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11 In the slipstream of marginalism

Weber, Schumpeter and *Sozialökonomik*

‘The social process is really one indispensable whole. Out of its great stream the classifying hand of the investigator artificially extracts economic facts ... A fact is never or purely economic; other – and often more important – aspects always exist’.

Schumpeter (1961 [1934], p. 3)

1 Introduction

During the first decades of the twentieth century, the separation of economics from the social and the historical was becoming increasingly pronounced. There were some dissenting voices, however, that tried to keep the relationship between economics, sociology and history alive, even if as separate disciplines. They came from two of the last specimens of the species of good old classical European intellectuals: Max Weber (1864–1920) and Joseph Alois Schumpeter (1883–1950). Each is highly significant for the theme of this book, but also highly symbolic both of the developments taking place around economics at their own time and also for later developments. They both had extensive training, as well as wide-ranging intellectual, social and political interests, and they were greatly influenced by contemporary theoretical trends while remaining two of the most original thinkers of our times.¹

Marx, the Historical School and marginalism each played an essential part in the formation of their thought, although they also diverged in important ways from each of these theoretical currents. It is no accident that Weber (1949, p. 65) considers Marx and Roscher as the founders of social economics. For his general liberal stance, but also for the sheer breadth and scope of his theoretical contributions, Weber has been characterised as a ‘bourgeois Marx’, Therborn (1976, p. 270),² while Schumpeter has been labelled a ‘bourgeois Marxist’ – again for his liberal views, but also for borrowing and reworking some central themes of Marxist political economy, Catephores (1994) – although he was also highly critical of some aspects of Marx’s work. At the same time, despite their valiant attempts to hold to a broader view of economic science, they ended up symbolising the division of social sciences into separate disciplines, with Weber being classified as sociologist, Schumpeter as

economist. Although Weber's contribution to economic theory per se was non-existent, most of Schumpeter's work dealt with economic theory. Yet, despite theoretical compromises, he was cast aside as far as his continuing contribution to the evolution of economic theory is concerned. Although Weber became one of the founders of sociology, Schumpeter, despite his prominence in his own time, did not play any major role in subsequent developments in economic science.

Two questions immediately arise. First, since Weber is considered a member of the (youngest) German Historical School, why treat him separately; and, second, why include him, when generally perceived as a sociologist, in the same breath as Schumpeter, generally recalled as an economist? The answer to the first question is that, although Weber and the other members of the youngest branch of the Historical School are generally thought to belong to this tradition, he also had some important differences with it, as will be charted in this chapter. In particular, Weber and Sombart dealt extensively with historical issues, although they were theoreticians reflecting the fate of the *Methodenstreit* first and foremost. At the same time, both of them were strongly opposed to the ethical dimension in political economy, and argued instead for a value-free economic science, while, unlike most historical economists, Weber (but not Sombart) was at least in part a methodological individualist.

With regard to the second question, what brings Weber and Schumpeter together is their common quest for a broader scope for economic science, and their conciliatory stance in the *Methodenstreit*. Both Weber and Schumpeter were, in one way or another, directly or indirectly exposed to most trends in economics that were prevalent at the time. Weber was a student of Knies, one of the founders of the Historical School, and his work on economic theory should be seen both as arising out of this tradition, but also as a reaction against it. The 'Battle of Methods' which took place in 1883–4, when Weber was still a university student, also left its imprint on his thought, Swedberg (1999, pp. 4, 9, 10). Schumpeter, on the other hand, was a student of Böhm-Bawerk and Wieser, both of them belonging to the Austrian wing of the marginalist tradition. At the same time, he was also exposed to Marxism through his participation in a seminar where heated debates took place between the Austrians and the Austro-Marxists, Otto Bauer and Rudolf Hilferding. Last, he was also acquainted with the ideas of the Historical School, not only through his association with Weber but also through his appointment at the University of Graz, which, at the time, was dominated by historical economics, Caldwell (2004, p. 91) and Swedberg (1991a, pp. 7–12).

Following in the footsteps of Karl Marx and the Historical School, both writers stood for an economics of broad scope, with a strong historical sense and an equally strong social dimension. Unlike Marx and the Historical School, though, they were in favour of a separation of economics from other social sciences. The influence of marginalism and the Austrian School, on

the other hand, is obvious in their adoption of methodological individualism, albeit of a different sort to that of the marginalists, even if accepting of the concept of marginal utility of Menger, Wieser and Böhm-Bawerk.

In what follows, we begin in Section 2 by examining the meaning that Weber and Schumpeter attach to the notion of social economics. In Section 3, we assess the views of these writers on the role of values in economic theory and their basic methodological principles. In Section 4, their attempts and those of Sombart to construct a 'reasoned history' of capitalism are examined, before concluding the chapter in Section 5.

2 Constructing social economics or *Sozialökonomik*

If the final result of the *Methodenstreit* was the total victory of the narrow, ahistorical, asocial type of theoretical economics prevailing over historical economics, then Weber and Schumpeter are the two individuals who more than any others of prominence tried to keep the broader scope of economics alive. Both of them adopted a more conciliatory stance in the *Methodenstreit*. 'There cannot be any serious question', wrote Schumpeter (1994, p. 814), 'either about the basic importance of historical research in a science that deals with a historical process or about the necessity of developing a set of analytic tools by which to handle the material'. This is why, according to him:

in spite of some contributions toward clarification of logical backgrounds, the history of this literature is substantially a history of wasted energies, which could have been put to better use.

The strict separation of theory from history and of induction from deduction associated with the *Methodenstreit* is, in other words, superficial and untenable. According to Schumpeter (1967 [1912], pp. 167–74), both protagonists of the *Methodenstreit* admitted as much in what he calls the last phase of the debate. Menger 'recognized ... the necessity of an historical basis', p. 170, while Schmoller emphasised 'the causal and theoretical task of social science', p. 171. Schumpeter's and Weber's work represent the last major attempts at bridging what Weber (1949, p. 62) described as 'an apparently unbridgeable gap' between the 'two sciences of economics' created by the *Methodenstreit*. But their syntheses go well beyond the mere integration of the theoretical with the historical in economic science, for they encompass the whole universe of social science. Because 'economic and noneconomic facts *are* related', Schumpeter (1994, p. 13) proclaimed, 'the various social sciences *should* be related'.

Significantly, Weber considers both the hypothetico-deductive method and the historical approach as inappropriate for social theory. In his essay on Roscher and Knies, Weber (1975 [1903–6], pp. 65–6) concludes:

It obviously does not make sense to suppose that the ultimate *purpose* of concept formation in the historical sciences could be the deductive

arrangement of concepts and laws ... under other concepts and laws of increasingly general validity and abstract content.

The discovery of 'a complex of regularities' in the form of '*lawlike relations*' or the establishment of correlations between economic or other social phenomena cannot and should not be 'the ultimate goal' of social (or any other) science, since 'these generalizations would have no causal status', pp. 60, 63.

At the same time, unlike Schmoller and the historicists in general, for Weber, the vehicle for a broader scope for economics cannot be the historical approach, which he identifies with 'the intuitive reproduction of the total reality of economic life', p. 58. Instead, the notion of what Heinrich Dietzel³ (1857–1935) first termed *Sozialökonomik*, or social economics, is proposed as the platform for bringing the various social sciences together: 'the term, wider than "institutional economics" and less inclusive than "sociology", enabled him to encompass all relationships of economy and society', Roth (1968, p. lxiii). Weber was not simply one of the first to use the term, but he also devoted much of his intellectual energy to developing its substance. 'The word was Social Economics, *Sozialökonomie*', says Schumpeter (1994, p. 21f), 'and the man who did more than any other to assure some currency to it was Max Weber'. This is reflected in his undertaking to edit Weber's *Grundriss der Sozialökonomik* (*Outline of Social Economics*). This was a huge collection of works within economics, and took almost two decades to collate (between 1914 and 1930). It was only completed after Weber's death. His intention had been to provide a broad perspective for the study of economics. It should include the interaction between economic and non-economic phenomena such as social institutions, the state etc., and the use of different approaches such as economic history, theoretical economics, economic geography and population theory.⁴

Although Weber's own overall contribution differs from Schumpeter's in important ways, what unites their endeavours is the common quest for a broad-based economics or *Sozialökonomik*. It was to prove an ambitious mission, and, despite Weber's and Schumpeter's best efforts, was never to be fully realised. Eventually, like the fate of the Historical School that it was designed to succeed, it has sunk into obscurity. Nowadays, it too hardly warrants a mention even in histories of economic thought, Swedberg (1991b).

Weber's views on *Sozialökonomik* are to be found in his most famous methodological article, 'Objectivity in Social Science and Social Policy', originally published in 1904, and reprinted in Weber (1949), while the approach in his mature economic thought appears in the second chapter of his *Economy and Society* ('Sociological Categories of Economic Action'). Neither he nor Schumpeter, however, gives a clear definition of the subject matter of social economics. Swedberg (1998, p. 192) summarises Weber's complicated definition as follows: 'social economics deals with those phenomena that are scarce, that are necessary to satisfy ideal and material needs, and that can only be provided through planning, struggle, and in cooperation with other people'.

So Weber, unlike Schumpeter, and in accordance with mainstream economics, points to 'the scarcity of means' as the 'fundamental social-economic phenomenon' and, as such, the *raison d'être* of social economics.

Weber (1949, p. 68) also makes clear that what he tries to achieve through the notion of *Sozialökonomik* is a *multi-disciplinary* approach to economic phenomena. The need for such a multi-disciplinary approach is motivated by the idea that 'the boundary lines of "economic" phenomena are vague and not easily defined', p. 65. This is because, for Weber, much as for Marx, the Historical School and American institutionalism, the economy does not exist in a social vacuum, but rather is part of society at large. According to Weber (1949, p. 67), the central aim of social economics is 'the scientific investigation of the *general cultural significance of the social-economic structure of the human community* and its historical forms of organization'. The substantive analysis of his version of social economics is contained in the second chapter of his *Economy and Society*. It focuses on the relation between the economy and other parts of society. As he puts it, 'the connections between the economy ... and the social orders [such as law, politics, and religion] are dealt with more fully [in this work] than is usually the case. This is done deliberately so that the autonomy of these spheres vis-à-vis the economy is made manifest', quoted in Smelser and Swedberg (1994, p. 10). The emphasis here is on the social aspects of economic action, including the role of power, and the meaning attached to them by economic actors.

The same fluidity over the boundaries of the economy, according to Schumpeter (1994, p. 10), applies to the frontiers of the individual social sciences, which are correspondingly 'incessantly shifting'. This, indeed, is one of the main reasons why 'the science of social-economics since Marx and Roscher ... is concerned not only with economic phenomena but also with those which are "economically relevant" and "economically conditioned"', Weber (1949, p. 65). 'Economic phenomena', according to Weber, refer to institutions such as the stock exchange and banking which are '*deliberately* created or used for economic ends', p. 64. On the other hand, 'economically relevant phenomena' include institutions such as religion which, although not economic in themselves, may have economic consequences. Lastly, 'economically conditioned phenomena' refer to social phenomena that are influenced by economic factors. Yet Weber also makes clear that his intention is *not* to create a 'general social science'. This is partly the result of his liberal political convictions. As Holton and Turner (1989, p. 58) put it, 'Weber's resistance to a general theory of society clearly stemmed in large measure from his liberalistic objections to organicism and holism'. Instead, both he and Schumpeter, unlike Marx's and the Historical School's holistic approach, and in line with Jevons' and Menger's separatist proposals, advocate a strict separation of the different social sciences. Given, however, the multi-faceted and impure nature of economic phenomena, and that these are necessarily related to non-economic events and institutions, a broad-based, multi-disciplinary approach to economic science is sought, which would draw upon different

social sciences in the context of *Sozialökonomik*. In sum, '*Sozialökonomik* meant primarily two things: (1) that economics should be broad in scope and include a historical as well as a social dimension; and (2) that economics should draw on several distinct social science disciplines in its analyses', Swedberg (1999, pp. 11–12).

According to Schumpeter (1994), this broad vision of economic science which he also calls 'scientific economics' or 'economic analysis', p. 21, consists of 'an agglomeration of ill-coordinated and overlapping fields of research', p. 10. These include economic history, statistics, economic theory and economic sociology, Chapter 2. Of these four fields, he picks up *economic history*, referring mostly to descriptive, institutional type economic history as 'by far the most important', p. 12. This is a result of the very nature of the subject matter of economics, which is 'a unique process in historic time', and as such necessitates 'an adequate amount of historical sense', pp. 13, 14. At the same time, the nature of economic history itself makes this field multi-disciplinary in character, p. 13:

Historical report cannot be purely economic but must inevitably reflect also 'institutional' facts that are not purely economic: therefore it affords the best method for understanding how economic and non-economic facts are related to one another and how the various social sciences *should* be related to one another.

The latter virtue makes this field an indispensable, if not the most important, part in Schumpeter's *Sozialökonomik*.

Economics in the narrow sense (or 'economics proper' or economic theory or 'pure' economics) deals with 'pure' economic phenomena or economic mechanisms, such as the market mechanism, Schumpeter (1949b, p. 293 and 1994 [1954], p. 21). It consists of 'simplifying schemata or models' comprising a set of hypotheses or axioms, together with the concepts used and the relations between these concepts. 'It is the sum total of these gadgets ... which constitutes economic theory'. Schumpeter (1994, p. 15). *Statistics* or statistical series of figures are of vital importance 'not only for explaining things but in order to know precisely what there is to explain', pp. 13–14.⁵

Economic history supplies the institutional framework for the functioning of the 'schemata of economic theory'. However, it is not only economic history that renders this service to economic theory, p. 20. If the dynamic nature of economic processes makes historical research indispensable to a broad-based economic science, the multi-faceted nature of economic phenomena calls for a new discipline to deal with the 'economically relevant phenomena'. This field is *economic sociology*, which denotes 'the description and interpretation of economically relevant institutions, including habits and all forms of behavior in general, such as government, property, private enterprise, customary or "rational" behavior', Schumpeter (1949b, p. 293). All these institutions represent 'social facts that are not simply economic

history but are a sort of generalized or typified or stylized economic history', Schumpeter (1994, p. 20). In contradistinction to economic theory, which deals with how individuals behave and with their economic consequences (economically conditioned phenomena), economic sociology addresses the social institutions that affect human behaviour (economically relevant phenomena), Schumpeter (1994, p. 21 and 1949b, pp. 293–4). In sum, as Shionoya (2001b, p. 139) puts it, economic sociology is 'the generalization, the typification and the stylization of economic history by means of institutional analysis'. This is synonymous with what Schumpeter elsewhere calls 'reasoned history' or '*histoire raisonnée*'. In opposition to economic history proper, which refers to descriptive, institutional-type history, Schumpeter uses the concept of 'reasoned history' to denote a 'conceptually clarified' or 'systematized' or 'rationalized' history. In other words, an economic history with a strong theoretical and analytical content, Schumpeter (1982 [1939], vol. I, p. 220, 1987, p. 44 and 1994 [1954], p. 818) and Shionoya (2001b, p. 139).

Schumpeter, in his essay on Schmoller, selects the latter's work as the prototype of economic sociology. Indeed the historical method, especially as applied by Schmoller, is the means through which a 'universal social science' could be built, cited in Shionoya (1995, p. 67) and Shionoya (1991, p. 193). Schumpeter (1987, p. 10) also considers Marx's economic interpretation of history as 'one of the greatest intellectual achievements of sociology to this day'. At the same time, as seen in Chapter 3, he also praises him for being 'the first economist of top rank to see and to teach systematically how economic theory may be turned into historical analysis and how the historical *narrative* may be turned into *histoire raisonnée*', p. 44. In opposition to his own and Weber's research objectives, however, Marx's objective was to construct a 'unitary social science', Schumpeter (1994, p. 441). Schumpeter (1987 [1943], p. 44) claims that Marx 'set the goal for the historical school of economics', even though the latter's work was independent of Marx's suggestion, and the 'organon' used in each case was also to be very different. For the Historical School, then, the prime aim was the construction of a unified social science through the application of the historical method to economic phenomena. For Marx, it was the elaboration of a universal political economy where the economic is chemically integrated with the social and the historical. But for Weber and Schumpeter, as emphasised, the aim was to build a broad-based social economics that would draw on several distinct social sciences (mostly economic theory, economic history and economic sociology). This implies a separate discipline for 'pure economics', but also a 'social economics' or 'economic analysis' that incorporates the insights of other social sciences. Even so, Weber did not write any work on theoretical economics, although his scientific aspirations and research interests were very broad indeed, and extended well outside the socio-economic sphere to include analyses of law, politics, religious movements, etc., Aron (1970, pp. 185–6) and Shionoya (2001b, pp. 149–50).⁶

3 From value neutrality and ideal types to methodological individualism

As seen already, Weber is considered (with Sombart and Spiethoff) to be one of the last members of the (youngest) German Historical School. Despite this, his work (and Schumpeter's) differ from Schmoller's and the Historical School's contributions in important ways. As far as their views of what constitutes 'scientific economics', they were strongly influenced by the early marginalists, and Menger in particular. Hence Schumpeter (1994, p. 21) makes a distinction between nineteenth century 'political economy', which is mostly concerned with public policies, and what he calls 'scientific economics' that is devoid of any political connotations. Weber (1949), on the other hand, in his essay 'The Meaning of "Ethical Neutrality" in Sociology and Economics', first published in 1917, vigorously attacks Schmoller's tendency to mix science with value judgements, being strongly opposed to the ethical and normative dimension of Schmoller's political economy, p. 13. Instead, he argues for ethical neutrality and a value-free economics and sociology. Hence he pleads for a strict separation, between 'purely logically deducible and empirically factual assertions ... and practical, ethical or philosophical value-judgments', p. 1.

Schumpeter (1949a, p. 273), in his 'Science and Ideology', also argues that such a separation is possible: 'to investigate facts or to develop tools for doing so is one thing; to evaluate them from some moral or cultural standpoint is, in *logic*, another thing, and the two need not conflict'. Despite these claims, however, neither Weber nor Schumpeter managed fully to uphold this principle for two reasons. First, in Weber's research, for example, 'the evident intentionality of objectivity and the implicit assumption of values is mixed' and, second, the creation of concepts in social sciences necessarily involves values, Crespo (1997, pp. 34–5). Hence Schumpeter (1949a, pp. 274, 277, 286) warns against the dangers of the 'ideological bias' that results from the scientist's preconceptions about the economic process. These he calls the 'prescientific' or 'preanalytic cognitive act' or 'vision', which, however, by supplying 'the raw material for the analytic effort', also forms an absolutely indispensable template of any scientific endeavour, see also Schumpeter (1994, p. 41).

Second, despite their strong interest in, and acquaintance with, history, and in opposition to the goals of the Historical School, neither Weber nor Schumpeter saw economics as a branch of historical investigation. They were both, first and foremost, social *theorists*, albeit, as will be seen, of a different kind. Despite Schumpeter's comment, quoted above, to the effect that economic history is more important than economic theory, and in direct contradistinction to the monographs of the Historical School, most of his and Weber's work is theoretical in character, even if endowed with great historical depth, Aron (1970, p. 17). After all, this was a time in which economic theorising was winning the upper hand in its battle with the historico-empirical method following the *Methodenstreit*. According to Schumpeter (1967, p. 172):

a new generation – even of supporters of the historical school – no longer intended to continue with the mere collection of facts, while in the meantime economic theory had gained new life. There could no longer be any question of overcoming the latter.

So, for Schumpeter, reflecting the climate of his times, theory was an absolutely indispensable part of the long and complicated path to (economic) science.

The resultant heavy emphasis on theory was one of the most important features of the youngest Historical School (Spiethoff, Sombart and Weber) and sets it apart from the work of the earlier historical economists. Weber (1949, p. 106), for example, considers the use of the historical-inductive method in the social sciences as ‘a preliminary task necessitated by the imperfections of our discipline’. Taking this as a point of departure, the goal of social science is to construct ‘a system of concepts’ through ‘the construction of hypotheses, and their verification, until finally a “completed” and *hence* deductive science emerges’, p. 106. His definition of economics follows closely along this path. In the footsteps of the marginalists, Weber (1949, pp. 43–4) takes one form of action, what he calls ‘instrumental rationality’, see Chapter 12, Section 2, as the main preoccupation of economic inquiry: ‘Economic theory’, he says:

is an axiomatic discipline ... [It] utilizes ideal-type concepts exclusively. Economic theory makes certain assumptions which scarcely ever correspond completely with reality but which approximate it in various degrees and asks: how would men act under these assumed conditions, if their actions were entirely rational? It assumes the dominance of pure economic interests and precludes the operation of political or other non-economic considerations.

So Weber identifies economics as a separate, purely theoretical discipline, which deals with ideal types and covering only one specific aspect of human behaviour: rational action governed by material interests. So, for Weber, both ideal types and rational action play a pivotal role in identifying the subject matter of economics.

Weber defines his famous notion of ‘ideal types’ as ‘unified analytical constructs’ formed by an ‘*accentuation* of [the] essential tendencies’ of social phenomena, pp. 90–1. Weber is at great pains to emphasise that ideal types are ‘thought patterns’ or ‘mental constructs’, ‘the relationship of which to the empirical reality of the immediately given is problematical in every individual case’, p. 103. As Schumpeter (1994, p. 819) puts it, ideal types ‘are abstractions in that they possess only essential and lack non-essential properties: they are *logical* ideals’. His own definition of economic theory follows Weber’s ideal typical path closely: ‘economic theory’, he says, consists of ‘simplifying schemata or models that are intended to portray certain aspects of reality and take some things for granted [what he calls hypotheses or

axioms or postulates or assumptions] in order to establish others according to certain rules or procedures', p. 15. The difference between this conception of economic theory and Weber's ideal types is that, as Weber (1949, p. 90) writes, the ideal typical concept is 'no "hypothesis" but it offers guidance to the construction of hypotheses'. In other words, as Hodgson (2001, p. 122) puts it, it is 'an attempt to interpret and to categorise, and thereby begin to explain, a complex reality, rather than to dig down and discover its allegedly fundamental building blocks'. At the same time, an ideal type represents a 'value reference', or, in other words, a theoretical construct based on subjective evaluations, which determine what is chosen for inclusion and what is not. It is a 'utopia ... formed by the one-sided *accentuation* of one or more points of view', Weber (1949, p. 90).

If ideal types represent one side of the coin of Weber's doctrine, the other side is reserved for the concept of *understanding* (*Verstehen*) or *interpretation of meaning*. This refers to the meaning attached by the actors themselves to their actions. Cultural phenomena have specific traits that differentiate them from natural phenomena. All human action is meaningful, and, as such, it has to be interpreted or understood: 'As regards the interpretation of human conduct', Weber (1975, p. 125) says:

We can also attempt to '*understand*' it: that is, to identify the concrete 'motive' or complex of motives 'reproducible in inner experience,' as a motive to which we can attribute the conduct in question with a degree of precision that is dependent upon our source material. In other words, because of its susceptibility to a meaningful *interpretation* ... individual human conduct is in principle intrinsically less 'irrational' than the individual natural event.

In other words, for Boudon (1997, p. 9), '*explaining* the actions, beliefs, attitudes of an actor means "understanding" them; understanding them means *reconstructing their meaning to the actor*'. Unravelling this meaning and understanding the 'cultural contents' of action is what differentiates social sciences from natural sciences. '*Verstehen*', then, becomes the demarcation line between natural and social sciences, Therborn (1976, pp. 291–2). Hence, for Weber (1975, p. 65), the main purpose of social science should be 'to *understand* reality' by untangling 'the *meaningful* and essential aspects of concrete patterns'. Hence the label 'Interpretative Sociology' is given to Weber's social theory, Schumpeter (1994, p. 818).

Neither Weber nor Schumpeter accepted the organic and holistic aspects of the historical approach. Instead, they both accorded causal efficacy to the individual. Much like Menger and the marginalist school more generally, their scientific approaches had strong individualistic and subjectivist elements. Schumpeter was even the first to coin the phrase 'methodological individualism' in 1908, Machlup (1978, p. 472) and Blaug (1980, p. 49). Much like Schmoller's subjectivism, however, Schumpeter's individualism is

more complex, and differs in fundamental ways from the methodological individualism of mainstream economic theory – unlike Weber's which, at times, takes a more instrumentalist character. For one thing, according to Schumpeter (1961, pp. 92–4), individual economic action is not simply governed by the hedonistic motive. Instead, a multiplicity of incentives is allowed to enter human motivation in addition to hedonism: 'the impulse to fight, to prove oneself superior to others', 'the will to found a kingdom' and the 'joy of creating, of getting things done'. Further, although the individual is the basic explanatory variable in social theory, individual behaviour itself is affected by the social environment, being in many respects shaped by it, a more or less inevitable (analytical) consequence of appeal to purposeful and meaningful action. At times, Schumpeter (1931, p. 286) even seems to be arguing contrary to his overall individualistic stance, in stressing the importance of the social milieu on individual action: 'We know that every individual is fashioned by the social influences in which he grows up. In this sense he is the produce of the social entity or class and therefore not a free agent'. The resemblance of this passage with Marx's (1976, p. 92) treatment of individuals as 'personifications of economic categories, the bearers of particular class relations and interests', is striking, see also Chapter 3, Section 3. What is more, although Schumpeter considers that, in the analysis of pure economic phenomena, such as the market, 'there is no choice but to start with the individual', which is by no means universally the case, 'In some problems of sociology or political life ... we have no choice but to start from the social whole', Schumpeter (1931, p. 287).

Be that as it may, Weber, at one point at least, takes a more extreme position, arguing in favour of methodological individualism even within sociology. 'If I have become a sociologist', he says, quoted in Swedberg (1998, p. 214):

It is mainly in order to exorcise the spectre of collective conceptions which still linger among us. In other words, sociology itself can only proceed from the actions of one or more separate individuals and must therefore adopt strictly individualistic methods.

On a par with mainstream economics, Weber also considers (pure) economic theory as dealing exclusively with rational behaviour of individuals, and devoid of other (social) influences, as captured by the concept of 'instrumental rationality' in a world of perfect knowledge, see also Chapter 12, Section 2. At other points, however, Weber (1976, p. 54) points to the strongly social roots of individual action, in talking for example about the behaviour of individuals conforming to 'capitalistic rules of action', see also below. In reality, people are driven not only by the pursuit of their own self-interest, but also by a host of other motives and desires. Related to Weber's individualist approach to the social sciences, and the place of economics within it, is his rejection of the value theory of the classical school and of socialism, and his acceptance of the marginal utility theory of Menger and Böhm-Bawerk,

Swedberg (1998, pp. 185–6), Hodgson (2001, pp.117–28), Sumiya (2001, pp. 128–33), Bottomore (1992, pp. 18–20) and Lewis (1975, ch. 5).

4 Constructing *histoire raisonnée*: Sombart and Weber

The previous section has dwelt upon the similarities between Schumpeter and Weber in some aspects of the ways in which they approached economics itself, and its relations to the other social sciences. But it is equally important to recognise how these two differed from one another. Whilst both were predominantly theorists, the directions taken by their research diverged. Weber is first and foremost a sociologist. ‘Indeed’, says Schumpeter (1994, p. 819), ‘he was not really an economist ... His work and teaching had much to do with the emergence of Economic Sociology in the sense of an analysis of economic institutions’. Weber’s main concern is to build a theory of economic sociology through a multi-disciplinary approach, by bringing together the economic, social, political and religious dimensions of social events, Swedberg (1998). His main contribution to *Sozialökonomik* is to be found in his voluminous *Economy and Society*, first published in 1922, his main work in economic and general sociology. The first part of this book is devoted to the development of his sociological concepts and ‘categories of economic action’, as he calls them, while the second part explores the connections and linkages between the economy and other moments of the social order such as religion, law and politics.

For our purposes, what is of more interest is his more historical work and especially his classic, *The Protestant Ethic and the Spirit of Capitalism*. It presents his analysis of ‘the origins and likely course of evolution of industrial capitalism’, Giddens (1976, p. 3). In Schumpeter’s terms, it is a *histoire raisonnée* of the emergence of the Western world, a subject of concern shared with Marx and Weber’s own contemporary, Werner Sombart. Weber’s contribution has aroused considerable controversy. Its substance and significance is, however, more readily assessed by first considering the contribution of Sombart.

Sombart was one of the last political economists to attempt to construct a reasoned history of capitalism. It is no accident that Schumpeter (1994, p. 818) picks up his *magnus opus*, *Modern Capitalism*, as a prototype of reasoned history: ‘it is *histoire raisonnée*, with the accent on the reasoning, and systematized history with the accent on system’.⁷ Sombart is interesting for the themes of this book, not least because in his writings he combines elements drawn from the Historical School and from Marx, while on other matters he sides with Weber. As one commentator puts it, he ‘successfully stood on the shoulders of Schmoller, at least with one leg, the other one being supported by Marx’, although he was also critical of many aspects of their work, Betz (1993, p. 332). As a member of the (youngest) German Historical School, and a student of Schmoller, he was still strongly opposed to the ethical dimension of the latter’s work. Much like Weber, he made a clear separation between value judgements and economics as a science, Lenger (1997, pp. 147,

155 and 166). At the same time, he considered Schmoller's work and that of the Historical School more generally as atheoretical. In this, he was strongly influenced by Marx: 'What separates me from Schmoller and his school', he wrote in his *Modern Capitalism* (vol. 1, p. xxix, quoted in Roth (1978 [1968], p. lxxi)):

Is the constructive element in the ordering of the material, the radical postulate of a uniform explanation from last causes, the reconstruction of all historical phenomena as a social system, in short, what I call the specifically theoretical. I also might say: Karl Marx.

Much like Schumpeter, Sombart was an admirer of Marx's materialist conception of history, although he was also a severe critic of other aspects of his theory and method, such as dialectics and value theory. What he most valued were the theoretical aspects of Marx's historical work and, in particular, his analysis of the historical evolution of capitalism and of economic systems more generally, Betz (1993, p. 350). This is what Lenger (1997, p. 152) has aptly described as 'theoretical historism', before concluding that 'Sombart clung to the historism taught by his teacher Schmoller although he wanted to reconcile this historism with theory'.

At a time when history was mostly empirical, Sombart was strongly in favour of combining theory with history. 'No theory – no history!' he says. 'Theory is the prerequisite to any scientific writing of history', Sombart (1929, p. 3). Indeed, he sees his main work, *Modern Capitalism*, as a contribution to both theory and history, and as an attempt 'to end the baseless hostility prevailing between economic theory and economic history', p. 19. Further, the historian, he says, p. 2:

whether he is dealing with the conduct of an individual, or a political situation ... he is concerned not with isolated facts but with connected systems ... Only as parts of a greater whole, and in relation to that whole, do they acquire any meaning ... The historian, then, must bear in mind that he has to deal with complex 'wholes' and with the causal connections in which the actual facts of history have taken shape.

So, contrary to Weber's and Schumpeter's methodological individualism and in true historicist spirit, Sombart adopts a holistic approach to historical questions.

At the same time, his method leans more towards induction than deduction. As Mitchell (1929, p. 276) observes:

Sombart's methods differ from the methods employed by a writer like Marshall much as Marshall's methods in *Industry and Trade* differ from Marshall's methods in the *Principles of Economics*. In the superficial jargon that we ought to banish, 'induction' plays the stellar role that is usually assigned by theorists to 'deduction'.

In this light, the task Sombart sets himself in *Modern Capitalism* is to give ‘a systematized historical account of European economic life in its entirety, from the beginnings to the present day’, p. 17. He considers the biggest obstacle in this quest to be the absence of a body of theory suitable for the special requirements of economic history. This is the result of the ‘unreal, abstract world’ that economic theorists have constructed, focused as it is on the ‘exchange operations of “economic men”’, the loss of ‘all historical sense’ implied by the concept of equilibrium drawn from the natural sciences, and the seeking of ‘universal and uniform’ laws, applicable under ‘every variety of conditions’, p. 8. Following Marx and many members of the Historical School, for Sombart, the (economic) historian is mainly interested in ‘differentiating between economic epochs, in emphasising their concrete and specific features, and in determining their place in history’, p. 9.

Sombart tried to fill the theoretical gap left by the ‘unreal and abstract’ nature of economic theory through the concept of the ‘economic system’, which he uses in order to ‘distinguish, describe and correlate economic phenomena’, or, in other words, for both descriptive and classification purposes, pp. 13–14. Much like Schmoller’s notion of ‘national economy’, the concept of ‘economic system’ illuminates the collectivist aspects of Sombart’s method. In contrast to Schmoller, however, in Sombart’s hands, this concept becomes the vehicle for the combination of theory with history, pp. 16–17 and Betz (1993, p. 223). Sombart defines an economic system as ‘the mode of providing for material wants’, which is very close to Marx’s notion of a ‘mode of production’, although Sombart adds that this is, pp. 13–14:

- 1 ‘animated by a definite spirit’ or *geist*;
- 2 ‘regulated and organised according to a definite plan’; and
- 3 ‘applying definite technical knowledge’.

Of these, he considers the *capitalist spirit* to be by far the most important determining factor of the genesis and evolution of capitalism, thus turning Marx’s schema of base and superstructure on its head, and paving the way for Weber’s famous thesis in his *Protestant Ethic and the Spirit of Capitalism*, see below. Preceding this was the handicraft spirit and before that the feudalistic spirit, Commons and Perlman (1929, p. 79). This spirit, according to Betz (1993, p. 347), is:

the sum total of the intellectual influences on economic activity, comprises of all the values, norms and maxims which govern the behaviour of individuals and shape their collective institutional arrangements.

Lenger (1997, p. 159) appropriately concludes as follows:

The relationship between ideas and reality ... was among the basic problems Sombart wanted to solve in his *Modern Capitalism*. Sombart’s

solution gave considerable weight to the independent role of ideas as can be seen in his genealogy of the acquisitive spirit. Whatever one may think of his solution it remains Sombart's merit to have posed the problem of mediating structural processes and ideal factors quite clearly.

Indeed, it is a merit that reflects, in principle, the themes of nineteenth century political economy and its historical aspects.

According to Sombart, in practice, for each economic system there is a period during which it reaches its climax and achieves its relatively pure form. Before this climax is reached, however, all economic systems pass through an 'early epoch', a sort of transitory period between the present economic system and the previous one. After the climax comes the decline. On this basis, he offers a periodisation of the capitalist economic system into early, full or high and late capitalism, Sombart (1929, p. 16). Again, the affinities between Sombart's and various Marxist periodisations of capitalism are plain.

In his *Modern Capitalism*, Sombart traces the rise of capitalism from its beginnings in the Middle Ages to its full development in the nineteenth century.⁸ 'Early capitalism' refers to the era before 1760, whereas the age of 'high capitalism' spans the entire epoch from the beginning of the Industrial Revolution to the outbreak of the First World War (1760–1914). Sombart, in a way closely resembling Schumpeter's theory of entrepreneurship and innovation (see below), considers the capitalist entrepreneur or business organiser, driven by the desire for gain, power and action to be the force underpinning high capitalism. He also considers the modern state and technical progress as the two other pillars of this stage of capitalism. What impressed him most was the extraordinary number of inventions witnessed during this epoch. And he offers a whole host of objective and subjective factors to explain this unprecedented process of innovation. These include anything from scientific advance, to research laboratories, to the motives for invention (desire for gain, pleasure in inventing, interest in the results of inventions for whatever reason, etc.). He does, however, single out gain from profits as the chief end of the activities associated with high capitalism. As he puts it, quoted in Michaelidis and Milios (2005, p. 35), capitalism:

has a mania for innovations ... Either through elimination of competitors by the establishment of new enterprises based upon them, or – primarily – through introducing new, more profitable processes, [it] soothes its innermost desire: to make an extra profit!

According to Mitchell (1929, p. 276), Sombart's basic concern in *High Capitalism* is 'to find what features differentiate high capitalism from other forms of economic organisation, how these features got their present form, and how they function'. And he concludes his review by saying that perhaps the best service of this book is to help us to see 'how much an economic

historian needs to be a theorist, and how limited is the theoretical grasp of an economist who neglects history', p. 278.

Now Weber, in his *Protestant Ethic*, shared similar concerns to those of Sombart. In particular, his main preoccupation is with the causes of the genesis of capitalism. 'The capitalism of to-day', he says, 'which has come to dominate economic life' and 'the manner of life' associated with it, 'had to originate somewhere ... This origin is what really needs explanation', Weber (1976, p. 55). In his quest, Weber, much like Sombart, directs attention to an element of Marx's superstructure, to the world of ideas and the pursuit of profit as the 'spirit of capitalism' and the primary factor in its emergence, p. 68:

It was not generally ... a stream of new money invested in the industry which brought about this revolution ... but the new spirit, the spirit of modern capitalism, had set to work. The question of the motive forces in the expansion of modern capitalism is not in the first instance a question of the origin of capital sums which were available for capitalist uses, but, above all, of the development of the spirit of capitalism.

Indeed, Weber considers his study as 'a contribution to the understanding of the manner in which ideas become effective forces in history' p. 90. Once again, this represents a direct reversal of Marx's causal schema of base and superstructure, where emphasis is laid on the economic and materialist forces of this transformation. Weber directly attacks what he calls the 'naïve historical materialism', according to which 'such ideas originate as a reflection or superstructure of economic situations', p. 55. Weber is here referring more to the version of historical materialism prevalent among the Marxists of his age than to Marx himself, whom he had read first-hand. As for Marx's own version of historical materialism, Schumpeter (1987, pp. 10–11) gives a reasonably accurate reading: 'the economic interpretation of history', he says:⁹

does *not* mean that men are, consciously or unconsciously, wholly or primarily, actuated by economic motives ... Marx did not hold that religions, metaphysics, schools of art, ethical ideas and political volitions were either reducible to economic *motives* or of no importance. He only tried to unveil the economic *conditions* which shape them and which account for their rise and fall.

Weber would not have accepted this explanation for the rise of capitalism, nor its ethic, as a logical and historical consequence.

So what, for Weber, is the origin of this new ethos or set of new ideas if not the material conditions of social life? After all, as he puts it at another point, 'Capitalist acquisition as an adventure has been at home in all types of economic society which have known trade with the use of money', Weber (1976, p. 58). 'The spirit of capitalism', says Weber, was present 'before the capitalist order ... [but] had to fight its way to supremacy against a whole

world of hostile forces', pp. 55–6. Chief among these was what he calls 'traditionalism', by which he means the 'type of attitude and reaction to new situations', and which includes 'the traditional manner of life, the traditional rate of interest, the traditional amount of work, the traditional manner of regulating the relationships with labour', etc., pp. 58–9, 67. 'Its entry on the scene was not generally peaceful. A flood of mistrust, sometimes hatred, above all of moral indignation, regularly opposed itself to the first originator', p. 69.

So the crucial question for Weber now becomes what is the factor that lay behind the new spirit's ascension to supremacy. This he finds in the changes taking place in religious beliefs. In effect, what Weber sets out to do in this work is to clarify 'the influence of certain religious ideas on the development of the capitalist spirit, or the *ethos* of an economic system', p. 27. His main aim is, 'to clarify the manner and the general *direction* in which ... the religious movements have influenced the development of material culture', pp. 91–2. Chief among the changes involved is the emergence of what Weber calls the 'Protestant ethic' or Protestant asceticism. This is related to Luther's conception of the 'calling', which 'expresses the value placed upon rational activity carried on according to the rational capitalistic principle, as a fulfillment of a God-given task', Weber (1927, p. 157). Further, for Weber (1976, p. 172):

The religious valuation of restless, continuous, systematic work in a worldly calling, as the highest means to asceticism, and at the same time the surest and most evident proof of rebirth and genuine faith, must have been the most powerful conceivable lever for the expansion of that attitude toward life which we have called the spirit of capitalism.

So a work ethic is involved, and it is complemented by a legitimised acquisitive ethic.

Before Protestantism, for most religions, the acquisition of money was considered a sin. According to the Protestant ethic, however, it was possible to serve God and at the same time to make a profit. This is achieved through hard labour, which results in a principled way of life. At the same time, profits made through hard labour and saving are channelled to productive use, rather than dissipated on individual consumption and pleasure. 'When the limitation of consumption is combined with this release of acquisitive activity', Weber (1976, p. 172) says, 'the inevitable practical result is obvious: accumulation of capital through ascetic compulsion to save'. Hence the Protestants' greater tendency vis-à-vis the Catholics towards economic rationalism, p. 40. This created a whole new culture on the part of believers which, once diffused into the wider economic and social sphere, helped to create the ideological context for the domination of the capitalist spirit, Swedberg (1999, pp. 22–4). So, for Weber, in Schumpeter's (1994, p. 817) words, 'the religious revolution from which Protestantism emerged was the dominant factor in the molding of the capitalist mind and thus of capitalism itself'.

As Weber makes clear on several occasions, however, this new 'spirit of capitalism' is not the only factor that contributes to the genesis of western capitalism, and 'ascetic Protestantism' is not the only agent of this new capitalist spirit. As he puts it, 'it is not my intention to substitute for a one-sided materialistic an equally one-sided spiritualistic causal interpretation of culture and history', Weber (1976, p. 183). He also makes clear that he has 'no intention whatsoever of maintaining such a foolish and doctrinaire thesis as that the spirit of capitalism ... could only have arisen as the result of the Reformation', p. 92. True to the spirit of the Historical School, Weber is against mono-causal explanations in history and in favour of more pluralistic approaches to historical and social phenomena. What Weber offers in this work is a sort of systematised history, its main theoretical aim being the analysis of the causal factors in the rise of capitalism. It is, in other words, a sort of reasoned history or *histoire raisonnée*. Weber also constructs an economic sociology of the genesis of the western world, by pinpointing an economically relevant phenomenon (religion) as the chief factor in its emergence, Swedberg (1999, p. 22).

Weber's, then, is not a one-way, unidirectional system. Although religious beliefs are a chief factor in the genesis of the capitalist spirit, the latter gives rise to a whole constituted economic system, which 'no longer needs the support of any religious forces', Weber (1976, p. 72). The capitalist system, once established, assumes an autonomous existence, and tends to impose its own rationalistic logic on individual action. It shapes and constrains human behaviour. As he puts it, p. 54:¹⁰

The capitalist economy of the present day is an immense cosmos into which the individual is born, and which presents itself to him, at least as an individual, as an unalterable order of things in which he must live. It forces the individual, in so far as he is involved in the system of market relationships, to conform to capitalistic rules of action ... Whoever does not adapt his manner of life to the conditions of capitalistic success must go under, or at least cannot rise.

It must have been intellectually pleasing to have discovered the origins of capitalism in the rise of the Protestant ethic, especially as it is liable to be buried once capitalism has established itself.¹¹

As mentioned, *The Protestant Ethic* proved to be one of Weber's most prominent, and controversial, works. One of the many critics of his contentious thesis was Schumpeter (1994, p. 80), for whom there was:

no such thing as a New Spirit of Capitalism in the sense that people would have to acquire a new way of thinking in order to be able to transform a feudal economic world into a wholly capitalist one. So soon as we realize that pure Feudalism and pure Capitalism are equally unrealistic creations of our own mind, the problem of what it was that

turned the one into the other vanishes completely. The society of the feudal ages contained all the germs of the society of the capitalist age. These germs developed by slow degrees, each step by step teaching its lessons and producing another increment of capitalist methods and of capitalist 'spirit'.

In other words, the capitalist spirit as an external causal factor in the explanation of the genesis of capitalism is required because of Weber's use of two purely abstract and unrealistic concepts of feudalism and capitalism. With more realistic conceptions of these societies, it would become obvious that capitalism was born in the womb of feudalism in a gradual fashion. Capitalist methods, in turn, once in place, give rise to the capitalist spirit which thus becomes an endogenous and dependent factor.

Assuming that pure feudalism and pure capitalism represent Weber's ideal types in his discussion of the emergence of capitalism, it is then obvious that, in essence, what Schumpeter (1994, p. 80, n. 4) criticises here is the (mis)use of this concept by Weber himself. 'Unfortunately', he says:

Max Weber lent the weight of his great authority to a way of thinking that has no other basis than the misuse of the method of Ideal Types. Accordingly, he set out to find an explanation for a process which sufficient attention to historical detail renders self-explanatory.

As Bottomore (1992, p. 119) correctly observes, these remarks by Schumpeter lend themselves to a crude empiricist reading of historical questions. However, Schumpeter's own main works on the question of capitalist development, *The Theory of Capitalist Development* and *Business Cycles*, pay testimony to the contrary. They are both mostly theoretical in character. After all, Schumpeter himself is first and foremost an economic theorist, although not of the conventional type, Swedberg (1991b, p. 38). For him and Weber, economics and sociology are mostly analytical rather than empirical or historical sciences.

The main aim of these two works, as Schumpeter (1937, p. 165) makes clear in his Preface to the Japanese edition of *The Theory*, is the construction of a 'theoretic model of the process of economic change in time'. He makes this point by reference to the two economists he admired most – Walras and Marx. The Walrasian system, according to Schumpeter, is not only static but also only applicable to a stationary process. By the latter, Schumpeter means 'a process which *actually* does not change on its own initiative', p. 166. This means that the causes of change are actually exogenous to the Walrasian system so that 'economic theorists ... cannot say much about the factors that account for historical change'. Schumpeter considered this to be wrong, since he strongly felt that 'there was a source of energy within the economic system'. This internal dynamic is the second element of Schumpeter's theory, which he derives from Marx: 'a vision of the economic evolution as a distinct process generated by the economic system itself', p. 166, and Schumpeter

(1961, p. 60, n. 1). Granted this, it becomes possible to derive 'a purely economic theory of economic change' which is the *raison d'être* of his analytical discourse, Schumpeter (1982, p. 220).

This dynamic element of his vision is another point of divergence from Weber. The latter's theory of capitalism is more static in nature, and his model of change is that of comparative statics, as for example in the change from a traditional society to capitalism, Macdonald (1966, p. 378) and Bottomore (1992, p. 128), although in his works one can also find scattered pieces of dynamic analysis (e.g. in his *Outline of Economic History*). Contrary to Weber, Marx's quest for an internal dynamic of capitalism is one source of Schumpeter's admiration of his work. He praises Marx for what he calls a 'truly great achievement', meaning, Schumpeter (1987, p. 43):

the fundamental idea ... of a theory, not merely of an indefinite number of disjoint individual patterns or of the logic of economic quantities in general, but of the actual sequence of those patterns or of the economic process as it goes on, under its own steam, in historic time, producing at every instant that state which will of itself determine the next one.

But this dynamic attribute of Marx's economic theory is itself a consequence of its not being confined to economic considerations alone.

Marx's 'sociological' writings are the other source of Schumpeter's admiration for his work, as seen already. 'The so called *Economic Interpretation of History*', he says, (1987 [1943], p. 10), 'is doubtless one of the greatest achievements of *sociology* to this day', (emphasis added). Schumpeter, however, was also a severe critic of Marx's work, especially his economic theory. He variously describes his labour theory of value as 'unsatisfactory', 'dead and buried' or simply 'untenable', pp. 23, 25, 32 and ch. 3. He also expressed doubts as to whether a synthetic method such as the one used by Marx, i.e. 'the coordination of economic and sociological analysis with a view of bending everything to a single purpose', is always superior to a more 'narrow' approach to social phenomena, p. 46:

A valuable economic theorem may by its sociological metamorphosis pick up error instead of a richer meaning and vice versa. Thus, synthesis in general and synthesis on Marxian lines in particular might easily issue in both worse economics and worse sociology.

In other words, Marx's whole may be less than the sum of the individual parts.

Schumpeter started his own *Theory* with a description of the leading characteristics of the 'circular flow of economic life' of conventional economic theory, ch. 1. This is a static model *à la* Walras, which 'does not change "of itself"', and which 'describes economic life from the standpoint of the economic system's tendency towards an equilibrium position', Schumpeter

(1961, pp. 9, 62). This model, on its own, however, hardly suffices for the analysis of a system (capitalism), which is 'by nature a form or method of economic change and not only never is but never can be stationary', Schumpeter (1987, p. 82). Hence Schumpeter uses the model of circular flow simply as a point of departure for his dynamic analysis of economic development, which follows in the second chapter of his book. According to Swedberg (1991b, p. 40), although Schumpeter's more dynamic theory might have been originally conceived as a complement to the Walrasian circular flow, 'as the analysis progresses ... it increasingly came to *replace* it'. This is only natural for a theorist whose main preoccupation is economic change and development. The latter, according to Schumpeter (1961, pp. 63, 64) refers to:

such changes in economic life as are not forced upon it from without but arise by its own initiative, from within ... It is spontaneous and discontinuous change in the channels of the flow, disturbance of equilibrium, which forever alters and displaces the equilibrium state previously existing.

What Schumpeter is describing here is an economy in perpetual change. What is more, this change comes from within the system. In his quest for the source of this internal dynamic, Schumpeter, much like Marx, turns his attention to the production process. The basic vehicle of this change is the continuous process of innovation: 'this historic and irreversible change in the way of doing things we call "innovation" and we define: innovations are changes in production functions which cannot be decomposed into infinitesimal steps', Schumpeter (1935, p. 138).

Unlike Marx, however, and given his adherence to methodological individualism, Schumpeter (1961, p. 65) focuses on the *individual* as the initiator of economic change. The fundamental attribute of this agent that elevates him into the basic motor of change is the carrying out of 'new combinations of means of production', which he describes as 'the fundamental phenomenon of economic development', pp. 66, 74. This concept, according to Schumpeter, covers five cases, p. 66:

- 1 The introduction of a new good;
- 2 The introduction of a new method of production;
- 3 The opening of a new market;
- 4 The conquest of a new source of supply of raw materials; and
- 5 The carrying out of the new organisation of any industry.

Schumpeter calls this function 'enterprise' (the setting up of 'a concern embodying a new idea'), as opposed to management (heading 'the administration of a going concern'), and the person responsible he calls the *entrepreneur*, Schumpeter (1947, p. 223). In this way, Schumpeter (1949d, p. 259) forges a link between enterprise and innovation, while identifying the entrepreneur

with the ‘business leader’ or the ‘innovator’. The latter’s defining characteristic is simply ‘the doing of new things or the doing of things that are already being done in a new way (innovation)’, Schumpeter (1947, p. 223), as opposed to the manager or industrialist or capitalist, ‘who merely may operate an established business’, Schumpeter (1961, p. 758). The entrepreneur’s function consists of ‘breaking up old, and creating new tradition’, and as such s/he personifies ‘the creative response in business’, Schumpeter (1947, p. 222). In fact, Schumpeter (1949d, p. 259) defines *entrepreneurship* as essentially consisting of ‘doing things that are not generally done in the ordinary course of business routine; it is essentially a phenomenon that comes under the wider aspect of leadership’. In this way, entrepreneurship becomes the engine or ‘ultimate cause’ of capitalist development, since ‘the mechanisms of economic change in capitalist society pivot on entrepreneurial activity’, Schumpeter (1947, pp. 222, 223). This is how Schumpeter (1961, pp. 82–3) summarises his position:

hence, our position may be characterized by three corresponding pairs of opposites. First, by the opposition of two real processes: the circular flow or the tendency towards equilibrium on the one hand, a change in the channels of economic routine or a spontaneous change in the economic data arising from within the system on the other. Secondly, by the opposition of two theoretical *apparatuses*: statics and dynamics. Thirdly, by the opposition of two types of conduct, which, following reality, we can picture as two types of individuals: mere managers and entrepreneurs.

Thus, Schumpeter’s main focus of attention is the process of technological and institutional change that takes place through an innovative process internal to the system.

But this innovation process is far from smooth. It comes in clusters and produces a wave-like movement, ‘which pervades economic life within the institutional framework of capitalism’, Schumpeter (1935, pp. 134, 141). Schumpeter calls this wave-like phenomenon the ‘business cycle’, and he considers it as the main explanandum in the analysis of capitalism. ‘The presence or absence’, he says, ‘of a fluctuation *inherent* to the economic process in time is practically and scientifically the fundamental problem’, pp. 135, 139. In the now famous phrase, Schumpeter (1987, p. 83) describes it as a process of ‘creative destruction’:

the same process of industrial mutation ... that increasingly revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating the new one. This process of Creative Destruction is the essential fact about capitalism.

This wave-like phenomenon became the exclusive focus of attention in his *Business Cycles*, where he identifies three different cyclical patterns: Long

Waves or Konratieff Cycles of 54 to 60 years' duration; Juglar Cycles of nine to ten years' longevity; and the shorter Kitchin Cycles of three years' duration. He identified three Long Cycles until his day. The first is between 1783 and 1842 associated with the Industrial Revolution. The second runs between 1842 and 1897, and he describes it as the age of steam and steel. This wave is also linked with railroadisation, which 'is the dominant feature both of economic change and of economic fluctuations at that time'. Last, the third Long Wave rose about 1897 and is associated with electricity, chemistry and motor cars.

What is of interest, for our purposes, is the way Schumpeter goes about carrying out his analysis of this most 'fundamental problem' of capitalism. This is all the more interesting since *Business Cycles* represents Schumpeter's most mature effort at applying his version of *Sozialökonomik* to the analysis of capitalism. The basic contours of his broad vision of (social) economics are once again made plain by the very subtitle of the book: 'A Theoretical, Historical and Statistical Analysis of the Capitalist Process'. To these, it will be recalled, he later added economic sociology. He describes his attempt: 'from our historic and everyday knowledge of economic behavior we shall construct a "model" of the economic process over time, see whether it is likely to work in wavelike way, and compare the result with observed fact', Schumpeter (1935, p. 136).

Hence, although the main aim remains theoretical in character (the construction of a model of economic change), observed fact and historical experience represent both the point of departure and the testing ground for his theoretical discourse. The role of history, in Schumpeter's theoretical schema, however, goes even further. Indeed, he considers the very aim of his theoretical exercise itself to be historical in nature. This is made compulsory by the dynamic and evolutionary character of his theory: he calls dynamics and history 'the two indispensables', Schumpeter (1949e, p. 327). And the historical dimension of his theoretical discourse remains its most essential ingredient in providing causal explanations, without which statistical series 'remain inconclusive', and the 'theoretical analysis empty'. At the same time, however, he makes clear that he has 'no wish to advocate the historical approach to the phenomenon of business cycles at the expense, still less to the exclusion, of theoretical or statistical work upon it', p. 322. It is the sum total of these approaches that provides a complete analysis of the phenomenon in question. The historical schema that he ultimately attains is not the conventional, descriptive type of history but, much like Marx's and Weber's, a theoretically informed, analytical type of history, or *histoire raisonnée*. Reasoned history, then, becomes the 'ultimate goal' of his scientific endeavour, Schumpeter (1982, p. 220):

Since what we are trying to understand is economic change in historic time, there is little exaggeration in saying that the ultimate goal is simply a reasoned (= conceptually clarified) history ... of the economic process

in all its aspects and bearings to which theory merely supplies some tools and schemata, and statistics merely part of the material. It is obvious that only detailed historic knowledge can definitely answer most of the questions of individual causation and mechanism and that without it the study of time series must remain inconclusive, and theoretical analysis empty.

Economic change thus becomes the meeting place of the historian and the theorist. 'Economic historians and economic theorists can make an interesting and socially valuable journey together, if they will. It would be an investigation into the sadly neglected area of economic change', Schumpeter (1947, p. 221). Economic development and social change thus offers the template for the erection of Schumpeter's version of *Sozialökonomik* by bringing together the economic, social, historical and dynamic elements of this process.

5 Concluding remarks

Both Weber and Schumpeter were products of their age. They were lucky and skilled enough to draw upon and be influenced by very rich traditions in political economy, from classical political economy and Karl Marx, through the historical tradition to marginalism. Traces (or more) of these influences are scattered throughout their writings. This does not mean, however, that Weber and Schumpeter were unduly eclectic, combining different elements from these traditions in an ad hoc fashion. On the contrary, they put forward their own research agenda in the ambitious form of *Sozialökonomik*. In retrospect, this ambition was bound to fail. After all, this was an era of separation, not cooperation between the social sciences. It saw the birth of sociology and economic history as separate disciplines, both of which were looking for vital ground, and grounds on which to establish themselves. Economics was becoming an increasingly deductive science, dealing with strictly economic phenomena, however defined. So, in a sense, both sociology and economic history emerged as residual sciences to fill the space vacated by the desocialisation and dehistoricisation of mainstream economics although, at the time, that space was extensive.

Weber, Schumpeter and their programme of *Sozialökonomik* suffered a similar fate within economic science to that of the Historical School. Both fell victim to their own insistence, contrary to Marx and the Historical School, on a separation of the social sciences, on the basis of which close cooperation between them should be re-erected in the form of social economics. Having failed to place social economics on the economist's research agenda, they are nowadays remembered mostly as founders of one of the other social disciplines or subdisciplines they helped to establish, with Weber to the fore in sociology but Schumpeter marginalised within economics. As a result, in addition to Weber's immense influence on the emergence and

subsequent development of sociology as a separate discipline, see also the next chapter, if the concept of *Sozialökonomik* has left any successors these are mostly to be found (at least until recently) in the subdiscipline of economic sociology. Most textbooks of economic sociology consider Weber, Sombart and Schumpeter, together with other prominent writers such as Karl Marx, Emile Durkheim, Karl Polanyi and Talcott Parsons, as the founders and towering figures of this subdiscipline, Trigilia (2002), Swedberg (2003) and Smelser and Swedberg (1994). Max Weber's impact on its emergence and evolution is so great that one of the leading modern exponents of this tradition considers Weber's *Protestant Ethic* as a 'paradigm and a guide for how to proceed in economic sociology', Swedberg (2003, p. xi). It is indicative of the developments around economics, and of the fate of the concept of social economics, that it should be located within sociology, using mostly the 'frames of reference, variables and explanatory models' of this social science, Smelser and Swedberg (1994, p. 3), see also Fine and Milonakis (2009).



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