

## **Rationalism in Weber and Schumpeter: Dehumanization and Order**

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### **Abstract**

The aim of this study is to analyze the concept of rationalism on economic and social order both in Weber and Schumpeter and examine the dehumanization process. According to Weber, individuals are not entities that behave only in accordance with the principle of formal rationality. The behavior of individual, who is a social entity, should be examined together with his/her wisdom and values. In order to examine formal and substantive rationality together, economic, social, religious, psychological, and traditional factors should also be considered. Hence, Weber points to the multilateral causalities among the historical, sociological, and economic incidents (Weber 1996a, p. 99). In Weber, the process of capitalist bureaucracy is so irrational that it causes the destruction of values and ideals in rationality. It paves the way for imprisonment of individuals in an iron cage over time. Such irrationality even causes individuals to lose their human feelings by spreading to various layers of society; from economic life to politics, law, and culture, etc. As long as the capitalist society structure develops, the bureaucratization that increases through calculations and activities cause the “reification” of humans (Weber, 1996a: 92).

What Weber stated on the negative effects of bureaucratic organization and formal rationality on charisma has influenced the development of Schumpeter’s concept of entrepreneur that he considers as a charismatic leader. The creative nature of the entrepreneur, who adds dynamism to capitalism, decreases and even disappears as the rationality of capitalism increases. Thus, the economic structure becomes routinized. Therefore, an entrepreneur, who refers to a leader in a Weberian perspective, causes the economic and social order to change.

### **Introduction**

**Key words:** Rationalism, Schumpeter, Weber, Iron Cage, Rational Bureaucracy.

### **Introduction**

According to Weber, economics is a science that has a very broad field and in this sense, it includes not only economic but also noneconomic phenomena (Weber 1997). Accordingly, the analysis should comprise moral values such as political, legal order, and religion, and institutional structures should be considered during the analysis of economic phenomena. Weber argues that the formal rationalist behavior, which is formed in accordance with the market rules, will in time restrain the individual in a strict bureaucracy. This process means that the individual is dehumanized from all his personal characteristics and Weber

proposes that such dehumanization of the individual is a result of the bureaucracy caused by the rise of formal rationality in modern capitalism (Mommsen 1989a, p. 110).

Schumpeter has examined the changes in the economic and social structures with respect to the endogenous variables of the system and argued that these endogenous variables are not only economic, but are also social and political variables<sup>1</sup>. In addition, Schumpeter explained the functioning of capitalism through the tension created by the effects of economic and noneconomic variables on each another. Conducting the analysis through these dynamics ensures that the investigated issue can be evaluated in an integrative and comprehensive manner.

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

The energetic decision units are associated with the concept of the charismatic leader, which was presented in the first chapter of Weber's work entitled *The Protestant Ethic and the Spirit of Capitalism* (1997). The source of similarity between Weber's charismatic leader and the energetic decision units is that the results of the actions of these decision units are unsatisfiable and that personal characteristics have an influence on the motivational sources of the actions of the individuals. The key feature of the behaviors of energetic decision units is that they act innovatively by using different materials and methods than those used in the past. The behaviors of energetic decision units are important with regard to Schumpeter's theory of economic development.

Accordingly, the first section of this study will examine the rationalism in Weber. For this aim, the concepts of "Protestant Ethic", "iron cage" and the "bureaucratic rationalism" are scrutinized. The second section will mainly demonstrate Schumpeter's rationalism, the process of creative destruction, and the dynamics of institutional change.

### **1. Rationalism, Dehumanization and Order in Weber**

Max Weber did not specialize in a single discipline and undertook an interdisciplinary approach and in this sense, he is one of those unique scholars. He is one of the founders of modern sociology. His approach can be considered as an escape from the methodology debate of his time, *the Methodenstreit*. Weber received his PhD degree in law at the University of Berlin (1889) and lectured commercial law in the same institution. Then, he switched to economics and became a professor of economics at the University of Freiburg

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(1894). During that time, economics was taught in the Department of Law and Weber learned the economics of the German Historical School. He became a part of the methodology debate and his early studies were aimed at finding a solution to this debate. The sociological work of Weber can be considered as the practice of his methodological approach.

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

Weber also related the Protestant ethic and capitalism, and took into consideration the interactions between the *mind* and *society*. Weber’s goal is to put forward the factors that enable the continuity and motivation of the capitalist system. In his book entitled *Protestant Ethic and the Spirit of Capitalism* (1997), Weber investigated the effects of certain religious and ethical structures on the economic order rather than proposing a causal relationship between Protestantism and capitalism (Sen 1985, p. 5). According to Weber, rather than a methodology that is linked to the same causal factors and effects, a study, in the context of which the researcher displays the effects of certain variables on one another, can give more effective results in terms of economic phenomena. Throughout his studies, Weber emphasizes that although economic factors are indispensable, they are not sufficient to explain the nature of economic and social structure alone. He stresses that in order to explain this structure, other “subjective” elements like law, politics, and moral values should also be taken into consideration in addition to the economic phenomena.

In Weber, economics is the sum of economic actions; it is the science of societies and needs, not that of nature. In terms of economic action, *homoeconomicus* is the human type specific to modern Western societies and is one of the main assumptions, which provides an abstract framework for economic theory. From this perspective, it can be argued that *homoeconomicus* is an abstract design of the individual rather than the real human action (Hollis and Nell 2007). In other words, *homoeconomicus* can be defined as an abstract tool

analyzing not all actions but only material actions of the individual. Because of this feature, Weber has proposed that one should go beyond the limits of theoretical economics and in addition to the economic factors, the non-economic ones should also be included in the analysis. Hence, Weber has emphasized that the sociological aspect should always be considered when examining the economic phenomena. Likewise, economic phenomena should be examined without ignoring the relationship among technology, nature, and society (Weber 2003).

Scientific research is expected to put forth the most important factors that determine a phenomenon, which is the sum of rational and irrational components (Weber 1995, p. 10). According to Weber, sociology is a science that aims to understand the social action by interpretation, and to explain the reasons of the social actions. Here, such kinds of actions are used to understand all kinds of human behaviors. In Weber's analysis, *Verstehen* is an important methodological concept and understanding means finding out the social average or approximately valid phenomena and the causal relationships that reveal these phenomena rather than the "reality" itself. Weber identifies two sorts of understanding; rational and irrational. The former is the direct examination of the reality in the context of mathematics and logic. The latter is based on historical experiences and emotional reactions.

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

Weber's economic sociology has two aspects. The first one is the analysis of economics itself (economic theory), and the other one is the analysis of non-economic factors such as politics, culture, and law, etc. In this framework, the basic research unit of Weber's sociology turns out to be *economic social action*. For example, in Weber's works, economic organizations, economic phenomena like exchange, loans, money, and market are analyzed in terms of economic social actions (Swedberg 1999, p. 574). Weber's objective is to explain sociological concepts like state, institution and feudalism in the context of the actions of the individual. Likewise, Weber has analyzed sociological concepts such as classical monarchy, oligarchy, and democracy within the framework of individual actions; rational, traditional, and charismatic actions. In other words, it can be argued that Weber investigates the motivational relationship between abstract concepts and individual actions. Hence, Weber's

aim is to explain the economic phenomena on the basis of economic sociology by means of politics, legal system, and moral values. One of the basic concepts in Weber's legal system analysis is the concept of "charisma." The concept of charisma, which is defined as the basic transformative power of the economic and social structure in Weber's studies (1968), is also mentioned in his thoughts about authority. Weber has defined legal, traditional, and charismatic types of authority, and enabled them to gain an economic dimension with regard to their relations with rational capitalism (Weber 1995, p. 92).

Authority that emerges from the traditional grounds means that the rules are dependent on past habits and behavioral patterns. Rational legal ground determines the rules required by the vocational position of the individual. These rules ensure the continuity of the vocational position and maintain business in a certain hierarchical structure. The mentioned rules can be rational only if they are in written form. It is also possible to use the concept of "bureaucracy" instead of rational legal ground (Weber 1995, pp. 315-316).

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

Taking Weber's approach as the basis, Kalberg (1980) argues that rationality can be defined in four different types. The first is practical rationality. Practical rationality means that individual actions are carried out practically and only to meet personal interests. The second is theoretical rationality; and by using logical induction, deduction, and causality relationships, theoretical rationality helps understand the reality with mental efforts through abstraction. Substantive rationality covers the actions that are associated with the values of economic and social order. In this context, substantive rationality makes calculations not only by rational instruments, but by also taking into consideration traditional, political, and social class factors. These are in a sense irrational instruments of value and substantive rationality has numerous criteria. The last form of rationality is formal rationality. Formal rationality of an economic action or activity means that it can be computed technically. Within this framework, formal rationality is the most important rationalization category of Weber, and the main characteristic of formal rationality is that it is computable, efficient, and predictable. Formal rationality does not take into account the personal differences and assessments. In a formal rational structure, almost all decisions and actions are made in accordance with rational relations. While Weber accepts that formal rationality is dominant in economic

action, he has also proposed that the effects of substantive rationality, that is the value related factors on economic and social change, are so strong that they cannot be neglected (Weber 1995, pp. 130-132). Although practical, theoretical, and substantive rationalities are observed in different types of societies, formal rationality was experienced only in the industrialization process of the West.

In economic theory, formal rationality refers to mutual interest in terms of actions, and is included in the analysis as an empirical fact that is independent from value judgements such as religious, ethical, and political judgements. In addition, formal rationality is based on empirical ground and advocates the argument that economic and social order is a cosmos that is independent from moral values and ideals. However, Weber, inspired by Nietzsche, sees the rational world as a *disenchanted* world. In this world, the rationalization process sometimes works in the opposite direction. According to Weber, rationality is the practice of purifying the world's enchant/spirit by moving away from a worldview that is based on values and ideals (Swatos 1981, p. 120).

In his work entitled *The Protestant Ethic and the Spirit of Capitalism* (1997), Weber states the fundamental characteristics of modern Western capitalism. The rational industrial organizations and their bureaucratic structures are among those (Weber 1997, pp. 22-23). It can be argued that Weber has analyzed the development of capitalism with regard to the concept of "formal rationality." Weber proposes that during the emergence of capitalism, the two main links in the chain of causality were the formal rationality of capitalism and the Ascetic Protestant spirit. The most important factor in the emergence of capitalism is the tendency of rationalization in the Ascetic Protestant spirit, and the form of organization depends on this tendency. On the contrary, in the Protestant ethic, the main goal is to reach the uppermost level of a certain business (Weber 1996b, p. 103). The spirit of capitalism sees historicity from a certain point of view and through the sum of certain relations in historicity (Weber, 1997, p. 16). From Weber's perspective, the influence of the Protestant ethic in the development of capitalism can be explained as follows: Secular Ascetic Protestantism has strictly objected to the natural pleasure of being a property owner and restricted consumption, especially luxury consumption. Furthermore, the accumulation of capital was considered entirely as the will of God (Weber 1997, pp. 150-151). In other words, Weber indicates that the Protestant ethic regards working and accumulation as a kind of worship of God, and that this was the causal factor behind the process of capitalist development.

Weber emphasizes this danger, stating that material goods "should be worn like a light coat that can be easily cast aside" (Weber 1997, pp. 159), and it can turn into an "iron cage" over time. It is observed that in Weber, the individual lost his humanity as a result of the rationalization of the capitalist system (Güler Aydın 2010). In a sense, the spirit of Asceticism has somewhat escaped from this cage in the course of time. The mechanical

foundations of capitalism are no longer in need of this spirit as in the past. Especially in countries like the United States, earnings and vocational duties have gotten out of religious and moral covers. Weber interprets this situation as follows:

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

For the last stage of this cultural development, it can be argued that: “Specialist without spirit, sensualists without heart; this nullity imagines that it has attained a level of civilization never before achieved” (Weber, 1997, p. 160). Based on these statements, Weber argues that the formal rationalist behavior, which is formed in accordance with the market rules, will in time restrain the individual in a strict bureaucracy. This process means that the individual is dehumanized from all his personal characteristics and Weber proposes that such dehumanization of the individual is a result of the bureaucracy caused by the rise of formal rationality in modern capitalism (Mommsen 1989a, p. 110).

## **2. Rationalism, Dehumanization and Order in Schumpeter**

Schumpeter is one of the most distinguished economists of the twentieth century. He published his amazing book entitled *The Theory of Economic Development* (1912) when he was only 28. He graduated from the University of Vienna (1904) and started teaching at the University of Czernowitz (1909). He later transferred to the University of Graz. He became the Minister of Finance of Austria (1919-1920) and then the president of a German bank (1920-22). After his first visit in the United States (1924), he returned to Europe (1925) and became professor of public finance at the University of Bonn. He left Europe and started working at Harvard University until his retirement (1932-1950). While he was working at Harvard University, he published his astonishing book entitled *Business Cycles* (1939). This book was published at a time when Keynesian revolution was at its peak (Blaug, 1986: 215-217). Although Schumpeter was a contemporary of Keynes, in contrast to Keynes, Schumpeter did not have followers and did not attempt to create a school (Sweezy, 1996: 77).

Schumpeter believed that history and theory should be separated from each other. During a period in which the German Historical School had dominated the methodological controversy and advocated history, Schumpeter favored theory against history and aimed to illuminate the methodological basis of the theory. According to Schumpeter, theoretical economics was a static theory of exchange and all the dynamic phenomena were not within the scope of the theoretical approach and thus, were left to the historical school (Shionoya 2005, p. 98). However, when he later on started his analysis of economic sociology in addition to economic development, he embraced an approach, which included the cooperation

of history and theory rather than their separation. Therefore, it became possible to deal with the dynamic problems.

Schumpeter has accepted that economics has a certain technique. He has added the fourth factor -economic sociology- to this technique, which is generally composed of three; history, statistics, and theory, and proposed his own economic analysis accordingly. Schumpeter's opinions about the methodology of economics can be found in his work entitled *History of Economic Analysis (1954)*. According to Schumpeter, knowledge changes the accepted opinions and methodologies. Scientific progress is achieved when new facts, new perspectives or new types of relationships emerge. According to Schumpeter, theoretical acceptances are realized when the struggles and discussions that have been going on for many years turn into conciliation within the context of a certain paradigm. Schumpeter believes that the aim of theory is to construct logical relations between different variables (Schumpeter 1954, p. 12; Kurtakko 2014).

Schumpeter explains the basic difference between the theories with two supplementary elements embodied in both theories. The first is the opinion of the theoretician on the fundamental characteristics of society. This is called "vision." The second is the theoretician's technique, which enables the conceptualization of the concrete propositions of the theoretician. In his article entitled *Science and Ideology (1949)*, Schumpeter claims that the vision of the researcher affects the model he develops. While explaining the social and natural facts, vision also helps the identification of valid and important phenomena. Once these elements are identified, discussions about these physical factors start in accordance with scientific rules. The model is established with the help of the feedback process between the investigated reality and the theory. In other words, according to Schumpeter, vision affects the researcher while establishing the model. In short, vision, the theoretical system, and the reality are the building blocks of Schumpeter's scientific knowledge production process. However, when developing the theoretical system in different periods, the process does not necessarily go from vision to theory and from theory to reality. Schumpeter argues that the main goal is to construct a scheme of the reality by means of models (Shionoya 1997, p. 40).

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



Economic change, or economic development as studied by Schumpeter, is described as the development of innovation, introduction of new combinations to the economic and social life. Schumpeter identifies five different types of innovation. These are production of a new product, adoption of new production techniques, the exploitation of new markets and new organization ways, and accessing new raw material resources. In the change caused by economic development and innovations, Schumpeter emphasizes the innovative/creative actions of the entrepreneur (Schumpeter, 1934: 66). In the circular flow mechanism, individual actions are rational. When there is any disequilibrium in the economic and social structure, rational behavior is the basic tool that enables the system to reach a new state of equilibrium. Despite that, when innovations come into question, since it will not be completely possible to know about their effects on the system, the decision units will not be able to act rationally and the previous state of equilibrium will not be reached as a result of different individual actions (Malerba 2006, pp. 4-5). Therefore, it can be put forward that Schumpeter explains economic and social structure mainly through individual actions. If there is order in the economic and social structure, rational, on the contrary, if there are disorders, creative individual actions are taken into account.

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

The energetic decision units are associated with the concept of the charismatic leader, which was presented in the first chapter of Weber's work entitled *The Protestant Ethic and the Spirit of Capitalism* (1997). The source of similarity between Weber's charismatic leader and the energetic decision units is that the results of the actions of these decision units are unsatisfiable and that personal characteristics have an influence on the motivational sources of the actions of the individuals. The key feature of the behaviors of energetic decision units is that they act innovatively by using different materials and methods than those used in the past. The behaviors of energetic decision units are important with regard to Schumpeter's theory of economic development.

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

of economic and social innovation and development process is the creative/energetic (charismatic) entrepreneur.

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

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

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

Schumpeter has examined capitalism by taking it out of the static economic analysis to cover the broad historical factors. When the entrepreneur comes to a point where he/she cannot make any innovations, the rational spirit weakens the family bonds of the bourgeoisie, and when the increasing reactions of the intellectuals cause an expansion in the current reactions to the system, the disorders in the economic structure will arise. The bureaucratic structures of large companies can also result in the destruction of the fundamental institutional layer of capitalism, such as private property and the freedom of contract. Shortly, in Schumpeter, the reasons that prevent capitalism from functioning can be defined as the

social and institutional elements such as the disappearance of the creative aspect of entrepreneurship (the economic one), the reactions of intellectuals, and the traditional form of the bourgeois family structure (the social one) (Schumpeter, 1943).

According to Schumpeter (1943), the capitalist development transformed small firms to big bureaucratic firms. Throughout this historical process, big firms have replaced small ones and this changed the values and norms of the sociopolitical structure. The increase in the number of big firms in the economic structure resulted in the routinization of the creative behavior of the energetic entrepreneur. In other words, this historical process rationalized creative behavior and transformed it into mass behavior. The increasing rationality that has been spread by big firms to all aspects of life in line with economic development has been weakening the innovative/creative side of the entrepreneur and has been damaging the basic protective layer of the economic and social structure (Flip 1993, p. 166) Within this framework, the bureaucratization process caused by formal rationality and the routinization of charisma in Weber, and the entrepreneur that loses his energetic and creative side in Schumpeter are similar processes that feed each other. The action of Schumpeter's entrepreneur, which is the main actor of economic change, cannot be solely regarded as a rational action. Thus, Schumpeter's entrepreneur resembles Weber's charismatic leader who dreams of creating his own kingdom and is willing to become successful. However, in the following phases of capitalist development process, the innovative entrepreneur faces rational bureaucracy, which is a natural result of big firms and accordingly, the creative characteristic of the entrepreneurs weakens.

Schumpeter's entrepreneur can be regarded as the leader of economic development. Leadership means finding or creating new opportunities. According to Schumpeter, the leadership of the capitalist entrepreneur is not personal as in political leadership. In addition, Schumpeter's entrepreneur does not act in a way that is fed only by hedonistic feelings. As emphasized above, the entrepreneur is a person who is willing to create his own kingdom, produces with the desire for success, and longs for the success itself rather than what he accomplished. The pleasure of creation is the main motivation source of the entrepreneur, and the change that can evaluate the current structure in terms of economic and social aspects can be realized with the innovations caused by these motivations.

### **Conclusion**

According to Weber, individuals are not entities that behave only in accordance with the principle of formal rationality. The behavior of individual, who is a social entity, should be examined together with his/her wisdom and values. In order to examine formal and substantive rationality together, economic, social, religious, psychological, and traditional factors should also be considered. Hence, Weber points to the multilateral causalities among

the historical, sociological, and economic incidents (Weber 1996a, p. 99) and emphasizes that an economist should be familiar to economic history and economic sociology, as much as economic theory. Schumpeter's economic sociology, which has a similar analytical framework, is analyzed below.

Schumpeter proposes that economic changes result in the evolution of the economic structure by changing the norms. Schumpeter puts forward that the creative response is a product of the actions of the entrepreneur. The creative response shapes the long-term results of incidents and results in changes, accordingly. Thus, it can be argued that the creative response is the outcome of a historical process (Schumpeter 1989, p. 222). According to Schumpeter, the main characteristic of the capitalist social structure is its dynamic structure. This characteristic stems from the fact that "economic life" is a changing "social" environment.

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

Weber investigates the contradictions of modern rationality by taking into consideration the rationalist tradition of modernism. Formal rationality, which is the spirit of modern capitalism, causes the bureaucratization and reification of human behaviors through intense technical/mechanical calculations. Weber emphasizes the irrationality in the process of capital accumulation and capitalist rationality also embodies irrationality. It paves the way for imprisonment of individuals in an iron cage over time. Such irrationality even causes individuals to lose their human feelings by spreading to various layers of society; from economic life to politics, law, and culture, etc. As long as the capitalist society structure develops, the bureaucratization that increases through calculations and activities cause the "reification" of humans (Weber, 1996a: 92). From this aspect, it can be claimed that Weber has a pessimistic approach towards the capitalist society. This pessimism cannot be considered separately from the nature of capitalism and from the dynamics of rationality. The process of capitalist bureaucracy can cause the destruction of values and ideals in rationality.

Hence, it can be proposed that in a capitalist society, other than the exchange value, the market destroys all factors like moral values, human relations and individual emotions. In this sense, goals turn into tools and the individual is distanced from his own individual activities in the process of capitalist development.

What Weber stated on the negative effects of bureaucratic organization and formal rationality on charisma has influenced the development of Schumpeter's concept of entrepreneur that he considers as a charismatic leader. The creative nature of the entrepreneur, who adds dynamism to capitalism, decreases and even disappears as the rationality of capitalism increases. Thus, the economic structure becomes routinized. Schumpeter accepts that social life can be described with many external factors and that human behavior determines this field endogenously. Schumpeter argues that dynamic economic development (economic field), which means the emergence of new products, new markets, new production techniques, new raw materials, and new forms of organization, is associated with the action of the creative entrepreneur (noneconomic motive). Therefore, an entrepreneur, who refers to a leader in a Weberian perspective, causes the economic and social structure to change.

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

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