

JOSEPH ALOIS SCHUMPETER (1883-1950)
A CENTENARY TRIBUTE

J.A. Schumpeter was born at Triesch in the Austrian province of Moravia (now Czechoslovakia) on 8 February 1883, the only child of the cloth manufacturer Alois Schumpeter and Johanna Schumpeter-Grüner. Joseph Schumpeter lost his father in 1887. In 1893 his mother married again to Sigismund von Kéler, a military man, but this marriage ended in divorce in 1906. A consequence of this second marriage was that from 1893 onward, Joseph Schumpeter lived in Vienna and from that year till 1908 went to the Theresianum or Mittelschule, the form of education favoured by the aristocracy. He graduated with Honours in 1901, having received a solid classical education of Greek and Latin supplemented by language studies at home through the highly cultured background supplied by his mother in teaching him French, English and Italian.

From 1901 to 1906 he was a student in the Faculty of Law at the University of Vienna obtaining the degree Doctor of Law in 1906; the law degree then, as currently, requiring comprehensive examination of politics and economics. Schumpeter did practice some law in 1907-08 during his short stay in Cairo but his main love from the beginning was economics. During 1905 and 1906 he attended Bohm-Bawerk's seminar with fellow members Ludwig von Mises and the Marxists Otto Bauer, Rudolf Hilderding; and Emil Lederer (the last becoming one of the founders of the Graduate Faculty at the New York School of Social Research). Otto Bauer was responsible for Schumpeter's short stint as Finance Minister in the Austrian Republic in 1919 and he must have learnt a great deal about Marx and Marxian economics in this company.

After graduation in 1906, Schumpeter went to England for several months, largely to work on economics in the British Museum, but he also paid visits to Cambridge and Oxford where he met Marshall and Edgeworth. He there must also have met his first wife, Miss Gladys Ricarde Seaver, whom he married in 1907. A short stay in Egypt followed, then from 1909-1911 and 1911-1918 he obtained his first university appointments at the Universities of Czernowitz (now in Rumania) and Graz. In 1913-14 he spent a year as Visiting Professor at the University of Columbia, New York, during which time he gave a course on social classes.

In this initial period as a graduate he published in rapid succession his first important economic works:

- 1906 - On the Mathematical Method of Theoretical Economics
- 1908 - Wesen und Hauptinhalt der Theoretischen National Okonomie
- 1912 - Theory of Economic Development ,

the last two of which established his place in economic theory. That year also saw the publication of his first work on the history of economic thought -

Economic Doctrine and Method which Haberler describes as a profound and mature piece of work which only the expert can appreciate (Haberler, 1951, p.28).

It is interesting to note that when Schumpeter penned Böhm-Bawerk's obituary in 1914, he remarked that Böhm-Bawerk's life confirmed the "generalisation ... that the roots of important original achievements, especially those of a theoretical nature, can almost always be found in the third decade of the lives of scholars " a period described by Schumpeter himself as "that decade of sacred fertility".

This hypothesis definitely fits Schumpeter since the three early publications which I have mentioned , particularly the two published in 1912 when he was 29, were the foundations of his two more important mature works, Business Cycles published in 1939 and History of Economic Analysis, published posthumously by his third wife Elizabeth Boody Schumpeter in 1954.

Before he left Vienna in 1925 and after his resignation from Graz University in 1918 (in which year he published his Crisis of the Tax State) Schumpeter held office in Kautsky's Socialisation Commission in Berlin (till 1919) and then became State Secretary for Finance in the Renner Government (15 March - 17 October 1919). After his resignation he worked among other things in a bank until in 1925 he accepted the Chair of Public Finance in Bonn. In 1924 he also married for the second time, Annie Reisinger, who died in childbirth in 1926, the same year as the death of his mother. During Schumpeter's Bonn period, he spent two periods at Harvard as Visiting Professor (1927-28 and 1930 first term). His two publications of note in this period after 1918 were his Imperialism published in 1919 and his Theory of Social Classes published in 1929. Both essays were published posthumously in English translation by his Harvard student, Paul Sweezy, in 1951.

As already indicated, in 1932 Schumpeter left Germany for good, never, in fact, to return. He obtained a permanent appointment at Harvard which he retained till his death in January 1950. Initially he stayed with Frank Taussig (1939-40) whose obituary he penned for the Quarterly Journal of Economics in 1940. (Reprinted in Ten Great Economists.) Taussig apparently kept him hard at work, and we possibly owe it to him that Schumpeter's magnum opus, Business Cycles, was completed at all. It was this work that kept him busy during the 1930s, though he had sufficient time as well to co-operate with Ragnar Frisch and Jan Tinbergen in founding the Econometric society and to write for the early issues of Econometrica. In 1942 there followed Capitalism, Socialism and Democracy, which, as the preface to the first edition put, summarised "almost forty years thought on the subject of socialism. (Schumpeter, 1942, p. xiii). It also contains his brilliant intellectual portrait of Marx reprinted in Ten Great Economists, as the first chapter. It was well received and as Smithies put it, "an immediate success". (Smithies, 1951, p. 14). It was almost immediately followed by work on what was to be his never completed "second" magnum opus, History of Economic Analysis. That work, the last from his pen, appeared posthumously in 1954 after the careful editing by his wife, Elizabeth Boody Schumpeter, who also died before completing this task and who has recounted its problems in her editorial epilogue to the volume. A tribute to this work can best be given by that other great German-American historian of economic thought of the twentieth century by quoting the opening paragraph

of his review article in the American Economic Review (Viner, 1954, p. 894).

The appearance of Schumpeter's History of Economic Analysis constitutes a major event in the history of the Dogmengeschichte of our discipline. It is a book large in its physical proportions; its text proper amounts to some 1180 large and closely printed pages, much of it in small type. It covers its subject matter from Ancient Greece to Keynes. It aims to account for every writer who made a significant contribution to the development of economic theory. Greek, classical Latin, mediaeval Latin, Italian, Spanish, Swedish and Dutch contributions, as well as, of course, German, French, and English literature, are reported on from their original texts. Most important of all, this is a history of theory written on the grand scale by an economist who was an original, a powerful, and a versatile theorist on his own account. Schumpeter, moreover, was interested, deeply interested in apparently the entire range of matters intellectual, was learned beyond the normal capacities of economists, could exercise with facility and with power the whole range of skills which the economic theorist employs; static analysis, dynamic analysis, historical analysis, mathematical and statistical analysis, partial- and general-equilibrium analysis, and so forth without visible end. He was able to deal familiarly with all ages and with the materials of a wide range of disciplines: physics, psychology, history, sociology, mathematics, philosophy, jurisprudence and perhaps still others. This is a work written in the polymath manner by perhaps the last of the great polymaths.

To add to this superb commentary from Viner would be presumptuous on my part. To discuss his contributions to business cycles would be equally so, particularly after recently editing the English translation of Sylos-Labini's superb comparison of Marx and Schumpeter on the subject of growth and cycles which is to be published by the May Foundation later this year in an Altro Polo on Italian economics. (Sylos-Labini, 1983).

As an historian of economic thought at a History of Economic Thought Conference, it seems therefore more fitting to pay tribute to Schumpeter in relation to one of the first of his books which was the last of his books to be translated into English: the 1912 Economic Doctrine and Method.¹ This I might add, is also one of the first books of Schumpeter I purchased and read, though I should also note that Schumpeter's work was then very much part of the current economic literature at the University of Sydney and I bought Capitalism, Socialism and Democracy as a text book.²

The fact that the History of Economic Analysis grew out of the slender Economic Doctrine and Method is one of the prime reasons for turning to the latter if Schumpeter's broad views on the history of economics are to be appreciated. It should be noted at the outset that the structure of the two volumes is more or less the same. The latter explicitly grew out of the former and from the fact that Schumpeter had begun teaching history of economic thought again at Harvard in 1944. (E.B. Schumpeter, 1954, pp. v-vi). It can be said that Part II of the 1954 History developed chapters I and II of its predecessors; Part 3 covers the contents of the earlier chapter 3; the subject matter of Part IV and chapter 4 coincide. The time periods covered in these parts are approximately up to 1790, 1790 to 1870 to 1814 respectively. The 1954 volume added an introductory first part and a

concluding modern developments part which find no real counterpart in the earlier work.

In the remainder of this essay I want to focus on the significance of the difference in treatment of the common subject matter of Part II of History of Economic Analysis and that in the first two chapters of Economic Doctrine and Method. This covers the beginnings to 1790, the last date of which is described as a "classical situation" in the latter work. In the pre-1914 production, the first chapter deals with the beginnings up to approximately 1750 (Hume is included) while the second treats the physiocrats and Adam Smith as the period in which economics became a science.

The strength of Economic Doctrine and Method is therefore that it highlights the developments in the period 1750 to 1790 (the first classical situation of the History of Economic Analysis) by placing the physiocrats and Smith in a separate chapter and focussing on the concept of the circular flow of economic life as the great unifying theme which produced systematic economic analysis. This development is therefore sharply contrasted with the development of economics as a science, which Schumpeter saw emerging from

- 1) the study of philosophers from earliest times,
- 2) the writing of people with an interest in practical problems of the day - the administrators-merchants-pamphleteers.

Schumpeter suggests that these two streams should be rigidly separated. However this procedure produces some classificatory problems, which include -

- (a) Philosophers cannot always be separated from administrator-merchant pamphleteers. This is not only the case with Locke as Schumpeter admits (1954b, p. 27) but also with some of the scholars who discussed practical problems in a philosophical manner.
- (b) The early beginnings discovered in Greek philosophy and in medieval thought and which can of course be carried back further to Babylonian times and so on, are in some ways not very meaningful. How, for example, can the analysis of monopoly and oligopoly in the 13th century, have connotations similar to oligopoly analysis in the 1980s or the analysis of monopoly granted by charter in the trading companies in the 17th century?

Although the rigid separation of these streams cannot be taken too seriously, the insight of the two streams merging in the seventeenth and more importantly the eighteenth century is, I think, most important. It should also be noted that the merging of the two streams in individual cases is a relatively frequent occurrence: examples include Petty, Locke, Barbon, North and Berkeley, who all appear to fit the philosopher and the practical administrator/merchant category.

In this context it is also important to notice how Schumpeter sees philosophy developing to form moral philosophy from a number of strands by the middle of the eighteenth century (Hutcheson). This is indicated in the following quote:

All these special branches - Theology, Ethics, Jurisprudence and Economics - formed a unity for which the term 'Moral Philosophy' became customary. By this we must not understand either a 'moral doctrine' or a 'philosophy' in the modern sense but a comprehensive system of thought (Geisteswissenschaft) which in spite of all metaphysical admixture became more and more empirical and analytical and was opposed to the natural sciences, termed in those days Philosophy of Nature. This system of moral philosophy rested in all its branches on identical premises, that is, on the same simple assumptions with regard to human motives and their relation to human actions; it was in all its parts individualistic, rationalist and absolute in the sense that the conception of growth receded almost completely into the background. Since in this organic unity one element affects all the others, almost every thought is important for economics as well. In this connection the philosophic achievements of Locke and Hume must be mentioned in the first place, because never again was philosophy to such an extent a social science as at this period.

Schumpeter (1954b, pp. 22-23)

It is interesting to note as Sir Alexander Gray (1948, pp. 12-13) and others have done that these four branches of moral philosophy were precisely those which Smith developed in his lectures at Glasgow, and which he wanted to make his life work. Smith of course only completed the ethics and the political economy in book form; the jurisprudence was among the manuscript material burnt prior to his death, the last included much of the material partly reflected in the later work of Millar and in that of the work of contemporaries and friends such as Ferguson and Robertson.³

This passage incidentally highlights one of the problems for Schumpeter in dividing philosophy from practical economic discussion since the "economics" branch of the moral philosophy was of course the "police, justice, revenue and arms" of the Glasgow lectures and this covered economic policy in general - the concern of the consultant administrators and the pamphleteers.

The broad thrust of Schumpeter's argument on the emergence of economics is therefore basically correct - apart from the historical difficulties already noticed - but the details of the argument are not. Part of this error of detail is explicable through the advances in research and availability of material. For example, the bulk of the English "seventeenth and eighteenth century literature" available to Schumpeter when writing this little book comes from the Jacob Hollander reprint series (Barbon, North, Venderlint, Berkeley, Asgill); the Italian names appear to come from Loria's contribution to Palgrave. More importantly error of detail results from hurried research and occasionally, bias. (Barber for Barbon; 1749 instead of 1748 for Montesquieu's *L'Esprit des Lois* to give two examples). However, and this is of greater importance in this context, it is amazing that he could provide an extremely accurate generalisation on the basis of such slender research material.

The bias of Schumpeter - which has been noted in his History of Economic Analysis in the reviews by Robbins (1955) and Viner (1954) is most clearly illustrated in Chapter 2 by way of its title and the implicit depreciation of Adam Smith.⁴ The emphasis on the circular flow as the feature which marked the emergence of economics is in part a reflection of the importance assigned by Schumpeter to this notion in his theoretical framework for his Theory of Economic Development produced at about the same time. The first chapter of that work from which directly and indirectly the greater part of Schumpeter's later analytical work developed deals with the circular flow of economic life.⁵ Since the circular flow as an "equilibrium model" was largely developed by Quesnay in the context of an agricultural economy, it is Quesnay of course who gains the crucial role in the emergence of economics. However, it should also be noted here that Schumpeter's treatment of Smith in conjunction with the Physiocrats is far more meaningful and accurate than the tradition which starts with Adam Smith and effectively treats the rest as pre-Adamite economics of little importance.

I conclude by reiterating the major point I want to make; this is that the periodisation schema in the Economic Doctrine and Method book focuses much more clearly and accurately on the emergence of economics as a science because it isolates the key period of post-1750 in which that emergence took place. Similarly the discussion in Chapter III on the classical school and its offshoots focuses more sharply on the next period in the history of economic thought as seen by Schumpeter than does the later work. The same applies to the final chapter on the then contemporary developments in economics - particularly from a German/Austrian standpoint - concentrating as it does on the historical school and the development of the theory of marginal utility.

As compared with the later History, the 1912 book provides a far clearer picture of the forest and I recommend its reading strongly to those interested in grasping the essentials of Schumpeter's views on the history of economic thought which surprisingly changed little over a period of close to 40 years. In addition, the book abounds in the typical Schumpeterian insights, ranging from the most profound to those which are irritating or sometimes wrong. The early book is also a fine example of Schumpeter's skill as an author and the vitality and audacity of his intellect at the age of 29. Who, before the age of 30 would have dreamt of writing the history of a science like economics in toto and then actually have done it? It is these characteristics of his style: the broad general assertions, the audacious interpretation, the wide general knowledge that Schumpeter brings to bear, that continue to make his work of relevance and stimulus to the present generation of economists. Like the work of Marx and Keynes, that of Schumpeter will continue to provide inspiration and insight into the understanding of economic theory. This applies as much to his work on business cycles as on the history of economics.⁶

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NOTES:

1. The publication date of this book is shrouded in mystery. My copy of the English translation indicates first published in 1912, as does its translator in his preface (p.2). Haberler (1951, p.28 and n.15) suggests 1914; Schneider (1951, p.57, n.6) suggests 1914 as well, but it would seem that both were in fact reprints in a larger project published in book form in 1914. Viner (1954) refers to the second impression of the book in 1924. E.B. Schumpeter (1954, p.v, n.10 indicated 1914 with 1924 as second edition.
2. On refreshing my memory with the 1957 Faculty Handbook I notice that apart from this book, Economics IV also recommended his Theory of Economic Development as a text, and in History of Economic Thought his Ten Great Economists and History of Economic Analysis.
3. Schumpeter, 1954, p. 66 n.1, repeats Marx's baseless charge that Smith borrowed from Ferguson on the division of labour and taxation. It was of course Ferguson who borrowed from Smith on these matters, while both benefited from the mutual influence of Montesquieu. For discussion of this see my 'Turgot, Beccaria and Smith' (1983), pp. 32-33.
4. Cf. Viner (1954, p. 904), where this bias is summarised:

Schumpeter's "Reader's Guide" to Adam Smith's Wealth of Nations, although unfinished, is an admirable outline of such theoretical structure or "system" as there is in that book, and would make an extremely useful introduction to any new edition of it. Schumpeter does not like Smith, however, as theorist, as man, or with respect to his social views. The Wealth of Nations although in some unexplained way it was "a great achievement" (p. 38), completely lacks originality. It "does not contain a single analytic idea, principle, or method that was entirely new in 1776" (p. 184). Many of his predecessors excelled him as analysts. Verri's concept of economic equilibrium was "as far as this goes, rather above than below A. Smith" (p.178). It is "not without interest to observe how little, if anything, [Campomanes] stood to learn from the Wealth of Nations" (p. 173). Most references to Adam Smith are hostile. He suggests that Smith's criticism of Mandeville's (two volume!) "pamphlet" The Fable of the Bees, may have been due to jealousy of Mandeville as the anticipator of the argument for "Smith's own pure Natural Liberty" (p. 184). "The wooden hands of the Scottish professor" and "the safe side that was so congenial to him" (p.212), his "feelings of resentful distrust" and his "narrow views" with respect to big business (pp.150, 545), these are representative of Schumpeter's reaction to Smith. Smith was writing "in bad faith" when he claimed that mercantilists "confused" wealth with money (p. 361). It is not, I think, necessary to accept Adam Smith as a hero of our profession to conclude that Schumpeter's objectivity was somewhat undermined here by the conflict between Smith's and his own "ideologies".

And cf. the catty and wrong remark on Smith's lectures (Schumpeter,

1954b, pp. 65-66) in which it is claimed that Smith "Hardly altered more in his teacher's system than any lively pupil would have done." No evidence is presented and it does not conform with my own reading of Smith and Hutcheson.

5. Conceived very much as Quesnay did and Walras did - both of whom were Schumpeterian heroes as Viner (1954, p. 899) also points out and as Schumpeter abundantly makes clear in his histories.
6. After completing this paper I came across Staley (1983) which discusses the interrelationship between Schumpeter (1954a) and his lectures at Harvard on history of economic thought, a topic of considerable relevance to the subject matter of this appreciation of Schumpeter's work.

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