

## **Max Weber as an Economist: Revisiting Max Weber’s Legacy 100 Years after His Passing\***

By Marek Louzek\*\*

### **Abstract**

This article presents Max Weber as an economist and as a social scientist. Weber’s relations to economics, philosophy and sociology are discussed. Max Weber has more in common with economists than it might seem at first sight. His principle of value neutrality has become the foundation of the methodology of social sciences, including economics. The second point shared by Max Weber with standard economics is methodological individualism. The third point which a modern economist can learn from Max Weber is the concept of the ideal type.

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### **1. Introduction**

Nearly all social sciences tend to “appropriate” Max Weber. Historians emphasize his historical studies of the Roman Empire, Judaism or the Middle Ages. Political scientists emphasize Weber’s analysis of authority and power or the well-known speech *Politics as a Vocation*. Legal scholars praise Weber for his dealing with law, while religious scholars do so for his analysis of religion. Surprisingly, the only discipline who seldom claims that Weber belongs among them are economists. Are they right?

We can find only brief mentions of Weber in textbooks about the history of economic thought. Weber is perceived as a representative of what is referred to as the “youngest generation” of the German Historical School, which defined itself in opposition to the younger generation (Schmoller) in the famous “dispute over values.”

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\*\* Faculty of Economics, Prague University of Economics and Business, W. Churchill Sq. 4, Prague 3, Czech Republic. The author can be reached at louzek@post.cz.

Weber is usually given credit for his contribution to economic sociology; his *The Protestant Ethic and the Spirit of Capitalism* is mentioned but that is all the merit ascribed to him. Few economists know that Weber's most significant sociological work, *Economy and Society*, uses a number of examples from economic theory and that in a separate article, Weber interpreted marginal utility theory. Prior to 1912, Max Weber was not certain whether sociology was more than a method and when referring to "our science" in his writings, he always means economics. All university positions which he held in his life – at Freiburg, Heidelberg, Vienna and Munich – were chairs of economics. Therefore, Weber's relation to economics should definitely not be undervalued.

The aim of this article is thus to present Max Weber, who died 100 years ago, as an economist. Section 2 examines Weber's relationship to economics, philosophy and sociology. Section 3 deals with his inaugural speech at Freiburg, *National State and Economic Policy* (1895). Section 4 is concerned with *Lectures on General ("Theoretical") Economics* (1898), while section 5 revisits his most famous work: *The Protestant Ethic and the Spirit of Capitalism* (1904–1905). Section 6 analyzes Weber's works on stock trading, while section 7 deals with key economic aspects of *Economy and Society* (1922). Section 8 draws a comparison between Max Weber and Adam Smith, the father of modern economics. Section 9 summarizes Weber's influence on economics.

## 2. "A One-Third Economist"

Maximilian Carl Emil Weber, a giant of the social sciences, was born in Erfurt, a Prussian enclave in Thuringia, in April 1864. Weber completed his main university studies in Heidelberg, Strasbourg, Göttingen and Berlin in the years 1882–1886. Weber was interested in economics and history as well as in philosophy and theology (Ringer 2004). When Max Weber started his studies at the Faculty of Law at Heidelberg University in May 1882, where he studied law and economics, he became a member of the group of students under Karl Knies, who was a towering figure of the Older German Historical School. From our present point of view, the Historical School can be described as a precursor of institutional economics (Swedberg 1998).

Weber always saw history and law as sciences that were at least as equally important as economics. In retrospect, he admits: "In the course of my life, I have become approximately one-third economist" (Weber 1936, 327). In any case, Weber earned a good reputation among the community of economists: for example, Lujo Brentano, the most influential ordinarius of that time at Munich University, sent his works to Weber for evaluation (Eisermann 1993, 33). As early as July 1893, the University of Freiburg proposed that Weber be appointed a full professor of political economy. As a postgraduate student, Weber joined Schmoller's Association for Social Policy (*Verein für Socialpolitik*). In the 1870s, this association led by Gustav Schmoller enthusiastically welcomed the introduction of new labor legislation, including Bismarck's

welfare insurance, which Schmoller regarded as a breakthrough of global importance. Weber contributed to the research works of the Association for Social Policy with his study titled *Situation of the Agricultural Workers in Prussia* (Weber [1892] 1984).

Although Weber completed his habilitation in Berlin in commercial and Roman law and represented this field as an extraordinary professor during the winter term of 1893/94, he was called on to take over the chair of economics and public finance at Freiburg University in April 1894. For the winter term of 1894/95 he was officially appointed a full professor at Freiburg University. However, in 1896, he received an even more attractive offer – to teach in Heidelberg where he took the chair formerly held by Karl Knies (Ringer 2004, 20–1). In 1897, there was a conflict between Max Weber senior and his son during a visit to Heidelberg by the former. An argument about relationships in the family, in which the son criticized his father for his patriarchal authoritative treatment of his mother, culminated in an ostentatious departure of the father who died seven weeks later. The subsequent remorse is sometimes seen as one of the causes of Weber's nervous breakdown, which resulted in the pause in his intellectual work in the years 1898–1902 (Radkau 2011, 45).

In 1903, Weber resigned from his chair and was furthermore an honorary professor with the right to teach, but with no right to direct doctoral theses and no voice in the faculty. Regardless of whether his nervous breakdown was caused by overwork, exhaustion or an “Oedipus complex,” it is a fact that Weber did not avoid reading economic works. From time to time, he wrote reviews of economic books. However, he gradually, yet increasingly, concentrated on work in other fields – culture, sociology and philosophy (Russell 1985). From August to December 1904, Weber and his wife travelled around the United States. In the meantime, the first part of *The Protestant Ethic and the Spirit of Capitalism* (1904–1905) was published in the *Archiv für Sozialwissenschaft und Sozialpolitik*, and the second part was published after their arrival. In the Association for Social Policy, Weber positioned himself as a supporter of the liberal wing in opposition to the conservative-dominated leadership.

In the years 1909–1914, Weber became the main figure of a debate inside the Association for Social Policy, which is called the “dispute over values” (Schumpeter 1954, 804–7). Weber's central thesis was that it was not sincere to justify one's own (undoubtedly legitimate) political opinions using scientific arguments, that is, by falsely invoking science. However, the passionate controversy remained hidden from the general public for the most part (Tribe 2006). His conclusion that social science analyses but does not evaluate asserted itself as the principle of value neutrality. At the end of his life, he lectured at Vienna and Munich. Weber died of the Spanish flu in June 1920.

### 3. National State and Economic Policy (1895)

The academic inaugural address *National State and Economic Policy*, given in Freiburg on 13 May 1895, is the evidence of the close connection between science and

politics, typical of the early work of Max Weber (Weber [1895] 1993). Nowhere else are the political and economic ideals of young Weber formulated so succinctly as here. Against the background of the analysis of the agrarian-political situation in Prussia, the author raises a list of demands combined with sharp criticism of the situation in the empire.

The Freiburg address provoked a boisterous response, particularly because of the “brutality” of its opinions (He 2016, 220). Weber opens his inaugural address with a case study about the “Polish elements” in the Eastern part of Germany: Poles tend to belong to the economically and socially lowest strata of the population; they decrease the average wage in Germany and take work away from native Germans who are accustomed to a higher standard of living. Weber demanded that the border be closed to Polish immigrants. After describing this specific political-economic issue, Weber poses the question: Should economic science respond to this fact and, if so, how? Are the value judgements mere prejudices, which a scientist must carefully avoid, or does a scientist have a right to apply his own measure of value in science? And if the latter is valid, what measure of value is suitable to use for economic policy?

Weber’s answer is remarkable particularly in the respect that there is a certain tension between this answer and his later texts on value neutrality in science. In Weber’s perspective, economics alternately deals with the technical-economic issue of production of assets and with the issue of redistribution, “social justice.” While the first type of issues appears to be fairly neutral, the second type presents normative questions. Our ideals can be variable and transitory, but we can ask not only about our interests but also about the interests of our ancestors and descendants. The normative guideline, which can be used to resolve economic issues, is the *affiliation to a nation*. If the national viewpoint is in conflict with a purely economic viewpoint, then the application of the national criterion takes precedence politically. “Therefore, the national economic policy of the German state, just as the measure of value of a German economic theoretician, can only be German in nature” (Weber [1895] 1993, 558).<sup>1</sup>

In Weber’s view, human history is the history of fierce struggles. We equip our descendants for the journey through life not with peace and human happiness but with the eternal struggle for refinement and maintenance of national togetherness. As he interpreted history, struggles for power need not always be negative because they often bring economic development. The national interest of a country is what an economic policy should pursue. A national state is not something indistinct, shrouded in a mystical unity. It is a mundane organization of a nation that wants to achieve sovereignty. Nationality, affiliation to a nation and national interests are thus the ultimate measure of value in an authentic *national* economic policy. “A science dealing with national economic policy is a *political* science. It is a service of politics but not of the everyday politics of any given ruling holder of power or any given ruling class; it is a service for lasting power-political interests” (Weber [1895] 1993, 559).

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<sup>1</sup> If not stated otherwise, translations from German were conducted by the author.

The fact that an economic viewpoint may be in conflict with the national viewpoint is the reason for distinguishing normative judgements from analytical statements. If we failed to make this distinction, we could not even realize this conflict, let alone resolve it earnestly. In the early assessment of Weber, the exclusion of evaluation from social sciences is not necessary but evaluation needs to be clearly admitted and it must not be confused with statements of an analytical nature (Russell 1985). Later, Max Weber commented on his Freiburg inaugural address critically in various respects. His hostility to Poles was replaced with a sober examination of Polish and German interests. In the discussion about value neutrality in 1913, he renounced some important points of his Freiburg address. In retrospect, nationalism seemed radical to him; however, he retained political realism.

In my Freiburg inaugural address, immature though it may have been in many respects, I most outspokenly supported the sovereignty of national ideals in the area of all practical policies, including social policy, at a time when the great majority of the colleagues in my field were being taken in by the fraud of the so-called social kingdom. But even then I very deliberately emphasized that politics is not and can never be a profession with a moral foundation (Weber quoted from Mommsen 1993, 540).

#### 4. Lectures on General (“Theoretical”) Economics (1898)

In order to properly perform the duties of his office at Freiburg and in order to acquire a good reputation at the university, Weber assumed responsibility for a full schedule of twelve lectures and two seminars. He taught a full sixteen hours per week (Eisermann 1993, 85). Thus, there were good reasons for recognizing Weber as an economist. For many years, Weber’s economic work went unnoticed. A radical change occurred in 1990 when his *Lectures on General (“Theoretical”) Economics* were found and published (Weber [1898] 1990). In this publication, the reader has an opportunity to see the exact structure of Weber’s lectures in twenty sections and even study detailed content of two of them – “Section 2. The first book. The terminological basics of economic studies” and “Section 3. The national economy and its elementary phenomena.” The small booklet also includes a list of literature (more than six hundred sources) which Weber recommended to his students. Although Weber apparently did not offer all the explanations, including the detailed list of literature, to his students right from the beginning, over time he clearly worked his way up to the level of his colleagues. The content of his lectures shows that Weber acquired not only a deep insight into the historical method of those times, but that he also acquired a deep insight into neoclassical theory and other important schools of thought of those times (Curtis 1968).

After 1900, Weber made a certain exception to his “non-economic interests” in 1908 when he published his article “Marginal Utility Theory and the Fundamental Law of Psychophysics” ([1908] 1975). In the paper, Weber comes across as a clear supporter of marginal utility theory but not in its “psychological version.” Weber

holds the stance that neither marginal utility theory nor any other economic *theory* is based on the findings of empirical psychology but is rather positioned in contrast to such findings. It does not break down the internal perception of everyday experiences into mental elements (irritation, sensations, responses, automatisms, feelings), but tries to understand a certain “adaptation” of the economic behavior of people in response to external conditions (*ibid.*, [1908] 1975, 28). Marginal utility theory describes what consumer behavior would look like under ideal conditions. However, that is the exact opposite of any kind of psychology. In spite of this, the theory originating from this basis does not make these assumptions up – no matter that they are undoubtedly unrealistic (*ibid.*, 31). Weber was sensitive to the idealized nature of economic theory and criticized some economists for what he called “problem conflation” – confusing models with reality (Maclachlan 2017, 1170).

When Weber replaced Knies at Heidelberg, one of the students remarked that the great historical economist had been replaced with a “champion of the Austrian School” (Swedberg 1998, 185). Weber remained sympathetic to the Austrian School in the following years, too. When Weber was asked to recommend a candidate to the chair at Vienna University, he recommended Joseph Schumpeter (Maclachlan 2017). It is worth mentioning that Lionel Robbins referred to Max Weber’s approach in his fundamental essay of 1932 when examining the distinction between positive and normative economics. And not only that, he also quite significantly used Weber in his criticism of economists’ attempts to ground the basic principles of economics in psychology (Maas 2009). For Robbins, economics was primarily about making choices in an economizing context (Robbins [1932] 1984). And Weber was able to disentangle economics from psychology by emphasizing the objective structure of means-ends rationality.

## 5. The Protestant Ethic and the Spirit of Capitalism (1904–1905)

*The Protestant Ethic and the Spirit of Capitalism* is one of the most renowned, and controversial, works of modern social science. First it was published as a two-part article in 1904–1905 in the *Archiv für Sozialwissenschaft und Sozialpolitik*, of which Weber was one of the editors. *The Protestant Ethic* can also be understood as a manifestation of the “cultural battle,” which Catholics and Protestants waged at the turn of the 19<sup>th</sup> and 20<sup>th</sup> centuries (Giddens 2007). The central thesis of *The Protestant Ethic* is that there is proximity between the modern capitalist spirit and the religious foundations of professional ethics in the sense of rational way of life conduct, as elaborated on by the various schools of thought of ascetic Protestantism since Reformation in Western Europe and North America. Weber analyses the impact of certain variants of Protestantism on the evolution of the capitalist spirit. In his view, the capitalist spirit is embodied in Benjamin Franklin’s idea of building wealth.

In Weber's historiography, Catholicism supports traditionalism while Protestantism, or at least some of its types at certain times, supports progressive economic development towards modern capitalism. Weber observes that people with a specific religious background – particularly a pietistic background – are very “malleable” in terms of new economic habits being imparted to them. Weber admits that the attitude of capitalists to religion has changed in the modern times. The idea of pious boredom in paradise is not sufficiently attractive to them and the “capitalist spirit,” which they profess, is either reserved or directly hostile towards religion. They no longer see the “meaning” of the relentless bustle, money making, work and commerce. They act in this way because the society admires them for it and they can treat themselves to a number of luxurious goods.

Otherwise it is in general not the real leaders, and especially not the permanently successful entrepreneurs, who are taken in by it [...] He avoids ostentation and unnecessary expenditure, as well as conscious enjoyment of his power, and is embarrassed by the outward signs of the social recognition which he receives [...] He gets nothing out of his wealth for himself, except the irrational sense of having done his job well (Weber [1904–1905] 2007, 33).

As Weber saw it, in the matter decisive for salvation, each person walked on their own towards their fate, which was determined from eternity (predestination). Wherever there are teachings of predestination, questions keep popping up as to whether it is possible, based on certain signs or clues, to ascertain whether a believer belongs to the elect or to the damned. Since God made a decision on the elect and damnation in advance, a believer cannot but firmly believe in Christ and work tirelessly in their vocation.

This worldly Protestant asceticism acted powerfully against the spontaneous enjoyment of possessions; it restricted consumption, especially of luxuries. On the other hand, it had the psychological effects of freeing the acquisition of goods from the inhibitions of traditionalistic ethics. It broke the bonds of the impulse of acquisition in that it not only legalized it, but even looked upon it as directly willed by God. The campaign against the temptations of the flesh, and the dependence on external things, was, as besides the Puritans the great Quaker apologist expressly says, not a struggle against rational acquisition, but against the irrational use of wealth (Weber [1904–1905] 2007, 115).

Modern man is in general, even with the best will, unable to give religious ideas a significance for culture and national character which they deserve. One of the fundamental elements of the spirit of modern capitalism, and not only of that, but of all modern culture: rational conduct on the basis of the idea of the calling, was born from the spirit of Christian asceticism. Weber shows that religious belief which is primarily mystical may very well be compatible with a pronounced sense of reality in the field of empirical fact; it may even support it directly on account of the repudiation of dialectical doctrines. Mysticism may indirectly even further the interests of rational conduct (*ibid.*, 130).

After the main idea of *The Protestant Ethic* was published, a dispute over its authorship broke out. Ernst Troeltsch, Werner Sombart and Max Weber contested for



the main credit with regard to the central thesis. Sombart argued that the term “capitalist spirit” had already been contained in his work about modern capitalism from the year 1902. Troeltsch referred to his own research program from the year 1901. Weber claimed that the main idea had already been contained in his lectures since the year 1898 (Ghosh 2014).

*The Protestant Ethic and the Spirit of Capitalism* became the target of harsh criticism by historians. They argued that capitalism and the capitalist spirit had been present already before the Reformation, and that it was more a result of economic factors. According to some critics, Weber presented an idealistic or even spiritualistic interpretation of history. In response to these objections, Weber defined some of the main terms more precisely and incorporated them into the second edition of *The Protestant Ethic* (Weber [1920] 2016).

## **6. Papers on Stock Exchanges and Stock Trading (1894–1898)**

Weber’s treatises on stock exchanges and stock trading are not widely known today. Weber dealt with stock exchanges fairly intensively in the years 1894–1898. The date of 22 June 1896, when the German Stock Exchange Act was approved, is important for his approach to this topic. Weber’s texts on stock trading include highly technical specialized articles (for example, about futures) as well as treatises intended more for the general public. Weber presents a model, which is presently called the process-oriented theory of regulation (Lestition 2000, 292). In Germany, similarly to other countries in the late 19<sup>th</sup> century, there was a debate about whether a stock exchange was or was not the “right” institution, about whether stock exchange transactions could be morally or economically harmful, and whether the state should regulate them. Before the German Stock Exchange Act was approved (June 1896), Weber had been writing articles about stock trading in the hope that he would influence the contents of the law. Since this did not happen, he became a passionate critic of the Stock Exchange Act.

Weber’s analysis of stock trading reflects his knowledge of both legal science and economic principles. Weber also gave several lectures on stock trading and finance at Freiburg. Weber warned against unnecessary state regulation of stock trading. He tried to refute the view of a stock exchange as a breeding ground of morally dubious speculators who unproductively abuse human weaknesses or ignorance to achieve effortless profits (Lestition 2000).

The practical ineffectiveness of the criticism expressed by extensive segments of the nation with regard to stockbrokers has its main roots in the unlimited superficiality, which looks for fault in places where there is only unreason or conflict of interests. However, the same superficiality also brought about the idea that it is true for a stock exchange, which is an institution indispensable to every non-socialist social organization, that it is inherently a society



of conspirators who use lies and commit fraud to make their living at the expense of workers and therefore must be destroyed (and can be destroyed) (Weber [1893–1898] 1999, 135).

Around 1890, there were more than twenty-seven stock exchanges of various kinds in Germany where both commodities and securities were traded. Demands for state regulation of stock exchanges and for a ban on futures were increasing in strength. Distrust of stock exchanges also stemmed from traditional values, which regarded focusing on profit as morally dubious and making a profit on a stock exchange as a dishonest activity (Ackroyd 1974). While the general public was concerned that stock exchange speculations were making the economy shaky instead of stabilizing it, Weber advocated the “market” approach and explained that the price on a stock exchange balances out supply and demand. For him, stock exchange panics and other “failures” of the stock exchange mechanism tend to be isolated excesses, which do not reduce the significance of the stock exchange as such.

There is no doubt that it performs a function useful for speculative trade in a technically perfect way: it balances out the price. By buying at a lower price in Paris and by selling at a higher price in London, a stock exchange dealer increases the demand there and decreases the supply here and distributes the supplies geographically [...] This mitigates the sharp fluctuation of the general price level that would happen without speculation (Weber [1893–1898] 2000, 651).

In the 1890s, there was an increasing number of voices calling for greater protection of investors or depositors and for the elimination of dangers and risks associated with stock trading. Commodity exchanges were criticised, in particular, because farmers blamed them for decreases in prices. In 1891, there was a crisis of trust on the securities market, which prompted legislative initiatives leading to greater regulation. Weber warned against hasty solutions. He pointed out that capital markets were growing even without protective measures while the interest rate had been decreasing in the 1870s and 1880s. Regulatory pressures intensified after the Vienna stock market crash of 1873. Weber argued with the criticism voiced by a Christian workers’ society, which called for strong state legislation regulating stock trading. Although he generally sympathized with the Christian-social movement, he criticized its representatives for lacking education in the field of economics (Lestition 2000, 298). He published his articles about the stock exchange in order to increase awareness of this institution. He pointed out the failure of state supervision over stock exchanges in neighboring Austria and he believed that stock exchange regulation must come from within the stock exchange mechanism:

It is difficult to say how someone wants to achieve any effect by sending out additional, even more intelligent commissioners to a stock exchange to remove the garbage there during opening hours. General stock exchange supervision is an empty phrase; that must already be clear by now. It depends on what specific processes can be and need to be checked or regulated by legislative interventions and on what transactions can be and need to be prevented and what parties can be and need to be prevented from trading (Weber [1893–1898] 1999, 174–5).

## 7. The Economic Dimensions of *Economy and Society* (1922)

The fact that Weber never abandoned the subject of economics, not even in his most productive “sociological years,” is indicated by the title of his monumental work *Economy and Society* where the term “economy” comes first (Weber [1922] 1968). It is even more interesting that even in this work authored at the end of his life, the main examples he uses when explaining the concept of an ideal type are examples from economic theory.

In the years 1908–1910, Weber accepted an offer to edit a massive economics textbook to follow up on Gustav von Schönberg’s *Handbook of Political Economy*. This decision was extraordinarily important for Weber’s effort to apply himself fully to sociology. He felt very strongly that sociology should play a special role in the study of economic phenomena and therefore should be a part of this work (Parsons 1928–1929). According to the project, the encyclopedia, consisting of multiple volumes, had the goal to cover not only the economy, but also the relationships between the economy and technology and between the economy and society more broadly. The one volume to be eventually called *Economy and Society* Weber assigned to himself. The plan was to cover the following topics: 1. Economy and Law; 2. Economy and Social Groups; and 3. Economy and Culture (Lepsius and Mommsen 1994).

By 1914, Weber finished his contribution to the *Handbook of Political Economy*. He substantially increased the amount of text – from three sections to eight sections – and he also changed the title several times. However, after World War I broke out, Weber put the handbook aside and concentrated on other activities. It was not until 1918 that he returned to the handbook and he discovered that the whole contribution needed to be revised, shortened and brought closer to the form of a textbook. Later on, he decided to write an additional chapter on economic sociology. When Weber died in June 1920, the first part of the work was ready for printing. It contained four chapters: 1. Basic Sociological Concepts; 2. Foundations of Economic Sociology; 3. Types of Domination; and 4. Estates and Classes (Lepsius and Mommsen 1994).

The division of the types of domination into legal, traditional and charismatic is fairly well known. A far less known fact is that Weber also analyses the economic aspects of each type of authority, specifically the way authority is funded. Bureaucracy (legal domination) exists thanks to government taxation and is very well compatible with rational capitalism. Charismatic authority is funded from loot or gifts and is antagonistic toward the rules and the rational types of economic systems. Traditional authority, such as patrimonial authority, is paid from the ruler’s own pocket and can coexist with traditional and political capitalism but not with rational capitalism.

Economists will find it interesting that in his explanation of the concept of an ideal type in *Economy and Society*, Weber uses examples from economic theory. An ideal type is an intellectual structure which social scientists use to simplify reality in order to derive certain conclusions from this structure and other assumptions which may or

may not correspond to reality. In economics, an ideal type is the model of what is referred to as *homo oeconomicus* (Lepsius and Mommsen 1994).

The concepts and ‘laws’ of pure economic theory are examples of this kind of ideal type. They state what course a given type of human action would take if it were strictly rational, unaffected by errors or emotional factors and if, furthermore, it were completely and unequivocally directed to a single goal, the maximization of economic advantage. In reality, an action takes exactly this course only in unusual cases, sometimes on the stock exchange; and even then there is usually only an approximation of the ideal type (Weber [1922] 1968, 9).

Thus, Max Weber demonstrated his basic sociological concepts using theoretical economic categories as examples. Max Weber’s categories of social behavior contain not only purely economic actions, but also any other actions. Weber was aware that the more sharply and clearly the ideal types (which we could call *models* today) are constructed, the more distant they are from the real world – both in sociology and in economics.

Among the most important early translators of Max Weber into English, there were two prominent economists: the first one was Frank Knight, a professor of economics at Chicago, who published a translation of *General Economic History* (Weber [1923] 1927). The second one was Alexander Henderson, a lecturer in political economy at the University of Edinburgh, who translated the first two chapters of *Economy and Society* in the later 1930s (Tribe 2006).

From the beginning to the end of his academic career, Max Weber was an economist. Those who knew him personally confirm that “nothing was more distant to him than renouncing political economy” (Schumpeter 1954, 108–10). However, he was an economist in the broad sense of the word, as the German Historical School understood this term, without succumbing to its central weakness – disdain for economic theory (Macdonald 1965). Schumpeter was thoroughly Austrian in that he emphasized theoretical analysis and “pure” economics, while also being thoroughly Weberian in his position that demanded to keep value judgments out of economics. According to Streissler’s account, Schumpeter “grasped at the olive branch proffered by Max Weber” after the dispute on method that had flared up between Menger and Schmoller – particularly with regard to “social economics as something in between historical and purely theoretical economics” (1994, 38). To give credit where credit is due, Schumpeter presented the most convincing synthesis in this dispute (Hagemann 2016).

## 8. A Comparison with Adam Smith

Weber’s impact on modern social sciences can be boldly compared with the impact of Adam Smith on economics. In spite of the major importance of both Adam Smith and Max Weber, only a few comparisons were made between these two significant scholars. This omission is even more surprising when we consider that Adam Smith became famous as the best-known political economist and Max Weber as the best-

known German sociologist. In this context, we should not lose sight of the conceptual similarities or convergences between Smith's economics and Weber's sociology (Zafirovski 2000, 119).

Adam Smith can be perceived as the predecessor of sociological economics, which examines the social framework and the institutional structure and the impact of institutions on the economy. Smith's sociologically colored economics is characterized by these observations: the role of the division of labor in the economic evolution; the impact of governmental institutions, laws and policies on the workings of the market economy; the relationships between the economic distribution and social stratification; and the influence of political, ethical and other social circumstances on the economy. Similar to Smith's, Weber's economic actions can be perceived as free rational choice, which, however, is influenced by social rules, including moral standards, traditions, conventions and institutions. Weber's purposeful-rational action will prevail if considerations for utility and deliberation of costs and benefits predominate in economic action. Conversely, value-rational action will prevail if one tries to follow the ethics of absolute values and traditionalism (Zafirovski 2000, 122–3).

From a psychological point of view, both Smith's and Weber's concept of economic action presuppose a special type of social and individual psychology. Both concepts tend to concentrate more on the psychology of will than on the automatic working of the market. In this sense, both Smith and Weber advocated the voluntaristic theory of action as did some other economists and sociologists, for example Durkheim, Marshall and Pareto.

Both Smith's sympathetic spectator and Weber's empathetic observer are characterized by subjective understanding. Weber's social economics examines the cultural meaning of a social-economic structure. Special emphasis is placed on the analysis of the impacts of religion, ethics, conventions, traditions as well as economic institutions, power and social conflicts and market phenomena. Similar to Smith's political-moral economics, Weber's social economics brings a subtle rejection of that which is perceived as a one-sidedly materialistic concept or a one-sided economic approach.

Concurrent, integrated analysis of social, moral and economic dimensions of the human society was the hallmark of Smith's approach, as formulated by him in *The Wealth of Nations* ([1776] 1952) as well as in *The Theory of Moral Sentiments* ([1759] 1966). Since Smith's consideration of self-interest and morality did not regard a person merely as a *homo oeconomicus* but also as a moral actor, it is compatible with the relevance of material and ideal factors in Weber's work (Zafirovski 2000, 136). Smith's political economics integrated market catallaxy with sociological economics as well as with social, political and moral philosophy and historical investigation. In a similar manner, Weber perceived economic analysis as a combination of the theory of markets and prices and investigation of social institutions in time. In this sense, Weber's concept (as well as Smith's concept) is not far from institutional economics (Zafirovski 2000, 138–9).

Jack Barbalet (2008) shows that Smith's account of moral virtues, their bases and consequences, not only anticipates much of Weber, but even those parts of *The Theory of Moral Sentiments* that challenge Weber's account encourage a deeper appreciation of the arguments of the *Protestant Ethic*. For instance, a key category of *The Theory of Moral Sentiments*, self-command, is close to the core mechanism of Weber's understanding of *Beruf*, vocation or calling, which is central to his account of both the Protestant ethic and the spirit of capitalism. *The Theory of Moral Sentiments* and *The Protestant Ethic* share a number of relevant assumptions, especially concerning the nature of the spirit of capitalism as directed to money-making for its own sake as an ethical imperative, and the social location of this spirit in the modest middle strata of 16<sup>th</sup>- and 17<sup>th</sup>-century European society. Yet Smith, much more than Weber, understands the source and mobilization of this ethic in the social sanctioning of taking newly emergent opportunities for a return on investment, supported by other institutional changes. Weber is not unaware of these factors but confines his statement of the nature and operations of the spirit of capitalism to a focus on religious support for orientation to mundane activities.

## 9. Weber's Impact on Economics

While Weber's ideas were ground-breaking for nearly all social sciences, one discipline remained nearly untouched by his influence: economics. In spite of that, several interesting interpretations of Max Weber appeared in economic literature during the 20<sup>th</sup> and 21<sup>st</sup> centuries. As examples, we can mention Diehl (1923), Hansen (1964), Macdonald (1965), Schweitzer (1970), Russell (1985), Vanagunas (1989), Koslowski (1997), Swedberg (1998), Peukert (2004), Yagi (2005), Hedoin (2009), Maclachlan (2017) or Kolev (2018).

Max Weber has more in common with economists than might seem to be the case at first sight. Above all, his principle of value neutrality became the foundation of the methodology of social sciences, including economics. In the dispute over values, which Weber initiated in the Association for Social Policy, he was later on supported by Schumpeter (1954), among others.

Milton Friedman, the founder of instrumentalism, also advocates value neutrality as a principle (Friedman [1953] 1970). The second point shared by Max Weber with standard economics is methodological individualism. In order to explain the meaning which people attribute to their actions, Weber uses their perception of the situation as a basis. Thus, he uses methodological individualism. At the same time, he objects to the thesis that psychology can form a basis for sociology and that sociology predetermines political beliefs. The third point that a modern economist can learn from Max Weber is the concept of the ideal type. In *The Legacy of Max Weber* (1970), Ludwig Lachmann, a German-born Austrian economist, argues that the concept of the ideal type is a basic concept of methodology of social science and economic science. Weber formulated it

at the beginning of his career even before becoming a sociologist. The concept forms the natural center of a method of understanding.

Natural phenomena exist in space and time; the only criterion of their existence is observability. The fact that human action exists in the form of a plan, that is a mental intention, before it is carried out in space and time allows for studying the relations between human action and the plan governing it. Lachmann thus gives an intelligent meaning to human actions and the plans governing them. The problem is similar to what Weber called the explanation of actions using the meaning attributed by the actor. Unintended consequences of actions are often more important than the intended ones. A causal explanation is necessary for both culture and nature. But in the former case, its meaning lies with the fact that we are able and want to not only explain (*Erklären*) but also understand (*Verstehen*) human action. This possibility of understanding is guaranteed by the purposeful nature of human action (Lachmann 1970, 32–3).

Lachmann also derives his praxeological method from Weber's *Verstehen* method. Human action is neither determined nor arbitrary. It is limited by the scarcity of resources which actors have at their disposal. Human action is free within certain constraints. In several important respects, Weber remained an heir of the German Historical School all his life. But although he was raised in its tradition, he was by no means an unquestioning admirer of this school and did not hesitate to criticize its protagonists and – where he deemed it necessary – some of its publications (Peukert 2004).

Although Weber offered a number of remarkable abstractions, he did not manage to formulate a general theory of institutions. Lachmann strived for a general theory of institutions in the spirit of Weber, which would be dynamic rather than static and which would place an emphasis on the process of change more than on the relations inside a social system. Institutions are very important but explained on a praxeological basis, not through questionable biological analogies. Institutions represent the means of navigation for a large number of actors. Existence of such institutions is crucial in a civilized society (Hedoin 2009). Weber did not oppose theory per se, but he did oppose the kind of theory which operates at a higher level of abstraction than the subject of research warrants. Although we cannot find a general theory of institutions in Weber, Lachmann believes we need such a theory in order for the praxeological method to be complete.

In Lachmann's interpretation, Weber's approach to social actions is completely different from structural-functional sociological theories. Functionalists assume that institutions exist because they fulfil certain functions in society. Weber, conversely, studied the meaning, which an individual attributes to his or her actions. Most social system theories ignore this aspect of actions. These theories create their "systems" of repeated actions regardless of the meaning of such actions for the individuals themselves (Lachmann 1970, 73–4). Successful plans of people gradually crystallize into institutions. Inside the sphere of freedom of action, new institutions come into being as new navigation points, which can replace the obsolete institutions (Russell

1985). Institutions rise and fall, move and change. An institution may last for a long time but during that time, it starts fulfilling new functions and relegates the old ones to the sidelines (North 1990, 92–5). An institution serves to coordinate plans in large societies.

To bring a new institution into existence requires not merely the existence of certain needs but also the specific ‘entrepreneurial’ skill of the innovator, as well as that of his successful imitators [...] In every society we shall therefore at any moment find institutions belonging to different historical ‘strata’, some of which were originally devised for purposes very different from those for which they are presently being used, and which nevertheless together form a coherent pattern – a pattern which, however, will not last (Lachmann 1970, 78).

Among all institutions, the political ones are the most important (Lachmann 1970, 90). Free access to political power and perpetual change of those in power are the essence of democracy. In an open society, institutions are, in principle, perfectible. A struggle for power takes place in Western democracies. However, as part of the struggle for power, parties make such promises to the electorate, which strengthen the power of the government and weaken individuals. Thus, the struggle for power results in erosion of those institutions, which helped create modern capitalism.

In the last resort all institutions are vehicles of human action, which is the ultimate reality of social life. Institutions are at the same time instruments of, and constraints upon, human action [...] It is possible to spin a thread which ties the complex edifice of the institutional order in its political form to the simple unit act of the individual actor and the plan which guides it. This insight is part of the legacy which we owe to Max Weber (*ibid.*, 141).

## 10. Summary

The economic dimension of the work of Max Weber is often overlooked but indisputable. Weber was – as he himself used to say – “a one-third economist.” He studied economics under Karl Knies, a major representative of the German Historical School, and he constantly addressed economic topics in the Association for Social Policy. All university positions which Weber held in his life were chairs of economics.

Weber’s *Protestant Ethic* was revolutionary. In his interpretation, Catholicism supports traditionalism, while Protestantism, or at least some of its types at certain times, supports progressive economic development towards modern capitalism. One of the fundamental elements of the spirit of modern capitalism, rational conduct on a basis of the idea of the vocation or calling, was born from the spirit of Christian asceticism.

Weber did not abandon economic topics even in his most productive “sociological years.” His *magnum opus*, *Economy and Society*, was originally planned as a part of a monumental textbook on political economy, which was to be published as a series of several volumes. In this work, the author again uses examples from economic theory when explaining the concept of an ideal type.



Weber has more in common with economists than might seem at first sight. Above all, his principle of value neutrality has become the foundation of the methodology of social sciences, including economics. The second point shared by Weber with standard economics is methodological individualism. The third point which a modern economist can learn from Weber is the concept of the ideal type, which is helpful to understand the usage of models by economists today.

Weber's impact on modern social sciences can be boldly compared to the impact of Adam Smith on economics. Similar to Smith, Weber also perceived economic analysis as a combination of the theory of markets and prices and economic sociology and the investigation of social institutions in time. In this sense, Weber's legacy, just as Smith's, is not far from today's understanding of institutional economics.

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