

# HOW DID SCHUMPETER DO IT?

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*Schumpeter and the Idea of Social Science: A Metatheoretical Study*  
By Yuichi Shionoya  
Cambridge University Press, Cambridge, England, 1997.

At least since the *Methodenstreit* of the late nineteenth century, scholars have struggled over the question of the relative primacy of explanation (*eklarieren*) and understanding (*verstehen*). Joseph Schumpeter was born into that struggle between the Austrian economics of Carl Menger on the one side and the German Historical School of Gustav von Schmoller on the other. In one reading, Schumpeter's first book, *The Nature and Substance of Theoretical Economics* (1908), can be understood as his attempt to work out his own position on the question and, as such, the book might be thought to provide the key that unlocks all of his later work. The ambiguous verb "unlocks" leaves open the question of explanation versus understanding. Professor Shionoya's magnum opus on Schumpeter's diverse intellectual output is concerned primarily with the former; he eschews biography in favor of what he calls "metatheoretical" study. His focus is not so much on understanding Schumpeter and his work; instead he wants to explain how Schumpeter produced it all. Shionoya's question is not "what sort of man produced all

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this interesting work?" but rather "what sort of methodology did he adopt that made it possible for him to produce it?"

Shionoya's reason for asking the question is clear. He wants to encourage the production of more work in a Schumpeterian vein, and he aims to achieve that goal by revealing how Schumpeter did it so that others can follow Schumpeter's lead. He writes: "It is my contention that the practice of the Schumpeterian mode of thought, thus viewed, was not a singular, one-time phenomenon confined to one individual; rather, it is a method of social science that can be repeated, experienced, and transposed through an appropriate formulation" (p. 3). In a sense, Shionoya's goal is the same as that of all those who stand on the side of theory as against history. He wants universal and permanent knowledge in a world that is complex, multi-dimensional, and ever evolving. What distinguishes his approach is that he does not look to universal and permanent aspects of human nature for the elusive philosopher's stone. Rather, he seeks a universal and permanent metatheory, a kind of theory of theory-construction to guide the production of lower-level theories. In Shionoya's construction, there is no universal theory, but there is a universal social scientific method for theory production and Schumpeter discovered it, which explains why his work was so penetrating. By working backward from Schumpeter's work to his methodology, we can discover it too, and we too can therefore hope to produce works of penetration simply by adopting the correct methodology.

Shionoya calls Schumpeter's methodology the "two-structure approach to mind and society" and summarizes it as follows: "Schumpeter fashioned two three-layer structures of thought, one for the economy (economic statics, economic dynamics, and economic sociology) and one for science (methodology of science, history of science, and sociology of science)... The two structures, whose third floors (economic sociology and sociology of science) were the offshoots of cultural sociology, can be seen as the minimal essential version of a universal social science" (p. 53; see also Figure 6, p. 265). This last sentence is the main argument of the book in a nutshell. Not only did Schumpeter put all the bits of economics in their proper place—statics as the foundation, dynamics as the mid-point, and economic sociology as the high point—but he also showed how the highest point of economic analysis links with the highest point of analysis in all other fields to produce a universal social science.

From Shionoya's point of view, the greatest of Schumpeter's works is *Capitalism, Socialism, and Democracy* (1942, 2nd ed. 1947, 3rd ed. 1950) because this is the work that relies most on the "third-floor" method of economic sociology. In this book, Schumpeter paints a picture of the historical decline of capitalism as caused by the institutional evolution of capitalism as a social system. Two aspects of the book are particularly attractive to Shionoya: first, the conception of capitalism as a system evolving in history, and second, the conception of capitalism as an economic system embedded in and interacting with the larger social system. What Shionoya most wants to know is how Schumpeter could keep an analytical

grip on such a large topic. The answer, he argues, is Schumpeter's adoption of the method of economic sociology or institutional analysis, as a supplement to the more usual methods of theory and history.

As a plea for broadening the scope of questions asked and methods used by modern economics, Shionoya's case is welcome. But he wants to do more than that. He wants us to adopt the "reproducible and transposable" two-structure approach to mind and society that he has discovered in Schumpeter's work. This is the main theme of Shionoya's own "treatise on social science" which weaves through his interpretation of Schumpeter (p. xiii) and requires separate treatment. It is one thing to devise a metatheoretical structure as a means of interpreting Schumpeter's diverse intellectual output after the fact. It is quite another to establish that Schumpeter actually used the metatheoretical structure, before the fact, to produce his diverse intellectual output (and not just as an expository device for organizing the material). And it is something else entirely to argue that, as a normative matter, others ought to adopt the metatheoretical structure as a guide to their own intellectual production. Unfortunately, these three strands are never untangled and the book is less successful than it might have been on that account.

Of the three, the first, purely interpretive strand is most successful. Some readers will feel that the attempt to fit Schumpeter's work in a static metatheoretical structure does less than full justice to the dynamic character of his thought, and that the welcome emphasis on sociology comes too much at the expense of underemphasizing the historical dimensions of Schumpeter's thought. Some will feel, that is to say, that the emphasis on "reproducible and transposable" elements of Schumpeter's thought has an unfortunate distorting effect on the overall picture. Nevertheless, one man's distortion is another man's useful focus, and it seems undeniable that Shionoya's methodological approach to Schumpeter adds a useful dimension to our understanding.

The problem comes with the second and third strands of the argument. As for the second, the record of Schumpeter's own life shows pretty clearly that he did not produce his work by first resolving methodological questions, and then applying the correct methodology. And if he didn't do it, then the third argument that all who aspire to follow him ought to adopt his methodology would seem to rest on rather weak foundations. And yet, one sympathizes with Shionoya's goal and, like him, one is not content with mere interpretation. Suppose then, for the sake of argument, that one wants to encourage the production of more work in the Schumpeterian vein. How might one proceed?

One place to look for an answer is to Schumpeter himself, seeking to explain his work by first understanding his life, asking not about methodology but about biography. Toward this end, we are fortunate to be able to rely on several excellent treatments. Allen (1991) and Swedberg (1991) are the most comprehensive biographies, but Marz (1981) and Stolper (1994) provide invaluable supplements focusing on the early years in Austria and Germany. Based on these works, it is possible to ask the question, "How did Schumpeter himself produce his work?"

Schumpeter seems to have done more or less what he recommended that all his students do, which was to proceed from his own prescientific vision, using the various techniques of economic analysis—the “three fundamental fields” of economic history, statistics, and theory, complemented by a fourth, economic sociology. From this point of view, the key to understanding how Schumpeter produced his work is not his first more methodological book (as Shionoya thinks), but rather his second, *The Theory of Economic Development* (1912, 2nd ed. 1926, trans. 1934), because it was in this second book that he sketched the main lines of his vision of what capitalism is all about. Here for the first time he emphasized the importance of disequilibrating innovation as the primary force breaking out of the circular flow and driving economic development. Here also he introduced the prime mover of innovation, namely the entrepreneur, and drew attention to bank credit as the critical mechanism that enables the entrepreneur to work his will. Viewed from the standpoint of the second book, Schumpeter’s mature work on *Business Cycles* (1939) represents a working out of his youthful vision, drawing on the techniques of theory, history, and statistics, to analyze “the capitalist process.” *Capitalism, Socialism and Democracy* (1942, 2nd ed. 1947, 3rd ed. 1950) continues the project by drawing on the technique of economic sociology, treating the entrepreneur as an historical phenomenon, bound to pass away in time, taking capitalism with him.

If Schumpeter’s work arose out of his original and penetrating vision of capitalism, does it follow that the goal to produce more Schumpeterian work is best achieved by promulgating Schumpeter’s vision? Some authors write as though the answer were clearly affirmative (e.g., Rosenberg 1994), but the record of Schumpeter’s own practice suggests otherwise. Schumpeter’s biographers all note, with varying degrees of perplexity, Schumpeter’s habit of not assigning his own works or even referring to them in his lectures, and his explicit disapproval of schools in economics. It seems that Schumpeter didn’t want students to adopt his own vision. Rather, he wanted them to develop their own visions, and to learn sufficient proficiency in the techniques of analysis that they might be able to use their lives productively by turning their own visions into permanent contributions to economic thought. In effect, Schumpeter was more interested in encouraging the *evolution* of vision and hence also of economic analysis, than he was in ensuring the *reproduction* of his own idiosyncratic vision. And this was particularly the case when it came to training graduate students in the sacred third decade of life when vision is formed (as he believed). Precisely because he viewed the economy as an evolutionary process, at some level Schumpeter must have recognized that his own vision, formed in the conditions prevailing in the Austro-Hungarian Empire before World War I, was fated *not* to reproduce in the very different conditions of the postwar period.

No biographer goes so far, but it seems worth considering whether Schumpeter’s willingness after World War I to leave academia (the University of Graz) for an uncertain future in politics (as Austria’s finance minister) and then business

(as president of the Biedermann Bank) was as much a mature cold-headed decision based on an appreciation of the difficulties he would face if he continued his intellectual pursuits, as it was a youthful romantic impulse to conquer new fields. The world had changed, but Schumpeter hadn't, and he knew it. Unfortunately, as he soon discovered, one needs to have an accurate appreciation of how the world works for success in politics and business, as well as in intellectual pursuits. He failed at the former, and returned to academic life with relief in 1925 (at the University of Bonn). The outside world had fallen apart, but institutional inertia meant that the life of the university remained relatively unchanged, and Schumpeter looked forward to rebuilding his life there. Unfortunately, in 1926 personal tragedy struck—the death of his mother, beloved wife, and newborn son—and knocked out the supports on which Schumpeter had intended to build. The biographers agree that he found solace of a kind in his work, which is to say by turning inward and following his vision.

Moving to Harvard in 1933, in effect Schumpeter embraced his plight. At midlife, he was alone in a world he found increasingly foreign, and immigration to America matched his objective situation with his mental state. At first, Harvard seemed to be what he needed, a bastion of gentlemanly calm and constancy where he could be himself and do his work undisturbed, but the echoes of Roosevelt's New Deal soon enough found their way behind the ivied walls. Nostalgic for the dual monarchy of prewar Austria, Schumpeter was singularly unequipped to appreciate the operation of American democracy. Wisely, he focused his efforts on the scholarly projects for which he is still remembered today. Fortunately for him, in an evolutionary system, nature does not make jumps and even outdated viewpoints continue to shed light long after their appointed time—particularly so in a period of intellectual disruption when no new viewpoints yet challenge—and so Schumpeter was able to produce useful work. But his students were the really lucky ones, enjoying as they did the enviable opportunity to work out their understanding of the new world unfettered by the intellectual habits of an earlier time. It was Schumpeter's pleasure to help them.

If we follow Schumpeter himself, and suppose that production of more work in the Schumpeterian vein means not reproduction of his own vision but rather production and nurturing of new and relevant visions, the question remains, How to do it? Schumpeter's own life once again shows the way, or at least a way. It has become a cliché of the extensive commentary on Schumpeter that his thought was generated by the tension between two grand visions of the economy, the circular flow of Leon Walras and the grand dynamics of Karl Marx. This seems right so far as it goes, but it hardly goes far enough. Schumpeter was not, after all, just Oskar Lange with inferior math skills! Greater insight is gained by viewing each of the three books published before World War I—the third was *Economic Doctrine and Method: An Historical Sketch* (1914, trans. 1954), a youthful precursor to the magisterial posthumous *History of Economic Analysis* (1954)—as emerging from a different essential tension within the economic thought of his day. Schum-

peter's vision was not merely a product of his times—fin-de-siècle Vienna, for short (see Streissler 1981, 1994)—but, more significantly, it emerged from Schumpeter's willingness to embrace the tensions of his time, never choosing one side or the other but rather standing between them, producing something new by channeling the energy generated by the opposition. Consider each of the three "sacred decade" books in turn.

As Shionoya quite correctly points out, the first book is a product of the tension between the Austrian theoretical economics of Menger and the German historicism of Schmoller. One can, however, go further by viewing the book in biographical context. As an Austrian, Schumpeter was writing to tell the Germans about the virtues of theory. In doing so, however, he wound up discovering also the limitations of existing theory for analyzing dynamics. Those who read the book as an encomium to Leon Walras are thus correct, but so too are those who read the book as a *reductio ad absurdum*. It is no contradiction to believe, as Schumpeter did, both that the general equilibrium theory of Walras represents the greatest of all achievements of economic science, and also that the model of static equilibrium provides little insight into the most important remaining questions of the science, which are all dynamic. What Schumpeter hoped for the future was a scientific theory that would do for dynamics what Walras had done for statics. In his mature teaching, he didn't want his students to follow Walras so much as he wanted them to emulate the achievement of Walras in their own work on more interesting questions. This explains why Schumpeter dismissed as non-scientists all those who would reject the Walrasian theoretical achievement in favor of the achievements of history, a dismissal that encompassed most of the German historical school, with the exception of its leader Schmoller, and also most of the American institutionalist followers of the German historical school, with the exception of the empiricist Wesley Clair Mitchell (Barber 1996).

The second book is Schumpeter's youthful attempt to sketch the outlines of a proper dynamic theory. The unstated antagonist was of course Karl Marx, whose dynamic theory of surplus value had attracted a following among Schumpeter's contemporaries such as Rudolf Hilferding, Otto Bauer, and Karl Renner (Marz 1981, p. 99). Schumpeter wrote as a student of Menger (and Eugen von Bohm-Bawerk, and Friedrich von Wieser) to provide a theory of economic development alternative and superior to that of Marx. In doing so, however, he wound up accepting, in his famous theory that the interest rate would be zero in the steady state, the central point of Marx's critique of political economy, namely that orthodox economics has no satisfactory explanation of the origin of profit. Whereas Marx looked to labor exploitation as the missing explanation of profit and used this explanation as the foundation of a powerful critique of capitalism, Schumpeter looked to entrepreneurial innovation for his own explanation and used his own theory of profit to mount a powerful defense of capitalism. The important point is that Schumpeter found no contradiction in believing both that the dynamic theory of Marx represents the most serious scientific advance in dynamics yet

achieved, and also that the Marxian theory is fundamentally incorrect and needs to be superseded by something better. Schumpeter was equally impatient with Marxists who refused to move beyond Marx, and with anti-Marxists who would not even move so far as Marx. In both cases, Schumpeter tended to dismiss the resisters as non-scientists who let ideology stand in the way of the progress of economic analysis.

The third book reaches beyond the confines of Germany and Austria in order to situate German language economics in a larger world-historical context. Significantly, the book seems to have been stimulated in part by Wesley Clair Mitchell's lectures on the history of economic thought, which Schumpeter attended in 1913-14 while visiting Columbia University in New York City (Perlman 1981). As an American institutionalist and a student of Thorstein Veblen, Mitchell offered a critical perspective on the development of English political economy from Adam Smith to Alfred Marshall. The Mitchell connection helps to bring into focus the extent to which the third book is about the tension between the more historical and state-focused economics of Germany and the more theoretical and market-focused economics of England. Economic theory arose much more readily in England, Schumpeter wrote (1954, pp. 24-31), because the flourishing public discussion of practical economic questions provided abundant material for those of a more philosophical bent to work with. The relative backwardness of the German economy, and the greater importance of the state, gave rise to a doctrine of state economy instead, and to relative underdevelopment of theory relative to historical approaches (pp. 31-36). Comparison of the two traditions led Schumpeter to reject both, and for the same reason that their scientific advances were too tied up with political programs, with the result that shifting political winds led to unwarranted rejection of genuine scientific advance.

For him, the model of what economic science could be was not the tradition of England or of Germany, but rather that of France, starting with Francois Quesnay whose theory arose neither from practical policy discussion nor from affairs of the state, but rather from philosophical speculation about those mundane facts of the economic world that are apparent to everyone (Chap. 2). The leader of the Physiocrats was, for Schumpeter, a member of that most admirable breed of men, the entrepreneurs of science, who build something out of nothing, and whose genius and persistence makes a permanent shift in human affairs. All the English classical economists, not excepting even Adam Smith, built on foundations laid by Quesnay; they were followers not leaders. In later life, Schumpeter would add Augustin Cournot and Leon Walras, two more Frenchmen, to his private pantheon of the truly great, in whose select company only the English Alfred Marshall and perhaps the Swede Knut Wicksell could compare (Allen 1991, vol. II, p. 39). It goes without saying that Schumpeter dared to hope that someday his own name might number among the gods; such are the dreams of youth.

The third book added nothing to Schumpeter's vision of what the economy is all about, but it established firmly his conception of what economics is all about

as a science. Scientific economics may have its roots in both moral philosophy and the literature on practical economic problems, as Schumpeter argued it did, but his own sympathies clearly lay more with former than with the latter. As a consequence, he was never able seriously to engage with the indigenous institutional economic literature of his adoptive home in America, a literature not without its own philosophical origins (in John Dewey's pragmatism) but one with sympathies just as clearly leaning in the opposite direction toward the solution of practical economic problems (see Mehrling 1997). As a further consequence, he was never able to understand what the Keynesian revolution was all about, and the main obstacle was the strict distinction he drew between scientific work and policy advocacy. As he saw matters, Keynes and his young followers tended to adopt theoretical views because they liked the policy conclusions that followed, a tendency that tarred them as ideologues not scientists. For Schumpeter, fiscal policy might or might not be a good idea, but that was a question that could and should be discussed calmly without wild claims about intellectual revolution and cavalier rejection of hard-won scientific advances. One can see his point, but one can also see the point of the young Keynesians. The world was apparently in shambles, and they wanted to do something practical and immediate about it. The timescale of Schumpeter's conception of economic science was simply too long.

The above sketch of the formation of Schumpeter's vision, desperately brief though it has been, provides an alternative answer to Shionoya's important question. If we want more work in the Schumpeterian vein, one way to proceed (not the only way) is to emulate Schumpeter's own strategy for vision formation. Embrace the contradictions inherent in the intellectual structure of one's own times, and channel them to produce a new synthesis of one's own. Suppose that we all did so, or at least all of us whom age doesn't already condemn to following an already formed vision rather than formulating a new one. *Pace* Shionoya, the resulting Visions are unlikely to be timeless, and even less likely to be transposable, but that is precisely the point.

Schumpeter thought about the development of economic thought as a matter of leaders and followers, and he trained his students to be leaders. We, who have grown up on more democratic soil, see the development of economics as more of a Darwinian competition of theories. We see further that, since the economy evolves alongside, the "fittest" theory for today is not the fittest for tomorrow. And we draw the conclusion that economics is healthy when it maintains a large and varied genetic pool from which tomorrow's theory can be selected, and when the variation in that pool is constantly renewed by mutation, which is to say by new vision formation and development. It is a different idea of how economics develops than Schumpeter's own, but it leads to the same pedagogy he pursued, a pedagogy quite different from the one advocated by Shionoya. There is, of course, no way to know for sure which will be the more effective. There is only the evidence of Schumpeter's own life to attest that, at least in his own case, a pedagogy oriented toward vision formation and development paid off, and paid off so well



that Schumpeter's main works are still read today, and are likely to be read tomorrow as well. It's not perhaps the pantheon of immortals to which Schumpeter aspired, but it's plenty good enough for us, democrats as we are.

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