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## At the Crossroads of History and Theory: Weber, Schumpeter and Economic Sociology

**Summary:** Max Weber and Joseph Schumpeter have contributed to the disciplines of economics and sociology. Their contributions combined history with theory, taking into account the interactions between the fields of economics and sociology. Weber viewed the structure of religious and moral thought as being the basic factor engendering changes in economic and social structures, whereas Schumpeter focused on the creative actions of the entrepreneur. Despite these differences in their approaches, it is possible to claim that economic sociology is the common legacy stemming from the writings of Weber and Schumpeter. This study will propose that the analyses of Weber and Schumpeter in the area of economic sociology are crucial methodological tools and provide a comprehensive analytical framework in understanding economic and social structures. Accordingly, this study examines Weber's ideas on economic sociology, by means of rational capitalism, bureaucratization, and iron cage concepts, in addition to Schumpeter's methodology, and his energetic/creative action of the entrepreneur.

**Key words:** Economic sociology, Schumpeter, Weber, Iron cage, Rational bureaucracy.

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Economics and sociology were first fused and used as a novel approach to analysis by W. Stanley Jevons in 1879 (William Stanley Jevons 1965). Subsequently, it was used by other sociologists, such as Durkheim and Weber, between 1890-1920. These decades also witnessed the birth of classical economic sociology. In addition, several studies before the 1890-1920 period had some insights in relation to economic sociology. The pioneers of economic sociology were aware that they were constructing an analysis that had not existed before. They tried to find out what role the economy has in society (Neil J. Smelser and Richard Swedberg 2010, p. 7).

It can be argued that the framework of economic sociology, which analyzes the emergence of economic institutions, was effective in enabling economic sociology to become a common area of interest for both economists and sociologists. Researchers within this framework include Werner Sombart (1902, 1930, 1935; see Smelser and Swedberg 2010), Georg Simmel (1909), Joseph A. Schumpeter (1955), Talcott Parsons and Smelser (1956), Vilfredo Pareto (1963), Karl Marx (1973), Émile Durkheim (1984), Max Weber (1997), and Karl Polanyi (2001).

Marx was concerned with the role of the economy in society, and he constructed his analysis of this while analyzing the evolution of society. Weber's contributions to economic sociology are unique, in the sense that he built the theoretical foundation of the field and conducted empirical analyses. According to Weber, economics is a very broad field of science that includes not only economic but also noneconomic phenomena (Weber 1997). Accordingly, analysis of economic phenomena should include moral values, such as political, legal order, and religious values, in addition to institutional structures. *The Division of Labor in Society* (1893), which is Durkheim's first major publication, has important implications for economic sociology. The main argument there is that social structure transforms from an early stage to a modern stage in which there is a complex division of labor. Similar to Durkheim, Simmel (1909) viewed economics within a broader framework to include noneconomic phenomena. Simmel concentrated on analysis of interests and emphasized the crucial role of sociological interest analysis in sociology. Schumpeter examined the changes in economic and social structures with respect to the endogenous variables of the system and argued that these endogenous variables are not only economic but also social and political variables. In addition, Schumpeter explained the functioning of capitalism through the tension created by the effects of economic and noneconomic variables on each another. Conducting the analysis through these dynamics ensures that the investigated issue can be evaluated in an integrated and comprehensive manner. "Embeddedness" is a famous concept that Polanyi uses in his famous book, entitled *The Great Transformation* (1944). Polanyi's "forms of integration" represent another set of conceptual tool for economic sociology. Parsons was an economist who followed the institutionalist approach. He focused on sociology from the 1930s onward. Parsons' main contribution to economic sociology can be found in *Economy and Society: A Study in the Integration of Economic and Social Theory* (1956), which he co-authored with Smelser. According to Parsons and Smelser, there is a general theory of social systems and sociology, and economics is part of these systems. Pareto is well known for his sociological studies, such as rentiers versus speculators, and business cycles, etc. (Pareto 1963). Sombart (1902, 1930, 1935) proposed a three level approach, consisting of economic spirit, order, and technology, and contributed to the development of economic sociology based on historical methods by relating economic and noneconomic phenomena. He wrote on the history of capitalism, on the *economic temper of our time*, and on the need for a *verstehende economics* (Smelser and Swedberg 2010).

This study proposes that economic analysis should give history as much importance as theory. Thus, the economic sociology of Weber and Schumpeter is analyzed in this study. Weber focused mainly on theoretical analysis but made it more sociological. Although he taught economics, his publications were from the field of economic history, and he was engaged with policy questions. Schumpeter attached importance to economic sociology and believed, like Weber, that it should be considered alongside economic theory. Schumpeter was influenced by Weber and gave this broader type of economics the name of economic sociology. According to Schumpeter, economic sociology deals with the the insitutions within which economic behavior is shaped (Schumpeter 1955, p. 21). Weber and Schumpeter are similar, in

the sense that their approaches to economic sociology are based on a belief in the unity of social life and the inseparable relation among its component elements, in addition to a concern for development. They both sought to determine whether a universal social science is possible. It can be claimed that the seminal contributions of Weber and Schumpeter helped to construct the field of economic sociology. Hence, the opinions of Weber and Schumpeter on economic sociology are the crucial analytical tools in understanding economic and social structure. Accordingly, the first section of this study will examine the methodology of Weber, which deepened his understanding of economic sociology. To this end, the concepts of “Protestant ethic”, “iron cage”, and “bureaucratic rationalism” are scrutinized. The second section will mainly demonstrate Schumpeter’s concept of economic sociology related to his methodology, the process of creative destruction, and the dynamics of institutional change. Both Weber’s and Schumpeter’s methodologies construct a broad framework of analysis through the discipline of economic sociology. Such a framework can provide valuable and beneficial analytical tools for both economists and sociologists to understand economic and social structure. If economic theory is taken as the vertical axis and economic history as the horizontal axis, these two intersect at the crossroads of the economic sociology of Weber and Schumpeter.

## 1. Weber’s Economic Sociology

Max Weber did not specialize in a single discipline but adopted an interdisciplinary approach, and in this sense, he registers as unique among scholars. He is one of the founders of modern sociology. His approach can be considered as an escape from the methodology debate of his time, *the Methodenstreit*. Weber received his PhD degree in law at the University of Berlin (1889) and lectured in commercial law in the same institution. He switched to economics and became a professor of economics at the University of Freiburg (1894). During that time, economics was taught in the Department of Law, and Weber learned the economics of the German Historical School. He became a part of the methodology debate and his early studies were aimed at finding a solution to this debate. The sociological work of Weber can be considered as the practice of his methodological approach.

Historical economics originated in Germany. The German Historical School criticized British classical economics and argued that, as the historical circumstances of countries differ, economic principles should be based on the study of these differences, but not on the universally valid principles. The German Historical School had both a historical and a rational framework and a political worldview that aimed to industrialize Germany and constructed the country’s national institutional structure. The German Historical School opposed the theoretical approach and advocated the historical approach, in which historical investigations play an important role in the conceptualization of the national economy’s individuality. The German Historical School’s approach was influenced by German historicism regarding the state and the philosophy of ethical values (Yuichi Shionoya 2005, p. 32). Historical evolution is shaped by the interrelation between the *mind* and *society*, and both the mind and society belong to the same evolutionary process. As it is very difficult to gather information on the historical process, the theoretical formulation established upon the

historical approach would not be realized within a limited time. The Historical School opposed the assumptions of the theoretical approach, however, this opposition was based on naïve empiricism (Shionoya 2005, p. 6).

According to Schumpeter, the six basic characteristics of the German Historical School can be summarized as follows: (1) a belief in the unity of social life and the inseparable relationship among its component elements; (2) a concern for development; (3) an organic and holistic view of society; (4) a recognition of the plurality of human motives; (5) an interest in concrete, individual relations, rather than the general nature of events; and (6) historical relativity (Shionoya 2005, p. 4).

Despite its emphasis on the crucial role of historical research, the German Historical School did not have a methodological foundation. The methodological inquiry was conducted by some neo-Kantian philosophers in Germany, including Windelband, Rickert, and Weber. Kant did not attribute a scientific status to historical knowledge, as he did not view it as generally valid. The neo-Kantian philosophers, on the other hand, criticized Kant and aimed to create an epistemological basis for historical, cultural, and social sciences (Shionoya 2005, p. 34). According to the neo-Kantian philosophers, individuality and uniqueness should not be neglected when making abstractions. When phenomena are selected for scientific inquiry, this selection should be grounded on the principle of value-reference. Weber introduced two methodological devices for value-relevance: “understanding” (*Verstehen*) and “ideal type” (*Idealtypus*).

Weber’s *Verstehen* refers to the motives, desires, and emotions of individuals and aims to elucidate social actions based on these. It aims to reconstruct (3) and (4), since it emphasizes the importance of individualism by not neglecting the probable impact of social institutions on human behavior and takes into account not only rational but also irrational motives. In Weber’s *Verstehen*, the actions are comprehended with regard to their subjective meaning in scientific research. Weber’s *Idealtypus* explains the logical position of historical phenomena. It is universal, in the sense that it highlights the individuality of historical phenomena, which is the view (5) of the German Historical School. *Idealtypus* considers the imaginary world, rather than the empirical world, and examines the common elements of certain phenomena. Therefore, it provides (5) validity in this imaginary world but does not reject the logic of natural sciences while doing so. *Idealtypus* also addresses view (6), which is historical relativity, but it still reflects historical uniqueness, rather than universality (Shionoya 2005, p. 35).

In economic sociology, Weber used the *Idealtypus* methodologically. Weber’s *Idealtypus* can be considered as a type of instrumentalism that is especially employed in the historical approach. In Weber’s view of sociology, type concepts are formulated and uniform generalizations are provided (Shionoya 2005, p. 39).

Weber also related the Protestant ethic and capitalism, and considered the interactions between the *mind* and *society*. Weber’s goal was to put forward the factors that enable the continuity and motivation of the capitalist system. In his book entitled *The Protestant Ethic and the Spirit of Capitalism* (1997), Weber investigated the effects of certain religious and ethical structures on the economic order, rather than proposing a causal relationship between Protestantism and capitalism (Asok Sen 1985,

p. 5). According to Weber, rather than a methodology that is linked to the same causal factors and effects, a study, in the context of which the researcher displays the effects of certain variables on one another, can give more effective results in terms of economic phenomena. Throughout his studies, Weber emphasized that economic factors alone, despite being indispensable, are not sufficient to explain the nature of economic and social structure. He stressed that explaining this structure required that other “subjective” elements, such as law, politics, and moral values should also be considered alongside economic phenomena.

Weber, who adopted the importance of historicity in his analysis, just as in the German Historical School, objected to the integrated approach of this school and argued that only certain partial aspects of the investigated issue can be examined in the context of historicity. It can be stated that Weber investigated the more efficient factors among the subjective ones in the context of historical causality (Sen 1985, p. 7). At this point, the concept of *Idealtypus*, which is defined as a methodological tool, should be examined to present Weber’s approach.

In Weber, *Idealtypus* is used to classify various components about the “fact” within a logical and meaningful category. It should be stated that the concept of *Idealtypus*, from this aspect, is not the fact itself but is, rather, an abstraction that clarifies the causal relationships in economic and social fields (Sen 1985, p. 7; Wolfgang J. Mommsen 1989a, p. 130). At this point, Weber used *Idealtypus* to understand the regularities arising from the social point of view. Weber also mentioned the economic action, in addition to the social action. According to Weber, economic action is the economic decision units’ peaceful use of control over resources, and is primarily economically oriented (Weber 1997, p. 98). Rational economic action is a rationally planned economic action, with respect to its aim. This type of action involves the deliberate use of instruments by taking them to the maximum level of rationalism in a systematic way and uses them in accordance with scientific evaluations (Weber 1997, p. 101).

In Weber, economics is the sum of economic actions; it is the science of societies and needs, not of nature. In terms of economic action, *homoeconomicus* is the human type specific to modern Western societies and is one of the main assumptions that provides an abstract framework for economic theory. From this perspective, it can be argued that *homoeconomicus* is an abstract design of the individual, rather than the real human action (Martin Hollis and Edward J. Nell 2007). In other words, *homoeconomicus* can be defined as an abstract tool for analyzing only the material actions of the individual, rather than all actions. Because of this feature, Weber proposed that one should go beyond the limits of theoretical economics and that noneconomic factors should be included in the analysis, in addition to economic factors. Hence, Weber emphasized that the sociological aspect should always be considered when examining economic phenomena. Likewise, economic phenomena should be examined without ignoring the relationship among technology, nature, and society (Weber 2003).

Scientific research is expected to put forth the most important factors that determine a phenomenon, which is the sum of rational and irrational components (Weber 1997, p. 10). According to Weber, sociology is a science that aims both to

understand social action by interpretation and to explain the reasons for social actions. Here, such kinds of actions are used to understand all kinds of human behaviors. In Weber's analysis, *Verstehen* is an important methodological concept, and understanding means identifying the social average, or approximately valid phenomena, and the causal relationships that reveal these phenomena, rather than the "reality" itself. Weber identifies two sorts of understanding: rational and irrational. The former is the direct examination of the reality in the context of mathematics and logic. The latter is based on historical experiences and emotional reactions.

In emphasizing that there should be links between historical researches and analytical theory, Weber has also highlighted the importance of the explanatory aspect of sociology with regard to economics. According to Weber, all economic processes and phenomena should be characterized by meaningful human behaviors. In this context, it can be claimed that Weber attempts to develop market sociology in his books entitled *General Economic History* (2003) and *Economy and Society* (1968).

Weber (1968) analyzed the interactions between economy and law, economy and sociology, and economy and culture. While examining the legal, sociological, and cultural aspects of economic phenomena, Weber emphasized the importance of all these factors. Such an approach has caused certain problems, like multi-causality between these variables. When there are multi-causal relationships between variables, it is difficult to correctly and clearly define the conceptual framework of each field. Weber also analyzed society, social order, and power. In Weber, economic sociology establishes a link between economics and social phenomena, rather than a sociological analysis of economics. Hence, it can be claimed that Weber's contribution to economic methodology is "economic sociology".

Weber's economic sociology has two aspects. The first is the analysis of economics itself (economic theory), and the second is the analysis of noneconomic factors, such as politics, culture, and law, etc. In this framework, the basic research unit of Weber's sociology turns out to be *economic social action*. For example, in Weber's works, economic organizations and economic phenomena, such as exchange, loans, money, and market, are analyzed in terms of economic social actions (Swedberg 1999, p. 574). Weber's objective was to explain sociological concepts like state, institution and feudalism in the context of the actions of the individual. Likewise, Weber analyzed sociological concepts, such as classical monarchy, oligarchy, and democracy, within the framework of individual actions: rational, traditional, and charismatic actions. In other words, it can be argued that Weber investigated the motivational relationship between abstract concepts and individual actions. Hence, Weber's aim was to explain economic phenomena on the basis of economic sociology by means of politics, legal system, and moral values. One of the basic concepts in Weber's legal system analysis is the concept of "charisma". The concept of charisma, which, in Weber's studies (1968), is defined as the basic transformative power of the economic and social structure, is also mentioned in his thoughts about authority. Weber defined legal, traditional, and charismatic types of authority and enabled them to gain an economic dimension with regard to their relations with rational capitalism (Weber 1997, p. 92).

Authority that emerges from the traditional grounds means that the rules are dependent on past habits and behavioral patterns. The concept of rational legal ground determines the rules required by the vocational position of the individual. These rules ensure the continuity of the vocational position and maintain business in a certain hierarchical structure. The mentioned rules can be rational only if they are in written form. It is also possible to use the concept of “bureaucracy”, instead of rational legal ground (Weber 1997, pp. 315-316).

Charisma is a personal quality that distinguishes a person from ordinary people and can endow him with characteristics, sometimes perceived as supernatural, that make him appear superior, or different, in terms of some powers and qualifications. A person who has these characteristics is accepted as a *leader*. According to Weber, charisma and charismatic people are the main driving forces in history. Owing to these characteristics, charismatic people are also the source of economic, social, and cultural change (Weber 1968, p. 244; William H. Swatos 1981, p. 119). In Weber’s works, charismatic actions become routinized in line with the rise of formal rationality.

Taking Weber’s approach as the basis, Stephen Kalberg (1980) argues that rationality can be defined by four different types. The first is practical rationality. Practical rationality means that individual actions are carried out practically and only to meet personal interests. The second is theoretical rationality. By using logical induction, deduction, and causality relationships, theoretical rationality helps elucidate reality with mental efforts through abstraction. The third is substantive rationality, which covers actions that are associated with the values of economic and social order. In this context, substantive rationality makes calculations through not only using rational instruments but also by taking traditional, political, and social class factors into account. In a sense, these are irrational instruments of value, and substantive rationality has numerous criteria. The last form of rationality is formal rationality. Formal rationality of an economic action or activity means that it can be computed technically. Within this framework, formal rationality is the most important rationalization category of Weber, and the main characteristic of formal rationality is that it is computable, efficient, and predictable. Formal rationality does consider personal differences and assessments. In a formal rational structure, almost all decisions and actions are made in accordance with rational relations. Although Weber accepted that formal rationality is dominant in economic action, he also proposed that the effects of substantive rationality, that is, the value related factors of economic and social change, are so strong that they cannot be neglected (Weber 1997, pp. 130-132). Although practical, theoretical, and substantive rationalities are observed in different types of societies, formal rationality was experienced only in the industrialization process of the West.

In economic theory, formal rationality refers to mutual interest in terms of actions, and it is included in the analysis as an empirical fact that is independent from value judgements, such as religious, ethical, and political judgements. In addition, formal rationality is based on empirical grounds and advocates the argument that economic and social order is a cosmos that is independent from moral values and ideals. However, Weber, inspired by Nietzsche, saw the rational world as a *disenchanted* world. In this world, the rationalization process sometimes works in the

opposite direction. According to Weber, rationality is the practice of purifying the world's enchantment/spirit by moving away from a worldview that is based on values and ideals (Swatos 1981, p. 120).

In *The Protestant Ethic and the Spirit of Capitalism* (1997), Weber stated the fundamental characteristics of modern Western capitalism. These include rational industrial organizations and their bureaucratic structures (Weber 1997, pp. 22-23). It can be argued that Weber analyzed the development of capitalism with regard to the concept of "formal rationality". Weber proposed that, during the emergence of capitalism, the two main links in the chain of causality were the formal rationality of capitalism and the Ascetic Protestant spirit. The most important factor in the emergence of capitalism is the tendency of rationalization in the Ascetic Protestant spirit, and the form of organization depends on this tendency. "The Catholic is quieter, having less of the acquisitive impulse; he prefers a life of the greatest possible security, even with a smaller income, to a life of risk and excitement, even though it may bring the chance of gaining honour and riches. The proverb says jokingly, "either eat well or sleep well". In the present case, "the Protestant prefers to eat well, the Catholic to sleep undisturbed" (Weber 1997, p. 8). On the contrary, in the Protestant ethic, the main goal is to reach the uppermost level of a certain business (Weber 1996a, p. 103). The spirit of capitalism sees historicity from a certain point of view and through the sum of certain relations in historicity (Weber 1997, p. 16). From Weber's perspective, the influence of the Protestant ethic in the development of capitalism can be explained as follows: Secular Ascetic Protestantism has strictly objected to the natural pleasure of being a property owner and restricted consumption, especially luxury consumption. Furthermore, the accumulation of capital was considered entirely as the will of God (Weber 1997, pp. 150-151). In other words, Weber indicated that the Protestant ethic regards working and accumulation as a kind of worship of God, and that this was the causal factor behind the process of capitalist development.

Weber emphasized this danger, stating that material goods "should be worn like a light coat that can be easily cast aside" (Weber 1997, p. 159), and that can turn into an "iron cage" over time. In Weber, it is observed that the individual lost his humanity as a result of the rationalization of the capitalist system (Derya Güler Aydın 2010). In a sense, the spirit of Asceticism has somewhat escaped from this cage over the course of time. The mechanical foundations of capitalism no longer need this spirit. In particular, in countries like the United States, earnings and vocational duties are no longer governed by religious and moral values. Weber interpreted this situation as follows:

"No one knows who will live in this cage in the future, or whether at the end of this tremendous development, entirely new prophets will arise, or there will be a great rebirth of old ideas and ideals, or, if neither, whether there will be a shift to a sort of mechanized petrification as well as a convulsive self-importance" (Weber 1997, p. 160).

For the last stage of this cultural development, it can be argued that: "Specialists without spirit, sensualists without heart; this nullity imagines that it has attained a level of civilization never before achieved" (Weber 1997, p. 160). Based on these statements, Weber argues that the formal rationalist behavior, which is formed in



accordance with market rules, will, in time, restrain the individual in a strict bureaucracy. This process means that the individual is dehumanized, and Weber proposed that such dehumanization of the individual is a result of the bureaucracy caused by the rise of formal rationality in modern capitalism (Mommsen 1989b, p. 110).

According to Weber, individuals are not entities that behave only in accordance with the principle of formal rationality. The behavior of an individual, who is a social entity, should be examined alongside his/her wisdom and values. Economic, social, religious, psychological, and traditional factors should be considered if one wishes to examine formal and substantive rationality together. Hence, Weber pointed to the multilateral causalities among historical, sociological, and economic incidents (Weber 1996b, p. 99) and emphasized that an economist should be familiar with economic history and economic sociology, as much as with economic theory. Schumpeter's economic sociology, which has a similar analytical framework, is analyzed below.

## 2. Schumpeter's Economic Sociology

Schumpeter registers as among the most distinguished economists of the twentieth century. He published his amazing book entitled *The Theory of Economic Development* in 1911 when he was only 28. He graduated from the University of Vienna (1904) and started teaching at the University of Czernowitz (1909). He later transferred to the University of Graz. He became the Minister of Finance of Austria (1919-1920) and then the president of a German bank (1920-1922). After his first visit to the United States (1924), he returned to Europe (1925) and became professor of public finance at the University of Bonn. He left Europe and worked at Harvard University from 1932, until his retirement in 1950 (Robert L. Heilbroner 1999, pp. 292-293). While he was working at Harvard University, he published his astonishing book entitled *Business Cycles* (Schumpeter 1939). This book was published at a time when the Keynesian revolution was at its peak (Mark Blaug 1986, pp. 215-217). Schumpeter was a contemporary of Keynes; however, in contrast to Keynes, he did not have followers and did not attempt to create a school (Paul Malor Sweezy 1996, p. 77).

Since the analysis of Keynes is limited to the short-run, in which there is no capital accumulation, it is full of factors that trigger disequilibrium in the long-run, and it even seems to avoid the dynamic problems stemming from the capitalist capital accumulation process, which is characterized by a Schumpeterian "creative destruction" process. Capital accumulation is dependent on psychological, sociological, and institutional factors; this shows us that the solution of the coordination problem that Keynes focused on, that is, ensuring harmony between consumption and investment decisions, is rather difficult and is subject to randomness in a dynamic environment. Viewed from this aspect, although Keynes is aware of the importance of the dynamic coordination problem, it seems that this is left behind and that the long-term capital accumulation process and the problem of disequilibrium are neglected. One reason for this may be preferring a comparative static analysis due to the discomfort arising from the probability that "the dog chasing its tail" will never be able to catch it (Gary Mongiovi 2001, p. 510). Another important reason is that the

analytical toolbox of Keynes's period is not sufficient to deal with such problems. As is known, Schumpeter aimed to analyze the dynamic processes of capitalism, tried to construct a general analytical framework that differs from the Orthodox theory, and took long-run dynamic disequilibrating factors into consideration, in contrast to Keynes.

Minsky was a graduate student of Schumpeter; however, after Schumpeter passed away in 1950, he completed his dissertation under the supervision of Leontief in 1954 (Mark Knell 2015, p. 294). Minsky rarely cited the works of Schumpeter and was distant to the Walrasian vision of Schumpeter (Knell 2015, p. 307). According to Minsky, effective policy making is crucial in understanding the dynamics of an accumulating capitalist economy. Such dynamics include both short-term macroeconomic fluctuations and long-term economic evolution. For this reason, the financial instability hypothesis not only concerns effective demand in monetary economics and the institutional arrangements underlying the financial system but also covers evolutionary economics (Hyman P. Minsky 1980). Hence, it can be claimed that Minsky, in essence, advocated the Schumpeterian innovative, creative entrepreneur in his analysis of financial innovations of financial institutions. In addition, Minsky inherited from Schumpeter the role of banks in financing investments. He broadened the scope of Schumpeter's technology and changing economy by including the role of money and financial institutions.

In addition, neo-Schumpeterians, such as Richard R. Nelson and Sidney G. Winter (1982), Giovanni Dosi (1988, 1990), Dosi and Luigi Orsenigo (1988), Christopher Freeman and Carlota Perez (1988), and Perez (1998) defined concepts that are related to technology. These concepts are: technological paradigm, technological trajectory, technological regime, and techno-economic paradigm. Such a technological conception affects socioeconomic structure. Neo-Schumpeterians try to analyze the interaction between social and economic frameworks and define technology as a driving force of social transformation. Before analyzing Schumpeter's economic sociology, it is necessary to consider the methodological aspect of Schumpeter.

Schumpeter aimed to eschew methodological debate between theory and history, since the methodologies are a product of the human mind with different research fields, different research subjects, and different abstractions (Shionoya 2005, p. 36). Schumpeter did not reduce the role of theories only to that of prediction of phenomena but held the view that they also included clarification, organization, and explanation of phenomena, although it is currently claimed that "theories that are not statements, but instruments, cannot lead to explanation" (Shionoya 2005, p. 36).

Schumpeter was influenced by the German Historical School, specifically by Schmoller, who is the leader of the younger historical school. Accordingly, he followed Schmoller's approach in economic sociology. Schumpeter defined economic sociology as "a sort of generalized, or typified, or stylized economic history" (Schumpeter 1955, p. 20). That is, whereas institutional factors are taken as given in economic theory, economic sociology also aims to explain noneconomic factors, such as sociocultural phenomena.

Schumpeter believed that history and theory should be separated from each other. During a period in which the German Historical School had dominated the

methodological controversy and advocated for history, Schumpeter favored theory over history and aimed to illuminate the methodological basis of the theory. According to Schumpeter, theoretical economics was a static theory of exchange, and the dynamic phenomena, which were not within the scope of the theoretical approach, were left to the Historical School (Shionoya 2005, p. 98). However, when he commenced his analysis of economic sociology in addition to economic development, he embraced an approach that included the cooperation of history and theory, rather than their separation. Therefore, it became possible to deal with the dynamic problems.

There are four crucial aspects of Schumpeter's methodology of economic sociology and institutions. First of all, while institutions determine the behavior of individuals, institutions are also influenced by these behaviors and evolve because of the interaction among individuals throughout history. Secondly, economic sociology scrutinizes institutions during analysis and does not include all phenomena, which are not taken into consideration in economic theory. This analytic approach has crucial implications for theory. Thirdly, there is an interaction between history and institutions. Historical events can be generalized by means of the concept of institutions, as institutions involve actions that obey rules. And finally, one of the aims of economic sociology is to explain sociocultural development. When such an aim is attributed to economic sociology, the mediatory role of mathematics and statistics between theory and history vanishes. It is now the institutions that have this role (Shionoya 2005, p. 103).

Schumpeter accepted that economics has a certain technique. He added a fourth factor – economic sociology – to this technique, which is generally composed of three factors – history, statistics, and theory – and proposed his own economic analysis accordingly. Schumpeter's opinions about the methodology of economics can be found in his work entitled *History of Economic Analysis* (1955). According to Schumpeter, knowledge changes the accepted opinions and methodologies. Scientific progress is achieved when new facts, new perspectives, or new types of relationships emerge. According to Schumpeter, theoretical acceptances are realized when the struggles and discussions that have been going on for many years develop into conciliation within the context of a certain paradigm. Schumpeter believed that the aim of theory is to construct logical relations between different variables (Schumpeter 1955, p. 12; Janne Kurtakko 2014).

Schumpeter explained the basic difference between the theories with two supplementary elements embodied in both theories. The first is the theoretician's opinion of the fundamental characteristics of society. This is called "vision". The second is the theoretician's technique, which enables conceptualization of the concrete propositions of the theoretician. In his article entitled *Science and Ideology* (Schumpeter 1949), Schumpeter claimed that the vision of the researcher affects the model he develops. While explaining the social and natural facts, vision also helps identify valid and important phenomena. Once these elements are identified, discussions about these physical factors begin, in accordance with scientific rules. The model is established with the help of the feedback process between the investigated reality and the theory. In other words, according to Schumpeter, vision affects the researcher when establishing the model. In short, vision, the theoretical system, and

the reality are the building blocks of Schumpeter's scientific knowledge production process. However, when developing the theoretical system in different periods, the process does not necessarily go from vision to theory and from theory to reality. Schumpeter argued that the main goal is to construct a scheme of the reality by means of models (Shionoya 1997, p. 40).

In his work entitled *The Theory of Economic Development* (1934), Schumpeter aimed to establish a theoretical model of the process of economic change. In Schumpeter's theory of economic development, the changes in the economic structure are quite different from the circular flow mechanism or the process of convergence to equilibrium. Schumpeter's understanding of change (*vision*) is endogenous, spontaneous, and discontinuous. In Schumpeter's analysis, when there is any deviation from equilibrium during the process of change, it is not possible to reach the previous state of equilibrium again, as in the circular flow (Schumpeter 1934, p. 45). Hence, Schumpeter focused on the structural changes in economic and social life.

Economic change, or economic development, as studied by Schumpeter, is described as the development of innovation, the introduction of new combinations to economic and social life. Schumpeter identified five different types of innovation. These are producing a new product, adopting new production techniques, exploiting new markets and new ways of organization, and gaining access to new raw material resources. In the change caused by economic development and innovations, Schumpeter emphasized the innovative/creative actions of the entrepreneur (Schumpeter 1934, p. 66). Individual actions are rational in the circular flow mechanism. When there is any disequilibrium in the economic and social structure, rational behavior is the basic tool that enables the system to reach a new state of equilibrium. Despite that, as having a full information on the effects of innovations on the system is impossible, the decision units will not be able to act rationally, and the previous state of equilibrium will not be reached, as a result of different individual actions (Franco Malerba 2006, pp. 4-5). Therefore, it can be postulated that Schumpeter explains economic and social structure mainly through individual actions. If there is order in the economic and social structure, rational actions are taken into account; however, if there are disorders, creative individual actions are taken into account.

In *The Theory of Economic Development* (1934), Schumpeter differentiated two types of individual actions – mass behavior and elite behavior – and associated them with static and dynamic analysis, respectively. Mass behavior can be considered as rational behavior, while elite behavior can be conceived as innovative or creative behavior, and they can be classified mainly as *energetic decision units* (Schumpeter 1934, pp. 92-93).

The energetic decision units are associated with the concept of the charismatic leader, which was presented in the first chapter of Weber's work entitled *The Protestant Ethic and the Spirit of Capitalism* (1997). The similarity between Weber's charismatic leader and the energetic decision units lies in the fact that the results of the actions of these decision units are unsatisfiable and that personal characteristics influence the motivations underlying the individuals' actions. The key feature of the behaviors of energetic decision units is that they act innovatively by using materials

and methods that are different from those used previously. The behaviors of energetic decision units are important with regard to Schumpeter's theory of economic development.

The system analyzed by Schumpeter is not a simple and mechanical system but is, rather, complex and dynamic. These features of the system are associated with the actions of individuals and the motivations behind these actions. In this sense, it is possible to establish connections between the rational behavior and the static framework and between innovative decisions and dynamic analysis. According to Schumpeter, development is related to innovation. The creator of innovation is the entrepreneur and he/she changes the parameters of economic and social structure, breaking the symmetries. Within this framework, in Schumpeter, the main actor of economic and social innovation and the development process is the creative/energetic (charismatic) entrepreneur.

Schumpeter defines the entrepreneur as the person who introduces new combinations to the economic and social structure. In his essay entitled *Development* (2005), Schumpeter used the term "change" as a transition from one economic norm to another. According to Schumpeter, this transition is carried out with discontinuous steps, and its outcomes cannot be predicted (Schumpeter 2005, p. 115). In Schumpeter's analysis, the entrepreneur paves the way for development, and the innovative actions of the entrepreneur are both the endogenous and evolutionary factors of the system. From this aspect, the entrepreneur is defined as the charismatic leader of the economic system, as in Weber.

In his work entitled *History of Economic Analysis* (1955), Schumpeter stated that scientific analysis is a product of the struggle in our individual minds and of the struggle in the minds of people surrounding us. He also noted that the development of analysis is dependent on new opinions, new observations, and new needs. As the scientific process does not always continue on rational framework, Schumpeter claimed that science can resemble a tropical jungle, rather than an entirely logical architecture (Schumpeter 1955, p. 10). According to Schumpeter, economic theory is integrated in economic history, economic sociology, and statistics. This can be called "economic sociology", in short. Schumpeter analyzed economic actions and institutions together within the framework of culture. In order to examine the sociological aspect of Schumpeter's theoretical studies, his emphasis on the difference between social theory and sociological theory should be considered. From the perspective of history, while social theories investigate the reasons behind social changes, such as the emergence of democracy in Western Europe and North America, sociological theories focus on the empirical studies that aim to understand modern society. Social theoreticians explain development, crisis theories, and collapse from the perspective of social contradictions. Sociological theoreticians, on the contrary, attempt to understand the logic of social evolution. When viewed from this perspective, it can be argued that Schumpeter was a social theoretician.

Schumpeter's crucial studies on economic sociology are *Capitalism, Socialism and Democracy* (1943), *The Crisis of the Tax State* (1991), and *Imperialism and Social Classes* (1966).

Capitalism is a system that will not decay in the short-run, as it has dynamic characteristics, including that of the creative entrepreneur. The system's creative and destructive characteristics depend on the functioning of the entrepreneur. In other words, if the creativity of the entrepreneur in small firms continues, the system functions; however, if the creativity vanishes in big firms, as mentioned by Schumpeter, the system collapses. The creative destruction process destroys old forms and creates new forms. When big firms emerge, as Schumpeter (1943) emphasized, the creativity of the entrepreneur becomes routinized, and, in this way, the system loses its dynamism. The centralization of capital in big firms can be defined as the transformation of small firms to big firms, and this transformation constitutes the sociopolitical dimension of Schumpeter's analysis.

In short, such transformation and the subsequent destruction not only depends on the routinization of creativity of the entrepreneur but also on the institutional structure of the system. In Schumpeter, bureaucratic rational capitalism, which arises in big firms, destroys both economic and social areas. As mentioned before, the major dynamic factor that causes destruction is the disappearance of the entrepreneur's creative/innovative character. Others factors are the destruction of the protecting strata, the hostility of intellectual groups, and the antitraditional characteristics of family life in rational capitalism. "In the end there is not so much difference as one might think between saying that the decay of capitalism is due to its success and saying that it is due to its failure" (Schumpeter 1943, p. 162).

Schumpeter examined capitalism by taking it out of the static economic analysis to cover broad historical factors. Disorder in the economic structure will arise when the entrepreneur comes to a point where he/she cannot make any innovations, when the rational spirit weakens the family bonds of the bourgeoisie, and when the increasing reactions of the intellectuals cause an expansion in the current reactions to the system. The bureaucratic structures of large companies can also destroy the fundamental institutional layers of capitalism, such as private property and the freedom of contract. In short, in Schumpeter, the reasons that prevent capitalism from functioning can be defined as social and institutional elements such as the disappearance of the creative aspect of entrepreneurship (the economic area), the reactions of intellectuals, and the traditional form of the bourgeois family structure (the social area) (Schumpeter 1943).

According to Schumpeter (1943), the capitalist development transformed small firms to big bureaucratic firms. Throughout this historical process, big firms have replaced small ones, thereby changing the values and norms of the sociopolitical structure. The increase in the number of big firms in the economic structure resulted in the routinization of the creative behavior of the energetic entrepreneur. In other words, this historical process rationalized creative behavior and transformed it into mass behavior. The increasing rationality that has been spread by big firms to all aspects of life, in line with economic development, has been weakening the innovative/creative side of the entrepreneur and has been damaging the basic protective layer of the economic and social structure (Filip Caeldries 1993, p. 166) Within this framework, the bureaucratization process caused by formal rationality and the routinization of charisma (in Weber), and the entrepreneur that loses his energetic

and creative side (in Schumpeter) are similar processes that feed each other. The action of Schumpeter's entrepreneur, who is the main actor of economic change, cannot be solely regarded as a rational action. Thus, Schumpeter's entrepreneur resembles Weber's charismatic leader, who dreams of creating his own kingdom and is willing to become successful. However, in the following phases of the capitalist development process, the innovative entrepreneur faces rational bureaucracy, which is a natural result of big firms, and, accordingly, the creative characteristic of the entrepreneurs weakens.

Schumpeter's entrepreneur can be regarded as the leader of economic development. Leadership means either finding or creating new opportunities. According to Schumpeter, the leadership of the capitalist entrepreneur is not personal, unlike the case in political leadership. In addition, Schumpeter's entrepreneur does not act in a way that is fed solely by hedonistic motives. As emphasized above, the entrepreneur is a person who is willing to create his own kingdom, produces with the desire for success, and longs for success itself, rather than for the object of his accomplishment. The pleasure of creation is the main motivation of the entrepreneur, and it changes the current structure in terms of economic and social aspects.

Another astonishing study by Schumpeter on economic sociology is *The Crisis of the Tax State* (1991). This study not only contains fiscal sociology, which has remained an intact research area, but also demonstrates Schumpeter's sharp analytical skills in dealing with the broader social perspective in addition to the economic angle.

In this article, Schumpeter argued that the change in economic structure would pave the way for a solution to Austria's postwar difficulties. According to Schumpeter, the reason of the weakening of the tax state could not simply be attributed to a budgetary crisis but should be seen as resulting from a deeper reason; the structural weakness of the Austrian society. To exceed the limitations of artificial data, one needs to delve into the historical process and consider the interaction between fiscal issues and the social structure. Schumpeter later scrutinized the historical transformation of Austria and Germany by examining the reasons for their fall and the consequent rise of the modern tax state. Schumpeter also focused on the court, which had to expand its services to preserve the loyalty of the vassals. In such a transformation, the major factors were not only the invention of gunpowder, and innovations in feudal armies, but also the decrease in bonds, which added to the war burdens of the court. Although the tax state managed to deal with these rising costs, changes in private property and demands for social expenditures posed a threat for the tax state that it could not overcome. The "meaning of its organization lies in the autonomy of the private economy and this meaning is lost when the state can no longer respect this autonomy" (Schumpeter 1991, p. 116). The tax state would then fall.

In his articles on imperialism and social classes, Schumpeter (1966a, b) relates imperialism to human behavior, rather than to capitalism. Although capitalism is a product of militarism, war, and surplus capital, reducing imperialism to capitalism alone would cause imperialism to lose its meaning. While imperialism is commonly used with the terms of aggressiveness, hegemony and world dominion, Schumpeter defines it as "the objectless disposition on the part of a state to unlimited forcible expansion" (Schumpeter 1966a, p. 7).

Schumpeter takes not only economic but also historical elements into consideration to analyze imperialism. In doing so, he focuses on social classes and their traditions. Hence, wars become more reasonable in the historical context. Individuals had to become warriors to avoid extinction. This process established itself as continuous psychological and sociological behavior and also resulted in an economic gain for society as a whole. All these aspects are valid in all ages (Schumpeter 1966a, pp. 7-8).

When evaluated from the viewpoint of capitalism, it can be argued that capitalism has changed economic and social structure. Free contract ensured that the entrepreneur could gain access to resources, making the entrepreneur powerful and successful, both in economic and social fields. The capitalist period has also changed the working conditions, the interests, and family relations of the working class. In the meantime, workers have become more visible in the political field, as a result of the increase in demand for labor in the economic field. In addition to both entrepreneurs and workers, professionals, journalists, and lawyers have gained opportunities. Capitalism has shaped these new social groups, and they have become democratic, individualistic, and rational. In short, according to Schumpeter, a purely economic interpretation of imperialism is incomplete, since he believes that noneconomic factors should also be regarded (Schumpeter 1966b).

Schumpeter proposed that economic changes result in the evolution of the economic structure by changing the norms. He postulated that the creative response is a product of the actions of the entrepreneur. The creative response shapes the long-term results of incidents and produces change. Thus, it can be argued that the creative response is the outcome of a historical process. According to Schumpeter, the main characteristic of the capitalist social structure is its dynamic structure. This characteristic stems from the fact that “economic life” is a changing “social” environment.

Although Schumpeter’s social analysis bears a resemblance to that of Weber, it can be argued that Schumpeter’s social theory is more systematic. The starting point of Schumpeter’s analysis is the relations between society and economics and the variables causing this mutual relation. In this framework, Schumpeter focuses on two different behaviors: creative behavior and rational behavior. These two types of behavior are the basis of Schumpeter’s understanding of the entrepreneur, including the factors that cause economic and social change (Harry F. Dahms 1995, p. 1). In Schumpeter’s analysis, the weakening of the creativity of the entrepreneur is the result of the process of economic and social rationalization. The basic factor driving socialization is the rational bureaucratic structures that have emerged as a result of development, which is controlled by big firms in modern economies. Hence, the routinization of entrepreneurship in Schumpeter’s analysis can be considered as the main factor behind social, political, and cultural change.

### 3. Conclusion

Both Max Weber and Joseph Schumpeter have made contributions to economic sociology and such is evidenced by their historical and theoretical approaches that seek to relate economic with broader societal variables. It can be claimed that the



methodologies of Weber and Schumpeter are similar (Shionoya 2005). Although Weber was influenced by the neo-Kantians, whereas Schumpeter was influenced by the early positivists, they were similar with respect to their approach to the methodology debate. They both employed instrumentalist methodology and aimed to develop economic sociology. In fact, although there is a lack of interrelation between economics and sociology, there have a common basis, and the works of Weber and Schumpeter can be regarded as finding this common ground.

Both Weber and Schumpeter were involved methodologically in the bifurcation between theory and history, which emerged because of the methodology debate. The methodology of Weber's sociology essentially focuses on rational actions and is applied to all fields of society. It comprises three fundamental notions: order, organization, and institutionalization. Therefore, in Weber, economic sociology scrutinizes the institutional framework of the economy, illuminating its basis with regard to individual orientation and order (Shionoya 2005, p. 176). Weber's analysis of Protestant theology included not only religious sociology but also economic sociology, thereby highlighting the rational and working motives behind the actions of individuals. Schumpeter employed the instrumentalist methodology to economic sociology, investigated the interrelationship between economic and noneconomic phenomena, and considered noneconomic phenomena as being social institutions that frame economic phenomena. Schumpeter intended to portray social unity and development, which are the the two crucial standpoints of the Historical School, by taking the analytical theme of Weber into consideration.

Weber investigated the contradictions of modern rationality by taking the rationalist tradition of modernism into consideration. Formal rationality, which is the spirit of modern capitalism, causes bureaucratization and reification of human behaviors through intense technical/mechanical calculations. Weber emphasized the irrationality in the process of capital accumulation and that capitalist rationality also embodies irrationality. Such irrationality paves the way for imprisonment of individuals in a metaphorical iron cage over time and, by spreading to various layers of society – from economic life to politics, law, and culture, etc. – even causes individuals to lose their human feelings. As long as the structure of the capitalist society develops, the bureaucratization that increases through calculations and activities causes the “reification” of humans (Weber 1996b, p. 92). From this aspect, it can be claimed that Weber had a pessimistic approach towards capitalist society. This pessimism cannot be considered separately from the nature of capitalism and from the dynamics of rationality. The process of capitalist bureaucracy can cause the destruction of values and ideals in rationality. Hence, it can be proposed that, in a capitalist society, other than the exchange value, the market destroys all factors, such as moral values, human relations, and individual emotions. In this sense, goals turn into tools, and the individual is distanced from his own individual activities in the process of capitalist development.

Weber's statements about the negative effects of bureaucratic organization and formal rationality on charisma influenced the development of Schumpeter's concept of the entrepreneur, who he considers as a charismatic leader. As the rationality of capitalism increases, the creative nature of the entrepreneur, who adds dynamism to

capitalism, decreases, and even disappears. Thus, the economic structure becomes routinized. Schumpeter accepted that social life can be described using many external factors and that human behavior determines this field endogenously. Schumpeter argued that dynamic economic development (economic field), which means the emergence of new products, new markets, new production techniques, new raw materials, and new forms of organization, is associated with the action of the creative entrepreneur (noneconomic motive). Therefore, an entrepreneur, who refers to a leader from a Weberian perspective, causes the economic and social structure to change.

The relationship between economic and noneconomic fields, and the results of this relationship, in terms of the individual and society, should not be neglected. In this context, both Weber and Schumpeter offered a comprehensive framework of analysis for understanding economic sociology and the economic and social structure. It is possible to claim that this framework of analysis is a useful instrument for enabling economists, who restrict themselves with abstract-deductive methods, to face real social problems.

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