

**WEBER, SCHUMPETER AND
MODERN CAPITALISM:
TOWARD A GENERAL THEORY**

by

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ABSTRACT

WEBER, SCHUMPETER AND MODERN CAPITALISM: TOWARD A GENERAL THEORY

The present work seeks to explore and bring together the contributions of two of the greatest theorists of modern capitalism, Max Weber and Joseph Schumpeter. It further attempts the ambitious task of laying the foundations for a General Theory of Modern Capitalism. In constructing a General Theory we seek to account for the pre-conditions, essential features and operational dynamics of capitalism wherever it is present in the modern world regardless of national peculiarities.

It has variously been claimed that Weber is the most cited authority in all of sociology and Schumpeter the most cited in all of economics, but hitherto there have been few attempts to compare their work on capitalism and no serious attempt to integrate their respective contributions. The present work addresses this deficiency. Its underlying rationale is the view that the writings of Weber and Schumpeter *in combination* and *appropriately integrated* can provide a comprehensive theory of the modern capitalist system that is superior to what is available in competing theoretical frameworks.

We argue there are important theoretical connections between Weber and Schumpeter via the influence of Austrian economists such as Carl Menger and the so-called Austrian Marginalist School. Biographically there are also notable points of contact between Weber and Schumpeter that warrant attention. The present work will first give an account of the respective contributions of Weber and Schumpeter with regard to the nature and workings of capitalism, a topic that is a central focus for both of them. In doing this we shall explore the compatibility and complementarity of the two approaches. We argue that the full significance of the contributions of both writers has not been adequately appreciated. Weber's work on law, the city and the state and Schumpeter's analysis of business cycles are explored in detail. Both writers insist on the rationality of the price mechanism under competitive market conditions and explain how this underpins the prosperity of modern economies. Finally, we attempt to lay the groundwork for a synthesis of the contributions of Weber with those of Schumpeter as the basis for a General Theory of Modern Capitalism.

Weber became well-known and even celebrated in the English-speaking world for *The Protestant Ethic and the Spirit of Capitalism*, which became a classic and one of the most influential works in all sociology. Schumpeter is well known for his *Capitalism, Socialism and Democracy*. We shall accordingly comment at length on these works but they represent only a small portion of the contributions the two thinkers made on capitalism. Therefore, the present work shows how many other writings of Weber and Schumpeter need to be considered to fully appreciate the value of their contributions. Wherever relevant we shall also relate the work of Weber and Schumpeter to more recent research and offer criticisms where needed.