

Joseph A. Schumpeter: His Life and Work

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Richard Swedberg, *Joseph A. Schumpeter: His life and work*,
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Competitive capitalism, nineties style, is seeing mature economies power into a new burst of growth and accumulation. Entrepreneurship and innovation, the crucible of capitalism, are bringing in a new era. The information revolution is behind this flowering of enterprise capitalism. Knowledge, unlike the other factor inputs, is not subject to diminishing returns. This new technology and new management techniques are perceived to be delivering immense productivity gains. All this would be old hat to Joseph Schumpeter. He would have interpreted computerisation, corporate downsizing and other structural change as yet another manifestation of "the perennial gale of creative destruction".

Mainstream economics, struggling to deal with these new developments with their factor proportions growth models have now embraced endogenous growth theory. Much of it is a direct steal from Schumpeter. On the economics-do-it-yourself front two popular titles argue the case for a non-linear dynamic analysis that entertain, inter alia, chaos theory, increasing returns and entrepreneurship and lends a role to history and sociology. Well, to paraphrase Joan Robinson "It's all in Schumpeter".

Richard Swedberg's biography on Schumpeter amply shows that this Austrian economist had developed a broad conception of economics long before it became fashionable. Swedberg, a sociologist himself, competently deals with the economic theorising of his subject. As is the intrusive fashion these days, Swedberg's portrait of Schumpeter is a "warts and all" one. Indeed many would, like George Stigler, be irritated by the attention on the trials and traumas of Schumpeter's personal life. Swedberg does not go so far, however, to argue that Schumpeter's largely unhappy life comes through in his theoretic insights or philosophical vision. There came a point however in his turbulent life where Schumpeter retired from humanity and sought repose in his work.

Like Skidelsky's magnificent work on Keynes, Swedberg's study of Schumpeter achieves a fine chronologically ordered balance between curricula and the non-curricula. Swedberg's portrait of his subject is big enough to include all Schumpeter's multifarious activities. Each period in his turbulent life is treated separately from his theorising and literary works. Every economics fresher will recall being struck by Schumpeter's boast that he wanted to be the best horseman in Vienna, the best lover in Austria and the world's greatest economist. It's true the man was no shrinking violet but the ambition was equally matched by ability.

The young Schumpeter was brought up in the Continental school of rigorous neo-classical or Walrasian economics. Schumpeter set out to become Austria's youngest professor

in economics. He achieved this despite Alfred Marshall, doyen of neo-classical theorists who in contrast to his cossetting of Keynes advised him against a career in economics. As it turned out, Schumpeter was to develop a jealous obsession with Keynes.

Schumpeter craved an academic post but not an academic salary. Like all the brilliant young things Schumpeter favoured a theoretical scientific motif for economics. At one stage he even urged a "Monroe doctrine" for economics that would keep it untainted by the humanities. Economics, he argued, was more aligned to the natural sciences than the social ones. But even as an equilibrium theorist Schumpeter argues that after a process of disequilibrium the economic system does not return to equilibrium but instead keeps on changing. Schumpeter began to long for dynamic analysis free from the straitjacket of comparative statics. As he wrote: "What a miserable figure he is, this economic subject who is always looking so anxiously for an equilibrium. He has no ambitions and no entrepreneurial spirit; in brief, he is without force and life. . ." (p. 29).

This growing appetite for dynamic economic analyses came from one who held Walras—the father of static General Equilibrium analysis—in high regard. Schumpeter actually visited Walras to discuss his theoretical apparatus and its limitation. He had already found Walrasian theory near useless when composing his book on economic development. Walras could only tamely reply that ". . . economic life is essentially passive and merely adapts itself to the natural and social influence which may be acting upon it. . ." (p. 32).

Unsatisfied, Schumpeter set out on the lifelong pursuit of building a new framework of analysis, a new conception of economics. Methodologically Schumpeter continued his quest to carve out a new conception of economics or sozialökonomik. It would be a "collaborative" effort encompassing economics, history, sociology and statistics. Swedberg adjudges this "the major theme in his lifework as an economist" (p. 23). The *Theory of Economic Development* (1911) marked Schumpeter's growing belief that economics should become more broad-based, encompassing sociology, statistics and history. This multi-disciplinary approach was a recurring pattern in the rich mosaic of Schumpeter's academic work. Faced with the polar choice between abstraction and the historical mode of analysis, Schumpeter settled for compromise. His first major book was a landmark in that entrepreneurship playing a leading part in the capitalist process.

In the great debate on Methodenstreit, Schumpeter took the position of having history complement theory. Yet he sensed—correctly as it turned out—that theory would "squeeze out" history. Schumpeter, lamenting his lack of mathematical knowledge, likened himself to Moses who could-see-but-never-entered-the-promised-land-of-quantitative-rigour-and-elegant-precision. Today that promised land has become desert, buried under the drifting sandhills of mathematical esoterica.

Swedberg devotes a chapter to charting Schumpeter's abortive escapade in Austrian politics. Why do good economists rarely make good political operators? He was sacked as Finance Minister after only a brief period in office. The political interregnum did prove useful in shaping his views on political philosophy—itself worthy of another chapter. Schumpeter labelled himself a "cultural conservative". While finance minister for Austria, Schumpeter quickly saw the tendency—not unknown in this country—for government expenditure to

outrun revenue and recommended a capital levy to plug the gap. James O'Connor's book from the 1970s *The Fiscal Crisis of the State* essentially exploited the same theme.

Even the academy rendered disappointment in him being passed over for a prestigious chair. Worse was to come. In a monstrous double blow Schumpeter lost his deeply loved mother shortly followed by the death of his beloved wife in childbirth. He was profoundly affected by these events and Swedberg movingly recounts from Schumpeter's diary entries this bleak period in his subject's life. Schumpeter confessed to friends that he could no longer concentrate or create as of old—all his subsequent works, of course, belie this. But they were written by a melancholy man who never fully recovered and would often, in a spiritual daze, invoke divine help from his departed wife and mother.

Professionally Schumpeter began to develop an interest in the business cycle within the broader context of economic change. In 1928 he wrote an article where capitalism had a "tendency towards self-destructing from inherent economic causes or towards outgrowing its own frame". This was because the entrepreneur was disappearing, replaced by a salariat working for big companies.

At Harvard the new appointee was so driven that, apart from a heavy load of teaching, he became a virtual recluse. He had to. Two of the masterpieces he subsequently penned each took five to ten years of concentrated effort. The polemical essay *Capitalism, Socialism and Democracy*, his most popular work, was a cake-walk by comparison. Like Keynes, Schumpeter was a veritable work machine, but he neither had the former's faculty for penmanship nor his statesmanship.

One of the great ironies in the history of economic thought is that it was Schumpeter who first introduced mathematical economics to American universities, since he was convinced that this was the path to theoretical rigour. What has since transpired would have horrified him. His project of encouraging a more multi-disciplinary economics has been snuffed out by the very forces he had first unleashed in Harvard seminar rooms in 1932.

Before that scourge, Schumpeter had to endure another blight falling upon Harvard—the arrival of Keynesian economics. Disappointingly, Swedberg does not develop further the complex Schumpeter apparently developed about Keynes. We are merely told that Schumpeter wrote a sarcastic review of Keynes' General Theory including a cryptic comment to the effect that Keynes sought to apply the peculiar institutional case of England into general economic principle. Schumpeter's obsession with the ubiquitous Mr Keynes was compounded by the poor peer review his two volume study on business cycles received. It was a great disappointment. He had felt that all that had gone before was mere scaffolding; that he had built the house of Sozialökonomik. The methodology developed in *Business Cycles* (1939) was to "interpenetrate" theory with statistics and business history. In his analysis of business cycles he perceived innovation as the "prime mover" in the capitalist process. Innovation came in bundles. Like the three wise men, all economic change could be compressed and understood with Juglar, Kitchen and Kondratieff cycles alone.

Tormented by the war, unhappy with university politics and miffed by the treatment meted out to his labour of love Schumpeter became, as extracts from his diary reveals, mentally unbalanced. Some of his world weariness, some would say paranoia, is expressed in

the rather twisted aphorisms in the book's appendix. Recurrent periods of deep depression and self-loathing did not deter Schumpeter from penning his majestic polemic *Capitalism, Socialism and Democracy*. He wrote, as Galbraith put it, "only for the elect". Yet the lonely figure did crave a following of true believers—like the one Keynes enjoyed. In his diary Schumpeter bemoaned his "lack of leadership". (Today things are much different. There is an active international community of evolutionary economists that have their own journals. Schumpeter too is still the most widely revered economist in Japan.)

Capitalism, Socialism and Democracy (1942) was the product of forty years reflection on Socialism. Like Marx whom he much admired, Schumpeter saw economics as the locomotive of history. Moreover the economic structure left its "imprint" upon society. In a celebrated part of the book Schumpeter pondered whether Capitalism could survive. He attacked the long-held notion that the competitive market was the key to capitalism's success. Monopoly, he insisted, is a force for good because it engenders innovation. As he put it, "A monopoly position is no cushion to sleep on." (p. 157)

Schumpeter's ongoing popular appeal owes much to his perception of visualising private enterprise in a perpetual process of continual change. His famous line about "creative destruction" referred to how capitalism—for want of a better word—was buffeted by gales of innovative change. These technical and managerial innovations favoured and advantaged big business. Are we to see his prophesy of a trustified capitalism come to fruition?

Schumpeter's next major project was his compendious *History of Economic Analysis* (1954). This time he set himself too great a task. It was published posthumously after some excellent editing by his second wife, Elizabeth Firuski. In words not lost today, Schumpeter held that the training of economists should see them competent not just in theory and statistics but also an appreciation for economic history and sociology. However, too much "cross fertilisation", he warned, would result in "cross sterilisation".

Interestingly, Schumpeter held that the Physiocrats, not Smith, were the true founders of economics. Adam Smith's *Wealth of Nations*, he contended, did not contain one single analytical idea or principle that was new in 1776. Schumpeter blessed the then new art of econometrics as the bridge between economics and statistics. However he regretted that economists had neither moved away from the marginalist influence nor developed a dynamic theory. His death in 1950 spared him the sight of his beloved discipline degenerating into insularity and conceit.

Swedberg is to be complimented for writing a readable and balanced account of this extraordinary figure. Its only real drawback is its brevity, just 195 pages of text. It has moreover a full bibliography of Schumpeter's works with an appendix reproducing some of his correspondence to colleagues and even part of an abortive attempt at a novel. It will therefore be more an entree to Schumpeter than say the complete biography—that is yet to be written. Swedberg is the first stop in the rehabilitation process. Loring Allen's two-volume study on Schumpeter—which came out before Swedberg's effort—is no filler because, as critics reported, it concentrated more on his manifold activities and complex personality than his theories and method.

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