



Titel/Title:

Autor*innen/Author(s):

Veröffentlichungsversion/Published version:

Zeitschriftenartikel/Journal article

Empfohlene Zitierung/Recommended citation:

Verfügbar unter/Available at:

(wenn vorhanden, bitte den DOI angeben/please provide the DOI if available)

Zusätzliche Informationen/Additional information:

Modernity as a functionally differentiated capitalist society: A general theoretical model

Uwe Schimank

University of Bremen, Germany

Abstract

A conceptualization of capitalism as a consequence of functional differentiation is proposed. The general theoretical model of a functionally differentiated capitalist society is outlined in four steps based on these keywords: functional differentiation; capitalist economy; capitalist society; welfare state. This model grasps the essential characteristics of the analytical prototype of a capitalist society. What are its basic components that, working together, generate this kind of society's structural dynamics?

Keywords

capitalism, functional differentiation, modern society, theory of society, welfare state

When Talcott Parsons ([1966] 1975: 174) portrayed modernity as functional differentiation, he wanted to propose a better alternative to the Marxist view of modern society as capitalism which he regarded as 'Kindergarten level' sociology. In the same vein, Niklas Luhmann ([1973] 1975: 81) spoke of Marxism as part of an 'old-European' tradition of social thinking which is inadequate for a proper understanding of modernity. Already Max Weber ([1905] 1975) was guided by the motive to correct Marxism. With his emphasis on the 'Protestant

ethic' he wanted to overcome a simplistic 'materialist' understanding of the genesis of modern capitalism by emphasizing the crucial contribution of cultural ideas though he did not deny the importance of 'material conditions', and (← p. 413) his understanding of modern society as a configuration of 'value spheres' (Weber, [1919] 1967: 27–8) – which is his formulation of functional differentiation – again takes ideas as starting points.

Despite these strong rejections by the three most important representatives of differentiation theory, I suggest we take another look at the issue. In this article, I argue that it is not only possible but also advisable to conceive of modernity as a functionally differentiated capitalist society, that is, to build into the concept of functional differentiation the idea of a society-wide predominance of economic concerns.

Before I start my exposition of this perspective, I want to briefly outline the reasons why such an attempt should be made. In the present debate about theories of modern society, they are not at all obvious. On the one hand, orthodox differentiation theory denies what Parsons and Luhmann call a society-wide 'functional primacy' of the economy. On the other hand, this primacy is the cornerstone of a Marxist understanding of modern society as capitalism. Both sides perceive no need to explore an enrichment of their own perspective by elements from the other. On the contrary, both agree that functional differentiation and capitalism are incompatible understandings of modernity which compete with each other with no leeway for cooperation.

In this article I will only address differentiation theory. Why should it reconsider its position? The first reason is that there is a serious logical flaw in Parsons' and Luhmann's central argument against a 'functional primacy' in a functionally differentiated society, as I will explain later.¹ I suspect that this flaw, accompanied by the rather patronizing tenor of their remarks about Marxism, is at least partly the result of an ideological distortion of their theoretical thinking by the Cold War anti-Communism of the 1950s and 1960s. A corresponding anti-Marxism became something like an intellectual duty, especially among conservative social scientists at that time. The other thing is that those days were also the

‘Golden Age’ (Hobsbawm, 1994) of more than 20 years of strong and robust economic growth in developed Western countries, with the effect that people in general, social scientists being no exception, tended to forget about capitalism for some time.

Still, even at that time most of the population, as well as many social scientists, simply took it for granted that the economy dominates society at large. This view, which was comfortable then, was aggravated in a rather uncomfortable manner when the economy became more unstable in the mid-1970s and has remained so until today. The famous reminder: ‘It’s the economy, stupid!’ from Bill Clinton’s 1992 presidential campaign expresses this general gut feeling. Finally, mainstream economics, too, presupposes that its object of study is the most important component of the machinery of modern society. Thus, there is a very broad consensus of public opinion, political debates, social science thinking, and mainstream economics, with Marxism, and against differentiation theory, that the economy is the centrepiece of modern society. To be sure, one cannot argue with majorities in scientific debates. However, if the minority position of differentiation theory on closer inspection reveals a serious fault, it should give the idea of a capitalist society another chance – not as a rejection but as a strengthening of the idea of a functionally differentiated society.

My explanation of an understanding of modernity which categorizes *capitalism as a consequence of functional differentiation* proceeds in four steps. It starts with (1) the general theoretical concept of *functional differentiation*. According to this concept, the (← p. 414) economy is just one of about a dozen subsystems of modern society and can be studied by the use of the same theoretical concepts which are applied to other subsystems. However, with this analytical strategy it can be shown – contrary to Parsons’ and Luhmann’s view – that (2) the *capitalist economy*, despite the principal features it shares with all other societal subsystems, is a very special subsystem. Its society-wide primacy can be derived from the particular constitution of its differentiation; and as a consequence of this domination of the economy, (3) the functionally differentiated modern society is a *capitalist society*. This kind of society is extremely tension-ridden; therefore it

needs within itself a counter-force which is strong enough to set limits on the forces of capitalist dynamics. This is always contested and most of the time the precarious counter- force is (4) the *welfare state*.

The limited space of this article does not allow more than a sketch of the analytical prototype of a functionally differentiated capitalist society. What are its basic components that, working together, generate this society's structural dynamics? This model remains highly abstract. Where concrete empirical cases are mentioned, they are meant as illustrative examples, not as proofs of certain statements or sufficient analyses of specific phenomena. The task to be achieved in this first step is to summarize the 'commonalities of capitalism'; only on this basis further studies can focus on the many important differences between historical phases and countries and turn to particular empirical cases and phenomena.²

Functional differentiation

To begin with, I should explicitly emphasize that the underlying general framework of the following is not systems theory – neither in the tradition of Parsons nor of Luhmann – but a quite conventional action theory. However, I will make use of several concepts from systems-theoretical approaches to functional differentiation, most prominently the concept of societal subsystems. The reason for sticking to this concept will become clear in my further argument.

Functional differentiation means that modern society consists of about a dozen *sub-systems*: politics, the military, the law, religion, art, science, journalism, education, healthcare, intimate relations, and, last but not least the economy.³ As Weber's notion of 'value sphere' accentuates, from an action-theoretical perspective a societal sub- system is a sub-universe of meaning constituted by the reign of a particular guiding value – such as truth in science or justice in the law – which serves as a self-referential evaluative orientation of action. The guiding value formulates the 'summum bonum' of all activities within the subsystem, and this 'summum bonum' is not derived from and legitimized by any higher-order end but is an end in itself. Consequently, individuals or organizations which act within a particular subsystem know without any doubt the direction in

which all their striving is supposed to go; and this implies a ‘legitimate indifference’ (Tyrell, 1978: 183; my translation) to any other concerns, especially to the guiding value of any other subsystem.

In this way, each societal subsystem is an autonomous universe of meaning which literally puts a spell on its actors. This gives the ‘value spheres’ a systemic quality. To understand this, one has to take a closer look at the mutual constitution of social actions (**← p. 415**) and social structures. All kinds of social structures are continually produced and reproduced by the interplay of their actors and their actions. This upward causation from actors to structures, however, is the carrier of a downward causation of structural shaping of what actors do. Structures constrain or enable them. Now this reciprocal relationship of ‘agential causal power’, on the one hand, and ‘structural causal power’ propelled by ‘agential causal power’ (Elder-Vass, 2010), on the other, can be more or less asymmetric in both directions. In some situations, actors are able to design and re-design social structures quite easily – even those structures to which they themselves are subjected. In other situations, structures are not at the disposal of the actors but hardened in the sense that actors experience themselves as being subjected to the shaping forces of these structures without being able to change them by individual or collective effort, or only with great difficulty. The extreme state of hardening is reached when structures are reified (Berger and Luckmann, [1966] 1972: 106–9). This is the case whenever actors who produce and reproduce these structures take them for granted as they are and cannot even think of them as being different. The carriers of the structures forget about their own independent ‘agential causal power’ and experience their own doings as pre-determined by the given ‘structural causal power’. Read from an actor-based view, it is exactly this picture of social life which Luhmann’s systems-theoretical approach puts forward (Schimank, 2003, 2010b) as the core of the concept of social systems in general, and societal sub-systems, in particular. As a general picture of social reality, this is clearly wrong, but with regard to the subsystems of modern society, Luhmann makes a very important point. To highlight this reified nature of ‘value spheres’, I characterize them as systems. Pierre Bourdieu ([1992]

1999: 360–5) expresses this spell graphically as the specific ‘illusio’ which, for instance, makes scientists care about nothing else but the pursuit of truth. For individual actors, this spell lasts only as long as they are doing science in their respective roles without reflecting that society as well as their own conduct of life consist of many more kinds of activities. However, organizations as corporate actors are permanently obsessed by one and only one ‘illusio’ because they are located constantly in just one subsystem.⁴ Indeed, this characteristic of organizations implies that they are powerful instruments to bring about their individual members’ obedience to the respective societal subsystem’s ‘illusio’ (Schimank, 2001).

This being the character of societal subsystems, functionally differentiated modern society as a whole is a poly-centric social order in which no longer an all-encompassing society-wide one and only ‘*summum bonum*’ exists, such as the religious ideas which were provided by Catholicism in the Middle Ages in Europe. In this sense, modern society has no overall identity; its paradoxical identity consists precisely in the irreducible plurality of subsystemic partial identities, each of which makes itself into an absolute.

Though from the point of view of those involved in the activities within a particular subsystem, they look like the pursuit of an end in itself, in fact, they are *services* which are provided to users such as patients of hospitals, or students of schools or universities. Users consist, first of all, of individual members of society in specific complementary roles such as complainant with regard to the legal system or student vis-à-vis the educational system. In such roles individuals are the end users of a subsystem’s services. The second group of users of a particular subsystem’s services are service providers of other (← p. 416) subsystems which require these services to produce their own, such as politicians who need scientific advice to know what measures to take regarding certain societal problems. Thus, despite the profound mutual indifference between service providers in the different subsystems, their overall configuration constitutes a ‘division of labour’ in the sense that there exist strong mutual interdependencies. This is a consequence of the rigorous specialization of action within each ‘value sphere’.

The critical aspect of this subsystemic division of labour is not just that it is unacknowledged by the respective service providers. Even more, being totally under the spell of their own subsystem's guiding value, they cultivate a decidedly one-sided view of their interplay with other subsystems, literally a 'false consciousness'. From the point of view of a service provider of subsystem X, its counterparts in the other subsystems should perform in a way which perfectly serves the needs of X according to this subsystem's guiding value. However, these counterparts pay attention only to their own guiding values. Thus, though the strict separation of activities such as politics, religion, family life, or science in modern society brings about massive and on-going performance improvements by specialization, compared to all kinds of pre-modern societies, the price to be paid for this is the much higher level of permanent irresolvable conflicts between the protagonists of each subsystem's guiding value because again and again their opposing one-sided views clash with each other over countless specific issues. Further conflicts result from divergences between the views of individual end users of a subsystem's services on what is offered to them and the views of the service providers. For example, patients often do not comply automatically with their doctors' recommendations but insist on making their own judgement.

An outcome of such struggles between service providers of a particular subsystem and both kinds of users of their services is that other-referential considerations are imprinted into the subsystem's structure. Thus, the scientific pursuit of truth which is primarily oriented by self-generated theories and methodologies also pays attention to laws which prohibit or restrict research which is dangerous to the population, or to funding schemes which are incentives to do research on subjects of interest to industrial firms or the military. To repeat, caring for health or economic or military considerations would never voluntarily come to mind of a scientist totally inspired by the 'illusio' of science. Therefore, these other considerations have to be brought home to a subsystem's actors by pressures or incentives from the actors of the respective other subsystems, and from individuals as end users.

To sum up, from functional differentiation a societal order emerges which rests on a fragile balance of a plurality of diverging self-referential subsystemic dynamics which impose other-referential considerations on each other. While service providers strive for their respective subsystem's self-referential closure which guarantees their autonomy, from outside they are reminded of the other-referential context of their activities as the provision of specialized services in a society-wide 'division of labour'.

The capitalist economy

Based on this understanding of modernity as functional differentiation, the second step of my analytical outline focuses on the capitalist economy as one of the subsystems of (**← p. 417**) modern society. Its constituent characteristics are well known (Kraemer, 2001: 113–14; Willke, 2006: 7–19; Berger, 2008; Kocka, 2013: 6–23): first, a self-perpetuating dynamic of a self-referential exchange-value orientation which manifests itself in the unlimited pursuit of profits as the guiding value of economic activities, as opposed to an other-referential orientation towards the production of goods and services of use-value; second, markets as governance mechanisms which coordinate economic activities through competition; and third, the conversion of all factors of production – nature, capital and labour – into 'fictitious commodities' (Polanyi, [1944] 1978) which are traded on markets according to profit motives.⁵ This combination of characteristics brings about the subsystemic differentiation of the economy. The exchange-value orientation in general, and the commodification of production factors in particular are manifestations of the 'legitimate indifference' of economic action towards all other societal considerations and together bring about the subsystemic autonomy of the economy expressed by its 'illusio' of profit-making; and through the competitive pressure of markets, economic service providers force each other to stick to wearing these blinkers if they do not want to be pushed out of the market.

Special attention must be paid to the commodification of labour because under

most circumstances service providers as buyers of labour are advantaged in comparison to its sellers. For a number of reasons, the ‘power-dependence relation’ (Emerson, 1962) of employers and employees on the labour market is asymmetric (Offe and Wiesenthal, 1980; Kreckel, 1992: 149–64; Schimank, 2013: 94–9). To be sure, employers need employees for their service production and profit-seeking. However, employers can often avoid this dependency to a considerable extent by the substitution of human labour by technology; and as profit-seekers employers have the alternative of investing their capital on the financial market when higher profits can be earned there. In addition, each individual employee can be replaced; even if they organize themselves on a regional or national level, often there are global competitors. In the end, employees have no alternative to making a living than selling their own labour. Even short intermissions become critical soon.⁶ Thus, employers usually are able to withstand a strike longer than employees. As a consequence of all these factors, the ‘power dependence relation’ is – in game-theoretical categories – a ‘Rambo’ constellation (Zürn, 1992: 209–18; Scharpf, 1997: 78–9) where most employees most of the time are ripped off by employers again and again without being able to resist; on the contrary, often they have to take what is left for them.

However, no one has ever witnessed a more productive economic system: ‘Market society has produced more income, wealth, goods, and services than any other form of human social organization’ (Fligstein, 2001: 3). That this author uses the word ‘society’ instead of the more correct ‘economy’ is highly telling in itself. This productivity is the reason why even those who are disadvantaged as employees show at least a basic ‘loyalty’ instead of turning to radical alternatives of ‘exit’ or ‘voice’ such as migration or revolution (Hirschman, 1970). Even if one feels unfairly treated on the labour market, as long as the salary one gets is higher than one expects to get in a non-capitalist economy, and the supply of goods and services one can buy with this money is better than, for instance, in a socialist planned economy, then the ‘mass loyalty’ (Narr and Offe, 1975) of a capitalist economy is secured.⁷ (← p. 418)

However, the price for this ‘monstrous accumulation of goods’ (Marx, [1859]

1969:

15) is high. Economic service production rests upon entrepreneurs and firms which are characterized first and foremost – as Wolfgang Streeck (2009: 240) points out very clearly – by an incorrigible ‘unruly opportunism’; and this business ethos gives rise to frequent innovations, which bring about a chronic susceptibility of the economy to turbulences which again and again lead to economic crises. Innovation in this context does not refer only – or even primarily – to the improvement of products and production methods through the ‘creative destruction’ that Joseph Schumpeter (1942) attributed to entrepreneurs, even though this type of innovation is certainly an indispensable driving force of capitalist economic momentum. Robert Merton (1938) categorizes as innovation also the violation of institutionalized norms for the sake of conformity with generally recognized values – within the economy, the pursuit of profits. Following this logic, innovations include creative and rigorously self-interested dealings with the regulatory structures of the economy such as the formation of cartels and monopolies, the exploitation of market power, uncontrolled speculation, insider trading, bribery, even downright robbery, etc., wherever they appear to be useful. There are no limits to the means that economic service providers will use as long as these behaviours increase profits and can either be carried out under the guise of non-prosecutable acts of circumvention or even as actual breaches of the law whose benefits outweigh their costs. No economic service provider can afford to maintain the virtues of the ‘honest merchant’ consistently and over the long term. As soon as just one competitor arrives on the scene who is less scrupulous – or who has perhaps just introduced a highly attractive new product innovation – one can be pushed out of the market. Thus, the enthronement of an unquestionable profit motive amounts to an ongoing impulse to subvert the established economic order through inventiveness, including deviance.

At the same time, as a mechanism of governance, the market has only a relatively weak capability to establish and maintain order (Schimank, 2009a: 338–43) and to curb ‘unruly opportunism’. Even if everyone were to abide by legal regulations, coordination on the market never provides more than a temporary

and fragile cognitive mutual reliability of expectations, not a permanent, normatively stable reliability. Cognitively, one must always be prepared for the possibility that one's competitors will act for their own strategic advantage, for instance, withholding information and using deception. Therefore, all economic actors must maintain a constant vigilance with regard to their counterparts in order to ascertain their intentions, opportunities and constraints and to anticipate changes. An actor must be flexible and able to adjust its own decisions at any time. However, if everyone anticipates change in everyone else, there are no reliable constants – such constants do exist, to mention other governance mechanisms, in hierarchies in the form of set rules and authorizations, in communities through practised routines and established orientations, and in networks through universally recognized veto positions. By contrast, social order on the market can only be achieved while continually keeping pace with this mutual adaptation of everybody to everybody else. The result is a forever provisional social order with which economic service providers have to come to terms.

It is the combination of competition and speculation set free by the market which invariably brings about turbulence as the collateral damage of capitalist productivity (**← p. 419**) again and again. To outdo its competitors, a firm must make speculative investments, which means taking risks. When the speculation fails and the produced goods cannot be sold, the invested money is lost, instead of making a profit. Thus, individual firms permanently have to run the risk of failure, and the aggregate result is a chronic oversupply of goods. Both effects of market competition have turbulence as their common denominator. Even if market positions, sales, and prices remain constant for some time, economic actors never can relax their attention; at any moment and all of a sudden, turbulence may start again.

Since the market mechanism permeates every segment of the economy, turbulence which arises locally often does not remain contained. Rather, it quickly escalates through the simple mechanisms of 'deviation amplification' (Maruyama, 1963) – be they 'rational herding' on the financial markets (Devenow and Welch, 1996; Windolf, 2008), spiralling deflation or inflation

(Baumgartner and Burns, 1980), path dependencies in technological development, or management fads and consumer trends (Deutschmann, 2007).

An ever-growing demand for the goods that are produced is the precondition for the pursuit of the profit motive to such a vast extent. Contrary to prominent earlier claims about the inevitability of ‘crises of under-consumption’ in the capitalist economy, this demand is guaranteed. Aside from the enormous demand for basic consumer goods which exists in large areas of the world – which, however, still need to attain the necessary purchasing power – even the seemingly saturated or over-saturated consumers in the prosperous Western countries still harbour an inexhaustible demand potential accompanied by a not quite so inexhaustible but nevertheless very impressive purchasing power. As Jens Beckert (2010; my translation) points out: ‘We have an ever-increasing demand for goods which are not interesting to us because of their utility value but because of their symbolic meaning. They allow us to highlight a difference in status or they give us a good feeling.’ There is almost no saturation point associated with the ‘positional value’ – or most especially, the ‘imaginative value’ – of consumer goods or services. These include such things as an even better stereo system – even if the objectively measurable improvement in sound quality is no longer subjectively detectable. But friends and neighbours can be impressed, and one can daydream of a better life provided by ownership of this consumer product. The status competition with others never stops; and after having bought a consumer product, it almost inevitably disappoints us sooner or later so that we start again to look for something still better.

Thus, as far as demand is concerned, nothing stands in the way of ever-increasing economic growth. A historical view indeed shows: ‘Although capitalism was and continues to be susceptible to fluctuations and crises, its developmental spiral was not at all moving downward. Rather, economic productivity continued to increase successively’ (Plumpe, 2010: 118; my translation). And there is no end to it.

Capitalist society

As consumers, individual members of society are served quite well by the capitalist economy, despite its turbulence; and the same is true for the demand which service (← p. 420) providers of other societal subsystems have for economic goods and services, such as medical doctors and hospitals in relation to the pharmaceutical industry. However, in the third step, I will now address the negative externalities of the capitalist economy. These costs to society as a whole do not simply crop up accidentally here and there but, instead, are structurally connected to the capitalist nature of modern economy. They originate from the general primacy of the economic system in the functionally differentiated modern society, which is the reason why we can speak of a capitalist society in the first place (Schimank, 2009a).

At this point I take a brief look at Luhmann's central argument against a society-wide 'functional primacy' of one of the subsystems of modern society.⁸ For Luhmann ([1979] 1981: 209), each subsystem of modern society is a 'self-substitutive order' which means, among other things, that no other subsystem can compensate for the breakdown of a particular subsystem's service provision; furthermore, the breakdown of any subsystem can bring about the collapse of society as a whole. For instance, if the legal system stops working, this cannot be compensated for by the increased service output of the health-care system or the educational system, and vice versa; and if the political production of collectively binding decisions comes to a standstill, more journalistic news production or an intensification of intimate relations does not help. Because each of these subsystems makes a necessary but different contribution to societal reproduction, each of them is indispensable as a consequence of being irreplaceable. From this correct observation, Luhmann deduces that all subsystems are of equal importance – they are all necessary components of modern society – and, therefore none can dominate the others. A society-wide 'functional primacy' of any subsystem, not just the economy, is impossible. But this is a logical non sequitur as the following simple analogy shows. If there is an organizational unit with one boss and three subordinates on the same hierarchical level, all four are needed for the proper functioning of this unit. None of the three subordinates can

replace the leadership skills of the boss; if there is a division of labour among the three, none of them can replace one of the others as a specialist; and the boss may also not be able to replace any of the three specialists. But this surely does not exclude the hierarchy of boss and subordinates, even power differences between the three subordinates are possible. Mutual dependency does not mean equality. The boss depends on the subordinates as a group and on each one of them, and each one of them depends on him and on the respective two others. Still, the boss has the dominant position in this constellation. His domination rests on his appointment as superior in a formal hierarchy. Of course, such a hierarchy does not exist among societal subsystems. Still, there may be other origins of domination in functional differentiation – a possibility that Luhmann does not take into account in his argument.

Taking this possibility seriously, one detects that the economy holds an elevated position in the overall fabric of interdependent societal subsystems. In other words, its primacy is of a relational nature. It is the economy, and only the economy, which provides all of modern society with money. A closer look at the money flows within modern society shows:

- Only economic service providers, none of the other subsystems, earn their production costs by selling their respective services at a price which covers these costs. In (← p. 421) contrast, fees from users cover only part of the costs of hospitals or universities or public administration.
- As a consequence, many service providers in non-economic societal subsystems need financing by the state which often covers most of their costs, including the salaries of their employees.
- In contrast, prices for economic goods and services not only cover their own production costs – again including the salaries of the employees – and profits but also taxes paid to the state⁹ from which most of the production costs of the other subsystems are paid.
- Individuals earn salaries from selling their labour as a commodity; in addition, they get transfer payments from the state such as pensions or child

benefit.¹⁰

This dependence of individuals as well as of service providers of non-economic societal subsystems on money from the economy has the effect that simply by earning and passing on more or less money, economic activities altogether have the cumulative external effect of imposing more or less long-term pressure to economize on individual and corporate actors in all other subsystems of society. To put it more bluntly: in all the other societal spheres, it is necessary to be very careful with any activity that could jeopardize firms making money, and endanger economic growth as its aggregate result. Otherwise, state tax revenues, which finance large sectors of the other societal subsystems, will drop, as will employee wages; and, as a consequence intense cost pressures will be placed on the budgets of hospitals, schools, research institutions and social services as well as those of families and individuals. Conversely, the worse things are for economic actors, the more important it is that they are allowed to earn money wherever they can, so that – in the sense of ‘collateral profits’ – things can also become better for service providers in other subsystems and for individual members of society. Thus, cost pressure is often joined by a pressure for commodification. When the economy is depressed, one way to support its recovery is to open up entirely new business fields, for instance, by the privatization of railways or television.

Given the fact that work organizations within but also outside of the economy reward their employees with money whose ultimate source is the economy, every actor in modern society, be it an individual, an organization or a state (Meyer and Jepperson, 2000), is constantly aware of the pulse of economic activity. And everyone knows that when ‘less money’ (Luhmann, 1983: 39; my translation) flows, all the other demands of society – and, in particular, the guiding values of the other societal subsystems, such as truth, education, health, artistic beauty, etc. – are put into perspective and become increasingly subordinated to savings and cost-cutting imperatives. Sooner rather than later, this situation is likely to result in the erosion of the autonomy of the service providers of those subsystems

(Schimank, 2010a). This impaired ability to act in line with the respective guiding value can be manifest in many ways, ranging from reduced availability of services to deformations of services such as loss of quality. For some time now, such phenomena have been observed *pars pro toto* in the healthcare system.¹¹

Summing up this step of analysis with the previous one, the capitalist economy externalizes its internal turbulences which are inherent to its working onto the rest of society in two ways: directly via its own employees, whose salaries depend upon the economy's (← p. 422) prosperity, up to the 'zero salary' extreme of becoming unemployed, and indirectly via economizing pressures on all the other societal subsystems. This paradoxical strength from weakness is the essence of the capitalist economy's societal dominance.¹²

The welfare state

Up to now, I have presented capitalism as an extremely tension-ridden society. The functional differentiation of modern society generated the economic subsystem, in addition to the other subsystems. On the one hand, this economy possesses an enormous productive capacity, which no one would seriously wish to do without. On the other hand, however, its own dynamics result in turbulence which again and again threatens to lead it into crisis and, in the next step, to result in the subordination of all other subsystems. Both severe dysfunctionalities would ultimately lead to the collapse of functional differentiation. Thus, in the fourth and final step of my outline, I will explain what has up to now been an empirically unquestionable fact: the surprising durability of capitalism. How can a capitalist society put up with itself?

Still the clearest formulation of the basic answer to this question was given by Eduard Heimann (1929: 190; my translation), who, in his time, explained the functional purpose of social policy as follows: 'Little by little, it implements the social idea within capitalism and in this way assures its orderly progress – because capitalism is always in danger of losing its working basis.' 'Saving capitalism from itself' (Klundt, 2005) – that is, protecting the economy itself from its

own destructive power – goes hand in hand with the ‘self-protection of a society’ (Polanyi, [1944] 1978: 182) from its destructive economic system. For Heimann (1929: 167–8; my translation), social policy is ‘the incorporation of the opposite principle’ into capitalism; social policy serves ‘[a] dual purpose ... as a foreign element and simultaneously as a component of the capitalist system’, which amounts to a veritable ‘dialectic paradox’.

In other words, social policy and capitalism together make up a functional antagonism: two societal forces opposed to each other in an arrangement of ‘checks and balances’ where each force sets limits on the destructive potential of the other.¹³ Expanding little by little, the counter-principle to the capitalist pursuit of profit became established. To cut a well-known story short, starting from the mid-nineteenth century, at first, a number of primarily reactive measures of social policy were established to absorb the individual risks of illness, unemployment, and old age for workers. Out of this the welfare state emerged, which after 1945 has become increasingly associated with a more proactive interventionist state, whose activities – for example, science and technology policies which anticipate the future needs of industry – are complementarily focused on gaining and maintaining greater economic prosperity. The political redistribution of economic gains goes along with attempts to stimulate further economic growth to ensure and increase the range of future redistribution. In terms of functional differentiation, it is easy to see that this interventionist welfare state now encompasses large parts of most societal subsystems, with the respective organizations – ranging from schools, hospitals, or social services to museums or public broadcasting services – either belonging to the public sector or being financed mainly by public money.¹⁴ (← p. 423)

Yet, who were the actors that advocated this counter-principle to the capitalist pursuit of profit, and for what reasons? The answer to this question must not fall prey to the functionalist fallacy that social policy and its extension to a welfare state arose because they had become indispensable for the survival of capitalism. Even if one could prove that the ‘capitalists’ would have produced ‘their own gravediggers’ (Marx and Engels, [1848] 1945: 57) in the form of a proletariat

uprising if they had not been prevented from doing so, this does not at all imply that it could not have happened in just this way. Functional prerequisites cannot become reasons for their own fulfilment. But there is often ‘functionalism as actors’ knowledge’ (Vobruba, 1992). That was the case here, too, and to the degree to which this knowledge, first of all, was the correct diagnosis of the situation and, second, adequate therapies based on it could be implemented, the establishment of social policy as a counterforce to the capitalist pursuit of profit was partly an intentional realization of this functional need of capitalist society.

That this awareness of the need to correct the societal externalities of the capitalist economy through social policy, to restore ‘social peace’ and integrate the working class into society could become an effective force since the mid-nineteenth century was the result of an unspoken coalition of that section of the political elite which was convinced of this necessity with the reformist majority of the labour movement, who neither wished to abolish capitalism through revolution, nor wanted to rely on its inevitable self-destruction. Their motivations were more short-term and self-centred. They aspired to reform capitalism into a society in which security and at least a modest degree of prosperity were guaranteed for everyone. Thus, they were the fitting partners for a historical class compromise with those groups on the side of the political elite who coolly calculated that they had to pay this price for the stabilization of the social order which served their interests. This coalition was tacitly united against the entrepreneurs whose motivations were short-term and self-centred in terms of maximization of their own individual profits, on the one hand, and, on the other, that revolutionary section of the workers movement which was interested in the utopian collective good called ‘socialism’. Thus, the odd combination of self-centred, short-term thinking among the disadvantaged with long-term, collectivity-oriented¹⁵ reflections among the elites won over self-centred, short-term thinking of the advantaged and long-term, collectivity-oriented utopian dreams among the disadvantaged.¹⁶

As long as the working class was excluded from government, the pro-reform political elite had to use the threat of public unrest as an argument. They could point to massive, escalating and unequivocal evidence. As soon as political democracy –

universal and equal suffrage –had been achieved, parliamentary majorities determined the further development in terms of the preservation or the dismantling of welfare state services in light of tax estimates and the extent of public debt. It is at this point that the emerging –not, as Marx had predicted, declining – middle classes became decisive players in the battles about shaping and re- shaping social policy which have continued until today.¹⁷ Since then, the crucial question always is which side the various factions of the middle classes are taking – whether they choose to become allies of the working classes, or of the upper classes. Since the middle classes not only finance the welfare state but also profit heavily from it (Hilpert, 2012) and to a considerable extent find their jobs in welfare state organizations such as hospitals, schools, universities, or social service departments, many members of the middle classes are often torn between tax revolts, on the one hand, and –self-serving – ‘fraternity’, on the other. (← p. 424)

I will not dive further into the significant national variations among welfare states – for example, a comparison of Germany and the USA – which, in particular, result from very different understandings of the role of the state. At any rate, the same basic situation exists in the present day in every country of the developed West: The functional antagonism between the capitalist economy and the welfare state manifests itself in government action as a functional antagonism between a tax state and a democratic state. The former is represented first and foremost by the ministry of finance, the latter by the other departments (Schimank, 2009b).¹⁸ When this antagonism becomes critical, national policy finds itself on the horns of a grim dilemma: If the government increases public debt in order to serve the non-economic demands of society, the consequences could be hyper- inflation, a tax revolt of the middle classes, movement of capital overseas, etc. If, on the other hand, the government opts for compatibility with the capitalist pursuit of profit by implementing strict austerity measures with their accompanying economic pressure on the other subsystems of society and on the poorer sections of the population, it will have to contend with their protests as well as with resistance from the service providers of the economized subsystems. In the longer term it will also be faced with dysfunctional situations which backfire on

the economy, such as, for example, a shortage of well-trained employees or the lack of the scientific knowledge needed for technological innovations. This, then, is my roughly sketched outline of the blueprint for Western societies. The main message is that this kind of society is held together by a tension-filled conflict between different principles of action and the actors who champion those principles – the pursuit of economic profit, on the one hand, and all non-economic concerns, on the other. This functional antagonism is asymmetric in favour of economic imperatives; however, their representatives are not strong enough to push through the permanent and complete prevention or elimination of all kinds of social welfare.

It is easy to surmise that a society which is constituted in this way will repeatedly be pushed to the breaking point in its struggle with itself: ‘While the reality of capitalism is always mixed, the mix is far from stable and indeed always explosive’ (Streeck, 2010: 31). Nevertheless, for all its explosive nature, the antagonism of capitalism and welfare state is still a functional one though one never knows how long it will work and when it will start to become dangerous and damaging. However, no inevitable long-term dynamics leading towards an ultimate crisis of capitalism caused by the economy’s domination of society are presupposed by differentiation theory. How the relations between capitalist economy, on the one hand, and all other societal subsystems develop depends on the balance of power between groups of actors which represent economic and these other concerns. This balance is shaped by many factors and may change in one direction now and move in the other direction at some later time so that nothing more than a mid-term forecast, at best, is possible. Capitalism may be doomed in the long run – but as long as we simply do not know whether that is the case or not, we should act as if we still had a chance.

Conclusion: next steps

Having now outlined a basic model which is still rudimentary, but hopefully with its contours becoming visible, there are three steps to be taken in further work. The first simply is to give it more critical reflection. Are all the concepts used

clarified with sufficient (**← p. 425**) precision? Are they put together in a logically consistent manner? Can the model be operationalized for empirical uses? And do all premises of the model conform to empirical facts? By deliberating on these questions we can come to a first conclusion about the model's usefulness: Does it work in principle as an analytical perspective on modern society?

The second step builds upon this assessment and asks whether the model not only works but works in a fruitful way. At this point the model's reality check begins. It has to be specified with regard to many kinds of varieties of a functionally differentiated capitalist society in time and space, and with regard to more concrete societal phenomena, especially contemporary issues. All kinds of empirical occurrences ranging from the marketization of healthcare or the arts to financial market turbulences or global geo-political conflicts can be used to test whether, and to what degree, they can be described and explained by specified variants of the model.

If it turns out that the model provides us with a fruitful theoretical understanding of all kinds of relevant empirical phenomena, a third question can be raised: Does it work better than its alternatives?¹⁹ Here, the first priority should not be given to a comparison of the model with orthodox differentiation theory, because despite its new component of capitalism, it is framed by this perspective and has been developed in a close critical dispute with it.²⁰ It is more important to start critical comparisons of the proposed model with other classic or contemporary perspectives on capitalism. To mention just the most important ones: Marxism in its various versions, Karl Polanyi's ([1944] 1978) view of 'market society', the French Regulation School, and institutionalist accounts, as in Wolfgang Streeck's (2009, 2010) recent work.

With this future agenda in mind, I am looking forward to lively and interesting discussions which could be productive to all parties involved. (**← p. 426**)

Notes

1. Weber remains inconclusive in this respect. On the one hand, as already men-

tioned, he wanted to correct Marxism. On the other hand, he speaks of capitalism as ‘the most fateful power of our modern life’ (Weber, [1920] 1978: 4; my translation).

2. Wolfgang Streeck (2010) favours the same analytical strategy in his debate with the research on ‘varieties of capitalism’.
3. See Schimank (1996) for an overview of the historical development of theories of societal differentiation, and Schimank (2013: 37–75) for an actor-based version.
4. At first sight, it may appear that organizations are multi-referential actors which pay attention to various ‘value spheres’ simultaneously, often through the establishment of special organizational units such as a legal department or a public relations unit of a large research institute. To be sure, the legal department ensures that relevant laws are obeyed by the institute’s scientists but the overriding orientation of what happens within this institute clearly is the pursuit of truth, not conformity to laws. As restrictive as certain laws are, they are just a secondary constraint in the pursuit of truth.
5. With regard to labour, it is true that the reproduction of labour power rests on unpaid house- hold and family work traditionally done mostly by women. But in a functionally differentiated society, intimate relations are a subsystem of their own and not a part of the capitalist

economy. Seen from this perspective, household and family work is a decisive service by intimate relations to the economy.

6. How many alternatives exist at a given moment for a particular employee depends on the profession, the level of qualification, the region, and the economic situation, and some other factors.
7. A second step of analysis which would go deeper into this question of legitimacy would have to consider that questions of fairness matter to some degree. Even a capitalist economy cannot be totally free of being a 'moral economy', see the 'ultimatum game' as a theoretical model in Schimank (2013: 108–13).
8. For a detailed account of a number of inconclusive, partly self-contradictory points in both Parsons' and Luhmann's discussions of 'functional primacy', see Schimank (2005). The argument I discuss here is their strongest one. I confine my critical remarks to Luhmann who makes this argument more explicit than Parsons does.
9. Partly directly by the firms, partly by their employees – and this means: as part of the salaries paid by the firms – as income tax, and partly as taxes on consumption.
10. Or from compulsory insurances established by the state, such as the German unemployment insurance.
11. See only the fascinating in-depth study of the introduction and use of diagnosis-related groups (DRGs) in the US healthcare system by Samuel et al. (2005).
12. Luhmann (1997: 769) suggests in a general remark that a subsystem's society-wide primacy might result from its excessive 'failure potential'. This fits perfectly to the capitalist economy.
13. Just as pure capitalism would ruin society, social policy which totally ignores economizing pressure would have the same end result by first ruining the economy.
14. Even the major exception to this rule, the subsystem of intimate relations, benefits to a considerable extent from subsidies, for instance, from child benefit, as well as from a number of special tax reliefs.
15. To be sure, this was a self-centred collectivity orientation out of necessity.
16. For Bismarck's installation of social policy in Germany, see only Wehler's (1995: 907–15) brief lively account.
17. For further reflections on this, see, among many others, Przeworski and Wallerstein (1982) and the overview by Iversen (2006).
18. See the similar idea of the 'right' and the 'left hand' of the state by Bourdieu (1998), who, however, takes a one-sided stand with the 'left hand' and ignores the functional antagonism.
19. To raise this question too early gives the model no chance at all.

20. In this respect, a comparison with the systems-theoretical perspective on the 'political governance' of capitalism by Helmut and Gerhard Willke (2012) will be interesting, as well as with Bob Jessop's (2002, 2012) attempts to combine Marxism with Luhmann's ideas.

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Author biography

Uwe Schimank is Professor of Sociological Theory at the University of Bremen, Germany. His research interests are social theory, theories of modern society, organizational sociology, science studies, and higher education research.