

## In Defence of Materialism

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**Can we define capitalism? By acknowledging the role played by economic and philosophical idea in its development, is there not a risk of ignoring the importance of material and technical conditions? The economists Clément Carbonnier and Geoffrey Hodgson discuss this issue.**

This text is a commentary on the article by Geoffrey Hodgson entitled [“Conceptualizing Capitalism: How the Misuse of Key Concepts Impedes our Understanding of Modern Economies”](#), which was published on 7 May 2015 in *Books and Ideas*.

In his article entitled [“Conceptualizing Capitalism”](#), which was published on the *Books and Ideas* website,<sup>1</sup> Geoffrey Hodgson attempts to take stock of how we define the capitalist system. Numerous predecessors have undertaken a similar task, reminding us that the organisation of markets is not in itself enough to define and therefore understand the capitalist system. These studies have often insisted on the construction of markets to organise the exchange of all means of production, and in particular of land and labour. This article puts a more particular emphasis on the construction of specific rights that have allowed for the extension of property to immaterial assets, and in particular to debt securities: according to him, the crucial point is the construction of financial market being made legally possible. Hodgson thus “[proposes] a definition of capitalism that includes private property, widespread markets, widespread employment contracts and developed financial institutions”.

These arguments are both interesting and convincing. However, the author has a tendency to get carried away by his revolutionary bias: he thus presents an essential factor in the development of a system as the leading factor, implying that all others are mere corollaries. His text thus seems to me to be subject to two limitations: that of a scantily-argued rejection of materialism, and of a mistaken view of the “ideal” labour market in a purely capitalistic economy.

### **An implicitly idealistic position that is short of arguments**

Geoffrey Hodgson constructs his view of the capitalist system in opposition to what he presents as the usual view, based on economic forces connected to technologies and to relations of production. By taking this position, he locates his own contribution within the framework of the debate between materialism and idealism:

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<sup>1</sup> <http://www.booksandideas.net/Conceptualizing-Capitalism.html>. Hodgson’s article presents his book, *Conceptualizing Capitalism: Institutions, Evolution, Future* (University of Chicago Press, 2015)

To be sure, technology was a necessary condition of much progress (...) But technological change also requires explanation. What were the necessary conditions for the development and diffusion of these new technologies?

It is indeed essential to interrogate these conditions, and anyone who has taken an interest in history knows that superstructure and infrastructure – let us use the correct terms for the relevant concepts – develop simultaneously: the interactions between them are an essential element in our understanding of societies<sup>2</sup>. In and of itself, this message could be relatively consensual: you have placed too much emphasis on infrastructure and neglected superstructure. However, even among many materialists, capitalism has been defined by its superstructure, while believing that the foundations of this superstructure were caused by its infrastructure. This is an essential point if we are to understand the value and limitations of Hodgson's argument: a definition is not equivalent to a cause. His book aims to define capitalism in order to better understand it. Very often, he goes beyond this by interpreting constituent elements of the definition of capitalism – in particular its superstructure – as its fundamental causes; this is the interpretation that I would like to challenge.

Laying emphasis on his new contribution, the author tends to minimise the work that has been done in the past on the subject and constructs an enemy that seems worse than it really is. Thus, the issue of his predecessors' having minimised the importance of finance is overblown to say the least:

My claim that the rise of sophisticated financial institutions marks the dawn of capitalism is not original, but why have so many economists and historians (including Marx) downplayed these vital developments?

This is a particularly bad example given that Marx saw financial capital as the capital *par excellence* of capitalist development, and devoted the entirety of Part 2 of Volume III of his major life work to precisely this topic.<sup>3</sup>

To return to the question, we might object that Geoffrey Hodgson does not clearly side with idealism, but that he criticises the lack of interest demonstrated by materialists for superstructure. Firstly, this seems to me to not be true of many materialists, but it is even less true of the totality of authors who have conceptualised this economic system, including Marx in particular. Keynes, who was admittedly an idealist but is hardly marginal in terms of economic thought on capitalism, presents the financial system precisely as the key to understanding economic conditions.<sup>4</sup> The author is not satisfied with such a message, and criticises the very legitimacy of the study of infrastructure:

... the understanding of the modern system that we describe as 'capitalism' requires a new approach to analysis that differs from much found in economics, sociology and Marxist theory. The underlying physical metaphors of things and forces are replaced by the notion of an economy as an evolving, information-processing system. This

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<sup>2</sup> We would like to remind readers here that, in Marx' philosophy, *superstructure* refers to the framework of economic activity, both in terms of moral and philosophical values and in terms of institutions and formal power relations between individuals; while *infrastructure* refers to the material conditions of production, in technical and technological terms and in terms of real power relations between the classes.

<sup>3</sup> Karl Marx, *Capital Volume III, The Process of Capitalist Production as a Whole, Part 2*, Penguin Classics.

<sup>4</sup> John Maynard Keynes (1935) *The General Theory of Employment, Interest and Money*, Bnpublishing, 2008. In Chapter 12, *The State of Long-term Expectation*, he creates the parable of the beauty contest to present the self-referential nature of financial markets, which generate bubbles and crises.

system entails the generation, allocation and exchange of recognised legal rights over many kinds of asset.

But the importance of the legal construction of the possibility of financial markets is in no way incompatible with the importance of the material development of means of production. And these are expressed in terms of forces. Saying that what defines capitalism is its ability to legally organise finance in no way disqualifies an analysis of the infrastructure that required this legal construction in order to develop. All the more so given that there is nothing in the author's arguments to suggest that this legal construction arose out of anything other than needs that were created by a production whose development was subject to the issue of finance. This institutional development of finance is, in this view, the result of the development of production and of the social power relations that it engenders.

Thus, Hodgson mentions the Glorious Revolution of 1688 as the starting point for the process of transformation of rights related to debt that allowed for finance to develop, and he notes that this “‘*Financial Revolution*’ (...) [which was] *in part prompted by the state [prepared] the ground for the Industrial Revolution.*” This is true, but this legal construction did not arise out of intellectual debates alone. It was born out of the power struggles within English decision-making bodies, power struggles in which merchants had gained the upper hand thanks to their economic rise. Describing the period prior to this Glorious Revolution, North and Weingast (1989)<sup>5</sup> talk of a continual struggle between the King and both parliament and common law tribunals, regarding precisely the issue of property rights and of the way in which the crown was “borrowing” its financial resources. In fact, Geoffrey Hodgson himself mentions that this legal treatment came from a request from businessmen:

In the seventeenth century, the failure of common law courts to deal adequately with the negotiability of debt led businessmen to press Parliament for robust legislation.

In fact, to return to the sources of this “*new political settlement after 1688*”, the influence of the Dutch House of Orange in this English revolution had not just arisen out of a love story between the daughter of James II and the Stathouder of Holland, but is indeed connected to how important global commerce had become and to the leading role played by the House of Orange within it. The Glorious Revolution did not just lead to the creation of a legal framework enabling the rise of capitalism, it also arose out of capitalism's early development. In his book,<sup>6</sup> Geoffrey Hodgson does mention these influences:

Britain's Glorious Revolution of 1688 was in fact a Dutch invasion, albeit preceded by an invitation from a bishop and six members of the nobility. (...) This invasion shifted English allegiances from France to the Netherlands and led to an influx of Dutch merchants and financiers as well as artists and scientists. Dutch businessmen brought knowledge of Dutch financial institutions and helped establish London as the world's leading financial center.

Thus, while it is true that the elaboration of property rights allowing for financial markets to exist was an essential factor in the development of capitalism, this does not take away from the equally essential nature of the materialist analysis of the productive foundations that required the development of these markets. Admittedly, some materialists have pushed this argument too far by presenting the superstructure as a deterministic function of infrastructure.

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<sup>5</sup> Douglass C. North and Barry R. Weingast (1989) Constitution and Commitment: The Evolution of Institutional Governing Public Choice in Seventeenth-Century England, *The Journal of Economic History*, Vol. 49(4), pp. 803-832.

<sup>6</sup> Geoffrey Hodgson (2015), op.cit., pp. 159-160.

This is wrong as well. The superstructure does not arise directly and unequivocally out of the infrastructure. There are social choices and variations to these superstructures<sup>7</sup>, but infrastructure implies powerful constraints that lead to these different variations having a number of points in common, and which, as it happens, mean that all these variations are capitalist ones. It is therefore important to understand these infrastructural power relations in order to analyse how they are dealt with by various regulations. If, conversely, we neglect these power struggles arising out of the material conditions of production, we risk missing some of the major issues when we discuss the legal forms of the regulation of capitalism.

### **A mistaken view of the labour market in a purely capitalist system**

This lack of interest in the material developments of the capitalist productive process becomes particularly apparent when Geoffrey Hodgson deals with the issue of the labour market. He makes a profound error when he attempts to use the abolition of slavery as an example of the primacy of intellectual structures counteracting what he believes are the developments of capitalism as driven by its infrastructure:

... because complete futures markets for labour power are ruled out by the abolition of slavery and the adoption of employment contracts, capitalism always has missing markets. [...] By pushing back slavery and widening wage-labor, capitalism limited markets at its core: it disallowed complete futures markets for labor power. [...] The birth of capitalism was stimulated by Enlightenment ideas of individual liberty and equality under the law. But rightly we lack the liberties to enslave others, trade in slaves, or enslave ourselves.

By presenting this example in this way, he implicitly puts forward two hypotheses that he appears to be presenting as outcomes of his analysis: firstly, the development of pure capitalism supposedly requires slavery, and employment is nothing more than a consolation prize given the absence of slavery; secondly, the abolition of slavery is supposedly the result of the development of humanist ideas, and not the result of the development of material conditions of production, since on the contrary this latter development supposedly prefers slavery. In my view, these two hypotheses are mistaken, since the abolition of slavery is in no way opposed to capitalist economic development; on the contrary, it is in fact an outcome of this very development, and not of humanist ideas.

Admittedly, some authors<sup>8</sup> published a cliometric analysis in the 1970s that took the view that slavery was still an effective mode of production at the time of its abolition in the United States. However, not only have these results been strongly contested, but above all the authors themselves noted that this mode of exploitation of the labour force only remained profitable in very specific contexts and cultures. They found that slavery would no longer have been profitable in the North, not only in the field of industry of course, but also in that of agriculture. Within this context, it is important to note that slavery had then disappeared from these northern states.

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<sup>7</sup> These issues are particularly keenly discussed in the literature on the theory of regulation and of the variety of capitalism.

<sup>8</sup> Robert William Fogel and Stanley L. Engerman (1974) *Time on the Cross: The Economics of American Slavery*, W. W. Norton & Company, New York, 1995.

More generally, a fundamental point in the economic analysis of capitalism is the issue of the allocation of factors of production. This issue is considered in almost all classical theories of economics, from Adam Smith to the dominant contemporary analysis through the definition of the discipline itself as given by Robbins: “*Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses*”<sup>9</sup>. But the optimal use of the labour force – by which we mean the most productive one – is absolutely not slavery. The important issue in terms of this factor of production is indeed the worker’s labour power and not the worker him/herself, and one does not ensure one disposes of the greatest labour power by owning the worker.

By allowing the worker to be responsible for his/her labour power, we can manage to obtain more productive labour, and it is indeed through employment (or even by making the worker even “freer” through self-employment) that we can obtain this maximum labour power. This becomes all the more true the more technology requires increasingly qualified labour. Thus, slavery becomes more and more obsolete the more capitalism develops, and its abolition is a response to the material development of the conditions of production rather than being an impediment to them that has supposedly been imposed by humanist philosophies.

From this perspective, a quick historical analysis speaks volumes. In Europe, slavery disappeared during the high feudal period, giving way to the status of serfdom, which had gradually come to dominate. This status in turn started to disappear during the Late Middle Ages. The reason the Capetians emancipated so many serfs in the 13<sup>th</sup> and 14<sup>th</sup> centuries was not just because of their moral conscience, but because they believed it was in their economic interest to do so; Marc Bloch even notes that “the number of emancipations was, in the final analysis, a function of the economic conditions of the time and place”.<sup>10</sup>

As far as regards one of the most prolific of them, namely Philippe le Bel, this economic interest was in fact pointed out to him by his ministers who came from the bourgeoisie; these were ministers who had climbed up the social ladder because the bourgeoisie had developed in line with economic development and could now lay claim to such important positions. Technical progress in agriculture, and the requirements in terms of superstructure for it to effectively be implemented, contributed to the fact that you could ultimately get more out of a well-taxed free worker than out of a serf. At this point, a status of the tenant farming type appeared, and then became dominant with the increasing scarcity of labour due to the Hundred Year War and to the Black Death, with employment only becoming a generalised model much later, when other specific needs appeared in terms of how labour was used.

Of course, this connection between productive development and the status of workers was neither deterministic nor unequivocal. The steps backwards that were taken due to the feudal reaction following the reign of the Iron King – after it had sent his coadjutor of the kingdom, who came from the bourgeoisie, to be hanged – are proof of this. But by the time, a few centuries later, that the new world was being discovered, slavery had long since disappeared

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<sup>9</sup> Lionel Robbins (1932) *An Essay on the Nature and Significance of Economic Science*, MacMillan and Co., London.

<sup>10</sup> Marc Bloch (1920) *Rois et serfs : Un chapitre d'histoire capétienne et autres écrits sur le servage*, Champion, Paris.

from Europe, as had serfdom. It is the economic conditions of clearing and of specific cultures in the colonies that kick-started slavery once more, and not a regress of philosophical ideas at the time of the Renaissance.

Likewise, the definitive end of slavery was not simply the consequence of Enlightenment philosophy, as Geoffrey Hodgson claims. It is worth noting that in France for example, a few years after the democratic fever that had led the convention to abolish slavery in 1794, it was re-established for several decades.<sup>11</sup> While the final abolition was the result of personal actions in the field of values, such as that of Victor Schœlcher, it was also strongly connected to the fact that the economic development of the colonies did not require this form of labour so much anymore. In this sense, the case of the United States is also striking, where the industrial North had de facto already abolished slavery for a long time, not for humanist reasons but because it was not useful to the development of its industry.

Geoffrey Hodgson, in his defence of an institutionalist approach to economic analysis, emphasises the importance of the legal framework in the development of capitalism. His analysis, which is very enlightening on this subject, has a tendency to neglect economic forces in favour of only validating a history of institutions through the development of ideas. But even if institutions do not arise in a deterministic way out of the material conditions of production, these do have a very important role to play in their establishment.

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<sup>11</sup> For a detailed analysis of these debates, be it in the assemblies of Paris or in the fields of Haiti, see C.L.R. James (1963) *The Black Jacobins*, Vintage books edition, New York, 1989.

## A Response to Clément Carbonnier

Geoffrey M. HODGSON

I thank Clément Carbonnier for his comment on the summary of my book *Conceptualizing Capitalism*, which was published in *Books and Ideas*. I much appreciate his praise of my work as ‘very enlightening’, but I disagree with his main arguments.

His comment is entitled ‘in defence of materialism’, but we have to probe harder to discover the meaning of the ‘materialism’ that he is attempting to defend. For example, he concedes that institutions ‘do have a very important role to play in [the] establishment’ of ‘the material conditions of production’. This is my view too. So it is difficult to identify here the point of dispute between us.

But plentiful disagreement can be found elsewhere in Carbonnier’s reading of my text. He accuses me of ‘a scantily-argued rejection of materialism, and of a mistaken view of the “ideal” labour market in a purely capitalistic economy.’ However, there is no attempt to refute ‘materialism’ in my work, and nowhere do I uphold an ‘ideal’ labour market. I refer to Karl Marx’s ‘materialism’ on page 64 of my *Conceptualizing Capitalism* (2015) book and I do not attempt to refute it there. Contrary to any notion of an ‘ideal’ labour market, I argue on pages 141 and 242-5 that there are inevitably missing markets for labour within capitalism, and generally the system is in a sub-optimal state. Hence labour markets cannot be ‘ideal’, at least in the sense of optimal.

Carbonnier then suggests that I locate my contribution ‘within the framework of the debate between materialism and idealism’. His evidence for this claim is an excerpt from my article where I claim that ‘technology was a necessary condition of much progress ... But technological change also requires explanation. What were the necessary conditions for the development and diffusion of these new technologies?’ But this last sentence is a question rather than a claim. Remarkably, Carbonnier himself concedes that ‘institutions ... do have a very important role to play in [the] establishment’ of ‘the material conditions of production’. So it is difficult to see how my quotation can be a refutation of his ‘materialism’. We seem to agree fully that we need to understand the institutional preconditions of technological advance.

Notice also that the words ‘idealism’ and ‘materialism’ do not appear in this quotation from my article. It seems that, for Carbonnier, ‘materialism’ is about technology, and ‘idealism’ is about something else. So that in his ‘defence of materialism’, Carbonnier seems to be arguing that technology has some kind of ontological or causal primacy in our understanding of capitalism. If I am correct in this interpretation, then here lies our main disagreement.

Carbonnier then writes ‘while it is true that the elaboration of property rights allowing for financial markets to exist was an essential factor in the development of capitalism, this does not take away from the equally essential nature of the materialist analysis of the productive foundations that required the development of these markets’. But it far from clear what this ‘materialist analysis’ is. Carbonnier makes no mention of technology here.

In other cases, I found no disagreement between Carbonnier's statements and mine; despite his attempts to find one.

First, he illustrates his critique with an example – the British Glorious Revolution of 1688. We are told that the legal changes that followed 'did not arise out of intellectual debates alone'; they were 'born out of the power struggles'. This is a point that I make extensively in my *Conceptualizing Capitalism* book, so I cannot see why his remarks are in any sense a critique of my view.

Second, I am also accused of a 'lack of interest in the material developments of the capitalist productive process'. This is despite my earlier invocation of the massive (material and immaterial) achievements of the capitalist system, including a huge increase of productivity and a major increase in human longevity.

Carbonnier then suggests that I propose that 'the development of pure capitalism supposedly requires slavery' and that 'employment is nothing more than a consolation prize given the absence of slavery'. I say no such thing. My definition of capitalism includes the employment relationship, which is not slavery.

Carbonnier writes: 'the abolition of slavery is supposedly the result of the development of humanist ideas, and not the result of the development of material conditions of production'. In my book I do not consider the reason *why* slavery was abolished. His statement on the abolition of slavery has nothing to do with my own claims.

Nowhere do I say that the Enlightenment was the sole cause of the abolition of slavery. The Enlightenment was not 'simply' responsible: it was one cause among many. But to deny the importance of Enlightenment ideas in the process would be mistaken.

Carbonnier's final contention is that my analysis 'has a tendency to neglect economic forces in favour of only validating a history of institutions through the development of ideas.' If he means to accuse me of looking at the ideas that sustain institutions as a partial requirement for understanding them, then I plead guilty. Ideas are part of social reality and they are important elements of an understanding of social change.

But to examine his argument more closely, we need to examine what is meant by 'economic forces'. Unfortunately, Marx never defined this term clearly. Does it refer to technology? If so, technology too involves knowledge and ideas, as well as things. Technology is a human (as well as a material) force. It is human knowledge embedded in social relations, within a material context of artefacts and circumstances. Ideas and understandings concerning that technology are part of the 'force' of technology itself.

Relating the evolution of technology to the evolution of institutions would be an important project, but it is not one that I have attempted in my work. But I fully accept the importance of technology. In *Conceptualizing Capitalism* I accept 'the role of technology in revolutionizing social life' (p. 7), that 'technology was a necessary condition of much progress', including in increasing health and longevity (p. 36). For instance, I wrote: 'Productivity levels exploded as



a result of technological innovations, economies of scale, and enlarged markets' (p. 171). And much else. So if 'economic forces' mean technology than I do not neglect these factors.

There is neither an attack upon, nor a defence of, 'materialism' in my *Conceptualizing Capitalism* book. But I do stand by the view that to understand a social system we have to appreciate the dominant ideas that help to sustain it, among other things, including social relations.

I defend a version of materialism elsewhere in my writings. In my book *The Evolution of Institutional Economics* (2004) I argued for a materialist ontology, where ideas are an emergent property of material relations, and that the fundamental constitutive stuff of the universe is matter (see pp. 63-65, 96, 103, 154).

My 'emergentist materialism' is close to that of Mario Bunge (1980) and others. But this does not erect a dichotomy between the material and the ideal, or deny the importance of ideas in technological and social reproduction and change. Ideas have a foundation in matter and material relations.

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