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Revisiting the Iron Cage: New Insights in Institutions Theory from Max Weber's *The Protestant Ethic and the Spirit of Capitalism*

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Revisiting the Iron Cage: New Insights in Institutions Theory from Max Weber's *The Protestant Ethic and the Spirit of Capitalism*

Abstract

This thesis reinterprets Max Weber's *The Protestant Ethic and the Spirit of Capitalism* using contemporary economic institutions theory as proposed by Douglass North in *Institutions, Institutional Change, and Economic Performance*. It shows that contrary to the accusations of his critics, Weber provides a clear mechanism for historical change which emphasizes human perceptions and changing costs. This thesis argues that Weber's approach can serve as a model for understanding other periods of historical change. This reinterpretation is used to refute Weber's critics in explaining the continued—and widely unacknowledged—importance of *The Protestant Ethic* in the developing field of institutions theory, and our understanding of history.

Keywords

Political Science, Ian Lustick, Ian, Lustick, Max Weber, Protestant Ethic, Institutions, Douglass North, Institutions Theory, Cost, Reformation

Disciplines

Political Science

**Revisiting the Iron Cage:
New Insights in Institutions Theory from
Max Weber's *The Protestant Ethic and the Spirit of Capitalism***

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Political Science Honors Thesis
Professor Ian Lustick
University of Pennsylvania
27 March 2006

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INTRODUCTION

Max Weber's theory on the origins of capitalism has created, after over a century of intense scrutiny, one certainty: "...one fact emerges from the debate: it is just as difficult to demolish Weber's thesis as it is to substantiate it."¹ *The Protestant Ethic and the Spirit of Capitalism* is dismissed by some as overly speculative and embraced by others as providing unparalleled insight into the significance of social phenomena. Regardless of where one may be positioned along this spectrum, the debate has been sustained and fruitful, evolving over time and reflecting changes in academic discourse and methodology.

These discussions, however, have often fixated on the question: *was Weber right?*² This is not surprising considering that Weber's pithy analysis has, upon first glance, the compelling and attractive appeal of an argument tailored according to Occam's razor: modern capitalism³ was the product of Protestantism. For some, the allure of this initial

¹ Hamilton, 169.

² As noted throughout this analysis, this is by no means the case for *all* commentators who have addressed Weber's essay.

³ Weber distinguishes between capitalism and "modern" capitalism, the latter being his primary concern. For instance, Weber characterizes modern capitalism as "coloured with utilitarianism." More specifically, Weber sees modern capitalism as possessing "the character of an ethically coloured maxim for the conduct of life" (see Weber, *The Protestant Ethic and the Spirit of Capitalism* [hereafter referred to as "*PE*"], 51-2). In this analysis, I will largely use the terms interchangeably (as Weber often does), though when I speak of "capitalism" My use of the term is discursive, meant to indicate the processes, organizations, and institutions that emerged primarily in the eighteenth and nineteenth centuries and which produced the modern capitalist world in which we live today. Rightly or wrongly, Weber saw this spirit of modern capitalism as embodied in Benjamin Franklin (see *PE*, 48-51). Weber notes that what distinguishes capitalism from modern capitalism is the presence of a capitalist *ethic*; that is to say, the pursuit of worldly gain became no longer just a means of subsistence or even profit, but a binding end in itself, the foundation of a worldview in which one situates his or her perception of his or her position in the world largely in terms of economic activity. Thus, Weber writes:

Truly what is here preached is not simply a means of making one's way in the world, but a peculiar ethic. The infraction of its rules is treated not as foolishness but as forgetfulness of duty. That is the essence of the matter. It is not mere business astuteness, that sort of thing is common enough, it is an ethos. *This* is the quality which interests us (*PE*, 51, emphasis in original).

The implications here of institutionally binding constraints is something I discuss in greater detail below.

impression never faded and for others any attempt to explain as intricate an historical phenomenon as capitalism by assessing the impact of a few, closely-related religious sects seemed akin to blasphemy against the complexity of history. Either way, Weber's thesis was the spark for a plethora of insightful historical analyses and criticisms. Yet the question of whether or not Weber was right, though it made for interesting analysis and discussion, is somewhat misleading. Weber was calling for the *beginning* of an investigation and never suggested that his analysis was the conclusion to such an investigation. He never asserts that Protestantism was the "answer" to how modern capitalism emerged, only that it showed a surprising and fascinating role in capitalism's development.

The efforts to "answer" the questions raised by Weber have resulted in diverting attention away from the intellectual lessons of Weber's analysis. Instead, efforts have been directed towards accessing a particular historical "truth," i.e. one that would prove or disprove Weber's thesis. After one hundred years of scrutiny, one must ask whether the debate has begun to exhaust itself, and if the modern-day usefulness of continuing the debate over the *veracity* of Weber's thesis is questionable. This analysis asserts that it is time to redirect our efforts away from proving or disproving and towards better understanding the way in which Weber's essay, as an entity unto itself, speaks to our continuing attempts to understand history, the world around us, and, most important of all, change.

At the age of twenty-one, Karl Marx wrote in a note on his doctoral dissertation on Democritus and Epicurus that,

It is conceivable that a philosopher should be guilty of this or that inconsistency because of this or that compromise; he may himself be conscious of it. But what he is not conscious of is that... this apparent compromise is made possible by the

deficiency of his principles or an inadequate grasp of them. So if a philosopher really has compromised it is the job of his followers to use the inner core of his thought to illuminate his own superficial expressions of it. In this way, what is a progress in conscience is also a progress in knowledge. This does not involve putting the conscience of a philosopher under suspicion, but rather construing the essential characteristics of his views, giving them a definite form and meaning, and thus at the same time going beyond them.⁴

This is, no doubt, an early example of Marx's many commentaries on Hegel's philosophy, and it carries a particularly significant resonance in the intentions of this analysis. Namely, the purpose of this analysis is to "go beyond" the standard approaches to and interpretations of Weber's thesis, to probe the mechanisms behind its assertions, and explore the implications of these findings for the way in which we understand historical change.

This analysis uses Douglass North's *Institutions, Institutional Change, and Economic Performance* to uncover the mechanisms of change at work in Weber's historical account of the emergence of modern capitalism. In doing so, I argue that Weber offers a useful model for understanding historical change through his emphasis on the subjectivity of reality, intentions, and the effect of changing costs on behavior and institutional norms. While Weber has been shown to have faults as an historian, his thesis provides original insight into the relationship between the ideologies and beliefs to which humans ascribe and the institutions under which they live. At the center of this hermeneutical exercise is a question that Weber, himself, found perplexing: how do components of religious institutions outlive the theological constructs in which they developed? How does what Weber describes as the Protestant "calling" (*beruf*) transform into a secular "spirit" (*geist*) of capitalism? And why is it that "The Puritan wanted to work in a calling," but

⁴ From Marx's "Notes to the Dissertation," McLellan, 17.

“we are forced to do so.”⁵ In attempting to answer these questions, Weber offers considerable insight into the nature of institutional change and stability.

As explained in Chapters I and II, North’s analysis is particularly helpful because it sheds light on the *mechanisms* of change that are not explicitly stated in Weber’s analysis. That is to say, Weber clearly identifies Protestantism as the vehicle for institutional change that contributed to the development of modern capitalism, but he does not explicitly explain the causal relationship between this vehicle and the changes themselves. North’s model for understanding institutions and institutional change allows us to pinpoint a specific mechanism of institutional change: cost. As explained below, North’s approach to institutions is particularly useful and relevant because of its focus on the importance of costs. I assert that the relationship between cost, behavior, and change is central to understanding the plausibility of Weber’s thesis and, more importantly, in extrapolating lessons from his thesis that are relevant to the contemporary study of history and politics.

This essay is organized into four parts followed by concluding remarks. Chapter I establishes the connection between the assumptions that Weber and North bring to their respective analyses. The goal here is to justify the discourse I construct between these two authors despite the significant temporal distance and the seemingly different subject matters they address. I begin by discussing the issue of rationalization, one of the most prominent themes in all of Weber’s works and one that I argue is distinctly institutional in nature. In doing so, I note that Weber has a clear understanding of the modern capitalistic world as one filled with institutional structures, especially constraints and incentives. Central to this discussion is my assertion that both Weber and North

⁵ See *PE*, 181.

understand reality as being subjective, hence both authors believe the decisions and actions of individuals and groups are determined by the way in which they interpret their surroundings. In this sense, North accommodates a theory grounded on the importance of religious beliefs such as Weber's. Alternatively, Weber complements North's analysis by providing a thorough discussion of the relationship between institutional change and beliefs, on which North only touches.

Chapter II constructs an institutions theory interpretation of Weber's thesis, focusing on the way in which Reformation religious beliefs changed the costs that individuals and groups would incur by engaging in "capitalistic" behavior.⁶ The purpose of this chapter is two-fold: first, it seeks to provide insight into the unexpressed mechanisms of change at work in Weber's thesis. I argue that according to Weber's account, the Reformation lowered the social, psychological, and "spiritual" cost of engaging in previously prohibited behaviors that are central to the development of modern capitalism, such as the accumulation of wealth and a tireless work ethic. This suggests that there is a relationship between beliefs and institutional costs. Second, in constructing this reinterpretation, I conclude that an institutions theory interpretation of Weber's thesis shows that his argument is plausible and theoretically sound. The purpose of this is not to prove Weber's argument one way or the other, but to show that his reasoning is sound, implying that such reasoning might be applicable to other periods of historical change.

⁶ Throughout this analysis, I use the terms "capitalist" and "capitalistic" behavior interchangeably. Weber provides a useful characterization of this behavior: "We will define economic action as one which rests on the expectation of profit by the utilization of opportunities for exchange, that is on (formally) peaceful chances of profit... Where capitalistic acquisition is rationally pursued, the corresponding action is adjusted to calculations in terms of capital" (*PE*, 17-18). Thus, by capitalist or capitalistic behavior, I mean that an individual's or group's resources are organized for the pursuit of profit or gain (as opposed to sustenance) in a systematic manner.

In Chapter III, I take this defense of the plausibility of Weber's argument further still by holding it against some of the most prominent and outspoken critics of *The Protestant Ethic*. I focus on many critics' tendency to misrepresent Weber's claims and how the insight of institutions theory provides us with a new way to respond to Weber's critics. I use Felix Rachfahl's, a contemporary of Weber, early criticisms as a starting point for this. The purpose of this chapter is to highlight, once again, the enduring plausibility of Weber's argument. In addition, it is intended as a brief commentary on the way in which scholars and commentators are often overly critical of analyses that aim to blend disciplines (in this case, sociology, religious studies, and history).

In light of the arguments set forth in Chapters II and III, Chapter IV seeks to "go beyond" Weber's text. The broader goal of this chapter is to extract the lessons of *The Protestant Ethic* from the text itself so that they may be applied to significant historical situations and periods outside of the Reformation. This is accomplished by juxtaposing Weber's thesis with two different accounts of the development of modern capitalism, neither of which uses Weber's approach as a model, i.e. in contrast to the efforts of scholars like Werner Sombart (see Chapter III). First, I turn to Albert Hirschman's *The Passions and the Interests* to highlight the importance of *intentions* in understanding historical change. Second, I address Karl Polanyi's *The Great Transformation*, in which I compare Weber's and Polanyi's approach to institutional change. These juxtapositions, I argue, show that Weber's thesis is unique in recognizing the importance of both intentions and unintended consequences while providing a specific mechanism for institutional change and stability, cost. Such a mechanism, I assert, is lacking in both Hirschman's and Polanyi's analyses.

Lastly, this chapter explores the implications and possible applications of these observations by addressing Rogers Brubaker's account of developing national identities in the Soviet sub-states. In doing so, I show that Brubaker's historical account can be cogently explained in terms of the intentions and mechanisms that Weber addresses in his analysis, and that this is indicative of the ways in which Weber's approach may be useful in understanding other periods of historical change. In the final chapter, I conclude by reflecting on the implications of this analysis for how we approach history and our current society.

It deserves reiteration that this analysis is not primarily concerned with any actual relationship between religion and the rise of capitalism, nor is it concerned with being an endnote or epilogue to an ongoing debate surrounding *The Protestant Ethic*. Any "defense" made of the plausibility of Weber's argument is not meant to endorse the stance that Protestantism led to modern capitalism or that capitalism could not have existed without Protestantism (indeed, this was not even Weber's purpose), but rather to highlight the genius of Weber's approach and argue that there is much that can be learned from this approach. This analysis is more concerned with the way in which our understanding of history and the present develops, rather than with the insights –"right or wrong"– of any single philosopher or scholar. Furthermore, while I touch on the broader themes of religion and rationalization in Weber's career as a thinker, this analysis focuses on *The Protestant Ethic* alone, and one of its limitations is that it does not survey Weber's impressive corpus (or North's, for that matter). This is not meant as an indication that Weber's other works are insignificant or less significant, but is instead

meant to provide narrow focus to this analysis and to emphasize that I am pursuing the lessons of this particular text, rather than those of Weber's broader corpus.

The purpose here is to show that as scholars such as Douglass North provide groundbreaking insight into the way the modern world works, we are not only obligated to reconsider the workings of that world and how it came to be as it is (history), but we are also obligated to return to the historical accounts and theories that arose over time and reassess their value. In this vein, this essay shows that an analysis that has been allegedly "invalidated" by some critics still, in fact, provides lessons for modern approaches to complicated historical developments. This is what Marx meant by trying to uncover "form and meaning" and it is the intention from which this analysis proceeds.

CHAPTER I ESTABLISHING THE WEBER-NORTH CONNECTION

That Weber's and North's works go "hand in hand" may seem, at first, counter-intuitive. Aside from the eighty-five years elapsed between the first publications of Weber's *Protestant Ethic* and North's *Institutions*, it is not immediately evident that the two works complement one another. The authors themselves seem like an odd pair: Weber is a founding father of modern sociology, North is an economist and historian. Many characterize Weber's *Protestant Ethic* as a rebuttal to Marx's theory of historical materialism while North, himself, was once a self-proclaimed Marxist. Weber's analysis addresses changes in religious ideas, focusing on specific events and figures, quotes liturgies and texts, and focuses on human emotions, psychology, and beliefs. North, on the other hand, is concerned with broad institutions and organizations, where the individual and his or her beliefs might *appear* to be of secondary importance.

One could continue to name differences between the two. There are, no doubt, many to list. However, they share fundamental similarities that unite the cores of their respective analyses. This chapter will explore these similarities, focusing on the way in which the rationalization of society, a driving force in Weber's works, is a distinctly institutional matter, closely related to the issues addressed by North and prevalent throughout *The Protestant Ethic*. Furthermore, I will show that both authors understand reality as subjective, and both recognize that it is not what "is" that is necessarily important in understanding historical events, but what is *perceived to be* that sheds light on the nature of historical change. These similarities are the grounds for a deeper exploration of the discourse that emerges between the two texts.

i. Rationalization and Weber's Understanding of History

Few phenomena so captivated Weber as the ongoing process of what he called rationalization, the increasing orderliness, sophistication, and complexity of human society on all levels. It is a central theme in *The Protestant Ethic*, but Weber's fascination with it was evident in other important texts as well, such as *The Sociology of Religion*.⁷

Alan Sica describes Weber's "discovery" in further detail:

His discovery, if it can be so called, held that modern societies are forever striving to order what in its 'natural' state is less ordered or even randomly occurring. Where people once noisily milled about, now they are put in rows or ranks of quiet obedience; where fiscal accounting was done from memory and rough approximation, now it is taken to the hundredth of one percentage point, or beyond; where music was the work of a single minstrel inventing melodies and lyrics as he strolled, now it requires an orchestra that plays perfectly in unison from a printed score, willful deviation from which is a cardinal sin... And while he recognized in these developments admirable achievements, particularly in the production of material goods, he saw as well those seedbeds of pathology that affected individuals as much as the societies in which they struggled, vainly he thought, to maintain their individuality and freedom.⁸

To call it one of Weber's "interests" is a vast understatement. *The Protestant Ethic* is one of Weber's earliest and more ambitious attempts to grapple with this phenomenon described by Sica above. Anthony Giddens explains that Weber's interest in religion was directly related to his attempt to understand rationalization: "the influence of religious ethics upon economic organisation is to be considered above all from one specific standpoint: in terms of their connections with the advance or retardation of rationalization such as has come to dominate economic life in the West."⁹ We see below that North's

⁷ See, for example, Weber, *The Sociology of Religion*, 36. Weber's fascination with rationalization of human society went hand in hand with *Entzauberung*, the recession of the active role of magic in human beliefs and human understanding of the world.

⁸ Sica, 42. Sica's closing sentence here refers to Weber's "iron cage" of rational society (referred to at the end of *The Protestant Ethic*), which I discuss on page 12 below.

⁹ Giddens, 169. Indeed, Weber himself gives us a taste of this fuel for his extensive work in religious studies and sociology when he refers to "That great historical process in the development of religions, the elimination of magic from the world" which refers to the rationalization of religions which reached its apex

method sheds light on Weber's concept of rationalization and provides a means for expressing what Weber found, in many ways, inexpressible. Thus, I begin by addressing what Weber meant by rationalization and what significance it has for his *Protestant Ethic* thesis.

Above I described Weber's conception of rationalization as one of increasing orderliness and complexity of human society on all levels. This is a simple definition, but it is sufficient in describing the web of social and economic phenomena with which Weber was concerned. The entire introduction of *The Protestant Ethic* is a European liturgy on the sophistication of Occidental society. Weber sees the complex rationalization of Western society (superior to that of China or India, to which he points regularly as representative of Eastern societies) as pervasive. According to Weber, Western superiority is evident in historical scholarship, music, architecture, science, and law.¹⁰

These observations, however ungrounded or biased one may find them, led Weber to one of his essay's central questions: "Why did not the scientific, the artistic, the political, or the economic development there [in China or India] enter upon that path of rationalization which is peculiar to the Occident?"¹¹ Thus, the essay's introduction provides us with insight into the nature of rationalization for Weber: rationalization possesses unmistakable traits of complexity and sophistication, and its influence is observable in everything from art to science. Rationalization is closely akin to what many

in Puritanism (where the "elimination" "came here to its logical conclusion") and then escaped religion altogether in capitalism (See *PE*, 105).

¹⁰ *PE*, 14-16, 24-25.

¹¹ *PE*, 25.

would colloquially call “progress” during Weber’s time, and Weber’s sees rationalization as the driving force of societal progress.

This central question noted above marks the first, and most obvious, similarity between Weber’s and North’s analyses. Just as Weber explains early on that he is concerned with understanding why the West rose to its place of prominence on the global stage, North explains, on the first page of his analysis, that, “The primary objective of the study is to achieve an understanding of the differential performance of economies through time...”¹² In other words, North wants to address why part of the world is “developed” while another is “developing.” Thus, it comes as no surprise that there are connections between the two works given that the authors set out on the same task. This similarity because it does not, in itself, establish a substantive link between the two works; and it is noted here because it is the first hint that a substantive link exists at all.

In addition to increasing complexity, Weber sees rationalization expressed in specialized labor, self control, intellectual and personal reflection, and regimented daily routine. Thus, Weber asserts that the greatest contribution of ascetic Christians in the Middle Ages to the emergence of modern capitalism was their development of

a systematic method of rational conduct with the purpose of overcoming the *status naturæ*, to free man from the power of irrational impulses and his dependence on the world and on nature. [Asceticism] attempted to subject man to the supremacy of a purposeful will, to bring his actions under constant self-control with a careful consideration of their ethical consequences.¹³

By giving birth to asceticism, Weber sees the mediaeval Christian monk as one of the seeds from which the rationalization culminating in modern capitalism emerges. The emergence of rationalization, which Weber (rightly or wrongly) characterizes as a

¹² North, 3. Unless otherwise specified, all North citations hereafter refer to *Institutions, Institutional Change, and Economic Performance*.

¹³ *PE*, 118-9.

distinctly Western trend, places Weber's chronological starting point centuries prior to Luther or Calvin. Weber does not believe that rationalization or even capitalism begins with the Protestant Reformation,¹⁴ rather he argues that the Protestant Reformation caused an important transformation in the development of these societal phenomena. Critics such as Karl Fischer, a contemporary of Weber who pointed out that the idea of the "calling" did not originate with Luther or the Reformation,¹⁵ fail to recognize the simple fact that Weber's starting point predates the Reformation itself. This point of contention, the incorrect assertion that Weber claims the Reformation created capitalism, is an issue I address in Chapter III.

Protestantism and its notion of the "calling" (discussed in greater detail in Chapter II) brought ascetic rationalization from out of the monasteries to the masses in Europe and later North America. Whereas the orderliness of monastic life had previously left the "naturally spontaneous character of daily life in the world untouched... Now it strode into the market-place of life, slammed the door of the monastery behind it, and undertook to penetrate just that daily routine of life with its methodicalness..."¹⁶ North's theory of institutions can help explain the mechanism by which asceticism could not only "slam the door" to the monastery, but to the Church and religion in general.

Weber's concern with economics and economic behavior, i.e. his attempt to understand the origins of modern capitalism, was only the surface of his deeper desire to understand the ongoing rationalization of Europe and North America. By equating rationalization with increasing orderliness, productivity, and sophisticated regimentation, Weber's conception of rationalization demanded that he look for his solutions in the

¹⁴ See *PE*, 52-4.

¹⁵ See Chalcraft, 27.

¹⁶ *PE*, 153-4.

development of modern economics, which seemed to stand at the apex of such a calculating order that had swept across the Western world. Weber believed rationalization to be the prevailing winds of his time, and that the modern economy was the best expression of this trend.

With this in mind, how does North's theories of institutions and institutional change help us better understand Weber's arguments concerning the rationalization of Western society? First, a reminder as to what North means when he speaks of institutions:

Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. In consequence they structure incentives in human exchange, whether political, social, or economic. Institutional change shapes the way societies evolve through time and hence is the key to understanding historical change.¹⁷

Most important here is that institutions a) are systems of constraints and b) that these constraints create incentive structures to which individuals and organizations respond. Thus, if Weber's *Protestant Ethic* is dealing with institutions as North understands them, we should see Weber discussing both constraints created by Protestantism as well as the creation of incentive structures such that individuals and organizations respond to such structures. This is, indeed, what we find.

It is evident that both Weber and North are concerned with ideologies and beliefs—they both assert that beliefs influence history. It is important to also note that this assertion is derived from a similar assumption between the two authors, namely that reality is subjective. While North is concerned with economic development and change, he makes clear that the answers to questions concerning economic development are inextricably linked to a complex web of cultural phenomena. This stands in stark contrast to the tidy equilibrium theories posed by neoclassical economists. Thus, North writes, “Our preoccupation with rational choice and efficient market hypotheses has blinded us

¹⁷ North, 3.

to the implications of incomplete information and the complexity of environments and subjective perceptions of the external world that individuals hold.”¹⁸ Indeed, North’s *Institutions* is a direct challenge to the foundations of neoclassical theory itself by challenging the legitimacy of key neoclassical assumptions: the ease of cooperation, the rationality of actors, and the absence of transaction costs. The implications of these assertions, and their relation to Weber’s thesis, will now be discussed.

ii. The Common Ground Between Weber and North and the Importance of Subjective Reality

In his acceptance speech for the Nobel Prize in Economics in 1993, North expressed that he (like Weber) believes that there is a significant connection between beliefs and economic development:

the beliefs that individuals, groups, and societies hold which determine choices are a consequence of learning through time –not just the span of an individual's life or of a generation of a society but the learning embodied in individuals, groups, and societies that is cumulative through time and passed on intergenerationally by the culture of a society.¹⁹

In sixteenth century Europe, a period at the heart of Weber’s analysis, there were few forces as saliently present and influential in European culture as religion. Any dispute of this leading up to the sixteenth century was put to rest when Martin Luther’s religious tenets touched off the Protestant Reformation, one of the most momentous events in modern history.

North asserts consistently throughout his analysis that beliefs matter because they influence the subjective reality within which individuals and groups make choices: “The perceptions of the actors play a more central role in institutional than in technological

¹⁸ North continues later that “we have paid a big price for the uncritical acceptance of neoclassical theory” (North, 111, 131). I discuss this “big price” later in the analysis.

¹⁹ North, “Lecture to the Memory of Alfred Nobel.”

change because ideological beliefs influence the subjective construction of the models that determine choices.”²⁰ The subjectivity of reality is a central tenet upon which North’s assertions rest: subjective interpretations of reality are why imperfect information exists, why cooperation can be difficult to achieve, why transaction costs are unavoidable, and why path-dependent history does not always follow the most efficient course or lead to the most efficient outcome.

The rational economic actor, the idealized figure upon which neoclassical economic theory is grounded, is a fiction according to North: it exists only in theory because individuals’ conceptions of circumstances are constantly skewed both by internal and external forces. Weber is unwilling to completely discard the notion of the rational economic actor (though it should not be confused with his notion of rationalization), but, unlike rational choice theorists, he plainly asserts that rational choice only exists from *within* the purview of an individual’s or group’s worldview. What may seem a “rational choice” to a Calvinist in seventeenth century Switzerland or a Quaker colonial America is not necessarily the same as the rational choice ascribed to the neoclassical model’s atomic unit, the rational actor.

Thus, Weber acknowledges that reality is subjective. Two examples make this clear: his emphasis on the psychological state (on a mass scale) created by the Reformation, and his analysis of the effect of the calling on the way individuals interpreted their own socio-economic circumstances. I will address these examples in this order. As stated earlier, Weber is concerned with the means by which a religious ethic could become a modern capitalist ethic, and in what way something originating in a theological climate could survive secularization. By merely asking this question, Weber assumes that reality is

²⁰ North, 103-4.

subjective. Subjective reality is a precondition for such a transition as that described above to occur at all: if reality is non-subjective then one cannot expect religious beliefs to affect practical behavior. In a world where individuals and groups make decisions based upon “objective” (or even near-objective) cost-benefit analyses, in which empirical evidence is the only input into these decision processes, there is little room for Protestant religion in the first place since it is grounded on a notion of faith. The point here is not to detail Christian theology or beliefs, but rather to note that by acknowledging religion as an influential force, Weber acknowledges that subjective reality matters because, after all, religion is a part of that subjective reality.

Thus, Weber writes, “We are interested... in... 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.”²¹ That “psychological sanctions” have an effect on “practical conduct” is a direct reference to the subjectivity of reality, an acknowledgment that individuals make decisions, economic decisions included, based on the ways in which they perceive the world around them. Weber states this even more explicitly when he writes, “We have preferred rather to take the results which *subjective adoption of an ascetic faith* might have had in the conduct of the individual.”²²

In this sense, both Weber and North begin with the common assumption that reality is subjective, and that one’s actions are determined based upon his or her *interpretation* of reality. This holds true for group behavior as well. The difference between the descriptions offered by the two authors is in diction rather than substance: what Weber

²¹ *PE*, 97.

²² *PE*, 152. Emphasis added.

calls “psychology” North calls “mental construct.”²³ This creates an important connection between Weber’s and North’s analyses. North’s acknowledgment that reality is a subjective construct is a *de facto* acceptance of religion –insofar as religion acts as a worldview affecting an individual’s or group’s perception of the world– being able to shape decisions and institutions. Denying this would be a rejection of key assumptions in Weber’s argument. North makes no such denial, instead he points to authors such as Herbert Simon because his approach “accounts for ideology, based upon subjective perceptions of reality, playing a major part in human beings’ choices. It brings into play the complexity and incompleteness of our information and the fumbling efforts we make to decipher it.”²⁴

“Psychological sanctions,” in themselves, can be interpreted as institutional constraints –they are conceptions affecting an individual’s decision set. This does not, however, necessarily constitute the sort of pervasive institutional constraints described by North. After all, one could have a psychological disorder that influences his or her decisions, but one would not call such decisions the product of institutions. Nonetheless, Weber’s use of the term “psychological sanctions” strongly suggests that he is, in fact, writing about institutional constraints. More specifically, Weber is addressing the psychological processes by which an individual, wittingly or unwittingly, conforms to pervasive institutional norms.²⁵ As he describes in vivid detail, this is especially true for the institutional norms of modern capitalism:

The capitalistic economy of the present day is an immense cosmos into which the individual is born, and which presents itself to him, at least as an individual, as an unalterable order of things in which he must live. It forces the individual, in so far as he is involved in the system of market relationships, to conform to capitalistic rules of action.

²³ North, 138.

²⁴ *Ibid.*, 23.

²⁵ See *PE*, 97.

The manufacturer who in the long run acts counter to these norms, will just as inevitably be eliminated from the economic scene as the worker who cannot or will not adapt himself to them will be thrown into the streets without a job.²⁶

Weber asserts that modern capitalism has created a pervasive “cosmos” of “capitalistic rules” to which an individual *must* abide. The origins of these pervasive institutional constraints (as we can now justifiably identify them) are what Weber is trying to better understand.

To understand the degree to which Weber thinks these institutions are binding constraints, one need only look to what is perhaps the most famous metaphor in *The Protestant Ethic*: Weber’s “iron cage.”²⁷ Through this powerful imagery, Weber asserts that the constraints of the rationalized capitalist world are virtually ineluctable. Whereas before the era of modern capitalism the dominant Western theological tenets held that “the care for external goods should only lie on the shoulder of the ‘saint like a cloak,’” the era of modern capitalism, and the institutional constraints it brought with it, make up an iron cage in which Weber and his contemporaries are trapped. Weber laments the effect of this imprisonment on human choices and identity, stating that “Perhaps it will so determine [the lives of all individuals] until the last ton of fossilized coal is burnt.”²⁸

Weber’s account of institutional constraints is a fatalistically extreme form of that

²⁶ *PE*, 54-5.

²⁷ It should be noted that this imagery of the “iron cage” is as much the creation of Talcott Parsons, the translator of the authoritative (though flawed) English translation of Weber’s thesis, as it is a reflection of Weber’s original work. Peter Baehr sheds insight into the implications of Parsons’ “iron cage” translation, and notes that Weber’s original term, *stahlhartes Gehäuse*, would be more accurately translated into English as “shell as hard as steel” (Baehr, 154). Parsons’ translation suffices for the purposes of this analysis (and his use of the “iron cage” metaphor has been endorsed by other Weber translators [*ibid.*, 157]). It should be noted, however, that Baehr’s translation seems to support the connection between Weber’s *stahlhartes Gehäuse* and institutions even more poignantly because, as Baehr notes, steel is both a modern creation and is a creation of man (as opposed iron, which is a natural element) just as capitalist institutions are both modern and manmade (*ibid.*, 161-2). Furthermore, whereas a cage can be opened, Baehr continues, a shell offers no such avenue of escape, further emphasizing the binding nature of the state in which modern, industrialized, capitalist man lives (*ibid.*, 163-4). If anything, the original German is even more indicative of how Weber believed the institutions particular to capitalism were virtually inescapable.

²⁸ *PE*, 181.

provided by North, who sees the constant potential for change and reform –thus, there exists no “iron cage” in North’s conception of institutions. Regardless, the metaphor highlights my point that both authors understand institutions in terms of the constraints they place on individuals and groups. In the next chapter, I will touch on the manner in which these constraints influence incentive structures in Weber’s analysis.

Weber makes it clear that he understands modern capitalism in terms of the constraints it places upon humans, their identities and their choices. Next, I will address how individuals respond to these constraints and how these responses influence institutional changes.

CHAPTER II

AN INSTITUTIONS THEORY INTERPRETATION OF WEBER'S THESIS

I will now address the issue of human behavior having established that Weber, like North after him, recognizes all humans –and certainly those of Reformation and post-Reformation Europe– as living under the influence of institutional constraints. In doing so, I will provide an explanation of Weber's thesis in terms of the effects of cost and changing incentives on Europeans' decisions to engage in capitalistic behavior.

North offers an eloquent model for better understanding how human decisions are made given two fundamentals in the previous chapter: institutions are pervasive and humans assess information subjectively.

The evidence we have with respect to ideologies, altruism, and self-imposed standards of conduct suggests that the trade-off between wealth and these other values is a negatively sloped function. That is, where the price to individuals of being able to express their own values and interests is low, they will loom large in the choices made; but where the price one pays for expressing one's own ideology, or norms, or preferences is extremely high, they will account much less for human behavior... institutions basically alter the price individuals pay and hence lead to ideas, ideologies, and dogmas frequently playing a major role in the choices individuals make.²⁹

Thus, the nature of institutional constraints can dictate to what extent subjective conceptions of the world influence the decisions people make. This is the case because institutions alter cost structures and, it follows, alter the burden of risk –be it financial, social, or even spiritual– one takes upon him- or herself when committing to a given decision or action. As discussed below, it is this observation that sheds light on Weber's thesis: the Protestant Reformation and the ensuing changes, as described by Weber, can be cogently explained in terms of changing costs. This explanation provides convincing insight into the mechanisms of change which are not explicitly identified by Weber.

²⁹ North, 22.

Since Weber is concerned with the impact of religious phenomena on economic behavior, North's assertion that beliefs matter is especially pertinent. Some simple illustrations highlight the intuitive veracity of North's emphasis on the importance of cost in relation to ideas, ideologies, and beliefs. For instance, take a religious individual under a strictly secular totalitarian regime. The regime persecutes religious groups and individuals, and that this persecution takes place is well known to the state's citizens. Here, we see that the cost of free religious expression is high because of the threat of persecution from the government, and an individual's daily activities may be better understood in terms of the environment created by the regime rather than the ideologies and beliefs of the individual religious insider.

While the individual may privately ascribe to the worldview and cosmology of a Christian or a Buddhist, the cost of expressing that worldview openly inhibits his or her ability to choose which worldview –the religion's or the regime's– determines decisions and behaviors on a daily basis. This observation is hardly novel: many 16th century Spaniards concealed their Jewish or Muslim heritage after the *Reconquista*, it was not uncommon for individuals to be hanged for wearing the fez or other Muslim garb during Atatürk's rapid secularization of Turkey, citizens did not wear crucifixes in Nazi Germany or Stalinist Russia, and foreign nationals (few as they may be) do not publicly carry Hebrew or Christian Bibles in Saudi Arabia. More importantly, in none of these places could religious insiders openly practice their faith or allow it to affect noticeably their decision-making without risking persecution.

Contrarily, under a tolerant regime, the cost of expressed religion is low. Here, we expect a religious insider's worldview to influence his or her decisions and behavior.

Where there is low institutionalized cost, as North points out, we can expect religious worldviews and ideologies to play a greater role in the way decisions are made. Thus, the *potential* for ideas, ideologies, and dogmas to play a significant role in decision-making is an institutional issue, one heavily influenced (though not determined) by institutional constraints and cost structures. This is one way of understanding “the way institutions alter the price paid for one’s convictions and hence play a critical role in the extent to which nonwealth-maximizing motivations influence choices.”³⁰

North acknowledges that these assertions are mainly theoretical, limited by our incomplete “understanding of motivation.”³¹ What it may lack in experimental substantiation, however, it makes up for in theoretical application. North’s assertions summarized above provide us with a concise interpretation of the institutional mechanisms behind Weber’s development of the modern capitalist ethos. I will now illustrate in what ways North’s theory can help us better understand human behavior as described by Weber and to what extent Weber’s historical account is one of changing institutional constraints and, more importantly, changing costs. First, I will summarize Weber’s thesis, highlighting important themes in understanding his argument. Second, I will apply North’s transaction cost theory of institutions to Weber’s analysis. This interpretation is the premise upon which the remainder of my analysis is grounded.

i. Weber’s Thesis

Up to this point, I have established that Weber and North share important assumptions about the world. Since I will now deal with exactly how North can shed light

³⁰ North, 26.

³¹ *Ibid.*

on Weber's argument, it is first important to restate that argument in order to highlight the most important themes in Weber's analysis and to clearly present the interpretation of Weber's text from which I am deriving my own conclusions. As shown below, I understand Weber's thesis in terms of four key themes: rationalization, the idea of the calling, inner-worldly asceticism,³² and the "ethical foundation" of modern capitalism. By understanding the relation of these themes to one another, and their relation to Protestantism and capitalism, the understanding of Weber's essay upon which this analysis is grounded becomes clear.

Weber presents the purpose of his analysis in terms of understanding a disparity between the advancement of Western Europe and the United States when compared to, in particular, Eastern and African regions. The opening sentence of the essay phrases this in terms of the observation that certain "cultural phenomena" which possess "universal significance" are found only in the West.³³ Capitalism, "the most fateful force in our modern life," characterized by legal and formally established economic exchange, is no exception to this.³⁴

As explained earlier, Weber not only saw in the process of rationalization a precipitous increase in the order of society, he also saw in it a recession of religious mysticism (specifically, the recession of magic in human beliefs) and then religion in

³² In Parsons' translation, Protestant asceticism is translated as "worldly asceticism;" this is considered by most contemporary scholars to be one of many flaws in Parsons' widely-used English translation (See Wells, 35). In this analysis, I will use the more modern translation of *innerweltliche Askese* as "inner-worldly asceticism" since this term does a better job of capturing the spiritual, as opposed to material, nature of Protestant asceticism as explained by Weber.

³³ *PE*, 13.

³⁴ *PE*, 17.

general. He saw religion and rationalization as ensnared in a constant struggle, noting that rationalization was often “obstructed by spiritual obstacles.”³⁵

Weber deals with these issues more fully in works such as *The Sociology of Religion*, but it is worth noting here to better understand why Weber afforded religion such a prominent role in his understanding of historical development. Paradoxical as it may sound, religion simultaneously served as both an obstacle and an impetus for rationalization. And it is because “The magical and religious forces, and the ethical ideas of duty based upon them, have in the past always been among the most important formative influences on conduct,” that Weber decides to explore “the influence of certain religious ideas on the development of an economic spirit, or the *ethos* of an economic system.”³⁶

I will not embark on a defense of Weber’s decision to focus on religion here. In fact, the decision warrants little defense: Weber’s assertion that religion has had a profound influence on human behavior is self-evident from even the most superficial survey of Western history from late-antiquity onward. There were, no doubt, other important forces of change –changing technology and the development of ethno-national identities quickly come to mind– but Weber never denies the significance of any of these forces. As I will address in the next chapter, Weber explicitly rejects any historical analysis that frames development and change in terms of a single paramount force.³⁷

With this established, Weber proceeds with an analysis of religious and social developments that focus on the Protestant Reformation, its leaders (Luther and Calvin in particular), and the emergence of certain religious tenets that contributed to the

³⁵ *PE*, 26.

³⁶ *PE*, 27. Emphasis in original.

³⁷ See *PE*, 90-1, 183.

development of a capitalist ethic. What Weber identified as the distinctly Protestant idea of the “calling,” in which an individual believed that his or her vocation was the divine will of God and, in some cases, an indication of God’s favor or disfavor, was the most significant of these tenets. Weber saw in the calling a religious vehicle through which the modern capitalist ethic –characterized by the pursuit of gain for its own sake– could take root in European society. These roots were strong enough, Weber continues, that they outlived the religious context that created them and became a modern capitalist ethic in themselves. Weber understood this as a gradual development, one that solidified well after and, in some ways, in spite of leaders such as Luther, Calvin, and Knox.³⁸

The notions of the calling and inner-worldly asceticism are inextricably intertwined in Weber’s essay. The momentous reform sparked by Luther’s theology, according to Weber, is due to Luther’s assertion that “The only way of living acceptably to God was not to surpass worldly morality in monastic asceticism, but solely through the fulfilment of the obligations imposed upon the individual by his position in the world. That was his calling.”³⁹ Thus, the idea of the calling not only obligates a Protestant believer to pursue his or her craft with *religious* zeal, but it also explicitly rejects the world-rejecting asceticism of Catholicism that found its strongest voice in Augustine and was practiced in many Catholic monasteries. This is what makes up inner-worldly asceticism according to Weber.

Weber sees a stark contrast between Protestant and Catholic worldviews, the former developing a world-embracing theology while the latter remained world-rejecting.⁴⁰ The

³⁸ *PE*, 45.

³⁹ *PE*, 80.

⁴⁰ It should be noted that Weber, himself, acknowledges that this distinction between Catholics and Protestants, in which the two groups are treated as if they have no internal diversity, is a gross

product of the Reformation –though only after a significant period of time and not directly credited to Luther⁴¹– is an entire population of Christians who believe that it is their duty to realize their greatest potential of prosperity and success in their given, divinely-ordained craft. Here we can see the implicit connection between a religious tenet and a secular, capitalist ethic. Driven by religious motivation and beliefs, one’s vocation was given a newfound, rationalized systemization and method (inner-worldly asceticism) the likes of which had never been seen; this, in turn, was carried over into the efficient systems of modern capitalism.

Weber believes that the division of labor and specialization, defining characteristics of modern capitalism, are the result of “historical developments” independent of the Reformation. When he notes “The specialization of occupations leads, since it makes the development of skill possible, to a quantitative and qualitative improvement in production,” Weber is referring to individuals dedicating themselves to the sustenance of their community through specialized labor.⁴² Instead of interpreting the Reformation as the origin of specialized labor, Weber saw in the calling a novel sanction for this division of labor. Suddenly, the farmer, the blacksmith, the seamstress, the painter, or the fisherman no longer reluctantly accepted his or her social and economic standing, but enthusiastically embraced it.

oversimplification. Nonetheless, he sees it as a necessary cost of pursuing a fruitful analysis and it is clear that Weber believes there to be an underlying truth in this over-simplification, as he seldom hesitates to draw contrasts between Protestant and Catholic asceticism as if each were a unified group. See *PE*, 40-1, 118-120, 153-4.

⁴¹ Indeed, Weber notes that Luther explicitly rejected certain hallmarks of modern capitalism, such as charging interest. See *PE*, 82-3.

⁴² See *PE*, 108-109, 160-1, 174. It should be noted that, with respect to Calvinism, Weber does not assert that advanced features of capitalist economy, such as monopolies, were endorsed. He asserts that these are later developments (*PE*, 179).

The common laborer now became an instrument of God's will.⁴³ Most importantly, this Protestant asceticism systematized labor in a way the world had never known, and in doing so provided the organizational tools from which a new spirit of modern capitalism would draw.⁴⁴ Thus, "it was in the ethic of ascetic Protestantism that [capitalism] first found a consistent ethical foundation."⁴⁵ This ethical foundation was augmented by the belief that God selected an "elect" who were destined for heaven and that their good favor was reflected in earthly successes; this was, no doubt, a powerful motivator to pursue economic success. In the following section, I will argue that this ethical foundation is, in fact, an institutional sanction.

This largely satisfies Weber's curiosity and he does not give an in depth discussion of the way, i.e. the relevant mechanisms, in which this distinctly religious ethic could somehow transform into one that is secular and capitalist. Weber makes sweeping statements such as "When the limitation of consumption is combined with this release of acquisitive activity, the inevitable practice is obvious: accumulation of capital through ascetic compulsion to save."⁴⁶ For Weber, many of the "results" of the new asceticism are taken as obvious. This is not negligence or naiveté on the part of Weber, but rather an expression of the way in which Weber thought rationalization (from which he thought the development of capitalism to be inseparable) and secularization went hand-in-hand.

It is self-evident to Weber that along with the rationalization of capitalism would come a proportionate recession in religion's overall influence; it follows that the survival of the capitalist ethic beyond its religious roots is of little concern to Weber and he

⁴³ See *PE*, 160-164.

⁴⁴ *PE*, 172.

⁴⁵ *PE*, 170.

⁴⁶ *PE*, 172.

ascribes it simply to the “secularizing influence of wealth.” Weber was not the first to acknowledge such an influence. The relationship between religion and wealth had been a subject of discussion in religious circles for centuries before Weber. Weber notes this in quoting John Wesley, the founder of Methodism, who stated, “I fear, wherever riches have increased, the essence of religion has decreased in the same proportion.”⁴⁷ The transition between religion and secular ethos, it follows, may have seemed not worth mentioning to Weber. Weber is satisfied to say that Protestantism was important insofar as it “favoured the development of a rational bourgeois economic life,” and that “What the great religious epoch of the seventeenth century bequeathed to its utilitarian successor was... above all an amazingly good, we may even say a pharisaically good, conscience in the acquisition of money...”⁴⁸

This brief summary situates the important themes of Weber’s essay, and I will now turn my attention to the way in which North’s work can help us better understand them.

ii. The Reformation and Changing Costs

Terms employed by Weber such as “good conscience” or “psychological sanction” seem to lack substance by modern standards of literature in political science and economics. It is precisely the purpose of this section to show that these terms, and Weber’s argument, can substantively be maintained in terms of North’s transaction cost theory of institutions. It is in this respect that North sheds light on the mechanistic mysteries of Weber’s compelling and controversial essay.

⁴⁷ *PE*, 175.

⁴⁸ *PE*, 174, 176.

At the heart of this effort to reassess the plausibility of Weber's argument lies North's assertion that institutions "determine transaction and transformation costs and hence the profitability and feasibility of engaging in economic activity."⁴⁹ North's entire analysis can be understood as a transaction cost theory of institutional change, with risk and costs being central themes in this theory. Two questions concerning Weber's essay become remarkably clear when we supply Weber with the tools of transaction cost analysis that were unavailable to him during his lifetime: what mechanism gave the Protestant reformation such potency and impact on an economic level? And how could a religious ethos survive secularization in the form of a capitalist ethos?

In the remainder of this chapter, I will argue that, according to Weber's account, the development of Protestant theology (especially the notion of the calling) led to a reduction in the cost—in the form of perceived "spiritual risk"—of capitalist gain *as perceived by those who ascribed to Protestant beliefs*. While reducing the cost of gain, in itself, may sound strange, it makes sense in terms of the subjective reality of European and early American Christians, for whom the cost of pursuing material gain was manifested both in the way they were perceived by their peers and, more importantly, what awaited them in the afterlife.

North understands the cost of transaction in terms of two realities of economic life that he asserts have been neglected by neoclassical theorists: the difficulty of accurate measurement and the cost of enforcement. For the purpose of this analysis, measurement is important insofar as it is representative of imperfect information and the subjectivity of reality. If perceptions conformed perfectly to reality, if inaccurate perception was not a constant and, in many cases, insurmountable challenge for humans, measurement would

⁴⁹ North, 118.

be a simple matter. The significance of this has already been discussed above in establishing the ways in which Weber and North have similar conceptions of human perception.

Of greater concern here is the cost of enforcement and what it implies: namely, the need for enforcement implies a degree of risk and an attempt, be it formal or informal, to resolve the challenges of those risks. Risk may come in the form of defection or some other form of agreement violation. The level of risk, North points out, is an essential determinant and indicator of institutional success: since institutions reduce uncertainty, risk levels are low where there are well-developed and advanced institutional matrices.

Enforcement reduces the risk of defection or violation in that it introduces a cost or punishment for the act of defection itself (in this sense, enforcement also solves problems of coordination). As North puts it, enforcement curbs “self-interested behavior,” and it follows that transaction costs in part reflect the level of risk itself.⁵⁰ While Weber may have not possessed the vernacular to express the importance of these costs –especially with respect to risk– they are an essential part of the mechanisms that make his analysis plausible.

It is important here to reiterate that North’s “transaction cost theory of exchange” is grounded on the assertion that transaction costs are pervasive and ineluctable. North makes a strong case for this, noting that the seemingly simple process of measurement is actually an intricate process requiring insight into many phases of producing a good or service as well as the individual attributes of that product. Thus, measurement always brings with it costs. North also notes that “asymmetries of information” affect behavioral

⁵⁰ North, 33.

decisions, contributing to the complicatedness of transaction costs.⁵¹ More important for this analysis is the convincing assertion that transaction costs are pervasive and ineluctable and that institutions emerge to help individuals and organizations cope with the demands of this complexity. Thus, “Institutions provide the structure for exchange that... determines the cost of transacting and the cost of transformation.”⁵² This is as true today, according to North, as it has been since the beginning of human economic activity. It was certainly true during and after Martin Luther touched off the Protestant Reformation.

Given the subjectivity of reality acknowledged by North, costs do not have to be “real” in any quantifiable sense in order for them to affect human behavior. Thus, if an individual or organization makes a sizable investment in a burgeoning economic market, the quantifiable risk that goes into that investor’s “actual” cost of investing and the risk that the investor perceives are not necessarily congruent; in fact, they may be grossly incongruent. Similarly, an individual stockholder may see less risk in investing in a failing or struggling domestic industry than in investing in a more successful foreign industry because the stockholder perceives a high risk in (or moral qualm with) supporting foreign industry over domestic industry. We see this on a regular basis with Americans who insist on buying American-made automobiles on principle, rather than on empirical performance measurements. Cost and risk must only be perceived to be real in the sense that it influences the decisions of an individual or group.

Weber’s subject is a (primarily Western) European population during a time when Christian religion was one of the most pervasive and influential forces in the European

⁵¹ See *ibid.*, chapter 4.

⁵² *Ibid.*, 34.

social matrix. Few factors influenced the daily lives of common Europeans as much as religion. Christianity, usually Catholicism before the Reformation, exerted constant influence on behavior and decision-making. Through theological tenets decided in Rome and passed on through priests and missionaries, Europeans were given a clear sense of the repercussions of their behavior. Though national and sectarian differences did occur, certain fundamentals, such as material gain being identified as sinful, were near universal. R.H. Tawney, a critic of Weber's thesis, notes that as Europe entered the Reformation,

There was no question of progress, still less of any radical social reconstruction... The official Church, to which independence of thought among the lower orders was but little less abhorrent when it related to their temporal well-being than when it was concerned with their eternal salvation, frowned upon these dangerous speculations, and sometimes crushed them with a ferocity as relentless as the most savage of the White Terrors of modern history has shown to the most formidable of insurrections.⁵³

Thus, the perceived cost of defecting from dogma or Church creed for many European Catholics was spiritual, social, and, in some cases, physical. In a soteriological belief system that said God worked through a meritocracy –rewarding good behavior and punishing sins– there was little ambiguity about the costs of daily behavior in terms of whether or not one was putting him or herself at risk of eternal damnation. On a fundamental level, Weber's entire analysis is predicated on an assumption of difference between Catholic and Protestant soteriology,⁵⁴ and I assert that this difference can be understood in terms of differing perceptions in the costs of capitalist behavior.

⁵³ Tawney, 56.

⁵⁴ See *PE*, 40-3. While Weber rejects Offenbacher's, one of Weber's own students, characterization that "the Protestant prefers to eat well, the Catholic to sleep undisturbed" as an overly simplistic interpretation of complex religious differences, it is clear that this presupposition is pervasive in his analysis. As Jacob Viner points out in the first chapter of his book, *Religious Thought and Economic Society*, this assumption may be an interpretation of the likes of Tertullian and Augustine that is heavily influenced by Protestant interpretations of Catholic texts, since he notes that the Catholic writers can just as easily be interpreted as endorsing capitalistic gain (Viner, 30-4). Regardless, and as I will discuss in the following chapter when I address Weber's critics, the important point here –both for Weber and for this analysis– is not that

In terms of cost, much of the stability of the Church's authority up to the Reformation was thanks to the individual Christian's beliefs. As long as the individual Christian believed that the authority of the Church was tantamount to the authority of God, the Church's authority was secure. Persistent beliefs, i.e. "faith in the Church," kept the cost of maintaining conformity low (relatively speaking) while the cost of defection was high because there was the ever-present threat of damnation. Returning to North's point quoted at the beginning of this chapter, the willingness of individuals to pursue preferences, e.g. material gain, is determined by the cost of pursuing said preferences. In this case, there could be no higher cost for pursuing the goals of "modern capitalism" than those established before the Reformation. It is understandable that only a historical development as tumultuous as the Reformation itself could alter the power of such an institutionalized cost structure.

Since both Catholicism and the various Protestant sects upheld that human actions brought with them divine consequences, whether directly or as determined by divine predestination (and thus consequential insofar as actions served as an indicator of God's favor), European religious insiders imbued all forms of commercial exchange with a significant perceived cost. These costs were as influential as they were, in a quantitative

Catholicism rejected materialism or the accumulation of capital while Protestantism endorsed it. In fact, Catholic Patristic theologians as well as significant Protestant leaders such as Luther and Calvin condemned what they would call sinful materialism and what most modern Americans would simply call profit or even success. This gives rise to two important points. First, Weber is not asserting that Protestantism endorsed capitalistic behavior, but that it provided a new psychological sanction (and as I put it, reduced the cost) that led to widespread capitalist behavior. Second, Weber is clear that modern capitalism was an *unintended consequence* of the Reformation (see *PE*, 89-90), so it is not necessary to his argument that Protestantism "endorsed materialism more" than Catholicism, only that it changed attitudes such that a capitalist ethos could emerge. This is why Weber notes that the ethics of capitalism did not originate in Protestantism, but that, in Protestantism, capitalism "found a consistent ethical foundation" (*PE*, 170-1).

sense, intangible. That is to say, Europeans perceived a spiritual and social cost⁵⁵ that came capitalistic behavior. Thus, Weber claims that the Reformation changed *attitudes* instead of giving birth to capitalism: “The effect of the Reformation as such was only that, as compared with the Catholic attitude, the moral emphasis on and the religious sanction of, organized worldly labour in a calling was mightily increased.”⁵⁶ This resulted in marginal changes leading to a generally permissive attitude towards the pursuit of profit, which stood in stark contrast to the condemnation of such pursuits in Pre-Reformation Europe.

If we assume that individuals and organizations respond to changing costs in a way so as to minimize the costs they incur, then the increase in capitalist activity which Weber ascribes to the Reformation is not only plausible, but also expected.⁵⁷ The idea of the calling, as Weber illustrates, created a newfound enthusiasm for vocational success, and on a continent undergoing a process of labor specialization, the pursuit of success, both through personal achievement and interpersonal exchange, proliferated under the permission (and even encouragement) of new theological tenets. These changes constitute a change in the costs of exchange for Reformation-era and post-Reformation Christians: the sanctions of the calling were simultaneously a duty or obligation to the Protestant for a certain kind of behavior and a reduction in the cost of that behavior.

⁵⁵ Since Weber’s analysis focuses on “psychological sanction” as opposed to, for example, social ostracism, this analysis will focus on what I have called a “spiritual cost” of capitalistic behavior, since Weber is clearly referring to religious beliefs and their impact when speaking of psychological sanctions. By “spiritual cost,” I am referring to the perceived cost of or repercussions for human action on earth in the afterlife; that is to say, the posthumous cost that became the soul’s burden.

⁵⁶ *PE*, 83.

⁵⁷ This may seem to now resemble a neo-classical interpretation of behavior through cost-benefit analysis, but it must be reemphasized that these interpretations of cost are based on subjective religious constructs rather than empirical data.

The idea of the calling directly translates into a reduction of cost because it reduces the burden of spiritual risk in engaging in capitalist activity. Unfettered by the fear of repercussions in the afterlife, Protestants could engage in the rationalized labor described by Weber at a lower perceived cost than ever before. Capitalism demands that attention be paid to worldly activity; Weber explains that, prior to the Reformation,

...the most important thing was the fact that the man who, *par excellence*, lived a rational life in the religious sense was, and remained, alone the monk. Thus asceticism, the more strongly it gripped an individual, simply served to drive him farther away from everyday life, because the holiest task was definitely to surpass all worldly morality.⁵⁸

From such a worldview, the cost of engaging in worldly capitalism is unacceptably high. Inner-worldly asceticism offered a mode of thought through which the cost of capitalist activity was reduced to a more acceptable level for the average European Protestant.

Though gradual, the changes initiated by the Reformation were momentous. While North does not address such a phenomenon, belief in an omnipotent deity in a context heavily influenced by religion can have the effect of efficient enforcement between multiple parties, one of which being the believer and another being the godhead (who, in the Abrahamic religions, is both member to and enforcer of religious covenant). As in all the Abrahamic religions, the Christian godhead was considered omnipotent and omniscient. This has powerful psychological ramifications. Just as most modern Americans are prone not to steal for fear of legal punishment,⁵⁹ European Christians during and after the time of Luther were taught to fear repercussions in their afterlife from a God who punished sin.⁶⁰

Before the Reformation, dedicating oneself to his or her craft for the sake of profit came with a high spiritual cost: even if one could doggedly pursue a given craft, they

⁵⁸ *PE*, 120-1.

⁵⁹ Moral and religious sentiments, no doubt, often play their part here as well.

⁶⁰ This is not to imply that Europe lacked other forms of enforcement during this time.

could not avoid the omniscient enforcement of the deity. As Weber acknowledges, this was a powerful psychological factor keeping modern capitalism at bay. It is argued below that while Protestantism did not eliminate this cost structure –after all, Protestants did not reject the existence of an omnipotent and omniscient God– it had the effect of greatly reducing costs with respect to capitalistic behavior. That is to say, combined with secularization, the Reformation established a cost matrix in which modern capitalism could develop.

So what *exactly* changed? While Weber denies that modern capitalism could have emerged only as a direct result of the Protestant Reformation,⁶¹ he clearly believes that it played a significant role in motivating change. Weber explains this in terms of an ideal –the calling– rather than in terms of mechanisms that altered institutional matrices. Using North’s theory of costs, however, we gain better insight into these unexpressed mechanisms. As Protestantism gained increasing momentum, Catholicism and Protestantism became competing institutions, the former asserting the cost structure described above while the latter offered a contrasting cost structure, one that asserted that the *avoidance* of worldly vocational obligations (the same sort of avoidance endorsed by Catholic dogma) brought with it the equivalent punishment of damnation in the form of not being granted predestined salvation, i.e. being a member of the “elect.”

With the spread of Protestantism, the cost structure was altered such that the cost of engaging in restricted capitalistic exchange was dramatically reduced because it no longer carried with it the burden of risking damnation. I say “restricted,” as opposed to unfettered or free, here because Weber is careful to note that Protestant leaders such as Calvin opposed the capitalistic pursuit of gain for its own sake, even if they helped it

⁶¹ *PE*, 91.

grow in Europe and America: “We cannot well maintain that the pursuit of worldly goods, conceived as an end in itself, was to any of them of positive ethical value.”⁶² Thus, when I assert that Protestantism lowered the costs of capitalistic exchange, I mean it in an prolonged sense –Protestantism led to a reduction in the cost of modern capitalistic behavior, but not immediately.

Given enough time, these cost reductions could also lead to the creation of new incentive structures, according to Weber’s account. The idea of the calling, as noted above, reduced the cost and risk of engaging in capitalistic activities, making it a newly viable alternative form of behavior for Christians living in a European context in which technology was advancing and labor was becoming more specialized. In assessing “practical pastoral work,” Weber also notes that the reduced costs associated with capitalistic behavior were imbued with new incentives for engaging in such behavior. Weber explains that when faced with the spiritual loneliness of Calvinism, pastors and preachers reinterpreted Protestant beliefs in order to make the Protestant message less fatalistic. One of the ways of accomplishing this was for the individual believer to assume his or her own predestined salvation, and then live his or her life accordingly: “The exhortation of the apostle to make fast one’s own call is here interpreted as a duty to attain certainty of one’s own election and justification in the daily struggle of life.”⁶³ The practical result of this is an incentive for pursuing vocational success as a means of confirming one’s salvation. North explains that this relationship between costs and

⁶² *PE*, 89.

⁶³ *PE*, 111.

incentives is to be expected given that incentives are “imbedded” in institutional constraints.⁶⁴

Here we see the implications of unintended consequences at work –something which I discuss in greater detail in Chapter IV. New interpretations of the Protestant message, according to Weber, supplemented the reduced cost discussed above with incentives to take one’s vocation seriously and pursue it rigorously, that reason being earthly success as an indication of divine grace. Thus, cost is not the only factor at work here –though I assert it is the primary factor to consider– because it brought with it the creation of new incentives to engage in capitalist activity that previously did not exist.

iii. Religion as an Institutional Force

The description above of the changes generated by the Reformation is only a summary. The process was, after all, a gradual development rather than a sudden shift in institutional dominance or cost structure.⁶⁵ Weber understands this development in terms of the following stages: Luther’s initiation, theological and ethical appropriation by Calvin and other Protestant sects, and the rise of a secular capitalist ethos (in which Weber believed English Protestant sects played an especially important role). Weber leaves the last of these stages largely unexplained, drawing similarities between religious and capitalist ethos rather than elucidating how one precipitated or affected the other. I will attempt to fill in some of these gaps.

Weber ascribes a new interpretation and sanction of the calling to Luther, but he does not credit Luther with creating the modern spirit of capitalism: “...it is hardly necessary

⁶⁴ North, 74.

⁶⁵ That is to say, we are not here concerned with what North calls “discontinuous change” (see *ibid.*, 89-91).

to point out that Luther cannot be claimed for the spirit of capitalism in the sense in which we have used that term... or for that matter in any sense whatever.” Overall, Weber interprets Luther as highly “traditionalistic” and believes that his views on usury and interest were “from a capitalistic view-point, definitely backward.”⁶⁶ Thus, it is clear that Weber believed the development of a spirit of capitalism to be a later development, one that was better ascribed to Luther’s successors than to the father of the Reformation himself. Luther, it follows, did not have a *direct* impact on the changes in cost described above.

Weber points to Calvinism as the true herald (though not the advocate) of the capitalist ethos: “Although the Reformation is unthinkable without Luther’s own personal religious development... without Calvinism his work could not have had permanent concrete success.”⁶⁷ Calvinism marked the first dramatic shift in reducing the perceived risks of engaging in what would later be characterized as capitalist behavior. Weber lays out two simple assumptions advocated by Calvinist pastors, both of which have the effect of reducing the cost of pursuing economic gain or success while providing incentives for such pursuits. The two assumptions go as follows:

On the one hand it is held to be an absolute duty to consider oneself chosen, and to combat all doubts as temptations of the devil, since lack of self-confidence is the result of insufficient faith, hence imperfect grace... On the other hand, in order to attain that self-confidence intense worldly activity is recommended as the most suitable means. It and it alone disperses religious doubts and gives the certainty of grace.⁶⁸

In the same way that Catholic theology created a high price for pursuing material gain, Calvinism created an equivalent high price for *avoiding* material success (though not for its own sake). Neglecting one’s material obligations meant watching one’s own

⁶⁶ *PE*, 82-3.

⁶⁷ *PE*, 87.

⁶⁸ *PE*, 111-12.

salvation slip away. And while Calvinism did not endorse the modern capitalist pursuit of gain *for its own sake*, the reduction in cost upon which modern capitalism grew was established. Weber explains the theological sanction for such a cost reduction: “For if that God, whose hand the Puritan sees in all occurrences of life, shows one of his elect a chance at profit, he must do it with a purpose.”⁶⁹

North’s theory would predict that freely sanctioned material gain would spread with the growth of Calvinism and similar theological teachings since the reduction in the cost of such gain and the theology of Calvinism were inseparable. Other Protestant sects, such as the Pietists and the Methodists, traveled this path farther still. Weber saw the rationalism of Calvinism as the culprit behind spreading the groundwork for capitalism,⁷⁰ but the mechanism behind this rationalization –only implicitly expressed by Weber– was a reduction in perceived costs.

This institutional cost interpretation of Weber’s thesis also yields insight into the very nature of an “ethic” or “ethos” for Weber. I return to a quote already mentioned above,⁷¹ in which Weber explains that what distinguishes modern capitalism from its capitalist predecessors is “a peculiar ethic.” Weber continues, “The infraction of its rules is treated not as foolishness but as forgetfulness of duty.” Here we see that the modern capitalist ethic possesses two traits: the ethic is binding and it does not elicit contemplative reflection or consideration. The first of these traits is implied by use of the word “duty,” implying obligation. This is reminiscent of the binding nature of institutions described by North: while it is possible to change institutions, they nonetheless constrain our ability to act and behave in certain ways through both formal and informal constraints. The

⁶⁹ *PE*, 162.

⁷⁰ *PE*, 117.

⁷¹ See footnote 3 above, and *PE*, 51.

constraints, in turn, also create incentives. In this sense, individuals, as inhabitants of an economic world, are bound to oblige these institutional constraints to the extent that individuals or groups do not have the capability or initiative to change the institutional matrix. These institutions become our “duty.” The second trait, that adhering to these constraints is a thoughtless, even instinctual act, is implied by the fact that violating an institutional constraint is not “foolish” (for how can one be unaware of a duty that is pervasive and of which one is constantly reminded?) but “forgetful,” implying that one is simply neglecting what should be thoughtless or non-contemplative.

Thus, what Weber describes as the ethic of modern capitalism is no different from what North describes as a system of institutional informal constraints, constraints that are binding and simultaneously as obvious to those who live under them as they are non-contemplative. Where Weber writes, “it was in the ethic of ascetic Protestantism that [capitalism] first found a consistent ethical foundation,”⁷² we can now read as “it was in the *institutions* of ascetic Protestantism that capitalism first found a consistent *institutional* foundation.” Weber is referring to a specific set of institutional structures, which he identifies as a capitalist ethos. In other words, though he did not possess the analytic tools to express it in the beginning of the twentieth-century, Weber is proposing an institutions theory argument for the development of modern capitalism.

What remains to be explained is the final product: a secularized spirit of capitalism, most fully realized in the United States, according to Weber.⁷³ Already we have seen that Weber’s conception of the influence of religion can be understood in terms of reducing the cost of capitalist behavior. But how could this cost reduction shed the religious

⁷² *PE*, 170.

⁷³ *PE*, 182.

components with which it was founded? North offers the answer that the capitalist kernel in the religious shell could persist despite secularization because of the nature of interaction between institutions and organizations and the importance of costs. North stipulates early in his analysis that

Institutions, together with the standard constraints of economic theory, determine the opportunities in a society. Organizations are created to take advantage of those opportunities, and, as the organizations evolve, they alter the institutions. The resultant path of institutional change is shaped by (1) the lock-in that comes from the symbiotic relationship between institutions and the organizations that have evolved as a consequence of the incentive structure provided by those institutions and (2) the feedback process by which human beings perceive and react to changes in the opportunity set.⁷⁴

The discussion above has been focused on this “feedback process” whereby Europeans reacted to the new opportunity set of lower costs created by Protestant theology. Organizations most likely played a role in these developments as well. The Reformation was coincidental with the specialization of labor in Europe and the rise of organizations implied by the specialization of labor, such as guilds. According to North, these organizations would serve as the carriers of the Protestant ethic into a new, secular context. Most important of all, the loosening of constraints on capitalistic behavior allowed these organizations to utilize labor and capital in a way that was previously unacceptable on the individual and organizational levels. That is to say, they were able to mobilize for profit more than ever before, leaving industries of sustenance behind.

By developing in regions where the idea of the calling and inner-worldly asceticism were prevalent, organization would gain a vested interest in the systematic and rationalized labor that proliferated under the theological permission of Protestant thought. Technological advancements evolving beyond cottage industry organization was, no doubt, significant in these developments. The Protestant ethic, however, provided the

⁷⁴ North, 7.

ethical framework from which many organizations could first experiment with capitalist exchange on a wide scale. Below, I discuss the importance of this permitted experimentation, as it is central to the question of *why the Reformation?* Similarly, we can now understand Weber's observations concerning rationalization in terms of cost and organizations: theological aspects of the Reformation reduced the cost of capitalist behavior and organizations pursued the opportunity for new gains. The rationalization of labor and, from this, society was subsequently accelerated.

It should be emphasized that according to North's theory these organizations would have emerged in response to the ethical changes already noted above. Thus, the most significant change brought on by the Reformation was the reduction in cost that has been the focus of this analysis; organizations played a secondary role by gaining from the potential advantages of this "ethical foundation." The secondary role of organizations in this sense is determined by the fact that the Reformation created new sanctions not just on an organizational level, but also on an individualistic and personal level. Thus, the point that Weber emphasizes is that the Reformation brought a new order to daily life for the individual. Any repercussions this may have had on the way organizations functioned would have been a consequence of this new order.

Weber makes a convincing argument that by initiating a reduction in costs of engaging in capitalist activity, the institutional structures we now identify as capitalistic could survive the secularization of the Enlightenment and industrialization through the collective endorsement of organizations that benefited from the (eventually) unfettered sanctions initially generated by the idea of the calling. If the Reformation reduced costs of capitalist exchange, as has been argued above, then the Reformation created an

opportunity set in which relatively (that is, relative to earlier periods) unfettered capitalist exchange was an option. It is wholly feasible that incremental changes in Europe's many institutions could eliminate components of the original appearance of this institutional matrix while retaining others. Indeed, the recession of religion in Europe would only enhance the cost-reducing effects the Reformation had created by further eroding the restrictions of religious dogma. That "the religious roots died out slowly, giving way to utilitarian worldliness"⁷⁵ will be given greater attention in Chapter IV, where I will further explain how costs, discussed above, are especially important in understanding the institutional stability described by Weber and institutional stability in general.

The Reformation was not a necessary condition for the emergence of a capitalist ethic, but it is reasonable to assert that it had a significant influence on the development of capitalism. Indeed, religion may not have been the most efficient lens through which a capitalist vision could come into focus, but North reminds us that history is not determined by efficiency. If history works through path-dependence, and "history is always derived from past history,"⁷⁶ it should come as no surprise that "one side of the causal change"⁷⁷ might lie in the momentous changes of the Protestant Reformation. This *possibility* is, after all, the whole of what Weber suggests: in explicit opposition to Marx's historical materialism, the conclusion of Weber's essay invites further analysis of the phenomenon, not a final word.

The plausibility of a persistent phenomenon like the capitalist ethic emerging from the Reformation is further enhanced by the decentralizing effect of the Reformation itself. The diversity of the Protestant sects, as opposed to a singular, unified Catholic Church, in

⁷⁵ *PE*, 176.

⁷⁶ North, 118.

⁷⁷ *PE*, 27.

itself, increased the likelihood that a persistent institutional structure might emerge. North explains that this is a simple matter of probability:

The society that permits the maximum generation of trials will be most likely to solve problems through time... Adaptive efficiency, therefore, provides the incentives to encourage the development of decentralized decision-making processes that will allow societies to maximize the efforts required to explore alternative ways of solving problems.⁷⁸

The dramatic changes initiated by the Reformation allowed for a process of trial and error that was less likely under the purview of a unified Catholic Church. This is, no doubt, part of the reason why so many significant religious leaders emerged during the Reformation. It would be incorrect to describe the Reformation as a period of unrelenting free thought; quite the contrary, the Reformation introduced elaborate systems of constraint. Nonetheless, authority over theological ideas was less centrally regulated during the Reformation than it was under Catholic authority. This does not explain the relationship between capitalism and the Reformation, but it does explain why the phenomena described above were more likely to occur *during or after* the Reformation than prior to it.

To summarize, the Reformation provided the reduction in costs that allowed for experimentation in capitalist exchange. This, in turn, led to organizations gaining an interest in the maintenance of this exchange. Secularization eroded the religious traits of this institutional matrix, but did not affect this vested interest. This marks the first insight into the persistence of capitalist institutions beyond the Reformation, an issue I explore more fully in Chapter IV. The Reformation can thus be understood as a significant period of cost reduction in the larger process of rationalization, which was Weber's primary concern. Since capitalism is, no doubt, one of the most influential and significant forces

⁷⁸ North, 81.

in the rationalization process, any reduction in the cost of behavior associated with capitalism is a *de facto* accelerator of rationalization itself.

Such a cost reduction –if, in fact, this is what the Reformation amounted to– proved so successful that it persisted long after the religious fervor of the era had faded away. Weber’s “iron cage,” in more modern parlance, is best described as an entrenched or stable institutional structure. I will now turn my attention to a reflection on the significance of these conclusions with respect to the continued relevance of Weber’s analysis. I will address both Weber’s critics and what Weber and North, considered together, tell us about our understanding of history and the present.

CHAPTER III RESPONDING TO WEBER'S CRITICS

Before addressing the lessons of this interpretation of Weber's thesis, it is necessary to address Weber's critics so as to substantiate that continued analysis of the thesis is worthwhile to begin with, having not been disproved or invalidated. It is well beyond the scope of this analysis to adequately survey and address all of the criticisms of Weber's thesis—even addressing the *major* criticisms would be a lengthy task in itself.⁷⁹ Perhaps the most widely used criticism of Weber's thesis is that it does not provide nearly enough evidence to support its ambitious claims. This was the standpoint of Felix Rachfahl, who first commented on Weber's thesis in 1909 and was one of The Protestant Ethic's earliest critics.⁸⁰ Rachfahl's criticisms are some of the most significant to address by virtue of his being an early respondent to Weber's work and, as Kurt Samuelsson notes, most of his criticisms have been repeated by later critics in one form or another.⁸¹

i. Felix Rachfahl

Rachfahl's commentary is a worthwhile place to start, and Samuelsson cogently summarizes Rachfahl's criticisms as follows: 1. Rachfahl found the idea of an "ethical-religious motivation" for modern capitalism dubious at best, noting that there could have been any number of other factors "motivating" the growth of modern capitalism; 2. Calvin's theology made strict restrictions on economic activity, implying that to associate

⁷⁹ Gordon Marshall's *In Search of the Spirit of Capitalism and Presbyteries and Profits*, Kurt Samuelsson's *Religion and Economic Action*, S.N. Eisenstadt's *The Protestant Ethic and Modernization: A Comparative View*, and William H. Swatos Jr.'s and Lutz Kaelber's *The Protestant Ethic Turns 100: Essays on the Centenary of the Weber Thesis* are good sources to which one can turn in seeking a more thorough survey of Weber's critics. See also, Fanfani, 14-17.

⁸⁰ Hamilton, 164.

⁸¹ Samuelsson, 9.

the theologian or his theology with any form of capitalism is misrepresentative; 3. Rachfahl accused Weber of exaggerating the dissimilarity between Protestantism and Catholicism, pointing to the Benedictines, Franciscans, and Jesuits as exemplary of blending capitalism and asceticism; and 4. Rachfahl asserted that Weber's geographical focus on Northern Europe is misleading, noting that (primarily southern) Catholic regions also enjoyed the advances of a burgeoning modern capitalism.⁸² These are all worthwhile criticisms of Weber's work, and the theoretical argument of Chapter II allows us to address some, though not all, of these points.

The first criticism noted above is most relevant to this analysis, as it is most within the scope of my theoretical assertions to address it (though this is not to imply that Rachfahl's other objections are less worthy of attention). Rachfahl, emphasizing that Weber's claims were unsubstantiated, saw Weber's connection between religion and a newfound capitalist motivation as arbitrarily drawn: why, asked Rachfahl, could not the motivation be ascribed to "the desire to enjoy life," "the urge to work for one's fellow-man, for the common good, for the nation and its welfare"?⁸³ In other words, Weber's connection between religion and a new "ethic" is arbitrary according to Rachfahl. I offer three rebuttals to this, one of Rachfahl's sharpest criticisms. The first is directly from Weber's response to Rachfahl, the second can be found in *The Protestant Ethic* itself, and the third can be inferred from the insights provided by North above.

In his reply to Rachfahl, Weber points out that he never draws a connection between advanced economic systems and Protestantism, only between the *spirit* of capitalism and religion: "I *myself* call it 'foolish' to imply that it would be possible to derive the

⁸² *Ibid.*, 9-12; see also, Chalcraft, 55.

⁸³ *Ibid.*

capitalist *economic system* from religious motives in general or from the work ethic of what I called ‘ascetic’ Protestantism.” Weber further notes that even *this* connection is only one of many possible factors contributing to the modern spirit of capitalism: “It did not occur to me to *identify* those motives I believed were originally religiously determined and ‘of ascetic character’ with the capitalist spirit... I portray them only as *one* constitutive element *among others* of this ‘spirit’ (and constitutive of *other* features of modern culture as well!).”⁸⁴

Thus, Weber responded to Rachfahl by asserting that Rachfahl credits *The Protestant Ethic* with claims loftier than Weber, himself, made. Weber does, in fact, temper his argument at many points throughout the essay, and he consistently refuses to identify Protestantism as *the* crucial factor in the development of modern capitalism. As quoted earlier, Weber calls his analysis “only one side of the causal chain.” More importantly, he closes the analysis by criticizing Marx’s theory of historical materialism and asserting that “... it is, of course, not my aim to substitute for a one-sided materialistic an equally one-sided spiritualistic causal interpretation of culture and of history.”⁸⁵ Justifiable as they may be, however, these responses only answer Rachfahl’s criticism with further criticism by turning the tables on the critic. Weber is, in essence, accusing Rachfahl of improper criticism by asserting that Rachfahl is simply trying to explain what he would have done differently with Weber’s analysis. The insights provided by North allow for a fuller, more direct response to what Rachfahl considers a dubious connection between religion and economic motivation.

⁸⁴ Chalcraft, 71. Emphasis in original.

⁸⁵ *PE*, 27, 183.

Rachfahl criticized Weber for not providing enough evidence to draw a causal relationship between religion and a burgeoning capitalist ethos, and for failing to specify to what degree religion influenced the development of capitalism.⁸⁶ Later scholars echoed Rachfahl in criticizing the lack of evidence in Weber's thesis, but such a criticism ignores Weber's closing sentence, in which he clearly states that he never intended to make an exhaustive analysis, only to provide the intellectual impetus for further analysis.

Rachfahl is guilty of weighing Weber's thesis against standards that go far beyond the text's intentions instead of weighing the thesis against the goals stated throughout Weber's analysis. Nonetheless, the previous chapter of this analysis has shown that, in theory, a causal mechanism relating the Reformation to the spread of modern capitalism is possible in that religious beliefs could reduce the costs of individuals and organizations engaging in activities associated with the capitalism. That is to say, it has been demonstrated that a) beliefs matter, b) that subjective perceptions affect perceived costs, and that c) beliefs can cause the reduction in costs implied in Weber's thesis. More specifically, it has been shown that Reformation theology, in particular and combined with the Reformation's decentralization of Western Christianity, could create an ideal environment in which capitalist behavior could flourish.

Nor is Weber the only thinker to have drawn a connection between religion and the development of capitalism. R.H. Tawney, in the 1937 preface to his critique of Weber's thesis, wrote that

It is an illusion to suppose that [Weber] stands alone in pointing to a connection between the religious movements of the sixteenth and seventeenth centuries and the outburst of economic energy which was remaking society in the Netherlands and England. Other students have reached, independently of him, that not recondite conclusion.⁸⁷

⁸⁶ See Chalcraft, 89.

⁸⁷ Tawney, xvii.

A significant criticism of Weber's thesis came from Werner Sombart, whose *The Jews and Modern Capitalism (Die Juden und das Wirtschaftsleben)* bears important similarities with Weber's thesis, such as an idea of capitalism grounded in rationality and an emphasis on a religious ethos, the "Jewish spirit."⁸⁸ Sombart's work is more exhaustive than Weber's, but it nonetheless places a religious group at the center of the development of an economic phenomenon. And, like Weber, Sombart does not hesitate to acknowledge "There were undoubtedly a thousand and one other causes that helped to make the economic system of our time what it is."⁸⁹ Sombart further agreed that modern capitalism was the result of a specific "spirit," though he found the roots of this spirit in Jewish Europeans rather than Protestantism.⁹⁰

More recently, Rodney Stark has turned to Christianity in explaining the developmental disparity between the West and other regions. Conspicuously reminiscent of Weber introduction, Stark begins his analysis by asking,

Why was it that although many civilizations had pursued alchemy, it led to chemistry only in Europe? Why was it that, for centuries, Europeans were the only ones possessed of eyeglasses, chimneys, reliable clocks, heavy cavalry, or a system of music notation? How had nations that had arisen from barbarism and the rubble of fallen Rome so greatly surpassed the rest of the world?⁹¹

Stark argues not that Christianity alone gave rise to modern capitalism, but that the most important "victories" leading up to capitalism occurred in distinctly Christian settings.⁹²

Gordon Marshall's *Presbyteries and Profits: Calvinism and the Development of Capitalism in Scotland, 1560-1707* most clearly executes Weber's "wishes," laid out at

⁸⁸ Sombart, 5.

⁸⁹ *Ibid.*, 6.

⁹⁰ See Robertson, 35.

⁹¹ Stark, ix. It should be noted that Stark says in this same introduction that Weber's thesis is "so obviously wrong" by virtue of the fact that modern capitalism predates the Reformation (Stark xi-xii), a simplistic criticism of Weber's thesis that appears often in the literature and which I address below.

⁹² *Ibid.*, x.

the end of *The Protestant Ethic*, for other scholars to further explore the connection between Protestantism and capitalism.

That other authors have “carried the torch,” so to speak, after Weber does not validate Weber’s thesis or invalidate Rachfahl’s criticism. It does, however, show that the possible causal relationship between religion and the development of capitalism has withstood tremendous scrutiny without being wholly debunked. This by no means proves that there *was* such a connection, but we can see that where Rachfahl saw an arbitrary and superficial connection being drawn, there may have been something substantive.

Finally, the insights provided by North in Chapter II of this analysis show that the significant changes precipitated by the Reformation can be cogently understood using an institutions theory approach to the period, especially in understanding how costs may have affected widespread changes in capitalistic behavior. It has been shown above that this change in cost can be logically traced through the changes in belief that arose from the revolutionary theology of Reformation theologians. Contrary to Rachfahl’s criticism, Weber’s connection no longer seems arbitrary because it provides a mechanism for institutional change.

Rachfahl’s second criticism, that Weber does not make clear to what *extent* the Reformation influenced the development of capitalism, highlights a shortcoming of this analysis, namely that it is not my intention to supplement Weber’s thesis with additional historical evidence. North’s institutions model only allows us to reassess the plausibility of Weber’s argument, and since Weber does not offer an explanation of the precise degree to which the Reformation influenced capitalism, reading his analysis through an institutions theory lens cannot shed further insight. Nonetheless, it is clear that Weber

believed religion to play a significant, perhaps the most significant, role in the development of modern capitalism.

Rachfahl's remaining criticisms lead us to what is perhaps the most compelling rebuttal to Weber's thesis: capitalism existed before the Reformation. His questioning Weber's interpretation of Calvinism, asserting that Catholics exhibited capitalistic behavior outside of Protestant influence, and questioning Weber's geographical focus all ask if modern capitalism already existed under Catholic rule.

ii. The Implications of Catholic Capitalism

Tawney is a notable critic of Weber who applied the argument that capitalism predates the Reformation. Tawney accuses Weber of one-sided selection bias in drawing his conclusions:

Religion influenced, to a degree which to-day is difficult to appreciate, men's outlook of society. Economic and social changes acted powerfully on religion. Weber, as was natural in view of his special interests, emphasized the first point... He touched the second point only *en passant*.⁹³

It is clear, however, that Weber does not see the relationship between religion and capitalism to be unidirectional. Weber characterizes "the whole history of monasticism" as "a continual struggle with the problem of the secularizing influence of wealth," and, as noted earlier, quotes John Wesley as being particularly fearful of this struggle.⁹⁴ Thus, it is clear that Weber recognized that the interaction between religion and capitalism was one of reciprocal influence. True, he emphasized the influence of religion on the development of capitalism because it was the subject of his analysis, but this in no way means that Weber denied that the relationship between economics and religion was

⁹³ Tawney, xviii.

⁹⁴ *PE*, 174-5.

reciprocal as Tawney suggests. Understanding Weber's thesis in terms of perceived costs as explained by North clarifies that Weber recognized this reciprocity: the very nature of the institutional structures recognized by Weber suggests that religion *would* be influenced by the economic institutions that emerged as a result of the Reformation. Thus, it came as no surprise to Weber that the capitalist ethos with religious roots became a force of secularization: just as religion influenced economic behavior, subsequent economic behavior influenced religion.

Tawney offers a broad historical analysis that leads him to the conclusion that modern economic systems are best explained in terms of "the contraction of the territory within which the spirit of religion was conceived to run."⁹⁵ In other words, Tawney believes secularization was the true force of change. Tawney points to a haphazard process of secularization and intellectualization in explaining the growth of capitalism; his distaste for Weber's thesis clearly stems from evidence that capitalism predates the Reformation and that the theologians such as Luther and Calvin were not concerned with the intellectual discourse that that helped capitalism spread.⁹⁶ Because it so cogently captures the debate initiated by scholars such as Rachfahl, I quote Tawney in full:

If capitalism means the direction of industry by the owners of capital for their own pecuniary gain, and the social relationships which establish themselves between them and the wage-earning proletariat whom they control, then capitalism had existed on a grand scale both in medieval Italy and in medieval Flanders. If by the capitalist spirit is meant the temper which is prepared to sacrifice all moral scruples to the pursuit of profit, it had been only too familiar to the saints and sages of the Middle Ages. It was the economic imperialism of Catholic Portugal and Spain, not the less imposing, if more solid, achievements of the Protestant powers, which impressed contemporaries down to the Armada. It was predominantly Catholic cities which were the commercial capitals of Europe, and Catholic bankers who were its leading financiers.

...If it is true that the Reformation released forces which were to act as a solvent of the traditional attitude of religious thought to social and economic issues, it did so without design, and against the intention of most reformers. In reality, however sensational the innovations in economic practice which accompanied the expansion of

⁹⁵ Tawney, 278.

⁹⁶ See *ibid.*, 82-3.

financial capitalism in the sixteenth century, the development of doctrine on the subject of economic ethics was continuous, and, the more closely it is examined, the less foundation does there seem to be for the view that the stream plunged into vacancy over the precipice of the religious revolution. To think of the abdication of religion from its theoretical primacy over economic activity and social institutions as synchronizing with the revolt from Rome, is to antedate a movement which was not finally accomplished for another century and a half, and which owed as much to changes in economic and political organization, as it did so developments in the sphere of religious thought.⁹⁷

What is so striking about this passage is how little it actually disagrees with what Weber asserts. Weber fully acknowledges that capitalism predates the Reformation,⁹⁸ and he does not argue that the full development of capitalism came during the Reformation itself, as Tawney's assertion that Weberians "antedate" the development of capitalism would suggest.

Weber asserts that the capitalist ethic *was* an unintended consequence of religious doctrine posed by theologians such as Calvin. North's insights show that the Reformation led to a significant cost reduction "without design, and against the intention of most reformers" should come as no surprise given the path-dependent nature of historical change. Furthermore, that the Reformation altered the social and spiritual costs of certain kinds of behavior implies that Weber, in actuality, argues that the Reformation altered the institutional constraints on pre-existing behavioral choices. In this sense, since Weber is addressing these institutional changes rather than the birth of a new type of social interaction, the fact that examples of capitalist behavior existed prior to the Reformation only confirms that there was *something* towards which the Reformation could alter institutional sanctioning in the first place.

That capitalism existed in Catholic regions does not in any way undermine the assertion that the Reformation had significant impact on the development of capitalism

⁹⁷ *Ibid.*, 84-5.

⁹⁸ See *PE*, 19-20.

where Protestantism flourished. Though Weber may have been incorrect in his adoption of historical studies such as Offenbacher's, which asserted that Protestants were more prone to enrolling in education conducive to industrialization, and his assertion that where Protestant populations excelled Catholic populations lagged behind, these shortcomings do not undermine the theoretical significance of his thesis.

Even these issues of historicity have been debated without a definite conclusion. H.M. Robertson, writing in 1933, challenged Weber's thesis on the grounds that Weber limited his conception of capitalism in a manner that precluded non-Protestant forms of the phenomenon, and that Weber suffered from the biases and shortcomings of sociological methodology. In this sense, Robertson's argument echoes those of Rachfahl and Tawney. Thus, Robertson claimed that he could prove Weber's thesis untenable using the sound method of the historian and by showing that Catholicism had a longer capitalist legacy than Weber acknowledges.⁹⁹ Robertson's considerable efforts, and a rebuttal from another scholar discussed below, show that proving Weber "wrong" on historical grounds is not a simple task.

Robertson begins by criticizing Weber's characterization of Catholic history and theology.¹⁰⁰ For instance, whereas Weber characterized Catholic monasticism as decidedly removed from the world of the layman, Robertson contests that "To say that is to ignore the part which the friars were sent out to play –to take religion from the cloister into everyday life." Robertson continues that groups such as the Franciscan Order of the

⁹⁹ Robertson, xii-xvi.

¹⁰⁰ It should be noted that Robertson was not criticizing Weber by pointing to alternate religious origins of a capitalist ethos, such as Sombart did by pointing to Jewish populations. Instead, Robertson believed that "those who are interested in the problems of the rise of modern capitalism and economic individualism will turn more to secular channels for enlightenment" (Robertson, 213). Nonetheless, Robertson grounds much (though not all) of his criticism on pointing to non-Protestant religious traditions where capitalism had a significant presence.

Penitents “called for an asceticism exercised in the world not in the cloister, and it cultivated some of the bourgeois virtues –the same virtues which Weber stressed...”¹⁰¹

Robertson saw this to be especially true among the Jesuits, who he asserts, in cities such as Antwerp, “left the way open for an unrestrained individualism in economic affairs.”¹⁰²

He continues,

The religion of the Jesuits was essentially practical. They gained their experience of practical affairs not merely through the confessional but also by actual engagement in business in many cases... The argument that Calvinism relaxed the discipline of the Christian in his conduct of commercial affairs is untrue. Jesuistry relaxed this discipline more than any other branch of religion.¹⁰³

These observations are especially pertinent to this analysis since Robertson’s assertions directly challenge my hypothesis that Protestantism could act as a cost-reducer for capitalist behavior. Even if the Jesuits “relaxed” the costs of capitalist behavior more than Protestantism, this does not mean that Protestantism did not offer a similar (though perhaps smaller) cost reduction on a larger scale than the Jesuits could possibly achieve by mere virtue of Protestantism reaching more people. This point is offered by J. Brodrick, noted below, who states that one of the fundamental flaws of Robertson’s argument is that Robertson points to the Jesuits when Weber’s primary task was to understand capitalism in England and North America, where the Jesuits had little influence. Thus, Brodrick emphasized that “What Jesuits were doing or teaching in other parts of the world is irrelevant to the issue...”¹⁰⁴

In addition to this, two key premises of his analysis show that Robertson’s criticisms are grounded on misinterpretations of Weber’s claims. Firstly, Robertson states that, “Even if Weber is correct in his interpretation of the doctrine [of “the calling”] in its

¹⁰¹ *Ibid.*, 4-5.

¹⁰² See *Ibid.*, 103-110.

¹⁰³ *Ibid.*

¹⁰⁴ See Brodrick, 2-3.

eighteenth-century manifestations, he is incorrect in projecting this back into the sixteenth century, when the doctrine wore an entirely different aspect.”¹⁰⁵ Robertson is accusing Weber of something which Weber clearly acknowledges: Weber does not believe that the Protestantism of colonial America is equivalent to that of Calvin-era Switzerland. Weber’s “projection into the past” is only such a projection insofar as Weber *traces* the Protestantism of the United States –the culmination of capitalist ethical development¹⁰⁶ – back to its European roots. This is necessitated by the fact that he is trying to better understand the U.S. as a *final product* of these historical developments. To follow any other course would artificially compartmentalize history and suffocate all hopes of insight. Thus, Robertson’s suggestion that Weber conflates early and late Protestant attitudes is false: Weber connects them, he does not conflate them.

By understanding Weber’s argument in terms of institutional development, it becomes clearer that insight is found in searching for the nascent stages of institutional trends in understanding historical change.¹⁰⁷ Since this analysis holds, as does North, that institutions are fluid, organic phenomena, it should come as no surprise that their early forms may not resemble their later, more developed stages. The nature of path-dependent history is such that understanding is achieved through tracing incremental steps backward, approaching points of origin from which a series of connected events begins.¹⁰⁸ Weber’s focus on the early development of Protestantism in the sixteenth- and seventeenth-centuries, it follows, is justified.

¹⁰⁵ Robertson, 6.

¹⁰⁶ *PE*, 182.

¹⁰⁷ This will be a central factor in the analysis of Chapter IV, in which I argue for the importance of understanding intentions in understanding institutional change.

¹⁰⁸ This is what Paul David does in his discussion on the origins of the QWERTY keyboard format.

Second, Robertson grounds his historical exploration on the faulty presumption that “If it is true that modern capitalism is the product of a new spirit of capitalism introduced with the Reformation, it must necessarily follow that there was no capitalism before that time.”¹⁰⁹ Weber sought to understand a “new spirit of capitalism,” not the roots of capitalism itself, and such grounds for a criticism are egregiously illogical. Just as the beginning of a new era of art does not mean that art did not exist before that new era, Weber recognizes that the Reformation did not mark the beginning of capitalism. Weber could not state this more clearly: “Capitalism existed in China, India, Babylon, in the classic world, and in the Middle Ages.”¹¹⁰

Pinpointing the origin of capitalism was not Weber’s concern, yet this is how Robertson portrays Weber’s thesis. Robertson’s effort to locate capitalism in a predominantly Catholic, pre-Reformation Europe is a futile attempt to refute Weber with obvious facts that Weber explicitly acknowledges. It is not surprising that Albert Hirschman, in the beginning of his reflection on the development of capitalism, dismisses these sorts of criticisms against Weber, clearly endorsing the idea that pre-Reformation capitalism, while existent, was nonetheless fundamentally different: “No matter how much approval was bestowed on commerce and other forms of money-making [before the Reformation], they certainly stood lower in the scale of medieval values than a number of other activities, in particular the striving for glory.”¹¹¹

Robertson’s historical claims rest largely on his reading of Jesuit theology as well as his assertion that the Jesuits allowed a “5 per cent” collection of interest, especially significant since the collection of interest is an essential component of modern capitalist

¹⁰⁹ Robertson, 33.

¹¹⁰ *PE*, 52.

¹¹¹ Hirschman, 9.

activity.¹¹² Despite Robertson's claims to sound historical method, however, his work was heavily criticized by another scholar, J. Brodrick, whose *Economic Morals of the Jesuits* is "An Answer to Dr. H.M. Robertson." Brodrick begins by directly attacking Robertson's case examples, convincingly showing that what Robertson presents as facts of the Jesuit worldview are, in fact, interpretations that could just as easily be interpreted in a manner suggesting that the Jesuits did *not* support developments that encouraged the spread of capitalism.

Brodrick points out that Robertson grounds his historical analysis on second-hand sources and presumptions that what is written, by virtue of its being written, accurately represents Jesuit attitudes and actions.¹¹³ Using simple reasoning, Brodrick shows the ways in which Robertson "stretched" his sources, gleaning from them the evidence needed to substantiate his claims. For instance, Robertson asserts that the idea of "the calling" predated the Reformation in Catholic teachings,¹¹⁴ but Brodrick explains that,

In an earlier part of his book Dr. Robertson found the Puritan doctrine of the 'Calling' an embarrassment. To get rid of it, he attempts to show that the French Jesuits, Bourdaloue, Crasset, and others, preached the very same thing. The proof of this is nine short passages, some of them running only to two lines, which he culled from Groethuysen's *Origines de l'esprit bourgeois en France*. In a footnote he tells us that Groethuysen obtained them from Houdry's *La Bibliothèque de Prédicateurs*, but he does not say that Houdry's work is in four folio volumes, each running to nearly 800 pages, with double columns of compressed print. The nine little passages exhorting Catholics to work hard and to fulfil the duties of their state are rather lost in that tremendous ocean of other-worldly teaching. It really does show how hard up Dr. Robertson was for arguments that he should have given us this one.¹¹⁵

Amintore Fanfani, writing two years after Robertson, argues that secular forces created what Weber calls "the modern spirit of capitalism," though Fanfani finds even this terminology inadequate. For instance, Fanfani states that "in actual fact, capitalism

¹¹² See Robertson, 133-160.

¹¹³ Brodrick, 5-21.

¹¹⁴ Robertson, 6-22.

¹¹⁵ Brodrick, 151-2.

received considerable encouragement from the State in various fields,” continuing that “Frederick the Great of Prussia, who founded Prussian industry, saw the number of manufactories increase to 1,902; the 2,000 workers employed in 1765 had become 16,500 twenty years later.”¹¹⁶ One of many secular arguments he presents is that “The absolute State encouraged early capitalism in another manner by placing cheap labour at its service.”¹¹⁷ This is a worthwhile and cogent argument (and one reminiscent of the two arguments posed by Albert Hirschman and Karl Polanyi discussed in greater detail in Chapter IV), and it is not my goal to refute it here. Instead, I will only note once again that Weber never denied any of these non-religious factors, he simply chose to focus on a factor that was religious in nature. Chapter II of this analysis has shown that this choice was not arbitrary and yielded considerable insight.

Like Robertson before him, however, Fanfani could not help but stage his own effort at explaining the phenomenon in terms of religion despite his claims to a secular explanation of the growth of capitalism. Like Robertson, Fanfani credits Catholicism in ways that Weber does not:

...we find far more solid foundations for the assertion that Catholicism paved the way for the culminating aspiration of capitalism, a vast and unified market, by maintaining the unity of faith up to the sixteenth century; by striving to restore political unity through its assistance to the new-born and never prosperous Holy Roman Empire of the West during the Middle Ages; by gaining lost outlets for Europe, and the unity of the Mediterranean in the time of the Crusades; by facilitating the progressive development of colonial policy through the Missions in modern times.¹¹⁸

These are valid points, but they do not disprove Weber’s argument. Ultimately, Fanfani’s arguments against Weber are based on the same erroneous grounds that Robertson had used in his argument: “...Weber’s solution is unacceptable [*sic*] for various reasons,

¹¹⁶ Fanfani, 105-6.

¹¹⁷ *Ibid.*

¹¹⁸ *Ibid.*, 156.

above all because it does not admit that the capitalist spirit existed before the Protestant idea of vocation.”¹¹⁹

The evidence that capitalism predates the Reformation does not invalidate Weber’s thesis for two clear reasons. First, as stated above, Weber never denies that capitalism predated the Reformation. Stark’s dismissal of Weber’s thesis as “so obviously wrong”¹²⁰ because scholars showed that capitalism predates the Reformation ignores the subtlety of Weber’s argument as a discussion of rationalization. Reinhard Bendix summarizes the true objective of Weber’s study in *The Protestant Ethic* as follows:

...Western civilization came to be characterized by a rational systemization for which there was no analogue in the Orient. Thus, the study of the Protestant ethic merely explored *one phase* of that emancipation from magic, that ‘disenchantment of the world,’ that Weber regarded as the distinguishing peculiarity of Western culture.¹²¹

Works such as *The Sociology of Religion*, which Weber published more than a decade after *The Protestant Ethic*, continue to deal with the relationship between the rationalization of society and the importance of religion. The two were crucial for understanding historical development for Weber. In his introduction to *The Sociology of Religion*, Talcott Parsons writes that “rationalization is, in [Weber’s] view, the single most crucial dynamic factor in the process of change...”¹²² And as *The Sociology of Religion* shows, Weber attempts to trace the roots of this process to periods long before the Reformation.

The Reformation and capitalism, if one is to represent Weber fairly in his or her criticism, must be understood, as Bendix puts it, as “phases” in a larger developmental process. The question then becomes not “did the Reformation give rise to capitalism?” as

¹¹⁹ *Ibid.* 201.

¹²⁰ Stark, xi-xii.

¹²¹ Bendix, 69. Emphasis added.

¹²² Weber, *Sociology of Religion*, lii.

Rachfahl's and Stark's criticisms imply, but instead "what role did the Reformation play in allowing or encouraging the continuation of a larger process that Weber calls 'rationalization'?" In the previous chapter, I have shown that Weber's argument offers a theoretically convincing mechanism with which the Reformation reduced the costs of rationalization and, in this sense, made a significant contribution to the development of capitalism, even if it did not give rise to it in the first place. Still, it should be noted, to fully answer Rachfahl's question of "to what extent" was the Reformation important would require empirical analysis that is beyond the scope of this essay. The point that has been made here, however, is that the theoretical grounds for such an investigation are more sound than Weber's critics, past and present, might lead us to believe.

That capitalism flourished before the reformation in, Venice or Antwerp for example, shows only that capitalism could exist without the cost-reducing effects of the Reformation, but it does not rule out that the Reformation had the cost-reducing effects discussed above. By providing theological sanction for the specialization of labor and the pursuit of vocational success, it has been shown that the Reformation could have functioned as a cost-reducer in the process of rationalization. Thus, it may have accelerated the process altogether and the spread of capitalism with it. The contributions of North's institutions theory towards better understanding Weber's thesis supports the assertion that the Reformation did not have to be a necessary condition for the spread of capitalism in order for it to be significant.

In light of the efforts in the previous chapter, this chapter has sought to support *The Protestant Ethic's* continued plausibility, both in itself and by using North's institutions

theory, despite the criticisms that have been levied against it.¹²³ The efforts of this analysis thus far have sought to justify Weber's efforts as theoretically sound and empirically difficult to debunk. This, in turn, justifies extrapolating the implications of Weber's analysis for broader lessons on analytic approaches to historical and institutional change, which is the focus of Chapter IV.

iii. Responding to the Demands of Complex History

In many respects, the criticisms noted above reflect the problems and protests that tend to emerge when an author attempts to unify or blend disciplines—in this case history and sociology. While social history and sociology have made tremendous strides since Weber's death, the criticisms reflecting interdisciplinary tension are still considered valid and are often reiterated to this day. North's groundbreaking theories, however, argue that neither social relations nor history can be neglected if one is to understand the nature of change in complex societies. In this sense, Weber's efforts, however flawed and objectionable they may seem to some, recognized the necessity of applying *two* disciplines simultaneously in attempting to explain a major historical developments. This is the point that Marshall makes at the end of his survey of the debate surrounding Weber's thesis:

Because they appreciated this, the sociologists of the 'classic tradition' made a crucial observation, forgetfulness of which has led many into the wilderness of structural-functionalism and phenomenology: they recognized that sociology was an historical discipline. And, in the words of Fustel de Coulange: 'History is not the accumulation of events of all kinds which occurred in the past. It is the science of human societies.' It is, in short, sociology. The administrative error, because of which two groups of

¹²³ This hardly captures the wide array of criticisms that have been levied against Weber. Other significant criticisms attack Weber's interpretation of theological texts from Luther, Calvin and others. Just as with the criticism noted above, however, there are ample explanations for why many of these criticisms either misinterpret or misrepresent Weber's thesis. See, for example, Marshall, *In Search of the Spirit of Capitalism*, 82-88.

practitioners currently pursue the same objectives in the separate contexts of discrete literatures and departments, ought to be rectified as a matter of urgency.¹²⁴

North's theoretical insights into Weber's thesis echo Marshall's conclusion: social phenomena and historical developments are inseparable from one another, locked in chains of reciprocal influence. To attempt to divorce these forces from one another for the sake of methodological tidiness is to construe reality for the sake of synthetic conclusions that present interpretations as "objective" fact or proof. The inconclusive efforts of those who have tried to "disprove" Weber's thesis are indicative of this. Weber's thesis is filled with ambiguities and paradoxes, some of which this analysis has attempted to address. But such ambiguities do not necessarily signify faulty logic or analysis.

It has been the concern of this analysis to point out the theoretical relation between what is normally considered a secular, economic phenomenon, cost, and a subjective, often religious phenomenon, worldviews or perceptions. I have discussed how cost can be, in fact, a subjective phenomenon, situated in a particular psychological and societal context, so as to emphasize that the path-dependent nature of history means that the sources of, or contributors to significant historical changes are as much a product of the way circumstances are perceived as they are products of the "circumstances themselves." Indeed, given the importance of subjective reality shown by authors such as Weber and North (though neither of them are self-proclaimed subjectivists) it is questionable whether reconstructing circumstances "objectively" is a possibility at all. Even if such reconstruction is a possibility, it is further questionable whether it is worth the effort to

¹²⁴ Marshall, *In Search of the Spirit of Capitalism*, 173.

understand such a reality in trying to better comprehend the mechanisms behind particular historical developments.

If humans are primarily the cause of change in human history –though exogenous events such as natural disasters play their own significant role– then understanding the forces that shape human perception and, more importantly, human actions in response to those perceptions should be the goal of historical, sociological, and political inquiries. The subtext of this analysis highlights the importance of beliefs. North’s insights are significant insofar as they provide us with a comprehensive, though still developing, analytic lens through which we can understand historical developments while taking beliefs and perspectives into account.

This success, providing scholars with a comprehensive and coherent analytic lens, is one that Weber’s analysis was never able to achieve, or at least not to an extent adequate enough for *The Protestant Ethic* thesis to avoid being dismissed by many respected thinkers. As has been shown in this and the previous chapters, North’s theoretical work can help compensate for these shortcomings, allowing new evaluations of the validity and plausibility of Weber’s thesis.

This has implications for both the way we understand the history and the present, and the way we understand important interpretations of history, past and present. No doubt, different methodologies provide us with important standards of performance in understanding complex situations, but they also have the possibility of obscuring our ability to notice insights when they do not conform to methodological norms. I am certainly not the first to note the possible conflict between methodology and understanding. Philosophers have struggled with the troubling tension for some time:

Hans-Georg Gadamer, for example, made it the subject of his seminal work, *Truth and Method (Wahrheit und Methode)*.

Weber's thesis does not strictly conform to any prevalent methodological school, and thus leaves itself open to a wide range of criticisms. While these criticisms are a necessary step in the analytic process—especially when one is making claims as profound as Weber's— they are only useful insofar as they do not obstruct our ability to weigh the implications for understanding other historical problems. As will be discussed in the conclusion to this chapter, reassessing Weber's thesis using North's institutions theory shows us that factors such as beliefs and worldviews indicate that perceptions may be the key to understanding important institutional changes. This understanding can then be applied to our understanding of history and the history of ideas.

CHAPTER IV THE LESSONS OF WEBER'S APPROACH TO INSTITUTIONAL CHANGE

i. Hirschman's The Passions and the Interests and the Importance of Intentions

I will now show how Weber's thesis might aid us in our approach to understanding institutions and history. The contribution of this analysis to the study of politics and society, I will show, is not simply to show that the Protestant Ethic debate remains unresolved. Rather, this chapter will show why Weber's approach is significant in providing novel insight into the nature of institutional change and institutional stability. I begin this chapter with Albert Hirschman's *The Passions and the Interests*, a work focused on the intellectual development of the capitalism beginning with Machiavelli (though pointing to writings as early as St. Augustine). The primary purpose of this section will be to highlight a similarity between Weber and Hirschman with respect to their mutual emphasis on the importance of intentions in understanding historical change.

Hirschman begins his analysis by raising a question similar to those posed by Weber in *The Protestant Ethic*: "How did commercial, banking, and similar money-making pursuits become honorable at some point in the modern age after having stood condemned or despised as greed, love of lucre, and avarice for centuries past?"¹²⁵ Hirschman's analysis, which follows the development of specific ideas among a range of Western thinkers, is an alternative to Weber's thesis, but Hirschman explicitly states that it is not meant to be a counter-thesis.¹²⁶ Hirschman argues that the dominance of capitalism over the Western world developed through the intellectual toils of statesmen and intellectuals.

¹²⁵ Hirschman, 9.

¹²⁶ *Ibid.*, 130.

These toils were driven, as is evident in scholars such as Machiavelli and Hobbes, by a rather grim outlook on human nature and a fear of what would come of human development if man were left to pursue his natural “passions.” What emerged from this discourse was a multitude of interpretations of human nature: there were those who argued that that human passions could be controlled only if pitted against each other; those who believed that passions were inherently in conflict with man’s pursuing his “interests;” and then there was Adam Smith, who treated passions and interests as if they were equivalent according to Hirschman.¹²⁷ Smith is especially significant in this history because he marks the maturation of the conviction that allowing man to pursue material gains is an effective way of preventing him from causing greater mischief and harm by distracting him from “worse” passions. Left to his own devices, the argument goes, and without the powerful distraction of capitalist behavior, man is inherently destructive and driven by unruly passions. According to Hirschman, this idea of this tension between “passions” and “interests” was created by the fears among intellectuals of the unpredictable whims of rulers.

Hirschman summarizes the contrast between his and Weber’s thesis as follows:

Weber claims that capitalistic behavior and activities were the indirect (and originally unintended) result of a desperate *search for individual salvation*. My claim is that the diffusion of capitalist forms owed much to an equally desperate search for a way of *avoiding society’s ruin*, permanently threatening at the time because of precarious arrangements for internal and external order.¹²⁸

Hirschman grounds his entire analysis in exploring the development of theory of the state. In this, Hirschman explains the focus of his analysis by drawing a clear contrast with Weber and scholars affiliated with his approach:

¹²⁷ *Ibid.*, 110-11.

¹²⁸ *Ibid.* Italics in original.

The beginning of that story does come with the Renaissance, but not through the development of a new ethic, that is, of new rules of conduct for the *individual*. Rather, it will be traced here to a new turn in the theory of the *state*, to the attempt at improving statecraft within the existing order. To insist on this point of departure proceeds of course from the endogenous bias of the tale I propose to tell.¹²⁹

That Hirschman chooses to focus on statecraft is, indeed, a significant departure from Weber's approach, which focuses on the individual's psychology under pressure of social and religious change. Nonetheless, the two authors share a more important similarity and a more fundamental point of departure, what I have above called explained in terms of the subjectivity of reality, Hirschman calls man "as he really is."¹³⁰ Both are functionally refutations of the rational actor as a useful model for understanding historical change. A pervasive trend in the history of ideas which Hirschman tracks is an understanding that idealized rational humans –be they based on Platonic or neo-classical economic ideals– are not useful in understanding political and social change and, as Spinoza asserts, it is better to focus on "human actions and appetites," or, as Rousseau puts it, "Taking men as they are and the laws as they might be..."¹³¹

Chapter I of this analysis established that Weber came from just such a school of thought. There is no reason that Weber cannot be held among the thinkers considered in Hirschman's analysis (though Hirschman, one of his goals being to provide an alternative to Weber's thesis, does not do this). Hirschman does, however, implicitly place Weber among thinkers ascribing to a "psychological" school of thought.¹³² I will begin by assessing the validity of Hirschman's decision to situate Weber in this particular school. Though Weber is assessing broad social phenomenon, Hirschman is right to note that

¹²⁹ *Ibid.*, 12.

¹³⁰ *Ibid.*, 12-4.

¹³¹ *Ibid.*

¹³² This is implied by, as noted above, Hirschman's characterization of Weber and his colleagues being focused (rightly or wrongly) on the individual.

Weber is concerned with psychological sanctions and the decision-making processes of individuals. Furthermore, there is little mention of the state or statecraft in Weber's analysis. Thus, Hirschman is correct in placing Weber in a school of thought that focuses on individual psychology rather than statecraft.

Yet Hirschman portrays those of this school as believing that humans curb the influence of passions through "harnessing," by which Hirschman means "not merely... a repressive bulwark, but... a transformer, a civilizing medium."¹³³ In many respects, this is an accurate characterization of the social mechanisms used in Weber's thesis. The kind of institutional change laid out in Weber's thesis is clearly a form of "transformation," and even the adjustment of costs to encourage a particular mode of social behavior implies a degree of "harnessing" certain types of human action. Furthermore, Weber asserts that the Reformation and capitalism had the effect of a "civilizing medium" by furthering the development of rationalization in Western society and allowing the West to "progress" ahead of other societies.

This notion of harnessing passions according to Hirschman stands in contrast to a "repressive" stance, which focuses on "holding back, by force if necessary, the worst manifestations" of human passions. This stance, Hirschman argues, is embodied in the writings of St. Augustine and was "closely echoed... by Calvin."¹³⁴ With this said, Weber's place in Hirschman's categories becomes confusing and paradoxical. On the one hand, Weber's thesis, understood through North's theory of institutional change, suggests that Weber believed there to be processes of "harnessing" at work in the development of modern capitalism. On the other, Calvin—a central figure in Weber's analysis—is

¹³³ *Ibid.*, 16.

¹³⁴ *Ibid.*, 15. In both cases, Hirschman is referring to the role of the state (i.e. the state as a "repressive" body), but such logic could easily be applied to the individual or social grouping.

understood as being or in opposition to harnessing through association with a “repressive” stance. Where does this leave Weber’s overall thesis? And does it suggest that Weber’s thesis is inherently contradictory?

It should be noted that Hirschman dismisses the insights of both of these schools:

Given the overwhelming reality of restless, passionate, driven men, both the repressive and the harnessing solutions lacked persuasiveness. The repressive solution was a matter of assuming the problem away, whereas the greater realism of the harnessing solution was marred by an element of alchemical transformation rather out of tune with the scientific enthusiasm of the age.¹³⁵

In fact, Weber’s thesis shows that Hirschman is *too* dismissive about the plausibility of these two understandings of the relation between humans and their interests and passions. The convincing plausibility of Weber’s thesis when understood through an institutions theory lens is testament to this. The essence of virtually any economic or game theory understanding of institutions –North’s included– is that systematic and informal constraints (read, “repression”) is a real and powerful force in historical development. As North explains, far from “assuming the problem [of human nature] away,” constraints are an integral part of preventing humans from allowing passions or interests (this translates into defection from contracts in North’s terminology) from getting the better of them. Formal and informal constraints make up the ways in which we consciously and unconsciously *acknowledge* problems of human nature; they are not, however, means by which such challenges are ignored.

The importance of repression is exactly why North dedicates three chapters to the issues of informal constraints, formal constraints, and enforcement.¹³⁶ Hirschman’s dismissal of repression is untenable, and the significance of Calvin’s and Weber’s understanding human behavior deserves greater attention than Hirschman indicates. In

¹³⁵ *Ibid.*, 20.

¹³⁶ See North, ch. 5-7 (pgs. 36-60).

fact, Hirschman's dismissal is more likely the result of his state-centric approach, rather than his ignoring an otherwise viable argument. Even if state-sponsored repression is a form of "assuming a problem away," as Hirschman suggests, by trying to make it non-present, such a fact should not prevent a scholar such as Hirschman from acknowledging the potency of repression in other contexts, such as when induced by religious beliefs. This is especially the case if Hirschman is going to so willingly point to theologians such as St. Augustine who, while he did comment on the state, also noted the importance of repression on an individual level:

Let a man will to be prudent, will to be brave, will to be moderate, will to be just and then so that he may be able to be these things in reality, let him most certainly desire power, let him seek to be powerful in himself and (strange though it sounds) let him be powerful *against* himself for himself.¹³⁷

Thus, to imply through omission that thinkers such as St. Augustine were only concerned with repression with respect to the state is misleading.

The notion of harnessing can also be explained in terms of institutions theory, specifically with respect to costs. The way in which costs can induce particular behavioral responses is closely akin to what Hirschman describes as "harnessing." Costs provide a structure that limits possible avenues of human action and behavior and, as humans learn to respond to these cost structures in an attempt to maximize their gain (both on the individual and organizational levels), entire societies are, in fact, transformed. Equally important is that incentives can both gently and forcefully guide individuals and groups in new directions, transforming them.

Though North is clearly concerned with beliefs and ideologies, he never presses his analysis to the individual/psychological level as does Weber. Nonetheless, North does

¹³⁷ From *On the Trinity XII*. See Santer, 117. Emphasis added.

imply that institutional costs can result in psychological institutionalization because institutions can influence which kinds of knowledge and skills “pay off.” That is to say, the relationship between costs and incentives is not only pertinent to the organization, it is also pertinent to the individual in his or her acquisition of knowledge and skills over time: “...the institutional framework will shape the direction of the acquisition of knowledge and skills and... that direction will be the decisive factor for the long-run development of that society.” This is what North characterizes as “maximizing behavior.”¹³⁸

This, as has been stated, is a process of gradual change, combining active “structuring” on the part of significant players as well as the development of informal constraints over which individuals and organizations may have little control. The transformative aspect of harnessing, North reminds us, is hardly “alchemical,” but is rather a natural element of human institutional life. Again, Hirschman is too focused on the role of the state which, while significant, prevents him from acknowledging that these theories of human development are constricted by the analytic lens through which he approaches them.

While Hirschman treats repression and harnessing as autonomous intellectual entities, we see now that Weber unites them in an historical account of the development of modern capitalism. Indeed, the poignancy of Weber’s thesis is largely determined by his synthesis of what Hirschman identifies as the “repressive” intellectual forces created by thinkers such as Calvin and the “harnessing” of certain human impulses through gradual societal changes that we can now identify as distinctly institutional in nature. In Hirschman’s portrayal of the history of ideas, this leaves Weber in a category unto

¹³⁸ North, 76-9.

himself: firstly, Weber is not espousing any particular type of governance unlike many of the authors noted by Hirschman and, secondly, he does not ascribe to any single school of thought described by Hirschman. Rather, as was the case with Adam Smith, Weber's *Protestant Ethic* unites schools of thought that Hirschman presents as diametrically opposed or at least alternative to one another. Weber's understanding of history as the development of rationalization and the retreat of magic from human life proves to be far more multifaceted than Hirschman implies.

This is a small portion of Hirschman's overall analysis, however, and I have noted it out not to invalidate or refute Hirschman's thesis, but to show that there exists inherent difficulties in situating Weber in Hirschman's portrayal of the history of ideas. As will be shown below Weber plays his own role in the discourse about "countervailing passions," the discourse at the heart of Hirschman's analysis and the roots of which might be best summarized by a quote from Spinoza: "An affect cannot be restrained nor removed unless by an opposed and stronger affect."¹³⁹ In fact, Hirschman's and Weber's theses largely complement each other: the former providing the intellectual and state-centric side of the same coin on which the latter provides a religio-sociological explanation for the development of capitalism. Most important of all in this discussion is the way in which both authors acknowledge the importance of intentions in understanding major historical change.

Several points in Hirschman's analysis make this clear. The statement from Spinoza above was an early form of argument taken up by Hume and the Federalists, among

¹³⁹ As quoted by Hirschman, 23.

others according to Hirschman,¹⁴⁰ which asserted that human proclivities toward malicious passions could only be curbed by pitting human passions against one another. This is what Hirschman means by “countervailing passions,” a philosophical mode of thought having serious implications for the way in which thinkers shaped their notions of statecraft.

Machiavelli provided the grounds for an alteration of this concept, by introducing the idea that human interests (especially economic interests) could serve as the constraining force on human passions, the argument here running that a prince’s self-interest would prevent him from practicing arbitrary or careless rule.¹⁴¹ Of the utmost importance is that the notion of interests, being that they were grounded in tangible measures of success, e.g. the length or one’s reign or the size of a state’s gold reserves, introduced an element of “predictability” and “constancy” absent from unpredictable and arbitrary human passions.¹⁴²

Hirschman explains the intellectual appeal of interests as a countervailing force in opposition to human passions:

The *insatiability* of *auri sacra fames* had often been considered the most dangerous and reprehensible aspect of that passion. By a strange twist, because of the preoccupation of post-Hobbesian thinking with man’s inconstancy, this very insatiability now became a virtue because it implied constancy. Nevertheless, for this radical change in valuation to carry conviction, and to effectuate a temporary suspension of deeply rooted patterns of thought and judgment, it was necessary to endow the ‘obstinate’ desire for gain with an additional quality: harmlessness.¹⁴³

Thus, thinkers such as Stuart and Montesquieu recognized that whereas the man driven by passions is a fickle and unpredictable beast, the human driven by interests is more

¹⁴⁰ See *Ibid.*, 20-31. Hirschman also notes that Bacon played a key role as a “founder” of these intellectual tracks.

¹⁴¹ The idea that interests could tame passions was first explicitly laid out by the Duke of Rohan, according to Hirschman (Hirschman, 32-4).

¹⁴² *Ibid.*, 48-9.

¹⁴³ *Ibid.*, 56. Emphasis in original.

predictable and, thus, safer. But the pursuit of material interests was still considered a vice capable of corrupting entire societies, and thus scholars were implicitly charged with the task of rendering interests harmless if interests were to be justifiably considered an alternative choice and counterbalance to human passions.

This, according to Hirschman, was a relatively easy and smooth development:

The evaluation of commercial and moneymaking pursuits as harmless and innocuous can be understood as an indirect consequence of the long-dominant aristocratic ideal. As noted earlier, when the faith in this ideal had been severely shaken... the long-maligned trader did not correspondingly rise in prestige: the idea that he was a mean, grubby, and uninspiring fellow lingered for a long time.¹⁴⁴

In other words, the trader and his commerce were considered harmless, especially in comparison to the glory-seeking of the medieval era, which brought the undesirable consequence of wars and crusades. Through a plethora of quotations from Samuel Johnson and Montesquieu, among others, Hirschman argues that capitalism was passively allowed to emerge, rather than being encouraged by any particular burgeoning ethos. The story goes that commerce, trade, and interests in general, were treated as a positive alternative to a more violent and tumultuous past.

Hirschman himself, however, provides a poignant example showing that this change was not such a fluid transition, and that aristocratic ideals did not fade away while a passive acceptance of capitalist ideals emerged. Surprisingly, though it is certainly not his intent, Hirschman shows discontent for the developments described above from none other than the most iconic figure in the history of economics, Adam Smith. Hirschman notes that Smith understood the development of capitalism not only as men *indulging* in their unruly passions in pursuing their interests (after all, Hirschman notes, Smith conflates the two terms), but Smith also saw in the rise of capitalism the death of more

¹⁴⁴ *Ibid.*, 58.

noble human attributes, first of which is a “martial spirit,” or the ability for citizens to fight admirably as soldiers. Smith does not celebrate or passively accept increased specialization in labor, rather he laments “the man whose life is spent in performing a few simple operations” as weak in spirit.¹⁴⁵

Thus, Smith clearly indicates that not all significant intellectuals thought the emerging hegemony of the trader to be harmless, and such a conception of harmlessness was clearly not instilled by an aristocratic ideal. While Steuart and Montesquieu may have thought it to be so, they cannot be held as representative of an entire European population over the course of two centuries, especially when thinkers as significant as Smith seem to think otherwise. It comes as no surprise, therefore, that Hirschman notes “*The Wealth of Nations* marks an end to the speculations about the effects of interest-motivated on passionate behavior that had exercised the minds of some of Smith’s more illustrious predecessors.”¹⁴⁶ That Smith’s theories seemed to both eschew and eclipse the theories of earlier philosophers noted by Hirschman throws into question just how significant those theorists were in the development of capitalism in the first place; and to ascribe such developments to Smith would be foolish just by virtue of how late his works first appeared.¹⁴⁷

Ultimately, what Hirschman’s analysis lacks and what Weber’s thesis provides are mechanistic effects relating to the cost of particular forms of behavior. This is the institutional mechanism that allows Weber to draw a bridge between the likes of Luther and Calvin and later developments in the history of modern capitalism. By noting that

¹⁴⁵ *Ibid.*, 105-6, 110-11. Indeed, Smith’s attitude towards these developments, as presented by Hirschman, are strikingly similar to Weber’s attitudes conveyed at the end of *The Protestant Ethic*.

¹⁴⁶ *Ibid.*, 112.

¹⁴⁷ Hirschman does *not* make such a suggestion.

certain, albeit significant, philosophers expressed convictions concerning passions and interests, however, Hirschman does not construct such a bridge. This is especially true for thinkers such as Machiavelli, who spent much of his life in political exile and obscurity: while his place in intellectual history is unquestionably significant, such significance cannot be necessarily projected back into historical developments that began within two centuries of his death.

Hirschman suggests in his discussion of the harmless trader that there was never actually a perceived high cost associated with capitalistic commerce, i.e. a cost that would need reduction for capitalism to spread as it did. Given the social and religious proscriptions on industries such as money-lending that existed for centuries leading up to industrialization, and that even thinkers such as Smith thought that capitalism came with a lamentable cost, it is doubtful that there was *not* some sort of cost associated with modern capitalist behavior leading up to its spread during the seventeenth and eighteenth centuries. I discuss later how both Karl Polanyi and Weber disagree with Hirschman on this point.

Despite the shortcomings noted above, Hirschman provides considerable insight into the significance of Weber's thesis in intellectual history and, from this, how we can continue to learn from the lessons of Weber's approach. Hirschman draws attention to the significance of intentions and expectations in concluding his remarks:

On the one hand, there is no doubt that human actions and social decisions tend to have consequences that were entirely unintended at the outset. But, on the other hand, these actions and decisions are often taken because they are *earnestly and fully expected to have certain effects that then wholly fail to materialize.*¹⁴⁸

¹⁴⁸ Hirschman, 131. Emphasis in original.

It becomes clear that when Hirschman pointed to scholars such as Steuart and Montesquieu, he was highlighting that they failed to recognize the potential for interests to unleash the very forces they were hoping to curb, such as avarice and war. Though he does not supply the explicit connection that would prove this, Hirschman's analysis indicates that in better understanding the *intentions* of thinkers and statesmen during the birth of modern capitalism, we might gain insight into the nature of the historical developments that produced the capitalistic world in which we live today.

With this in mind, Hirschman can offer the answer to an important question: why was capitalism pursued with such ardor by so many? "*In sum, capitalism was supposed to accomplish exactly what was soon to be denounced as its worst feature.*"¹⁴⁹ While Hirschman does not prove this to be the case, it is a compelling argument which demands that historians make a more concerted effort to penetrate the intentions of historical figures and movements in trying to better understand historical change itself. For the purposes of this analysis, Hirschman's point is particularly significant. If we are to ground any analysis on the effects of changing institutional costs, it is necessary that we explore the origins of these cost changes. Often, pinpointing these origins means understanding the intentions of individuals and groups prior to the unintended consequences they may have engendered.

Hirschman notes that the need for this kind of scholarship is particularly dire:

Curiously, the intended but unrealized effects of social decisions stand in need of being discovered even more than those effects that were unintended but turn out to be all too real: the latter are at least *there*, whereas the intended but unrealized effects are only to be found in the expressed expectations of social actors at a certain, often fleeting, moment of time. Moreover, once these desired effects fail to happen and refuse to come into the world, the fact that they were originally counted on is likely to be not only forgotten but actively repressed. This is not just a matter of the original actors keeping their self-respect, but is essential if the succeeding power holders are to be assured of the

¹⁴⁹ *Ibid.*, 132. Emphasis in original.

legitimacy of the new order: what social order could long survive the dual awareness that it was adopted with the firm expectation that it would solve certain problems, and that it clearly and abysmally fails to do so?¹⁵⁰

Hirschman's point here is that intellectuals who explicitly or implicitly criticized modern capitalism, such as Marx, Freud, and Weber, failed to recognize that authors such as Montesquieu, Steuart, and Smith were searching for alternatives to an earlier world that "appeared as a menace that needed to be exorcized to the greatest possible extent."¹⁵¹ This is why Hirschman notes that capitalism was *meant* to temper the imperialistic and industrialist forces that later scholars *attributed to* capitalism. This failure on the part of scholars such as Marx and Weber, according to Hirschman, is that they did not consider intentions in their understanding of the intellectual development of capitalism.

Hirschman is correct to emphasize the largely unacknowledged significance of better understanding the intentions of historical figures and groups. To place Weber among the ranks of those who have failed to recognize this, however, is to ignore how profoundly important intentions, expectations, and unintended consequences are in his *Protestant Ethic* thesis. Weber expresses this most clearly when he emphasizes that the connections he draws between Protestantism and capitalism can be understood "only [through] the knowledge of the original body of ideas" of Protestant thinkers.¹⁵² This comes as no surprise given that Weber's thesis begins with the intentions of religious leaders and ends with the unintended economic consequences of those religious intentions. With that said, Hirschman's point about the significance of these intentions allows us to recognize a previously unacknowledged contribution that Weber has made to the study of politics, economy, society, and history.

¹⁵⁰ *Ibid.*, 131.

¹⁵¹ *Ibid.*, 133.

¹⁵² *PE*, 97.

Under the scrutiny of an institutions theory approach, we can now see that Weber's *Protestant Ethic* and the tremendous discourse it generated testifies to the need for scholars to pay greater attention to the importance of intentions. The importance of intentions and their inherently idiosyncratic nature throws into question the usefulness of rational actor approaches to history and politics. Weber's and North's emphasis on the subjectivity of reality is at the heart of this criticism. The inescapability of subjective interpretations of reality and the power of intentions in understanding the causes of observable consequences suggests that the study of politics and historical change demands a more subtle and, in many cases, personal approach. In developing a nuanced institutions theory of history, North is advocating just such an approach, one that is further endorsed by Weber, Hirschman, and, as I will explain below, Polanyi.

In light of Hirschman's reflections on the study of society, Weber shows us that understanding outcomes and their origins is an approach that, while useful, is incomplete. North teaches us that understanding history in terms of historical sequence is part of why "...we have paid a big price for the uncritical acceptance of neoclassical theory."¹⁵³ History charges us with not only understanding outcomes and their origins, but also understanding the hidden intentions that might have led to those outcomes. Most important of all, we cannot assume that those intentions will be congruent with the manifested outcomes that are more easily observed.

The important implications of the contributions of Hirschman's analysis to this discussion are discussed further below, where I assess the relationship between costs, institutional stability, and the importance of intentions and expectations. From an institutions theory perspective, the insights into Weber's thesis noted in Chapter II of this

¹⁵³ North, 131.

analysis, combined with Hirschman's broader reflection on intellectual history, indicate that the relationship between costs and intentions is crucial to understanding historical change.

ii. A Comparison with Polanyi's The Great Transformation: Understanding Weber's Unique Approach to Institutional Change

Despite Weber's and Hirschman's agreement on the importance of intentions in understanding historical change, they disagree on whether social or political intentions are the most important to consider. Clearly, Weber believes that religious and social intentions and expectations were a significant driving force behind the development of economic forces still present in the world today, whereas Hirschman believes that states and significant state actors played that important role, rather than marginal or insurgent social groups.

The question of the relative importance of social and political intentions brings our attention to another argument that focuses on the role of intellectuals and the state, one that is both convincing and eloquent, and one which draws clearer connections between intellectuals, the state, and the development of capitalism than does Hirschman's analysis. The argument that the development of capitalism is better understood in terms of political and economic developments is valid and has been argued convincingly in Karl Polanyi's seminal work *The Great Transformation: The Political and Economic Origins of Our Time*, published forty years after the first parts of Weber's Protestant Ethic thesis appeared in Germany. Polanyi's work is especially relevant after the discussion of Hirschman because, as noted above, Polanyi draws clear connections where Hirschman is unable to fully establish such connections. Furthermore, the differences

between Polanyi's and Weber's account of the origins and development of modern capitalism shed light on the way in which both approach institutional and historical change, and why Weber's approach is unique.

This section will explore these differences while noting how each author emphasizes the importance of intentions in understanding historical change. In addition, it will be shown that through institutional cost analysis, Weber provides insight into the mechanisms for institutional stability where Polanyi is unable to do so. The purpose of this juxtaposition will be to show Weber's role in the developing (and still relatively young) discourse about the nature of institutional change.

There are obvious differences between Polanyi's and Weber's approach to the rise of capitalism. The two are concerned, for instance, with phenomena that they label in a similar manner, but are actually quite different. Weber's goals and concerns have been well noted above, and Polanyi differs in that he believes that the *modern* capitalist world is a far more recent phenomenon, coming into true fruition as late as the nineteenth century in the form of a *self-regulating global market*. Markets have always been present, Polanyi notes: it is the unregulated global market as an autonomous institutional entity—the “One Big Market” as he calls it—that makes the nineteenth and twentieth centuries unique.¹⁵⁴ It is the emergence of this particular phenomenon that Polanyi believes distinguishes the modern capitalist world, and its development is thus the focus of his analysis. Both Weber and Polanyi are addressing the events that led to the capitalism of the twentieth century—and in this respect they are both addressing “modern capitalism— but Polanyi has a far more specific understanding of what that form of capitalism entails.

¹⁵⁴ See Polanyi, 43-55, 72. North discusses the implications of Polanyi's historical accounts in a 1977 article entitled “Markets and Other Allocation Systems in History: The Challenge of Karl Polanyi.”

Despite these differences, there is a clear similarity in that both Weber and Polanyi believe that a change in attitudes towards capitalist gain was a significant component in the development of modern capitalism. I have already made this clear with respect to Weber, who particularly noted a newfound desire to *accumulate* wealth as one of the most important changes of the new capitalistic era; similarly, Polanyi notes that “The transformation implies a change in the motive of action on the part of the members of society: for the motive of subsistence that of gain must be substituted.”¹⁵⁵ The two authors, it follows, share a similar conviction that attitudes and beliefs played a part in the transformation of the pre-capitalist to the modern-capitalist era, though their chronology on this issue differs markedly.

There is another striking similarity, on a basic level, in the approaches employed by both authors, though the substance of these approaches is markedly different. Both Weber and Polanyi turn to a body of thinkers who created (with differing degrees of intentionality) trends they could not control and which came in forms they did not expect. This is made abundantly clear in Weber’s discussion of Protestant thinkers, and it is less explicit, though equally significant, in Polanyi’s discussion of economic thinkers such as Smith, Thomas Malthus, and David Ricardo. Polanyi understands these thinkers as the culprits who created the theoretical grounds that justified the existence of the self-regulating market and, thus, the conditions in which man would live in a state alienated from his natural, societal state.

¹⁵⁵ *Ibid.*, 41-2.

According to Polanyi, these thinkers were the creators of the “commodity fiction”¹⁵⁶ discussed below, the thinkers that played an essential role in creating, on intellectual and legislative levels, a conflict between economics and human society. This conflict was manifested in a struggle between the voting, working-class masses and the powerful industrialists entrenched in the authority of corporate influence: “Labor entrenched itself in parliament where its numbers gave it weight, capitalists built industry into a fortress from which to lord the country.”

This tension was reflected in (and perpetuated by) intellectual discourse as well, with neo-liberals calling for *laissez-faire* on the one hand and protectionists calling for increased state regulation on the other. The result of this conflict was fascism, the brutal “solution.”¹⁵⁷ As explained below, understanding this outcome is a matter of understanding intentions: neither party to this great tug-of-war described by Polanyi *intended* fascism to emerge. Rather we can only access the reasons why this tension came about, according to Polanyi, through accessing the subjective perceptions of key figures such as Smith and Ricardo, for example. In understanding their intentions and expectations for an unregulated economic utopia, we better understand why phenomena such as the “commodity fiction” ever emerged in the first place.

Though he has a far more fatalistic interpretation of the outcomes, Polanyi shares with Hirschman the conviction that ideas were a driving force behind the advent of the self-regulating market, the force that alienated man from his own societal life and subjugated him to laws that were believed to be universal but which were in fact

¹⁵⁶ By this Polanyi means the belief that labor is a commodity, i.e. something *produced for* market sale. I discuss this term in greater detail below.

¹⁵⁷ Polanyi, 234-6.

fictitious. Yet it is clear that Polanyi believes that the *perceived* universality of these “laws” influenced the extent to which these fictions pervaded through all of society:

Ultimately, that is why the control of the economic system by the market is of overwhelming consequence to the whole organization of society: it means no less than the running of society as an adjunct to the market. Instead of society being embedded in social relations, social relations are embedded in the economic system... For once the economic system is organized in separate institutions, based on specific motives and conferring a special status, society must be shaped in such a manner as to allow that system to function according to its own laws. This is the meaning of the familiar assertion that a market economy can function only in a market society.¹⁵⁸

Polanyi continues,

It was not realized that the gearing of markets into a self-regulating system of tremendous power was not the result of any inherent tendency of markets towards exorcism, but rather the effect of highly artificial stimulants administered to the body social in order to meet a situation which was created by the no less artificial phenomenon of the machine.¹⁵⁹

These “artificial stimulants” are an admixture of state legislation and intellectual sanction, the most important of which is the treatment of land, money, and, above all, labor as commodities “produced” for sale on the open market. Whereas Weber understands modern capitalism as the product of multiple historical factors, the ethos of Protestantism being among the most significant, Polanyi understands this same historical development in terms of a this “commodity fiction,” most important of which is the idea that labor is a commodity. Polanyi describes this commodity fiction vividly:

None of them is produced for sale. The commodity description of labor, land, and money is entirely fictitious... Nevertheless, it is with the help of this fiction that the actual markets for labor, land, and money are organized; they are being actually bought and sold on the market; their demand and supply are real magnitudes; and any measures or policies that would inhibit the formation of such markets would *ipso facto* endanger the self-regulation of the system. The commodity fiction, therefore, supplies a vital organizing principle in regard to the whole of society affecting almost all its institutions in the most varied way, namely, the principle according to which no arrangement or behavior should be allowed to exist that might prevent the actual functioning of the market mechanism on the lines of the commodity fiction.¹⁶⁰

¹⁵⁸ *Ibid.*, 57.

¹⁵⁹ *Ibid.*

¹⁶⁰ *Ibid.*, 72-3.

Such a fiction, however, only emerged as the result of great effort from a multitude of important thinkers. It was also aided by costly failed efforts from state regulators, as well as legislative efforts advocating *laissez-faire* economic policies. For Polanyi, the advent of the modern capitalist self-regulated market came at great cost, through great effort, and, more importantly, only after tremendous change. Unlike Hirschman, who believed that a predominant notion of “the harmless trader” allowed modern capitalism to ease into its place of primacy, Polanyi agrees with Weber that it would take significant restructuring of the institutional matrix and subjective worldviews for the modern economy to be accommodated in Europe and elsewhere. Furthermore, Polanyi’s analysis tracks a wide range of changes, some of which were seemingly “small” and insignificant at the time, e.g. the Speenhamland laws, others more obviously momentous, e.g. the end of the gold standard. His focus on incremental changes both in state policies and intellectual trends focuses primarily on a history of marginal changes. This incremental understanding of the development of capitalism agrees with North’s assertion that institutional change is predominantly marginal and gradual in nature.

In this respect, we find an implicit agreement between Weber and Polanyi that the costs associated with modern capitalism had to somehow be reduced if the new institutional system was to thrive. The authors have different interpretations of how this reduction occurred –one pointing to the emergence of a particular ethos and the other pointing to the combined efforts and follies of intellectuals and states– but they nonetheless both recognize that the advent of modern capitalism was a period of dramatic institutional changes that needed considerable effort from unique individuals and groups in order to be fully realized.

As the creators of this commodity fiction noted above, Smith and his intellectual descendants in the field of economics created the widespread mental construct which allowed the economy to gradually (though with great tumult) divorce itself from control by the state and society. The culpability of these thinkers is only confirmed, according to Polanyi, by their naïve optimism in the face of growing poverty and hardship, and their single-handedly corroding man's moral existence as a political creature –often unwittingly– and allowing humans to be subjective to “cannibalism in the name of self-interest.”¹⁶¹ In this sense, Polanyi is more critical of Smith and those who followed him than Hirschman, who notes that the intellectual thrust of modern capitalism was originally the *opposite* of what Polanyi describes it as creating. In other words, Hirschman explains that capitalism had “good” intentions, but that (as I have quoted Hirschman above), “capitalism was supposed to accomplish exactly what was soon to be denounced as its worst feature,” unleashing human evils on a worldwide scale.¹⁶²

In fact, Smith was not entirely to blame in this according to Polanyi. Polanyi vividly explains that the dehumanization of Smith's thought by Malthus and Ricardo (using Joseph Townsend's interpretation of human nature) were to blame in creating an “Economic society... distinct from the political state.”¹⁶³ Like Hirschman, Polanyi turns to the intentions of these thinkers to better understand the development of the trends they instigated. Faced with the unprecedented growth of poverty in the Western world, Polanyi explains thinkers such as Malthus and Ricardo lured entire societies into the idea of a *laissez-faire* utopia in which the free market would maintain the order of a natural state. Polanyi explains the incongruence between intentions and historical developments:

¹⁶¹ See *ibid.*, 112-6.

¹⁶² Hirschman, 132. Emphasis removed.

¹⁶³ Polanyi, 112-6.

“While in imagination the nineteenth century was engaged in constructing the liberal utopia, in reality it was handing over things to a definite number of concrete institutions the mechanisms of which ruled the day.”¹⁶⁴

As with Hirschman, the intentions of intellectuals such as Smith and Ricardo are essential for Polanyi’s understanding of historical developments. Polanyi is able to succeed where Hirschman is lacking, however, in clearly illustrating the consequences of those intentions. Regardless, both authors make a strong case for understanding intentions when trying to explain historical change, and Hirschman, Polanyi, and Weber agree that norms and beliefs (e.g. intentions) matter in understanding institutional change.

Returning to Polanyi’s analysis, he explains that as the market gained increasing autonomy, both laborers and industrialists alike made the futile effort to tighten their slipping grasp on mercantilist-era control over markets, which only precipitated the collapse of the system itself, leading to the two most widespread and bloody wars in human history in 1914 and 1939. In both cases, the imperialistic “... ‘crafty animal,’ the politician, had defeated the brain centers of the race –Geneva, Wall Street, and the City of London.”¹⁶⁵ Polanyi does not argue that these consequences were ever the intention of thinkers such as Malthus. Indeed, thinkers such as Malthus are not given so much credit for intentional agency, rather they are depicted as intellectuals caught up in the developing trend of the emerging autonomous market, bringing with them justifications for and contributions to this development.

In this sense, Smith and later followers play a similar role in Polanyi’s thesis that Luther and Calvin play in Weber’s: they are each depicted as the founders of a new

¹⁶⁴ *Ibid.*, 211.

¹⁶⁵ *Ibid.*, 212.

perspective on the nature of human life and the way in which the world works. This is not to say that the analyses are entirely similar or like-minded. Weber sees Protestantism's role as providing the "ethical foundation" for a developing trend of emerging capitalism. Polanyi, on the other hand, sees man as existing in an alienated context (though not in the Marxist sense of the term) when the self-regulating market reached full maturation. Whereas Weber sees the process of rationalization as one of perpetual progress, Polanyi sees modern man as living in an unnatural state, so much so that it requires tremendous effort both from intellectuals and the state to allow the market to reach its self-regulating maturity. It is this approach that allows Polanyi to draw a clearer connection between the state, intellectuals, and the development of capitalism than Hirschman is able to do in his reflection on intellectual history.

Given Polanyi's understanding of man as being in an alienated context, it comes as no surprise that he understands the development of this conflict leading up to fascism as one that is tumultuous and disruptive, standing in stark contrast to the gradual process explained by Weber. It began with the failed attempt to prevent the treatment of labor as a commodity in England, and the implications of this were of irrevocable importance: "The attempt to create a capitalistic order without a labor market had failed disastrously. The laws governing such an order had asserted themselves, and manifested their radical antagonism to the principle of paternalism."¹⁶⁶ This disastrous effort to resist the realities of economic changes, Polanyi asserts, marked the beginning of the modern era dominated by the self-regulating market. Thus, for Polanyi, the "capitalist ethos," rather than embodying a work ethic leading to rationalized behavior (even if it does constitute an iron cage), was a calamitous fiction to which entire nations ascribed. Despite these

¹⁶⁶ Polanyi, 80

differences, however, Weber's worry about the state of man, which is made explicit in the conclusion of his essay, is reflected in Polanyi's outright condemnation of modern capitalism as the cause of fascism.

Since Polanyi's conception of the development of capitalism focuses heavily on the advancement of machine technology (yet another reason why the modern capitalist context is "unnatural" or artificial for man), some of the developments he explains were neither the product of intellectuals nor the state, but were the creation of technological advancement itself. In such a technology-driven conception of the emergence of capitalism, a capitalist ethos plays a small role because the changes were forced upon societal norms, rather than societal norms affecting the changes that were realized. In this process, the state plays the central role of not only being shaped during this process, but also mitigating the deleterious effects of the burgeoning capitalist world. In this sense, the state plays a role that is functionally similar to the Protestant ethos in Weber's analysis. That is to say, for Polanyi it is the state that equips society with the capacity to handle the onslaught of economic changes that the new global economy brought upon the world. This is, in essence, why the state became pitted against the economy in the great conflict that erupted into the two World Wars, according to Polanyi. In this respect, society and, to a lesser extent, the state, are relegated to a reactionary role, responding to exogenous forces in economic development. Thus, though Polanyi believes economics to be embedded in the functioning of society, the market transcends this embedding.¹⁶⁷

With these differences in mind, I will now turn my attention to the lessons common to Weber, Hirschman, and Polanyi with respect to our approaches to history and historical change. All three of these authors make intentions and expectations a central component

¹⁶⁷ For a discussion of this, see Lie's "Embedding Polanyi's Market Society."

of their historical accounts, characteristic of authors ascribing to path-dependent conceptions of history. Despite the dissimilarities between their analyses, they agree on the significance of these factors. And for good reason: the insights found in each indicate that intentions and expectations are highly useful approximations and indicators for the risks that individuals or groups are willing to incur in the process of change. Intentions indicate the willingness of individuals and groups to experiment and deviate from extant institutional norms and constraints; it also indicates their understanding of the parametric and endogenous institutional circumstances¹⁶⁸ that surround them. When our efforts to understand intentions focuses on policymakers, trendsetters, or social groups themselves, they help us understand why and how certain cost structures (such as cost reductions) and incentive structures emerged in the first place. Expectations –for success, failure, or change– indicate how cognizant individuals and groups are of the parametric and institutional *changes* going on around them.

North explains the importance of these factors in terms of actors attempting to decipher the institutional matrices that surround them: “In a dynamic world characterized by institutional increasing returns, the imperfect and fumbling efforts of the actors reflect the difficulties of deciphering a complex environment with the available mental constructs –ideas, theories, and ideologies.” And North notes further that, once a given interpretation of the institutional matrix is decided upon, the “subjective modeling of the issues reinforce the course” of developments that commenced with these interpretations

¹⁶⁸ By “parametric” I mean here the exogenous forces –institutional or non-institutional– that can influence the development of a particular institutional matrix. Thus, Greif and Laitin explain that “Parameters are exogenous to the institution under consideration. If parameters change, therefore, there is a need to study the implied new equilibrium set and, hence, the new possible institutions” (Greif, 633). “Endogenous institutional circumstances” refers simply to the understanding individuals and groups possess of a particular institution being considered, i.e. how intimate the individual or group is with the intricacies of that particular institution’s constraints and incentives.

and decisions.¹⁶⁹ Thus, the importance of intentions and expectations that I have highlighted in Weber, Hirschman, and Polanyi agree with North's understanding of a world that is heavily influenced by subjective perceptions.

Far from being irrelevant idiosyncrasies or dismissible "opinions," intentions and expectations shed light on the likelihood for significant change and, perhaps more importantly, how change will be received and realized. Polanyi's analysis shows this most poignantly: the intentions of capitalists and neo-liberals, on the one hand, and state regulators and protectionists, on the other, create a vivid history of Europe on a destructive course towards fascism; Hirschman shows that the significance of these expectations can be observed in intellectual circles; and Weber shows that the intentions of religious leaders and an inability to predict how theological tenets would react with secular phenomena led to a religious movement establishing an ethos for modern capitalism.

All three authors show us that by probing intentions and expectations we gain better insight into the way which institutional changes are received by and affect individuals and groups. Though important, this, in itself, does not distinguish any one of these authors from previous intellectual achievements. Understanding an author's intentions, for example, was the foundation of Schleiermacher's hermeneutical method, which stipulated that interpreting texts was a matter of recreating the circumstances around the author such that we can understand the author's *intended* meaning.

Yet Weber's approach distinguishes itself in another manner. Despite the similarities noted above, neither Hirschman nor Polanyi provides insight into the specific mechanisms for institutional stability, which is, no doubt, equally important in

¹⁶⁹ North, 96, 99.

understanding institutional change. Understanding institutional stability is completely outside the purview of Hirschman's analysis, and I will not go into greater detail here concerning why he does not provide such insight; suffice it to say that his focus on intellectual history makes institutional stability of little concern. His concern is to probe the intellectual trends behind institutional change rather than the specific institutional mechanisms that created or maintained stable institutions.

Precisely why Polanyi's brilliant analysis does not provide such insight deserves greater explanation. Put simply, institutional stability is not something that Polanyi considered as relevant or plausible with respect to the self-regulating market. According to Polanyi, as soon as the system began to rise it also began to collapse. Thus, he was concerned with institutional *instability* more than anything else.¹⁷⁰ Over half-a-century after World War II, however, we must exercise the advantages of hindsight that were not at Polanyi's disposal (or Weber's for that matter). The reality of the twentieth century is that the institutions of modern capitalism *have* survived, the self-regulating market included, despite the tumult and disruption of the fascist era.

Polanyi's account, while he explains how certain "fictions" and institutions were maintained over the course of nearly two centuries, is one of inevitable and perpetual decline. Institutions such as the gold standard kept the decline at bay, but it could not do so indefinitely. While Polanyi thus offers keen insight into the development of modern capitalism and the importance of intentions and intellectuals, he offers no clear mechanism for the stability of institutions. This may seem an unfair criticism given that I have just stated that it was outside of his argument's main thrust to propose such stability,

¹⁷⁰ This interpretation of history is not surprising for someone who was a prisoner of war in Russia during World War I and was writing during the rise of fascism and the beginning of World War II. To Polanyi, no doubt, institutional stability seemed implausible on a grand scale.

but the fact remains that the institutions he said were collapsing now seem to be more entrenched and stable than ever, more reminiscent of a sturdy iron cage than an institution heading towards inevitable collapse. My point here is not to say that Weber is right and Polanyi wrong, rather I mean to emphasize that Weber's analysis is unique in offering an approach to institutional change *and* stability. Some aspects of this approach are unique to Weber's thesis, while others are confirmed in their importance by thinkers such as Hirschman and Polanyi.

Thus, Where Hirschman's and Polanyi's analysis is lacking in explaining both mechanisms of change *and* mechanisms for institutional stability before and after periods of change, North's insights into Weber's analysis shows that *The Protestant Ethic* provides just such a mechanism through the influence of cost on institutional stability.

iii. Cost as a Tool for Understanding Institutional Stability

This deserves greater attention, as it explains why *The Protestant Ethic* is a brilliant approach to institutional change and stability. The lessons of this study, I assert, are still applicable to understanding institutional change today. First, Avner Greif and David Laitin provide a useful summary of the conditions for institutional change. Central to their understanding of institutional change is whether or not a given institution exhibits two traits. First, in order for an institution to be sustained, it must be "self-enforcing," that is to say, behavior is shaped endogenously because those who live within the institution's influence realize the highest potential for gain if conforming to the given institution's constraints. Second, an institution is more likely to sustain itself if it is (additionally) self-reinforcing, which implies that "over time... the associated behavior is

self-enforcing in a larger set of situations –other parameters– than would otherwise have been the case.”

The first of these is a necessary condition for institutional stability, but this condition, in itself, cannot be sustained without self-reinforcing as well. Thus, the stability of an institution is contingent on the capacity for that institution to adapt in such a way as to be able to accommodate an increasing number of potential external shocks and parametric changes: “a necessary condition for an institution to prevail over time is that the range of situations in which the associated behavior is self-enforcing does not decrease over time...”¹⁷¹

Chapter II of this analysis explained the persistence of particular forms of economic behavior in terms of the Reformation’s effect on costs. That is to say, the spread and persistence of these institutions were explained in terms of their lowering the cost of capitalistic behavior –socially, psychologically, and, as noted, spiritually– such that previously existing predilections towards this behavior were no longer discouraged and, in some cases, were now actively encouraged. Thus, the most essential factor in understanding how a religious ethic could become a capitalist ethos and survive processes of secularization is that aspects of the institutional matrix that made up the original religious ethic were self-enforcing due to the low costs that came with them.

This leads us to a surprisingly simple possible answer to one of the most debated questions of Weber’s thesis: how does a religious ethos “survive” secularization? Or, more metaphorically, we might ask, *how was Weber’s “iron cage” made?* The process of institutional change as explained by Weber can now be interpreted as a sort of institutional filtration through cost. The institutional matrix of Protestant worldly

¹⁷¹ *Ibid.*

asceticism brought with it religious tenets, identities, and particular forms of economic behavior. Given the processes of economic specialization and secularization that were concomitant with the period Weber assesses, the economic behaviors and convictions introduced as Protestantism developed (especially in England) came at an increasingly reduced cost. As Europe and North America continued to become increasingly secular, the religious components of this institutional matrix became increasingly costly by virtue of their being less popular, indicated, for instance, by the receding influence of religion in higher education.¹⁷² It then comes as no surprise that we observe the recession of these religious components along side the stability and persistence of secular institutional trends and norms.

The implication here is that by reducing the cost of particular forms of behavior associated with an institution, the institutions become *more* sustainable. North never states this outright, but it is implied in the passage quoted in Chapter II of this analysis:

...where the price to individuals of being able to express their own values and interests is low, they will loom large in the choices made; but where the price one pays for expressing one's own ideology, or norms, or preferences is extremely high, they will account much less for human behavior...¹⁷³

This is intuitive given that a reduction in cost also implies a reduction in the acquired risk associated with a particular form of behavior. North understands stability in terms of the intricacy and pervasiveness of systems of constraint. More specifically, he notes “Stability derives from the fact that there are a large number of specific constraints that affect a particular choice” because changing many constraints is most often more difficult than changing a single constraint.¹⁷⁴

¹⁷² See, for example, Marsden's *The Soul of the American University: From Protestant Establishment to Established Nonbelief*.

¹⁷³ North, 22.

¹⁷⁴ North, 68.

Weber provides a novel interpretation of institutional stability in which the stable institution –the capitalist ethos– rests, primarily, on low costs and the incentives they generate. In other words, the stability of the “Protestant” ethic despite the influence of economic specialization and secularization, rested on its effect of reducing the cost of behaving in a “worldly ascetic” manner. The power of this reduced cost, and the subsequent incentives that came with it, on behavior is only enhanced by its *shedding* the additional constraints associated with the religious tenets of Protestantism, though it was also bolstered later by the creation of purely capitalist institutional constraints and incentives. Institutional stability and stability during times of change are here explained through the simplicity of cost reduction. Such an historical interpretation, furthermore, is reliant on acknowledging the importance of intentions and expectations because these components show *why* Protestantism precipitated a reduction in behavioral cost in the first place and the subsequent incentives that emerged, thus justifying the Reformation as an analytic starting point. Needless to say, cost is not the only important factor in this process, but it seems to be particularly significant.

For this to be theoretically sound, the reduction in cost of a particular institutional matrix –in this case, nascent capitalist institutions– must, at least in this case, have the effect of making the institution or institutions in question more resilient against exogenous parametric changes. Herein may lie the answer to the question of how an originally religious institution can survive secularization and become an economic institution: the components of such an institution, religious or secular, that consistently maintain a low cost for a particular mode of behavior will be maintained because individuals and organizations incur less risk when engaging in that mode of behavior.

North notes that, “Changing relative prices are filtered through preexisting mental constructs that shape our understanding of those price changes. Clearly ideas, and the way they take hold, play a role here. The exact mix of the two –price changes and ideas– is still far from clear.”¹⁷⁵ It has been the argument of this analysis that Weber shows considerable insight into this murky relationship between costs and ideas.

iv. Beyond the Reformation: Applying Weber’s Approach to Other Instances of Historical Change

History will not always progress along this low-cost path –this is the greatest lesson of a theory of path-dependent history.¹⁷⁶ Nonetheless, costs play a significant part in the behavioral decisions individuals and groups make. Different historical periods and events suggest that this is not only applicable to Weber’s analysis and the Protestant Reformation. This section will address Rogers Brubaker’s *Nationalism Reframed: Nationhood and the National Question in the New Europe*, in which he explains that the Soviet Union, in an effort to provide official social organization for a massive multinational state, institutionalized national identities that later contributed to the demise of the Union itself.

Brubaker explains that while Sovietologists believed these national identities to be “empty forms or legal fictions,” these identities in fact proved to be the salient foundations upon which groups in places such as Ukraine and Estonia eventually challenged the Soviet rule that had previously seemed incorrigible and sturdy. Two issues should be pointed out here: first, Brubaker approaches institutional change not in terms of constraints and costs, but in terms of “institutionalized cultural and political forms”;

¹⁷⁵ *Ibid.*, 85.

¹⁷⁶ See North, 92-3.

second, he is not concerned with the intentions of Soviet leaders.¹⁷⁷ Despite the differences between Brubaker's approach to his study and the approaches assessed in this analysis, I assert that understanding intentions and costs provides insight into the phenomena which Brubaker addresses.

Despite his claim that he is uninterested in the intentions of Soviet policymakers, Brubaker notes at the beginning of his analysis that,

Those policies were intended to do two things: first, to harness, contain, channel, and control the potentially disruptive political expression of nationality by creating national-territorial administrative structures and by cultivating, co-opting, and (when they threatened to get out of line) repressing national elites; and second, to drain nationality of its content even while legitimating it as a form, and thereby to promote the long-term withering away of nationality as a vital component of social life. The annals of unintended consequences are rich indeed, but seldom have intention and consequence diverged as spectacularly as they did in this case.¹⁷⁸

Brubaker's pithy statement above provides enough insight to show that Soviet leaders believed that the institutionalization (through codification) of national classification did not pose the threat of institutionalizing autonomous national identities. Soviet policymakers especially did not expect the emergence of identities that might supercede or supplant *soviet* identity in the national territories, given that the goal of these legal nationalities was to do away with the prospect of ethno-national identity and nationalism in general, counterintuitive as this may sound today.¹⁷⁹

Thus, as was the case in Weber's analysis of Protestant theologians, the intentions of key figures (in this case, Soviet policymakers) explain how Soviet leadership understood these policies to be appropriate for the state's goals towards unification. More importantly, the intentions of Soviet leaders here shows their willingness to experiment with issues of national identity and deviate from institutional norms in pursuit of their

¹⁷⁷ Brubaker, 23-6.

¹⁷⁸ *Ibid.*

¹⁷⁹ *Ibid.*, 28-9.

goals, which, given that the significance of these national identities was not assured without the intervention of Soviet laws and codification according to Brubaker, were not necessarily heading in the direction of unified national identities or autonomy.

Brubaker emphasizes this by noting that before the institutionalization of the Soviet national territories, national identity “had no territorial component whatsoever.”¹⁸⁰ The Soviet assessment of the institutional state of national identities in the Soviet Union, we can conclude from this, was one in which distinct and salient national identities were considered a greater threat if left untouched by Soviet law and regulation than if they became a part of the Soviet legal system itself. By better understanding Soviet intentions behind constructing these national institutions, we can better understand the Soviet interpretations of the particular institutional and parametric matrix in which they lived.

The cumulative effect of these policies, which Brubaker says contributed to the collapse of the Soviet Union, can be understood in terms of reduced cost structures. In a state that demanded conformity from its citizenry, individuality in any form came with a high cost in the Soviet Union, regardless of whether it came in the form of national, intellectual, artistic, political, or religious individuality. Scientific individuality, in the form of creative inventiveness, was perhaps one of the only exceptions to this rule due to the high value placed on advancements in engineering and science in the Soviet Union. Yet here was a policy that demanded of its citizens that, for organizational and legal purposes, they take on a form of identity more individualized than that of simply being “a soviet.” With the institution of national passports in 1932, the cost of ascribing to these national identities began to drop by virtue of their not being prohibited by the Soviet

¹⁸⁰ *Ibid.*, 33.

regime. The intentions of Soviet policymakers noted above shows us why these cost reductions emerged in the first place, now I will explore the effects of those changes.

The approach to institutional change developed from Weber's *Protestant Ethic* would suggest that the low cost of these institutionalized structures would make them particularly sturdy over time given that individuals and groups can maintain them with minimal cost and risk. This is, in fact, what we find to be the case during the period leading up to and after the collapse of the Soviet Union. Given that these national-territorial identities could be maintained and, as Brubaker shows, *developed* at a low cost (read, relatively low political and social risk) by the inhabitants of these territories, Brubaker's conclusions now come as no surprise. Cost reduction explains why we would expect that, as Brubaker points out, "The welter of national cultures adjusts to fit the fixed frame of territorial polities," and that "Culture and territory eventually converge."¹⁸¹

It is not my intention to suggest that the stability of low-cost institutions suggests that high-cost institutions are always *unsustainable*. Nonetheless, situations such as those described by Brubaker suggest that decreased costs can play a significant role in determining choices and even identities because actors can engage in iterated behavior that reinforces these institutional identities at a low cost and without taking on significant risk relative to other alternatives.

Second, given the insights of Weber's thesis, it comes as no surprise that these institutional structures would survive the demise of the organizations and contexts in which they were created, just as the Protestant ethic could survive secularization. Despite their being originally instituted as a means of Soviet sub-state organization, the national

¹⁸¹ *Ibid.*, 39.

territories have survived as independent states after the fall of the organizational structure that spawned them. As the forces of modernization made it increasingly costly for the Soviet Union to hold itself together, the cost of ascribing to territorial identities remained low, allowing them to survive the Soviet collapse and even contribute to that collapse. The strength of these institutional structures is only emphasized by the fact that they continue to exist today despite often conflicting with pre-existing ethno-national identities in the region.¹⁸²

No doubt, this has been only a preliminary glance at a complex historical period, and a more thorough analysis of Soviet social and political history is in order if one is to make more conclusive assertions. Though only illustrative, the discussion above shows the promise of the Weber-North approach to institutional change in better understanding significant historical developments, and it deserves greater exploration, both to understand its limitations and to realize its full potential. Other examples where it might be useful begin to arise, such as the entrenchment of ethnic identities and the persistence of ethnic tensions in Rwanda.

The combination of understanding intentions, expectations, and the effect of institutional cost as part of a unified approach to historical change is a unique strength in Weber's *Protestant Ethic* thesis. Applying its lessons to history may help us better understand the persistence of certain institutions and the collapse of others. Applying it to the political and social world today may help us understand where and when institutions are likely to thrive or wither. As will be discussed in the conclusion of this analysis, recognizing the potential of this approach not only changes the way in which we

¹⁸² *Ibid.*, 44-6.

understand Weber's place in the history of ideas, but also provides lessons with the way that we understand changes as they develop around us.

CONCLUSION

Hirschman asks historians “not to resolve issues, but to raise the level of debate.” Both this exhortation and the quote from Marx at the beginning of my analysis ask that intellectual analysis focus on opening new doors for exploration, rather than desperately searching for how such doors can be closed and permanently sealed. No doubt, this analysis has only *touched* on one of these avenues of exploration, one that I believe is worthy of further attention but, more importantly, is indicative of the potential lessons that have yet to be uncovered in Weber’s complex text.

It has been the focus of this analysis to show in what way Weber’s most famous essay sheds new light on the nature of institutional change and stability, important components of history that have only recently commanded our consistent attention. This has been accomplished by critically viewing Weber’s essay through the lens of new theories, while holding Weber against his critics and alternate theories on the same subject matter. In doing so, I have shown that Weber’s analysis provides us with a unique model for understanding institutional change and stability.

Of equal importance is that such an analysis shows that when new theories of history and society arise, they should not only prompt new reflection on the way we understand sequences of historical events, causes, and effects, but they should also affect the way we reinterpret our *understanding of history* over the ages. That is to say, new insight should not just prompt a return to history, it should also bring about a return to the ways we have understood history in the past (especially those that have garnered considerable attention) and, more broadly, to the history of ideas in general.

The study of history, both in the past and as it unfolds before us, should be constantly self-reflexive in this sense. In doing so, it should track not just the events themselves and their implications, but the traditions of thought we have inherited that led us to these conclusions: only in this constant reflection will we be reminded to revisit works such as *The Protestant Ethic* so that we may learn from them once again and in new ways. And it is only in the ongoing process of these reflections that we can realize the full potential of *new* theories and ideas, such as those written by North in 1990.

One can only wonder how Weber might (or might not) restructure his analysis if he were alive today and if our knowledge and theories were at his disposal. Such a new edition of *The Protestant Ethic* would undoubtedly garner tremendous attention. It should be equally self-evident, however, that we have no need for Weber to be alive in order to reinterpret his analysis in a fruitful manner, we need only to continually introduce that analysis to the new ideas at our disposal. Thus, when the attention towards works such as *The Protestant Ethic* begins to wane, it is not a sign that those works are no longer pertinent or relevant to our understanding of history or the world around us. Instead, such waning is an unfortunate sign that we, modern interpreters of history, are neglecting the necessity of reinterpretation and, in doing so, are losing the potential insights that such reflection has to offer.

With respect to Weber, the next step in this endeavor would be to do a broader analysis of the themes assessed above as they appear in Weber's other works. At the very least, we would gain a better understanding of his body of works and the themes that are pervasive throughout them, especially those such as *Entzauberung* and rationalization. If anything, the above analysis shows that we have not exhausted the supply of lessons

made available by Weber's analyses, and these lessons demand efforts that exceed the limits of this analysis.

Beyond this, the lessons of Weber's analysis tell us that focusing on perceived costs may be a fruitful tool for deconstructing periods of complex change and better understanding the broad mechanisms behind those changes. Likewise, costs can help us understand the absence of change. How broadly such an approach could be applied is limited only by the creative liberties the analyst takes with it. More importantly, Weber's influential analysis, especially when understood using modern institutions theory, reminds us that beliefs matter because they, in effect, are the substance that fills the distance –be it temporal, physical, psychological, cultural, political, or even metaphysical– between us and the world. What happens in the “space” of this distance is human perception.

History is primarily concerned with accounting for change and stability: at the heart of virtually every historical analysis is a question of why something –a particular circumstance, a trend, a regime– changes or why something does not change. Thus, the issues of institutional change and stability raised in the above analysis are about our understanding of history and the way we approach historical analysis. There is clearly more to Weber's analysis than just whether he was “right” or “wrong” about the relationship between Protestantism and capitalism. Assuming that this is the most important criterion for weighing the value of Weber's analysis has prevented numerous scholars, critics, and commentators from exploring the potential of applying Weber's approach elsewhere. If history, as North tells us, is constructing and telling stories,¹⁸³ then our continued understanding and exploration of history is not just about what is told

¹⁸³ North, 131.

and how “accurate” the subject of that telling is. It is equally important, if not more so, *how* such stories are told and what lessons can be learned from these presentations. This is echoed in Gadamer’s *Truth and Method*: “Thus we are certainly interested in the subject matter, but [history] acquires its life only from the light in which it is presented to us.”¹⁸⁴

¹⁸⁴ Gadamer, 285.

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