade, all defence industries, undertakings which tend to expand beyond the proper limits of the private economy,<sup>6</sup> and all industries concerning which there is a particular reason for nationalization or municipalization.<sup>7</sup> <sup>8</sup> Sombart also pleads for the co-operatives, the de-industrialization of agriculture and payment of labour in the form of shares.<sup>9</sup>

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<sup>1</sup> Ibid. p 248.

<sup>2</sup> Ibid. p 254.

<sup>3</sup> Ibid. p 259.

<sup>4</sup> Ibid. p 263.

<sup>5</sup> The Sismondian idea.

<sup>6</sup> A very vague definition which would cause great uncertainty in the economy.

<sup>7</sup> Ibid. p 266.

<sup>8</sup> Cf. footnote No. 6.

<sup>9</sup> Ibid. p 267.

In these points one can find some useful concepts, for instance in regard to industries which had to do with national defence, or the co-operatives. On the whole his concept is pure romanticism accompanied by fanaticism. It is retrograde, it is for autarchy, against international trade and other international interchange. In short, it is backward. He wants to strengthen the middle class - especially the peasants - but at the same time he wants to reduce living standards by reducing industry, fighting technical development and opposing trade. An economist, who is against industrial, technical and commercial development, is, to say the least, a very "curious" economist.

Sombart indeed says that the position of German Socialists, in meeting the problem of competition, is clearly prescribed: every socialist must obviously repudiate the competitive principle. He believes that Socialism would put an end to the senseless struggles of individual economies ..<sup>1</sup> " ... If one regards as the chief disadvantage of a removal of capitalism the slowing down of technical and economic progress, our answer is, that we (the National Socialists) would see therein a blessing."<sup>2</sup> "All in all, we are now ready for a stationary economy, and ready to send the 'dynamic' economy of capitalism to the devil, whence it came."<sup>3</sup>

Sombart repudiates international trade as " ... one

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<sup>1</sup> Ibid. p 275.

<sup>2</sup> Ibid. p 281.

<sup>3</sup> Ibid. p 282.

of the causes of the periodic stagnation."<sup>1</sup> Insofar as ordinary market crises are brought about through procedures on the world market, they will be lessened to the extent to which the Germans withdraw their economy from the market.<sup>2</sup>

It is most regrettable that pamphlets of the kind of "Traders and Heroes" and "A New Social Philosophy" were ever written by an economist of Sombart's standing.

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<sup>1</sup> Ibid. p 282.

<sup>2</sup> Ibid. p 283.

## CHAPTER VIII

### CONCLUSION

In earlier chapters of this thesis the three basic pillars of Sombartian analysis were demonstrated and analyzed. From Sombart's other writings one can establish that he opposed competition, international trade and international interchange. He recommended German autarchy. He regarded improvements in technology an evil and was for stagnation. He advocated the increase of farm population at the cost of other sectors of the economy. All these views are in sharp contrast with modern theory. Furthermore, he was stressing the necessity to improve the standard of living of the middle class only, by neglecting the interests of the society as a whole.

Sombart represents a peculiar type of economist, who in addition to these ideas had a great respect for war and regarded heroism as the highest quality of man. He seemingly could not and did not want to get rid of a kind of pathological Teutonism.

Sombart maintained that there were three nations eminently responsible for the development of the capitalistic spirit and modern capitalism: The Florentines, the Scot Lowlanders and - especially - the Jews. What he called "the Jewish question" haunted him for decades before the Nazis came to power. He came back to this question again and again. There

are about  $12\frac{1}{2}$  million Jews in the whole world and it is safe to assume that their importance in the economy is greater than their number would indicate. However, to regard their importance in the economy and their influence on the development of our capitalistic system as superior to that of the greatest trading nations like Great Britain, the United States, France, Holland, Germany, Italy etc., means a complete absence of objective, scientific judgment.

His overheated wrath against capitalism and international business appears in many of his writings. "A fatal and accursed finance-capitalistic internationalism or an imperialism of the international finance-capital developed, which establishes itself everywhere, where it hopes to find booty."<sup>1</sup>

"If sociology is the science of the collective living of mankind, and economy, on the other hand, means the living together of people, then economics is sociology, or better: Sociology is a theoretical part of economics."<sup>2</sup>

Both economics and sociology are social sciences. To maintain, however, that sociology is economics (or part of it), is, again, one of the fallacies of Sombart.

Biology, zoology and mineralogy are natural sciences; and who would dare to say that they are identical? Or are

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<sup>1</sup> W. Sombart: The Economic Epoch (Das oekonomische Zeitalter) p 17.

<sup>2</sup> W. Sombart: Economics and Sociology (Nationaloekonomie und Soziologie) p 11.

mathematics, physics and chemistry the same, although they overlap in many instances?

Sombart stressed the importance of methodology. In so doing he overlooked certain important elements and overestimated others. In particular he overlooked the importance of value, and overestimated what he called the "Economic System". Economic systems are important for the historian, but far less important for economic theory. Value, price, cost and growth problems are as important in the communistic economy as they are in the capitalistic system.

The interest of the modern economist is not, however, primarily sociological or historical. One is interested in the economy as it works; in demand and supply, in cost of production, in value and price, in different kinds of competition, in the different types of monopolies and their influence on the market, in the problem of the rate of interest, or would like to reduce the swings of the business cycle and one wants to learn more about how the state can use its economic power in influencing the market.

Sombart once said:<sup>1</sup> "However high or low we assess the advantages of economics for the economy, it must be clear in our mind that these advantages in themselves do not justify its existence nor the trouble, undergone by our researchers. If our science does not pay for itself in some way, it ought

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<sup>1</sup> W. Sombart: "Economics" (Nationaloekonomie), in Weltwirtschaftliches Archiv Vol. 30. Heft 1, July, 1929. p 17.

to disappear. I think, however, that its value is as great as that of any of the other cultural sciences, which are 'not useful' either. I furthermore think that such studies are valuable just because they render no practical advantage. Higher values begin just where practical values cease to exist. This is not the place to explain the value of scientific knowledge. I would like to say, however, that the position of economics as a useless cultural science will become even more precarious than that of her sister sciences. All of them will be in a dangerous situation because of the outspoken trend of pragmatism, which is characteristic for our epoch. The position of economics, however, will be the worse because of the dissension within the discipline itself. Metaphysical, natural-scientific and cultural-scientific schools are at variance and nobody, in this internal disagreement, takes notice of the fact that the enemy is at the door, at two doors even. The philosophy of economics on the one hand and the art of economics on the other want to take possession of economics, and both the adherents of metaphysics and those of the natural scientific approach are ready to open the doors. The first betray our science to allow economic philosophy to conquer, while the latter deal similarly to assist the natural scientific approach. In fact if our science did nothing else than promulgate rules, as the exact natural sciences do, rules that ought to be accepted by the arts of economics, then it would lose its right to exist. In such a case the art of



economics would suffice to give learned advice to the practical man. Economics can defend itself against these two enemies only by acknowledging the fact that it is a cultural science which must next develop to an essence understanding science."

Sombart thus appears to have acknowledged that much of the theory of economics was based on erroneous ideas but he failed to consider that it was precisely his theory that caused his failures. Had Sombart accepted the theories of his outstanding contemporaries in an objective manner, without rejecting everything not "Sombartian", he would have been put in a position to appraise the situation in a very different way. His battle with the so-called metaphysical and the natural scientific systems looks (or sounds) like a Don Quixotic attack against imaginary enemies.

Dr. W.A. Joehr may be allowed to sum up: "... In this "Vom Menschen" (About Man) Sombart defines anthropology as a primary science, which directs the work in all other human sciences, thus pleading for universality in method as well. Though Sombart has opened the door of the social sciences of the 20th century, we must admit that there are certain points in his theory with which we cannot agree. In the first place we cannot agree with his total separation of human mind (Geist) from human nature, a separation contradicted by experience. Sombart's disregard of economic theory in the sense of the deductive and

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1 W.A. Joehr, Privatdozent (the equivalent of an Assistant Professor) in St. Gallen, Switzerland: "Reflections on the Lifework of Werner Sombart" ("Gedanken zum Lebenswerk von Werner Sombart"). Weltwirtschaftliches Archiv, Bd. 55, 1942, p. 324.

hypothetical method to explain market phenomena is in no way justified, as there is no other approach to the problems of price-formation and state-interference. Nor can Sombart's elimination of the value-judgments be maintained. It is impossible to comprehend the essence of things without a basis of values. Philosophy is the true synthesis of metaphysics and science, and is therefore the real primary science which all other sciences have to respect."

In spite of all his shortcomings, one must regard Sombart as a great economic historian.

He was always a socialist, at first a Marxian, then an anti-Marxian and finally a national socialist. Being a national socialist, he, of course, was a racialist. Throughout his life he was a political theorist. Sombart was a most controversial figure, yet at the same time, he was in many ways a great personality, a cultured man, with a fascinatingly diversified knowledge. But he was always a product of his epoch, the epoch that began with Karl Marx, and that culminated for Sombart with Adolf Hitler.

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im Deutschen Reich ..... Schmoller  
Archiv fuer soziale Gesetzgebung ..... Archiv f. soz.  
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