

The making of the rational economic agent – the contribution of the German Historical School

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1. Introduction

The opposition of the German Historical School (GHS) to classical and neoclassical economics originated from principal differences on two fundamental issues. The economists of the GHS denied the possibility of universally applicable economic laws arrived at by the method of “isolating abstraction”. Also, they rejected the concept of the rational economic agent (*homo oeconomicus*) whose actions are solely guided by maximization of utility or profit. As a consequence, the GHS denied the validity of normative propositions of classical and neoclassical economics with respect to economic order.

The aim of the present paper is to show that the position of the members of the GHS with respect to the two issues is not uniform, and that it changed considerably from the first generation (Wilhelm Roscher, Karl Knies) to the third generation (Max Weber, Werner Sombart)¹. Whereas Roscher, Knies, and also Gustav Schmoller, the leading figure of the second generation, criticized the concept of economic rationality as principally inadequate as basic assumption for economic analysis, Weber and Sombart did not deny the legitimacy of *homo oeconomicus* as an analytical tool. Against the claim of the English classicists, they emphasized that the profit maximizing economic agent of capitalism is not rooted in some kind of “immutable” human nature, but has to be properly understood as product of socio-economic development. As a consequence, the modern concept of economic rationality was not applicable for all economic formations that have appeared in world history. The main part of this paper will be devoted to Weber’s and Sombart’s studies on the making of rational economic man in the course of evolution of modern European capitalism (parts 3 and 4), i.e. on the parallel developments that fundamentally changed mental attitudes and actual behaviour of men which finally produced the capitalist *homo oeconomicus*.

¹ For a brief overview on the history of the German Historical School see Hagemann 2015.

2. History against theory: the rejection of economic man as analytical concept²

According to Roscher (1882, p. 21f), “every normal economy” is based on two motivating forces: self-interest (*Eigennutz*) and community spirit (*Gemeinsinn*). Community spirit originates from moral conscience. Self-interest and community spirit are as inseparable as “the centrifugal and the centripetal forces of the universe”. It is through the working of community spirit that “the *bellum omnium contra omnes* which reckless self-interest would produce is reconciled to a higher, well-designed organism,” with the national economy (*Volkswirtschaft*) as highest form of this kind of commonwealth (p. 25). It is the collective entity of the *Volk* or the *Volkswirtschaft* which is the principal determinant of social and economic life. The economic agent under the double influence of self-interest and community spirit can only be properly understood in the context of a particular nation and its history. Therefore, the uniform *homo oeconomicus* is a misconception, as well as the postulate of uniform abstract economic laws.

While Roscher views community spirit which tames self-interest as expression of man’s “striving for the Kingdom of God” (p. 22), Karl Knies postulated an indivisible and internally consistent personality of man through which such diverse motives as charity, community spirit and patriotism, and self-interest are reconciled and harmonized, thereby rejecting the possibility of multiple perspectives of life. Moreover, one has to take into consideration that “man does not only exist as individual, being innately a member of a community, and therefore of a social and national totality.” (Knies 1883, p. 232) Hence, economic actions of men have to be seen “in their concrete peculiarity” from the perspective of the collective, of the nation and its history. Economic analysis has to be based on “on the careful observation of historical life in its progressive development, and on the psychological study of man,” but not on abstract concepts. (p. 235)

Some fifty years later³ Gustav Schmoller’s was more willing to accept self-interest (*Erwerbstrieb* – acquisitive instinct) as principal motive behind economic actions of man. He discards Roscher’s and Knies’ assumptions of two basic instincts opposed to each other as unconvincing abstractions. Instead, he proposes the “psychological and historical study” of the effects of the acquisitive instinct in relation to other instincts, and “how these instincts are related to other human characteristics which we call economic virtues, such as

² For a detailed overview on the position of the GHS on *homo oeconomicus* see Fey 1936.

³ The first edition of the quoted works of Roscher and Knies had appeared in 1854 and 1853, respectively. The first volume of Schmoller’s *Grundriß* was first published in 1900.

industriousness, thrift and entrepreneurial spirit.” (Schmoller 1901, p. 33) As an expression of self-assertion, the acquisitive instinct is legitimate and promotes performance, but it has to be contained within limits set by principles of social welfare. Methodologically, Schmoller did not reject abstraction as a tool of investigation. However, more cautious generalizations based on empirical investigation through careful description should be preferred to premature conclusions derived from highly abstract concepts, such as the classical *homo oeconomicus*. (p. 105ff) For Schmoller, the “economic virtues” were the appropriate targets of empirical and historical research. Moreover, observable differences between the psychologies of races and nations should caution against generalizations with respect to a uniform type of economic man. (Schmoller 1911/1998, p. 313)

Schmoller also pointed out that the acquisitive spirit of economic man was a product of evolution, alien to societies of “primitive tribes”. In its fully developed form it appears only when “production for subsistence is superseded by production for markets where the major part of the population receives its income from a complex mechanism of exchange”. Geographical dissemination of acquisitive spirit corresponds to its historical development. Also, “nowhere is acquisitive spirit equally distributed among the classes of the population.” In commerce, banking, big industry it is more deeply embedded than in the small crafts or in agriculture. (Schmoller 1901, p. 34f) The elaboration of the historical evolution of rational economic man was left to the third generation of the GHS, which, however, distanced itself from Schmoller’s methodological position.

In several essays Max Weber subjected Roscher’s and Knies’ historical approach to economic theory to a trenchant critique. If Roscher postulates a community spirit as counterweight to self-interest, one would expect “that he proceeds by explaining empirically the emergence of processes and institutions through the working of varying combinations of the two motives.” (Weber 1968, p. 31) But far from it, Roscher refers to the social organism of the nation as underlying cause, which – as an “unexplainable background” - does not yield itself to rational explanation. For Roscher, the limits of explanation are not due to the limits of concepts and methods of the social sciences, but “to the interference of transcendental factors with reality”. (p. 37) In the same vein, Weber discards Knies’ reference to an entity – the soul of a nation – which is the common source of indivisibility of man and unity of the nation, a construct which is beyond rational understanding. (p. 140ff)

Unlike Roscher and Knies, Schmoller avoided referring to „nation“and „soul” as irrational concepts. Yet, where he proposes a multitude of economic instincts and virtues instead of

self-interested acquisitiveness, he does not even tentatively show how his alternative motive forces are conceptually interrelated, nor how they interact, which would be a prerequisite for any empirical application of his approach. (Ammon 1927, p. 53f)

Convinced of the untenability of Schmoller's conception of historicist economics, the third generation of the GHS undertook a thorough reformulation of its methodological position. Confronted with a "boundless abundance of real life phenomena", economics as a science must proceed by sorting out a limited part as relevant in its specific context, while, for pragmatic reasons, the rest is ignored. (Weber 1968, p.177) In its search for causal relationships between economic phenomena, economics turns its attention to relationships between human actions. At this point, one has to be aware of the fact that the relevance of these actions depends on value judgements, which in the context of modern economics is the increase of well being and wealth. In each historical epoch, human action is dominated by "ideal goals" (*Ideale*) of this type. As an idea of practical relevance, it becomes theoretically relevant as well, in that it is used as conceptual instrument to analyze causal relationships between economic phenomena. Weber introduced the term "ideal type" (*Idealtypus*, p. 197) for this tool of analysis. It implies a "one-sided overstatement of one or several aspects" in a given context, with the advantage of permitting the creation of a theoretically uniform construct. As such, ideal types cannot be found in reality, but they do good service in studying and understanding real phenomena, which are, however, always more complex and more complicated than this method suggests. With his argumentation Weber wanted to achieve several things.

- To distance himself from the approach of Schmoller and his followers who maintained "that the final goal of any science was to bring order into its objects by a system of concepts which are derived from the observation of empirical regularities, hypotheses and verifications, and thereafter gradually perfected towards a perfect and therefore deductive theory." (p. 208) This final product of social science is conceived as a true picture of "objective reality" which carries with it normative implications. Weber holds that such an ambition, being a reverberation of scholastic epistemology, is beyond the reach of modern science. Moreover, it brings with it the danger of using unreflected and therefore unclear analytical concepts, and thereby unconsciously introducing value judgments.
- To escape this danger, to accept the epistemological limits of social science, and to take account of the changeability of the meaning of historical concepts, it is necessary

that these concepts are formulated as clear-cut as possible. (p. 209) As a consequence, for Weber abstract theorizing is an indispensable method in the social sciences. In this respect, he takes sides with Carl Menger against Schmoller in the so-called “*Methodenstreit*” among German and Austrian economists. Although Weber preferred other examples to illustrate what he meant by ideal type, the *homo oeconomicus* is such an abstract concept which is useful for analyzing economic relationships.

- At the same time, Weber emphasized that the object of social sciences is fundamentally different from that of the natural sciences. Unlike the latter, the social sciences cannot presume timeless universality of their object of study. The reality which is the object of economic and social research is always historical. Hence, social sciences are incapable of producing universal laws of timeless validity.
- In particular, Weber objects to any presumption of an immutable nature of man based on findings of psychology or biology. In his view, this amounts to a “naturalist fallacy” (*naturalistisches Vorurteil*, p. 188) If economists thought that the acquisitive interest of economic man was the expression of a specific psychological impulse, and that therefore an abstract theory could be deduced from axioms of psychology, actual psychological interpretations of economic actions had proven of little use for analysis of social institutions. To the contrary, psychological understanding of social institution was dependent on the findings of the social sciences. (p. 188f)

As a consequence, Weber understood the rational economic agent of abstract economic theory as an ideal type which could be used for analysis of economic relationships. Yet, empirical validity could not be claimed from laws deduced from such abstract presuppositions. The applicability of the concept of rational economic agent must be examined and verified by historical research. Weber set his position against Menger’s claim of universal applicability of his abstract theory, and also against Schmoller’s ambitions to elaborate a more complex model of economic man on the basis of psychology by historical studies which he hoped would demonstrate a complex psychological nature of man. Weber also set the stage for historical studies on the evolution of the rational economic agent of capitalism.

Sombart shared Weber’s critique of Schmoller and the authors of the first generation of the GHS. He also thought that economics cannot be based on psychological laws and findings of psychology. (Sombart 1930, p. 163) He explicitly endorsed Weber’s methodological approach to formulate ideal types for the analysis of economic relations

and actions of economic agents, but he found Weber's term misleading. Instead of calling the ideal constructs "type" he proposed the term "rational scheme" for instruments "through which it could be demonstrated how economic processes take place, if certain conditions are fulfilled and agents act entirely rationally." (p. 259) Sombart also criticized Weber for using the term ideal type for singular historical phenomena such as Christendom or capitalism which are individual appearances, as opposed to mass phenomena. (p. 246)

In the social sciences, a rational scheme such as the rational agent of economic theory applies in a "meaningful context" (*Sinnzusammenhang*) in a twofold sense: it has a particular meaning and relevance for the agent's thinking and acting in a market economy, and it serves the economist as analytical instrument to explain the patterns of action of the agents. At the same time, Sombart emphasizes that the scheme is applicable only in the particular context from which it derives its meaning, i.e. the capitalist economic system. (p. 300f)

At first glance; Weber's emphasis on the individual in his general approach to society⁴ suggests close affinity to the "methodological individualism" which overwhelmingly dominates economic thinking. And yet, as will be shown below, he was at the same time aware that defining meaningful action of the individual agent is not possible without reference to "system". In this respect Weber followed Sombart with his emphasis on the constitutive relevance of the idea of system for the construction of theories.

3. Concepts of economic orientation in economic and social history: "traditionalism" and „economic rationality“

Both Weber and Sombart assigned an important role to the emergence of the rational economic agent as one of the driving forces of the development of capitalism as an economic system. If Weber's historical contributions mainly focused on the influence of Reformation in the process of transition from the medieval economy to modern capitalism, he did by no means imply "that the spirit of capitalism could only have arisen as the result of certain effects of the Reformation, or even that capitalism as an economic system is the creation of the Reformation.", (1920/30, p. 91) Like Sombart, Weber thought that the emergence of the rational economic agent of capitalism could be fully understood only as product of mutually

⁴ It is the task of the social sciences "to reduce concepts like state, cooperative, feudalism ..., more generally speaking: categories of co-operation among men to 'meaningful' actions of the individuals involved." (Weber 1968, p. 439)

re-enforcing developments. With his concept of “economic system”, Sombart intended to provide an analytical framework for the complex process of the evolution of capitalism.

According to Sombart (1927/2002, p. 289ff), "spirit" is one of three basic elements of the concept of economic system, while "form" and "technology" are the other two. With spirit Sombart means the fundamental ideas towards which the minds of economic agents are orientated. Form is "regulation and organization of economic life", its legal and political framework. Sombart's concept of technology comprises the methods which are applied in the process of production and distribution of goods. Sombart contrasts the pre-capitalist system (*Handwerkssystem* – ”crafts-system”) with capitalism by major categories of analysis:

	pre-capitalist economy - crafts-system	Capitalism
spirit	satisfaction of needs traditionalistic solidaristic	acquisitive –profit oriented rationalistic individualistic
Form	restriction (of competition) satisfaction of needs individual businesses	free competition exchange economy company businesses
technology	empirical stationary organic	Scientific revolutionary anorganic

(according to Sombart 1927/2002, p. 299)

Weber has not explicitly endorsed Sombart's concept of economic system nor developed his own system, but it is evident from his *General Economic History* (Weber 1924/2003) that he was thinking in essentially the same categories. In his posthumously published work *Wirtschaft und Gesellschaft* (Weber 1922/1972) Weber’s formulated conceptual categories of different orientations for economic action in highly abstract terms. Economic action, i.e. action orientated towards the provision of goods and services, can be guided either by traditionalism or instrumental rationality (*Zweckrationalität*). Traditionalistic orientation means strict adherence to traditional rules and forms of conduct, which present strong impediments for the realization of chances offered by the market, the use of money is mainly consumption-oriented. (p. 137) “Traditionalism” was “the most important opponent with

which the spirit of capitalism, in the sense of a definite standard of life claiming ethical sanction, had to struggle". (1920/30 p. 58f)

With respect to economic rationality, Weber distinguishes "formal" and "material" rationality. Formal economic rationality, which subjects economic action to a monetary calculus, is not by itself orientated towards maximization of the difference between expense and return. The latter is a form of material rationality which functions as motive and thereby sets in motion a type of social action which then is the only one that is adequate for the application of the formal calculus. (Weber 1922/72, p. 59) Or, in a more straight-forward definition, rational economic action is "one that rests on the expectation of profit by the utilization of opportunities for exchange, that is on ... chances of profit. ... Where capitalistic acquisition is rationally pursued, the corresponding action is adjusted to calculations in terms of capital". Capitalism is "pursuit of profit, and forever renewed profit, by means of continuous, rational capitalistic enterprise ... In a wholly capitalistic order of society, an individual capitalistic enterprise which did not take advantage of its opportunities for profit-making would be doomed to extinction." (Weber 1920/1930, p. 17f)

Sombart elaborates in great detail on the characteristic features of the spirit of the pre-capitalistic European economy. The conduct of business is traditionalistic, guided by established custom – "the perspective of decisions is not forward looking, not exclusively determined by specific purpose, but backward looking, oriented at patterns and experiences of the past." (Sombart 1916-Vol. I, p. 37f) As regards consumption, the pre-capitalist economy is an "expenditure economy", where the proper volume and form of expenditure is class-specific, according to traditional habits. In this sense, satisfaction of needs has a very different meaning for the nobleman, the clergyman, the craftsman, the peasant. For the lower classes, the "idea of aliment" (*Idee der Nahrung*) was the guiding principle in the rural as well as in the urban economy, which should be organized in such a way as to ensure satisfaction of appropriate needs. Competition, especially price competition is discouraged. A strong aversion against acquisitiveness and profit-making characterizes the spirit of the pre-capitalist economy. Methods of calculation are rudimentary. "All desire for profit, all greed for money had to be satisfied outside the context of production and transportation of goods, even outside the major part of commerce and trade." (p. 35)

According to Sombart, two distinct components characterise the economic spirit of capitalism. What Sombart calls the "entrepreneurial spirit in the original sense" (*Unternehmungsggeist*) is the willingness to embark on a venture: not rationally founded but instinct-led action, intuitive

acquisitive instinct. (Sombart 1913, p. 246) He also calls it “the Faustian spirit”, characterized as “the spirit of unrest, of restlessness”, which breaks the established routines, values and organic communities of traditionalism in its pursuit for profit and unlimited acquisition. (Sombart 1916, Vol. 1, p. 327) If the first wording reminds one of Keynes “animal spirits” and his instinctive psychology, the second is closer to the Schumpeterian entrepreneur’s drive for innovation, although Sombart does not use the term in that context. The other component is the “bourgeois spirit” which aims at rational management of the enterprise through rational calculation and accounting. (p. 329)⁵ Rationality of business means planned action, instrumental effectiveness and quantitative calculus. Rationality in production of goods requires the use of the most effective technology and of the most effective methods of work organization. It applies equally to the sale of products and the purchase of inputs. (Sombart 1925/2002, p. 388f) The idea of free competition is part of the capitalist spirit.

Sombart places great emphasis on the objectivization of the capitalist spirit. “The entrepreneur must strive for profit, no matter whether he wants to or doesn’t: not, because he is addicted to profit making, but because he is capitalist entrepreneur. His motivation eludes his personal choice.” (p. 385) The *homo oeconomicus* in the sense of Weber’s ideal type is a stylized version of thoughts and ideals which shapes the thinking of a relevant part of men in a certain epoch. Often such an ideal type of social relations “functions as ideal to be pursued in practice, or as a principle that regulate certain social relations in the minds of men”. (Weber 1968, p. 195f) This resembles the Hegelian distinction between “objective spirit”, which is the supra-individual ensemble of ideas common to a community or a people at a certain historical period, and “subjective spirit“, which is the reflection of the former in the individual mind.

Both, Weber and Sombart caution against the misunderstanding that they would maintain that the profit motive was effective only in the capitalist economy. In the sense of surplus-making “capitalism and capitalistic enterprises, even with a considerable rationalization of capitalistic calculation, have existed in all civilized countries of the earth.” (Weber 1920/1930, p. 19) E. g., Weber (1924/2003, p. 334) mentions “capitalism in connection with trade speculation, the trader being entirely absent in almost no epoch of history”, money lending, etc. “All this, however, relates to occasional economic activity”, whereas “it was reserved to modern western development after the close of the middle ages to elevate capitalism into a system.”

⁵ Sombart elaborates on these two components of the capitalist spirit in great detail in his book *Der Bourgeois* (1913).

Also, greed for money and avarice are by no means a motive which can be observed only in capitalist societies. "But even an increasing quest for money riches could not shake the foundations of the pre-capitalist economy." Its satisfaction was sought "in mining, treasure hunting, alchemy, magic arts, because it could not be pursued in the economy of every-day life." (Sombart 1916 Vol. I, p. 35)

According to Sombart spirit is the element that shapes and ensures the unity of a system. In that sense, order and technology breathe the spirit of the system. "It is the basic idea of this work (*Der moderne Kapitalismus*), that a different economic mind prevails at different times, and that it is spirit, which gives itself the adequate form and thereby creates the economic organization" (Sombart 1916-Vol. I, p. 25). However, this does not mean that spirit is the sole determinant of historical evolution, or that transition to capitalism was primarily driven by spirit. As will be shown by the following, there is a relationship of mutual interdependency between the three basic dimensions of a system, in which at certain points any one of them can have the decisive influence.

4. The making of the rational economic agent in the process of transition to modern capitalism

4.1. Sombart's two-pronged capitalist spirit

In his book *Der Bourgeois* Sombart develops an analytical framework for the study of the emergence of the rational economic agent. The different components of the capitalist spirit require a differentiated explanation of this process. What Sombart calls the "Faustian" component of the capitalist spirit exists as impulse in certain individuals which can be either suppressed and wither away, or it can be stimulated and encouraged. The Faustian spirit can exert itself in economic and in non-economic ventures, such as discovery, conquest or buccaneering, all of which also contain an economic element. In the early phase of capitalism development long distance trade and finance offered the best chances for the unfolding of the entrepreneurial drive in the economic sphere.

The other component, the spirit of the bourgeois, which expresses itself in a certain formation of character ("bourgeois virtues") and in acquired skills and knowledge, is acquired through education (moral education and knowledge formation) and training. (Sombart 1913, p. 248) In

addition, it is important to realize that the conditions for development of the different components varied considerably during the various phases of transition. (p. 249)⁶

The process of transition to capitalism (“early capitalism”) starts in the middle of the 15th century. Early capitalism comes to an end when England as the first big European nation enters the phase of fully developed “high capitalism” in the middle of the 18th century. (1916, Vol. II, p. 14) In early capitalism the principal characteristics of capitalism appear only occasionally as features of economic life, they become mass phenomena with the momentum of the process gaining full swing. With respect to changes in spirit, the problem is that its manifestations are more difficult to observe than changes in the organizational forms of economic activity. (p. 5) In the following paragraphs⁷ I give an extremely condensed, simplified account of the detailed history of the making of the capitalist spirit presented in Sombart’s magnum opus *Der moderne Kapitalismus* (1916).

Sombart’s principal thesis is that “in the epoch of early capitalism the entrepreneur created capitalism, whereas in high capitalism it is capitalism that makes the entrepreneur”. Taking into consideration that in the beginning phase capitalist forms of organization were isolated and occasional, the required knowledge of technical operation and management hardly existed, the financial and material means of operation were often difficult to provide, the legal system was inadequate - all this “had to be overcome by the willpower and the free initiative of the entrepreneur.” (1913, p. 250)

At the turn from the 15th to the 16th century “economic activity in European economic life makes a jerk towards capitalist organization”. Among the factors which were conducive to the unfolding especially of the Faustian spirit Sombart mentions the development of new rich silver and gold mines in Austria and Germany, the inflow of precious metal from newly discovered America, the discovery of the sea route to India, first effects of the religious persecutions, the formation of the great European powers with modern armed forces, technical improvements, and the perfection of the method of double accounting. At first the creation of strong, adventurous, often brutal individuals, the capitalist enterprise, which is the organizational core of the modern economy, began to assume standardized forms step by step.

⁶ One of the central historical theorems of Sombart’s book *Der moderne Kapitalismus* is the three-phase scheme of epochs of capitalism: *Früh-, Hoch- and Spätkapitalismus* (early, high, late capitalism).

⁷ In the introductory chapter to the epoch of early capitalism (Vol. II, p. 10ff) Sombart gives a “shortlist” (although it contains 51 items) of the decisive factors. It seems, however, that some factors are not included in this list which have an important impact on the development of capitalism in Sombart’s detailed history which follows.

Capitalist forms of commerce such as exchanges for commodities and securities increasingly displaced traditionalistic practices. This promoted the spread of “practices of orderly management of business”. Occasionally, large scale capitalistic enterprises began to directly engage in the production of goods, thus breaking the forms of traditionalistic organization of the urban economy. This was promoted by the mercantilist economic policies of the state which aimed at strengthening the industrial capacities of the national economy, mostly by granting monopolies and other privileges. Through this, the capitalist spirit gradually also spreads out in the sector of goods production.

With regard to the spread of the bourgeois component of the capitalist spirit, Sombart assigns an important role to migration and colonization. Summarizing his account of the forced migrations of religious minorities (Protestants, Huguenots, Scots, Jews from Spain and parts of Germany), he observes that in his economic activities “the alien – the immigrant – displays a distinctly capitalistic spirit, to a certain degree irrespective of his religion and nationality.” (1913, p. 391ff) The pressure exerted upon them as heretics at home as well as the tough conditions under which they had to newly establish themselves in the host countries provided a strong incentive for migrants to develop their acquisitive instincts. The North-American colonists did not face a traditionalistic economic environment in which the intra-European migrants had to establish themselves.

For Sombart, religion plays a substantial part in the early phase of the formation of the capitalistic spirit, especially reformation. But unlike Weber, Sombart sees an important role also for Catholicism and Judaism. I will return to this in section 4.3.

The state also acts as a powerful promoter of the capitalistic spirit: by encouraging mass immigration or individual immigration as a means to strengthen the industrial base of the country; by promoting the foundation of new large-scale enterprises to accelerate industrial development, by promoting technical inventions, by creating uniform national markets, etc.

The “strong current of invention” which leads to progressive technological change in production and transportation of goods in modern times originates from the Faustian spirit. At first, new methods of production are developed by trial and error. The development of new technologies still lacks the high degree of rationality which becomes possible in high capitalism when inventions make systematic use of scientific knowledge. (1916, Vol. II, p. 464ff)

The more the development towards capitalism advances, the higher is the impact of objective forces on the evolution and diffusion of the capitalist spirit, until the point is reached where capitalist economic rationalism penetrates the whole system of production. Pressure of competition forces economic agents to adopt the most rational methods of production, “but perhaps it is an inherent drive of [the spirit of] rationalism for utmost perfection of production methods” which drives this development. (1913, p. 445f)

4.2. Weber on Protestant ethics

It has been mentioned above that Weber defended himself vigorously against any monocausal interpretation of his Weber’s historical studies on Reformation, which explains the rise of capitalism as the product of spirit which itself had been changed by Reformation. But Weber also wanted to argue against any assumption of precedence of economic or technological factors over spiritual factors. "In view of the tremendous confusion of interdependent influences between the material basis, the forms of social and political organization, and the ideas current in the time of the Reformation, we can only proceed by investigating whether and at what points certain correlations between forms of religious belief and practical ideas can be worked out. At the same time we shall as far as possible clarify the manner and the general direction in which, by virtue of those relationships, the religious movements have influenced the development of material culture." (1920/1930, p. 91f) Hence, Weber concentrates on instances where the causality runs from spirit to material culture. In terms of Sombart’s two-pronged concept of economic man, Weber almost exclusively focused on the bourgeois component.

“As far as the influence of the Puritan outlook extended, under all circumstances ... it favoured the development of a rational bourgeois economic life; it was the most important, and above all the only consistent influence in the development of that life. It stood at the cradle of modern economic man.” (p. 174) What makes Weber’s argument difficult to understand is, that the formative influence of Puritanism for the spirit of capitalism does not directly result from its moral teachings. To be sure, Puritan asceticism detested the pursuit of wealth for its own sake. But it highly valued “restless, continuous, systematic work in a worldly calling”. Rather, it is the indirect, “non-intended” effect which was decisive. “When the limitation of consumption is combined with this release of acquisitive activity, the inevitable practical result is obvious: accumulation of capital through ascetic compulsion to save.” (p. 172)

The environment for Benjamin Franklin's plea for restless activity and frugality was not a highly commercialized let alone industrialized economy and society. "... in the backwoods small bourgeois circumstances of Pennsylvania in the eighteenth century, where business threatened for simple lack of money to fall back into barter, where only the earliest beginnings of banking were to be found, the same thing was considered the essence of moral conduct, even commanded in the name of moral duty. To speak here of a reflection of material conditions in the ideal superstructure would be patent nonsense". (p. 74f)

"In the Puritan concept of the calling the emphasis is always placed on this methodical character of worldly asceticism, not as with Luther, on the acceptance of the lot which God has irretrievably assigned to man (p. 162) - "this sort of religious ethics cannot be regarded as a reflex of economic conditions. The specialization of occupations had, if anything, gone further in medieval Italy than in the England of that period." (p. 266)

Such statements, in combination with Weber's general approach to the subject, have induced many critics to suggest that Weber was proposing a wholly or predominantly idealistic interpretation of the history of capitalism. If Weber rejects a wholly materialistic concept of history, he does not deny, and in several respects explicitly recognizes the influence of "material" factors. But on the whole, he leaves the question open and reserves final judgement for further research.

4.3. Objects of controversy between Weber and Sombart⁸

Like Weber, Sombart emphasizes the importance of moral convictions rooted in religious beliefs, particularly in the early, formative period of capitalism. But in his view, traces of economic rationalism can be found in many ancient writings, as well as in the teachings of the medieval schoolmen. He finds bourgeois virtues "fully developed" in the Italian Leon Battista Alberti's (1404-1472) book on household management "*Della famiglia*" "several hundred years before Puritanism existed. In as far as a religious system is responsible for their formation, it is the Catholic system. The Protestant ethic only had to take over what Thomas Aquinas had created." (Sombart 1913, p. 334) Thus Sombart gives equal credit to the philosophy of late antiquity and to "all three religions", i.e. to the catholic, the protestant and to the Jewish religion. (ibid., p. 355)

⁸ For a more detailed comparison see Chaloupek 2010.

In his reply, Weber (1920/30) explicitly denies Sombart's contention that Benjamin Franklin's maxim "time is money" had been nearly literally anticipated by Alberti. In his book "Der Bourgeois" Sombart, according to Weber, has failed to comprehend the essential difference between Alberti's the nobleman's principles of household management whose ultimate end was to achieve "tranquillità dell' animo", and the relentlessly acquisitive attitude advocated by Franklin and other Puritans. (ibidem, p. 196f)

Sombart acknowledges that "in their progressing from parsimony to stinginess (*parvificentia*) lies perhaps the greatest contribution to the bourgeois spirit embodied in capitalism which the Puritan and the Quaker ethic can claim for themselves." (Sombart 1913, p. 333) But at the same time, he plays down the relevance of this contribution by putting heavy emphasis on the ethical restrictions which the teachings of the Puritan theologians imposed on the conduct of business. In his view, Puritanism cannot be held responsible for "the limitless expansion of the drive for acquisition, for senseless moneymaking, for the idiosyncrasy of business, which characterizes mature capitalism". Neither can Puritan ethics be charged for advocating "ruthless acquisition. In this respect, because it gives approval to acquisition by honest means only, there is no difference at all to Thomistic business morals". (ibid, p. 334) For Sombart, in the formative period of capitalism both religious confessions present an impediment of equal strength to the unfolding of acquisitive drives. (ibid, p. 355)

In Weber's view, Sombart makes the error of taking his sources at their face value while the real, if originally unintended effects of Puritan ethics on the minds of men were quite different. Instead of referring to what was theoretically and officially prescribed in learned books or popular sermons and tracts, for Weber the focus had to be directed towards "the influence of those psychological sanctions which, originating in religious belief and the practice of religion, gave a direction to practical conduct and held the individual to it." (1920/30, p. 97) It is social achievements which, according to Calvinist teachings, indicate who are the elected to whom the premium of salvation is granted. In contrast, "Sombart ... continually cite(s) the ethical writers (mostly those of whom they have heard from me) as codifications and rules of conduct without ever asking which of them were supported by effective religious sanctions." (ibidem, p. 217)

In his book "*Die Juden und das Wirtschaftsleben*" Sombart points to Judaism as a possible source of Puritanism. In his view, there are many indications for a "nearly complete coincidence of Jewish and puritan perceptions" for which he mentions as prominent examples " the predominance of religious interests, the idea of trial and proof ("*Bewährungsgedanke*")

above all the rationalization of the conduct of life, the connecting of religious concepts with acquisitive interests, ..." (Sombart 1913b, p 292). If "Puritanism is Judaism" (ibidem. p. 293), this does not imply that there has in fact been an influence of Judaism on Puritanism, for which Sombart does not see sufficient evidence yet.

Weber strongly denies any such kind of intimate relationship between Judaism and Puritanism. While he admits that "Old Testament morality was able to give a powerful impetus to the spirit of self- righteous and sober legality which was so characteristic of the worldly asceticism of this form of Protestantism" (1920/30, p. 165), he cautioned against drawing parallels. In the middle ages, Weber argued, Jews were "an outcast people", whose position "may be compared sociologically with an Indian caste in a world otherwise free from castes". At best, they were accepted as a "guest people", but they could not participate either in the society nor in the economy of cities and towns on an equal footing. Moreover, "Judaism maintained the originally universal dualism of internal and external attitudes, under which it was permissible to accept interest from foreigners who did not belong to the brotherhood or established association. Out of this dualism followed the sanctioning of other irrational economic affairs, especially tax farming and political financing of all sorts. In the course of centuries the Jews acquired a special skill in these matters which made them useful and in the demand. But all this was pariah capitalism, not rational capitalism such as originated in the west". (Weber 1923/2003, pp. 358ff)

The role of markets and competition is another matter of difference between Sombart and Weber. While Sombart mentions "recognition of the principle of free competition" among the main characteristics of high capitalism, he simultaneously also mentions "the subordination of demand to the will of the entrepreneur." (1916, Vol. II, p12f) This low account of demand and competition can be attributed to Sombart's Marxist leanings – Marx also gave priority to the capitalists' power to enforce the realization of capital over the producers' need to stand the test in the market for his products.

For Weber markets and competition are essential for the development of the capitalistic enterprise. It is forced by competition to search continuously for advantage of its opportunities under for profit-making under threat of extinction. "Any rational monetary calculation, the calculation of capital rentability, is orientated at price chances which are determined by market competition." (Weber 1980, p. 49)

In contrast to Sombart, Weber sees the mercantilist system of monopolies and privileges not as a driving force of the capitalist spirit. Capitalistic development was not an outgrowth of national mercantilism. In England, the country of the origin of capitalism, “capitalism in the field of fiscal and colonial privileges and public monopolies” was defeated by a “capitalism oriented in relation to market opportunities which were developed from within by business interests themselves on the basis of saleable services.” (1924/2003, p. 350)⁹

5. Concluding remarks

Weber’s and Sombart’s interpretation of the rational economic agent (*homo oeconomicus*) as a historical phenomenon takes position between Roscher/Schmoller (older generations of the GHS) and Austrian/neoclassical economics. On the one hand, they do not adopt the hostile attitude of the GHS towards *homo oeconomicus* in itself. They accept that “under today’s conditions of existence the approximation of reality to the theoretical propositions of economics has been a constantly increasing one.” (Weber 1968, p.395) But on the other hand, they deny universality and timeless applicability of the *homo oeconomicus* as a model of human action in the economic sphere.

For Sombart and Weber the rational economic agent of modern economics is a “rational scheme” or “ideal type” for analyzing economic actions, which only resembles reality to a greater or lesser degree. The behaviour of the *homo oeconomicus* cannot be deduced from psychological or biological forces upon which the claim of universality is mistakenly founded¹⁰.

If the actions of the *homo oeconomicus* are guided by maximization of utility (from the consumer’s point of view) or profit (from the entrepreneur’s perspective), the historical studies of Sombart and Weber are predominantly focused on the latter. In an economy where large establishments were a rare exception and production was overwhelmingly carried out by individual craftsmen or small traders, the two perspectives are not institutionally separated and were therefore be treated together. Conceptually, the modern rational organization of the

⁹ It is not the aim of this paper to evaluate Weber’s and Sombart’s specific arguments with respect to their merits or deficiencies. Weber’s theses concerning the impact of the Reformation are intensively debated until today. For a brief survey see Ebner 2010. Sombart’s work is little known nowadays in the English speaking academia. For a recent evaluation of Sombart’s work see Backhaus (ed.) 1996, with respect to the spirit of capitalism especially the contributions of Schneider and Prisching. See also Parsons in vom Brocke (ed.) 1987.

¹⁰ On the implications of Weber’s article “Marginal utility theory and the ‘fundamental law of psychophysics’” (1908, reprinted in Weber 1968, p. 384-399) see Zafirovski 2001. – If only “sporadic attention” has been paid to the relationship between economics and psychology, as an object of debate it has recently gained renewed actuality due to the rise of “behavioural economics”. (Bianchi and De Marchi 2016, p. 1)

capitalistic enterprise would not have been possible without the separation of business from the household, which completely dominates economic life". (Weber 1920/1930, p. 21f) One might add here: not only economic life, but economic theory as well in the form of the fundamental distinction which underlies modern microeconomic theory, which appears to have been anticipated by Weber.

The rational scheme which is commonly used for analyzing the actions of the production unit: profit maximization, also functions – however modified in reality - as orientation in actual management of enterprises. If this is an empirically observable phenomenon, the same cannot be easily maintained for “utility maximization” of the consumption unit. Weber calls a “trivial experience of every-day life” what can be observed in practice: that men buy goods and services as they prefer, subject to their budget constraint, thus realizing an “optimum of satisfaction.”(Weber 1968, p. 395). If marginal utility theory suggests that the rational calculus of marginal utility guides the consumer’s choices like “a merchant’s soul (*als eine Kaufmannsseele*) which can make a quantitative estimate of the ‘intensity’ of needs” (p. 394), this cannot be observed empirically. Hence, the status of this proposition of standard microeconomics cannot claim the same methodological/epistemological status of constituting a “meaningful context” (in the sense of *verstehende Sozialwissenschaft*) as the principle of profit maximization, but remains a mere “fiction” of speculative character. Thus, modern consumer theory lacks the empirical character of a properly understood theory of production.

Besides orientation towards maximum utility and profitability, there is a procedural aspect to economic rationality. Agents make a rational decision between what is and what is not subject to the causal influence they can exert through choices they make. That social and economic relations are subjected to choices which men make according to rational insights is a perception which originated at a stage in the evolution of social philosophy, when the scholastic world view was superseded by the philosophies of rationalism and enlightenment, i.e. at the beginning of the age of modernity, which also coincides with the emergence of the *homo oeconomicus*. “As the world is subordinated to a rationalist scheme, the groundbreaking idea gains momentum that economic and social relations among men with their ends and meanings are subject to comprehension by the rational mind, and are therefore subject to forming according to judgment of reason.” (Sommer 1920, p. 90) Surprisingly, Sombart and Weber hardly pay any attention to this parallel development between social philosophy and economic history which has been analyzed in depth by historians of social philosophy Karl Pribram (1912) and Louise Sommer.

Sombart (1930, p. 259) has treated the *homo oeconomicus* as equivalent to a “chess automat” which correctly solves its problems, hardly worth the fight against windmills which historical economists have waged so long. Given his “fictitious” nature as a rational scheme of behaviour, Sombart thought that the *homo oeconomicus* was quite an “innocuous being” (*harmloses Wesen*). Yet nothing could be further from the truth in view of the obsessive idea of “microfoundation” that has kept in spell so much of economic thinking in the last decades.

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