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THE ECONOMIC THEORY CONCEIVED BY MAX WEBER

by Yūzo DEGUCHI*

I

The problem I would like to discuss in this paper is concerned with the question of what kind of economic theory was conceived by Max Weber. As it is widely accepted that Max Weber has developed the unique methodology of social sciences, the question must be of much interest to all economists.

In order to answer to the question, we have to clarify, in what aspects of economic studies did he actually engage and what kind of results he has given to the world about economic theory.

First of all, it should be recognized that Max Weber did not develop economic theory of his own. This is not only not particular of Max Weber, but also a common tendency among the circle of so-called German historical school, which maintained the uniqueness to other schools through significant works in the fields of economic history and economic and social policy. This uniqueness found in the historical school was also the character of Max Weber's study of economics. Namely, for him the study of economics meant

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largely the study of economic history and economic policy. And his treatises about these fields of study were collected in two books, "Gesammelte Aufsätze zur Sozial- und Wirtschaftsgeschichte" and "Gesammelte Aufsätze zur Soziologie und Sozialpolitik".

Now, what was the content of economic theory which Max Weber conceived? Since we recognize the important position of economic theory which it takes in the scope of economics, we have to face the question to characterize Max Weber's position in the history of economics. Before developing the further discussion, however, we must take beforehand a glance at another question: what was Weber's assumption of the place and function of economics in his various fields of study.

Among the many gigantic works in various fields of study which Weber presented to the world, we must recognize that the inaugural lecture on "Nationalstaat und Volkswirtschaftspolitik" which he delivered at Freiburg and published in a pamphlet short afterwards, is the important document which marks not only the starting point of his whole study but also show the basis which promises the basic lines of his further development.

The significant assumption on economics in general, which is expressed in the lecture, can be summarized in a following way. It emphasizes that economics should be the servant of "Staatsraison": and accordingly an economist should be a nationalist. If we may put this assumption in an abstract form, it maintains the primacy of "Machtinteresse" (interest of power or power-relations) over economic value. According to Weber, nation states will never cease to struggle against each other for the maintenance and expansion of its own circle of power and power is the highest value of the secular life. Therefore, it should be only natural for economics to follow after the demands of power politics. He considered that economics also should be studied in conformity to the demands of power politics, otherwise, he maintained, it will lose its own substance.

This idea was not first proclaimed by Max Weber. As Friedrich Meinecke's historical studies indicate, we can trace the development of such thoughts back to the early part of the modern world and it has developed constantly in taking the contrasting position to the ideas of modern natural


2. Literally, "Staatsraison" would have to be put into English reason of state. But we remember always that this idea has nothing rational at all but everything convenient to the power politics of every nation.
law. Starting with Machiavelli, the idea developed through the course of time, and it helped to establish the real basis of absolutism in France and other European countries, providing the substantial support to mercantilism, but afterwards, it seemed as if the idea were declined behind the splendid development of naturalistic economic thought, namely, classical economic theory, but again, in the 19th century, it made the reappearance in social sciences responding to the political and economic demands of the less advanced countries in Europe and Asia. We recognize the revival of Machiavellism in the field of modern social sciences, such as, Karl Ludwig von Haller in political science, Leopold von Ranke in history, Friedrich Karl von Savigny in law and Friedrich List in economics. The idea of natural law which penetrated into classical economics made clear a cosmopolitan and individualistic theory of society and an idea of history of its own. While we should not forget that, society and history being viewed in naturalistic way, there have been emerging through a dialectical thought based on economic reasonings, we recognize the prior position of economic life over political power established in the systems of naturalism, and in the revival of Staatsräson in the 19th century historical school, we notice the reappearance of the idea which insists the primacy of political power over economic life.

The idea was potentially an element in the economic thought of German historical school. But at the early stage of its development, because of the ethical emphasis, the interest of power did not appear to the surface but rather power (Krathos) was covered, according to the expression of Meinecke, by the cloth of Ethos (Ethos). However, by the time of Weber, there was an increasing demand to take power in direct consideration, and thus ethically covered sentimentalism was taken away from social sciences. The anti-naturalistic idea revealed itself to the front of German thought in the period of the close of the 19th century.

3. Previously in the study of history of thoughts, it was taken for granted that the notion of continuity or the non-dialectical ideas concerning society and history took an important place in the thoughts of enlightenment period. Therefore in order to attain the dialectical thinking on society and history, some insisted that it is necessary to deny the idea of enlightenment period and replace the idea of romanticism as the counter-balancing element which will assert the notion of discontinuity. But I raise a question to this commonly accepted thesis in the history of thought. It seems to be necessary to recognize the fact that the dialectical thought has been nurtured within the rationalism of enlightenment. We should pay attention to Lukács thesis which found the meaning of romanticism in its tendency to direct the irrational and mystical way of life. cf. G. Lukács, Der junge Hegel und die Probleme der Kapitalistischen Gesellschaft 1953, (Economics and Dialectic) edited by Yūzo Deguchi, is the abridged summary of this book; and the same author’s Die Zerstörung der Vernunft, 1954.
Different kinds of contents can be presupposed, when we talk about the primacy of political power over economic life. As far as we know, the contents was not clearly defined in Weber's thought in his early days. However, at least the following can be maintained. In considering the primacy of political power over economic life, Weber was free from the pre-modern thought as often found in feudal times and absolutism period which tended to deal with economic reality in conformity to political power without recognizing the unique laws of economic reality. Rather he was aware since his early days of the unique laws which dominate in the modern capitalism. This was clearly indicated in his article entitled "Die Börse", which was published just before the lecture mentioned above.

In the article, Weber explained the importance of the idea of the primacy of national interest for less advanced capitalistic country like Germany. He said that the importance is due to the national necessity to maintain the political position (Machtstellung) in the competing struggles with other advanced countries, and he emphasizes the fact that economic policy of every nation has been a means of power in its economic struggle (Machtmittel in dem ökonomischen Kampf) which is only one aspect of power struggle between nations. The article asserted that, even if petty-bourgeoisie and proletariat express their demands of state control over the free investment of large capital at a stock exchange, we do not need to consider them seriously. On the contrary, it would be a serious matter for the state, if the state invites, through the demanded control, the decrease of its national capitals and the increase of intervention of foreign capitals at the stock exchange. Rather than accepting such demands of petty-bourgeoisie and proletariat, Weber takes more important consideration towards the powerful growth of large capital, by which large capital will maintain both honour and responsibility to the state and will take the autonomous action for the power-interest of the state. Weber says as follows:

"Der Durchführung rein theoretisch-moralischer Forderungen sind eben, so lange die Nationen, mögen sie auch militärisch in Frieden leben, ökono-

4. At the time of Kaprivi, the institution of stock exchange received criticism from both sides, i.e., from the conservative party and the labour union, and the demand to reform it and the necessity of state intervention to it were loudly spoken. See Ono Eiji, Doitsu Kinyu Shihan Seiritsu-shi ron, (A History of the Formation of German Financial Capital). Weber has written "Die Börse" for the Göttinger Arbeiter Bibliothek in accepting the request of Friedrich Naumann with whom at the time he began to have an intimate and lifelong friendship.

He intended through this writing to gain the understanding of workers on the function of stock exchange in national economy and to help them to develop their political sensitivity to higher standard, and to take away the possible disturbance which might arise by their one-sided or superficial understanding.
misch den unerbittlichen und unvermeidlichen Kampf um ihr nationales Dasein und die ökonomische Macht führen, enge Grenzen gezogen durch die Erwägung, dass man auch ökonomisch nicht einseitig abrüsten kann. Eine starke Börse kann eben kein Klub für 'ethische Kultur' sein, und die Kapitalien der grossen Banken sind so wenig 'Wohlfahrtsinrichtungen' wie Flinten und Kanonen es sind. Für eine Volkswirtschaftspolitik, welche diesseitige Ziele erstrebt, können sie nur eins sein: Machtmittel in jenem ökonomischen Kampf.'”

Thus in Weber’s thinking, the movement of large capital was justified, and we can not read nothing about monopolistic capital and its effects to German economic life. Rather than making a criticism to large capital, it was more important for him to hope for the development of large capital which will be interested in national interest of power and will corporate with the national policy with honor and responsibility.

At the same time, when he discusses the function of stock exchange, he reflects his underlying intention to compare bureaucracy of socialistic society with liberalism of capitalistic society. We can observe clearly Weber’s negative attitude toward socialist society. He says in the article as follows: —

“Eine sozialistische Organisation würde alle einzelnen je an einen Faden binden und diese Fäden in der Hand einer Zentralleitung zusammenlaufen lassen, welche nun jeden einzelnen dahin dirigiren würd, wo sie ihn nach dem Mass ihrer Kenntnis am zweckmässigsten verwenden zu können glaubt. Die heutige Organisation bindet jeden mit zahllose andere. Jeder zerrt an dem Fadennetz, um an die Stelle zu gelangen, wohin er möchte und wo er an seinem Platz zu sein glaubt, aber selbst, wenn er ein Riese ist, und viele der Fäden in seiner Hand zusammenfasst, wird er vielmehr von den andern dorthin gezerrt, wo gerade ein Platz für ihn offen ist.’”

We can easily see why Weber thus makes a contrast between capitalistic and socialist societies.

The tendency of historical school which considered economics as political economy had a special meaning in Weber’s case that it emphasized the political value to the extent that the uniqueness of the sphere of economic life was almost lost in sight. If this view is not false, it is difficult to maintain the unique position of economics among the various fields of social sciences. In the historical school, there is a meaning that the uniqueness of political economy was protected by emphasizing morality in economic life, but in Weber’s case, who took away the mask of ethical concern from economy,
economics merely became a servant of politics and it tended to lose the right to maintain unique and scientific assertion. Furthermore, it was not clear in this period of Weber that how three major divisions in the economic discipline, namely, economic theory, economic history, and economic policy, could be systematically organized. In looking through his lecture mentioned above, we can not say further than what I have described.

II

When Weber gained the maturity in forming his unique methodology of social sciences, the structure of economics in his thought began to take form. This was presumably taken place in 1907-8, when he began to publish his works after the intensified struggle, on one side, with Roscher and Knies and with German epistemologies of cultural sciences on the other. And we know that Weber began his study in sociology at just the same time. We should not forget that the formation of his methodology and the beginning of his sociological study took place at the same time, for, from this simultaneity, we can see quite clearly what was Weber's basic conception of social sciences in his later period.

The formation of methodology means, in principle, the formation of structure of the theory. Basing on the understanding of Weber's methodology, I would like to discuss his conception of economic theory.

Now, generally speaking there must be something which has central position in economic science. We will begin to solve our problem from this point of view. Weber described as follows, when he discussed Mayr's logic in historical reasoning.

"Nur durch Aufzeigung und Lösung sachlicher Probleme wurden Wissenschaften begründet und ihre Methode fortentwickelt, noch niemals dagegen sind daran rein erkenntnistheoretische oder methodologische Erwägungen entscheidend beteiligt gewesen."

This opinion is quite right, since we often see in methodological consideration that formal discussions tended to provide little room for the substance in issue. Now, "sachliche" Problems are various but what becomes the central problem among them must be the theoretical problem. Therefore, Weber began with the methodological discussion on economic theory, when he wanted to present his positive thesis.

It is hard to explain in a simple way what he meant in terms of "abstract economic theory." Therefore we need to clarify the characteristics of

7. See Yūzo Deguchi, op. cit. pp. 32-35.
the theory. As a whole, we may insist that it was a theory which modified
the economic theory of Karl Menger. We will explain our opinion.

Weber did not mention of Menger many times. But we may think,
since the time he has started the study of methodology and until he formed
his own decision, he has taken an unchanging attitude to Menger. In the
early stage, he accepted the epoch-making significance of Menger’s study on
methodology. This was reflected, in his article on “Roschers Historische
Methoden” (1903) in which he depicted Menger as the pioneer of the thinking
which classified science into two major groups; one was represented by pre­
cise natural science and the other by political history. He says like this;
“Dieser im weiteren Verlauf unserer Erörterung noch oft zu berührende
Gegensatz ist in einem gewissen Masse, obgleich mit teilweise unzutreffenden
Folgerungen, schon von Menger—wie noch zu erwähnen sein wird—in seiner
Tragweite für die Methodenlehre der Nationalökonomie erkannt worden.”
And he indicated that Menger took notice of Roscher’s new significant
interpretation of historical method, which, Roscher, as he declared, had
followed after the German school of historical jurisprudence, developed by
Savigny. And he also traced Menger as a person who made contention
toward an organological interpretation of society and projected the method­
dological significance of atomistic interpretation of it. Thus, Weber in this
period considered Menger as a forerunner of his own standpoint. A year
later (1904), there was no basic change in his appreciation of Menger, but
there was a new attitude developed toward the Austrian school. This is an
idea which tried to make disinction between Menger and his followers. In the
article entitled “Die Objektivität sozialwissenschaftlicher und sozialpolitischer
Erkenntnis” (1904), we find the following sentence: “Trotz der prinzipiellen
methodischen Scheidung gesetzlicher und historischer Erkenntnis, welche der
Schöpfer der Theorie (i. e. abstract theory of economics) als Erster und
Einziger vollzogen hatte, wird nun aber für die Lehrsätze der abstrakten
Theorie von ihm empirische Geltung im Sinne der Deduzierbarkeit
der Wirklichkeit aus den ›Gesetzen‹ in Anspruch genommen.”

In his article entitled “Knies und das Irrationalitätsproblem” (1905), We­
ber explained at least twice the necessity of making the distinction between
Menger and his followers and it is because of his severe opposition against
the tendency of interpreting the law of marginal utility psychologically,

2. WL. p. 3, Foot-note.
3. WL. p. 9.
4. WL. p. 35, Foot-note. Here he indicates that the epistemological meaning of “under­
standing” in social sciences has already been found by Menger.
5. WL. pp. 187, 8.
which tendency was represented by Friedlich von Wieser.\(^8\)

After this, Weber seemed to accept, in general, the position of Menger, in spite of some dissatisfactions. For example, he wrote, "K. Menger hat methodologisch nicht zu Ende geführt, aber ausgezeichnete Gedanken vorgetragen." And we may describe that Weber wrote he could not understand why some of German economists who shared the stream of historical school, like Brentano, would underestimate the Austrian School of thought. He went on to say in the foot-note just quoted: "und was die, heute üblicherweise auf Kosten des sachlichen Gedankengehalts überschätzte, Frage des Stil( anlangt, so ist vielleicht nicht gerade er (Menger), wohl aber v. Böhm-Bawerk auch darin ein Meister."

From viewing this sentence, we may guess that it seemed to be Böhm-Bawerk's theory which was most close to what Weber thought in terms of economic theory. As far as the problem of theory is concerned, we recognize that the tradition of German historical school has been shaken severely.

Next, we have to consider what kind of attitude Weber took toward the problem of marginal utility law. He published his study "\textit{Die Grenznützenlehre und das psychophysische Grundgesetz}" in 1908. And it is the time when we presume he has just arrived at the formation of his methodology. We may depict some of the parts which are related to our problem.

The article has been written as a review of the Lujo Brentano's book entitled "\textit{Die Entwicklung der Wertlehre}." In the article, Weber pointed out mistakes involved in the thoughts of the later period of historical school which tended to develop the psychological interpretation on marginal utility theory or subjective value theory, and to relate them with psychological law, especially with Weber-Fechner Law on the intensity of sense. According to Weber, marginal utility theory is nothing to do with such psychological law and it has no relation at all with the subject which is connected with stimulus and human sense. Rather he based his theory upon the facts of daily experience.\(^9\)

Here we have an interesting case study to see how economic theory, which belongs to "idealtype", keeps relation with the facts of daily experience. We would like to quote from Weber's description. He says:

"Alltagserfahrung, von der unsere Theorie ausgeht, ist natürlich der gemeinsame Ausgangspunkt aller empirischen Einzeldisziplinen. Jede von ihnen will über sie hinaus und muss dies wollen,—denn eben darauf ruht

\(^7\) WL, p. 372. Foot-note.
\(^8\) Cf. WL, pp. 365, 6.

Through reading these sentences, we may clearly grasp the anti-psychological standpoint of Weber. But we do not here take this point into consideration. What is important for us now is that the theory of subjective value is defined in the daily experience of a merchant as something which has enough evidence based on our empirical facts. And Weber considered that the theory will have theoretical validity which will be accepted in the modern society generally. He demands, in his discussion on methodology in social sciences, both, on the one hand, positive evidence (Evidenz) and, on

9. WL. pp. 369, 70.
the other hand, rational validity (Geltung).\textsuperscript{10} And these two elements, Weber thinks, are present in the spirit of a modern merchant and his managerial direction. And we can indicate the following two points from this fact concerning economic theory. (1) In the reasonings within the "Ideal-type" of economic life, we are not in the fictive world of ideal constructions, with no relation to every real facts around us, but we could touch the reality of modern economic life. But economic reality cannot wholly be grasped as it really is, because the theory has been formed through the process of emphasizing and organizing certain factors of the life of a modern merchant existing in capitalistic society, and, at the same time, of excluding the other factors of his life altogether. This point is underlined by Weber himself. (2) We demand the readers attention to the fact that the economic theory is thought to be a means to the end of managing an enterprise, and thus has the technological character in itself.

The first point shows us the abstractness of the theory. Weber seems to advocate that the theory is the isolation from economic reality. The second point may be explained in the following way. The technic is not the practice in its full meaning. Rather it takes for granted the practical commitment and deals with merely the adoptability of the means in attaining the predetermined end. Then, when we think of national economy according to Weber's thought, it excludes not only the thinking which develops the perspective or the future national life as a whole in order to actualize higher standard of life, but also it excludes the effort to interpret economic life from the practical point of view. Thus economic theory becomes a theory which deals with the problem of technical adoptability, and the problem of practical end which should be chosen and decided before considering the validity of the means is placed to be considered by the interest of power of nation state. In short, Weber maintains that economic theory itself has always a character to isolate itself from the practical end of life.

In spite of his thesis in maintaining the separation from reality and the isolation from practice as the basic character of economic theory, we can not overlook the fact that, at the same time, he advocates the contradictory thesis. First of all, in contrasting to the theory which advocates the separation from reality, there are points in which he makes the effort to provide for economic theory the close relation with empirical reality. He says, "Die allgemeinen Lehrsätze, welche die ökonomische Theorie aufstellt, sind lediglich Konstruktionen, welche aussagen, welche Konsequenzen das Handeln des einzelnen Menschen in seiner Verschlingung mit dem aller andern erzeugen."

\textsuperscript{10} Deguchi, Ibid., p. 103.
THE ECONOMIC THEORY CONCEIVED BY MAX WEBER

It is obvious that this statement contradicts with the former thesis. Secondly, in contrasting to the theory which advocates the isolation from practice, there are points in which he encourages the close approach to practice of life. For an example, we may quote the following sentences which we read in the continued part of the sentences quoted above. “Auf dieser kulturhistorischen Tatsache, nicht aber auf ihrer angeblichen Begründung durch das Weber-Fechnersche Gesetz, beruht die heuristische Bedeutung der Grenznutzlehre. Es ist z. B. doch kein Zufall, dass ein besonders frappantes Mass von Annäherung an die theoretischen Sätze der Preisbildung, wie sie, im Anschluss an Menger, v. Böhm-Bawerk entwickelt hat, die Berliner Börsenkurs-Feststellung unter dem zog. Einheitskurses darstellte: sie konnte direkt als Paradigma dafür dienen.”

If this is true, what theory indicates would have to become what directs us in economic life. Then this statement contradicts with the previous statement about the isolation from practice.

It is possible to solve these two contradictions. We expect the solution through the thinking which grasps the historical development of society in terms of rationalization. As the society increases the tendency of rationalization, the theory which has been deduced from the ideal-type becomes closer to the reality and transforms itself from the stage of isolation from the reality to the one which maintains closer relation with it.

Although Max Weber demanded to separate belief and world perspec-

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tive, and therefore to do away with an interpretation of history as the basic element of methodology, his methodology becomes inconsistent without his own perspective on the historical tendency of society. What does this fact indicate? It means that, without a certain philosophy of history, it is difficult to formulate any methodology of economics. In other words, it points out the deeper paradox, namely unless Weber's basic demands were not fulfilled, it is hard to accomplish the methodology of economics. In Weber, however, the rationalization of society does not mean the total rationalization of social reality as a whole. It was the rationalization of means and the organization of the means to the end which is defined as profit, as represented in the rationalization of management of enterprise. It means the technical rationalization rather than actual rationalization of social reality. In this sense, we may understand that both the unity of paradox between separation from reality and closeness to reality, and the unity of paradox between isolation from reality and the close approach to practice concerns only with the reality and practice in abstract and superficial sense.

In the whole and concret reality, economic value should be sought along with other cultural values. Since the existence of the values and the conflict among the values are the fundamental facts of life, it is impossible to make any comment without deciding the order among the values. Therefore, when we speak about economic theory, it is requested to express objectively the viewpoint or the order of values in human life.

However, Weber refuses such requests to social sciences. It entirely belongs to our freedom whether we will accept the request or not. But if we refuse it, actually we are in a situation of anarchy in interpreting the events of life and there the objectivity and validity of science which economic theory claims is only admitted to the superficial reality which has no essential substance and permits domination of irrational and subjective belief behind the scene. Weber's methodology discloses that the objective validity of capitalist economics has only such a low degree of objective validity.

In the whole and concret reality, person engages at the cost of one's life with the choice among the various conflicting values and he will make the struggle for the realization of such values as he chose and for the denial of such values as he abandoned.

This is also the fundamental facts of human life and science should provide the direction for the choice and the action for the struggle. In Weber's case, what provides such direction for the action was the interest of power on the part of nation state, which is itself too irrational as to be considered as the object of empirical science, and the task of science in facing to the practice was considered as the search for technical means in reaching the end
which was predetermined by the power. But should we be content to consider the practical character of social sciences in such a low degree?

When we think in this way, in conclusion, we have to point out that there is a corruption which underestimates the truth of social sciences to the technological adoptability—a technological corruption. The truth of economic theory is said to be sought only to find out the technical means to ends which are widely acknowledged to be realized among the members of society, and becomes only technological truth. Here, we find that this truth is mere the one of low degree, and not the truth which we should search in the social sciences.

It is important to investigate that, centering upon the theory, how Weber develops his study in the field of economic history on the one hand, and of economic policy, on the other, and to find out what kinds of corrupting phenomena arise in both fields of economic study. But, since the main theme of this article is to depict the uniqueness of Weber's economic theory, I would like to remain here without going further in discussing the development in these fields.