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Source: *Journal of Economic Issues*, Mar., 1979, Vol. 13, No. 1 (Mar., 1979), pp. 141-157

Published by: Taylor & Francis, Ltd.

Stable URL: <https://www.jstor.org/stable/4224781>

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Joseph Alois Schumpeter

Herbert Kisch

Joseph Alois Schumpeter was born 8 February 1883 in Třeš, an old but small town (population about 5,000) located in the picturesque hills between Moravia and Bohemia. His father, Alois, a textile manufacturer and the scion of a local family, was long prominent in the economic, cultural, and social life of the community. His mother, Johanna (born Grüner), was the daughter of a Vienna-Neustadt physician.¹

The elder Schumpeter died when his son was four years old. Six years later, Johanna married Feldmarschalleutnant Sigismund von Keler, then commander of the Vienna military garrison. The new husband was to play an important role in his stepson's development, if only because his rank and position brought his ward into contact with the city's aristocratic life. He enrolled the boy in the *Theresianum*, Vienna's most exclusive school. Schumpeter is supposed to have thrived in that *recherché* environment. Those who have known him well have at times speculated to what extent the courteous manners that marked him as a gentleman of the old school,

The author is indebted to his colleague, Walter Adams, for stylistic improvements.

EDITOR'S NOTE: Before his death in 1978, the author was Professor of Economics, Michigan State University, East Lansing. The paper was originally given at the Bicentennial Meeting of the Czechoslovak Society of Arts and Letters in the United States in August 1976. Professor Kisch was a specialist in German history and also taught and researched in the history of economic thought. Among other things, he was very helpful in the evaluation of manuscripts submitted to this journal. An important paper by him on E. J. Hobsbawm will appear in the *Journal of Social History*.

and the conservative and elitist view of the world that was to underlie his social and economic analysis, were implanted during his eight years (1893–1901) at that famous institution.

Schumpeter continued his studies at Vienna University from 1901 until 1906, when he was awarded the degree of Doctor of Laws. It may be well to recall that at the time the university and the Imperial City's literary and scientific life were enjoying a Golden Age.² The discipline of economics (taught in the law program) was very much part of that intellectual efflorescence, as by then the leading representatives of the Austrian School had already achieved world renown.

Schumpeter's initiation into serious economics came during 1903–1904 while attending the statistical research seminar of the distinguished economic historian and statistician, Karl Th. von Inama-Sternegg. Schumpeter wrote three papers for that colloquium: one on the statistics of demography, another on the methodology of index numbers, and a third dealing with price formation in internationally traded staples. All three efforts were published. According to Gottfried Haberler,³ already at this early stage they offer glimpses of what was to be a Schumpeter *forte*: the ability to digest a large, multilingual bibliography and then summarize the high points of a drawn out and complicated debate.

During his student years, Schumpeter also attended the seminars of Friedrich von Wieser and Eugen von Philippovich. But Schumpeter's most important teacher, the man most responsible for shaping his intellectual development and early academic career, was Eugen von Böhm-Bawerk, the undisputed leader of the Austrian School, an *homme d'affaires* who had just returned to his professorship at the university after some years at the Austrian Treasury, including a stint as Minister of Finance. Böhm-Bawerk is supposed to have exercised a magnetic influence upon students, especially gifted ones. When Schumpeter attended the Böhm-Bawerk seminar (1905–1906), his classmates, among others, included Ludwig Von Mises and three young Marxists, Emil Lederer, Otto Bauer, and Rudolf Hilferding, who later became leading Socialist theorists.⁴ Thus, at one and the same time, the young Schumpeter was to be exposed to and involved in debate with the best minds that neoclassicism and Marxism had to offer. The twin perspectives of Austrian and Marxian economics were to remain key components of Schumpeter's vision of the social process.

Shortly after he was awarded the doctorate in 1906, Schumpeter went to England to continue his research in economics and to make contact with some of the luminaries of English economics (notably Alfred Marshall and F. Y. Edgeworth). During this sojourn he met and married an

English lady, twelve years his senior and the daughter of a dignitary of the Church of England. The marriage proved an unhappy one, and the couple separated after a few years. Schumpeter's initial publication after graduation dealt with the relevance of mathematics to economic theory. According to Erich Schneider, the article by this twenty-three year old (who certainly had not been instructed in these matters by his teachers), is conspicuous for its precocity and learning. After surveying the arguments pro and con, Schumpeter not only expressed himself in favor of the mathematical method, but also ventured the prophecy that this particular approach was the wave of the future. Another article (which appeared soon after), on the theory of rent and distribution, indicates that Schumpeter, although indebted to his Vienna professors (especially in his acceptance of the theory of imputation), was trying to go beyond them.⁵

In retrospect, these two articles should be viewed as finger exercises, as it were, for what was to be Schumpeter's first major publication, *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie*. The study is a comprehensive survey of the achievements in the development of a more rigorous theory of value and distribution, rising to a crescendo with the elaboration of Léon Walras's general equilibrium theory. The thrust of the argument, indeed, the whole tone of the work, must be understood (as Schneider perceptively reminds us) against the setting of academic economics in the German-speaking world at that time. The Historical School was still very much in power, and it is against this majority view that the young scholar was making his plea on behalf of the theoretical approach.⁶

Under these circumstances, it is not surprising that the book was to receive a more favorable reception in France, Italy, and England than it did in the German-speaking world. Not even Vienna was to be enthusiastic about the native author who deviated from established orthodoxy by his espousal of the general equilibrium model. But Böhm-Bawerk must have held firm in his high regard for his former student. Indeed, on the strength of *Das Wesen*, Böhm-Bawerk was able to obtain for Schumpeter (who during 1908 was working as a lawyer and financial adviser in Cairo) the *venia legendi* at Vienna University. In 1909, Böhm-Bawerk was once more instrumental in securing for Schumpeter, then only twenty-six years old, his first academic appointment, a professorship at the University of Czernowitz. Schumpeter was to remain in that most easterly province of the Austro-Hungarian Empire for two years. His stay must have made a lasting impression upon him. Many decades later, he still entertained his colleagues with outlandish stories about his experiences on that frontier of civilization.⁷

In 1911, Schumpeter accepted the offer of a chair at Graz University. He was imposed (a rather unusual occurrence) upon a reluctant Graz faculty by the Vienna authorities, and it has been suggested that, once again, Böhm-Bawerk was the inspiration behind this decision. The antipathies were mutual. Although he stayed until 1918, Schumpeter disliked the provincial atmosphere of the Styrian capital and spent as much time as possible in Vienna.⁸

Although at Graz (as in Czernowitz) his professional obligations were rather onerous, Schumpeter's research continued to flourish. During those years he published papers on the future of the social sciences and on recent U.S. literature in economic theory, and an article on business cycles. To judge by the topics, he was clearly working toward his next opus, one that was to address itself to the range of issues associated with economic change. As Schneider points out, this new study is to be viewed as a sequel, an outgrowth as it were, of *Das Wesen*. In that first book, Schumpeter had intellectually solved, at least to his own satisfaction, the problem of allocation within the neoclassical system. He had carefully elaborated the basic price and distribution model in all its variations as the core of the discipline. And yet, for all his enthusiasm for the scientific contribution of neoclassicism and especially for Walrasian general equilibrium theory, he was very much alive to the limitations of its static nature that paid no heed either to time or institutional setting.⁹

How could it have been otherwise? After all, Schumpeter's awareness of the limitations of neoclassicism was a reflection of a methodological self-consciousness one would expect from a man of his talent and learning. But perhaps there was another reason for his methodological sophistication—the intellectual environment.

Schumpeter had grown up in the aftermath of the *Methodenstreit*, and the battle cries of that debate still reverberated through Central Europe's academic halls. In addition, during those years Schumpeter was exposed to and stimulated by the critique of Austro-Marxism. These Marxist writers, of course, repudiated Austrian neoclassicism as just so much apologetics and insisted that the essence of political economy is, and should be, an understanding of capitalist dynamics. Consequently, Schumpeter's next major publication might be viewed as much a sequel to his first book, devoted to static analysis, as it might a riposte to his socialist colleagues and their Marxist interpretations of capitalist evolution.

Having thought about these particular issues since his student days, Schumpeter was finally ready to present his own version of the growth process. *The Theory of Economic Development* burst upon the economics

profession in 1912. Success was almost instantaneous. Reviewers, especially Americans, promptly recognized the significance of the contribution and were generally lavish in their praise. Schumpeter, who had already achieved the reputation of a young theorist of considerable talent and promise, suddenly became one of the great economists of the age.¹⁰

The architectonics of the Schumpeterian system certainly possess at least one necessary ingredient for greatness—simplicity. At the center of that system stands the entrepreneur-innovator, a man of unusual insights, energy, perseverance, and organizing ability. It is this individual, as Schumpeter envisions him, part dreamer, part hard-headed realist, who initiates economic change. He does so by securing credit from the banker, which in turn enables him to implement an innovation, that is, supply the market with a new product or service, or introduce into the economy a new production or marketing technique. His rewards are the profits which he will reap by virtue of these pioneering efforts and which, by definition, are the measure of his success. These profits also serve as the signal for “imitators” (routine operators) to emulate the innovator in the hope of sharing in the gains he is enjoying.¹¹

According to this model, by way of initial credit creation and innovative investment, a shock is administered to the stationary economy. It is then pushed farther away from its original equilibrium path by a cluster of investments on the part of the imitators. The initial shock, having engendered a prosperity phase, cumulatively works its way through the whole economy until the eventual credit repayments and price changes bring about a recession. During that recession phase, the economy, as it were, digests the boom and adapts toward a new equilibrium position with an enlarged and different structure output.¹²

In one stroke, Schumpeter presented a new and highly original theory of capitalist development and a new interpretation of the business cycle as an integral part of the capitalist growth process. At the same time, he provided a new “explanation” for profits which is probably far more effective in its rationalization of that category of income against socialist critics than anything his more traditional colleagues could offer. Indeed, Schumpeter’s insistence that interest and profit in a competitive system can only arise in a dynamic context promptly embroiled him in a celebrated debate with Böhm-Bawerk.¹³

Shortly after the publication of *The Theory of Economic Development*, Schumpeter came to the United States as a visiting professor at Columbia University in 1913. At the end of his one-semester stay, he was awarded an honorary degree; he was only 30 years old! Despite his peripatetic existence and sudden fame, neither his enthusiasm for academic endeavor

nor his performance was in any way diminished. Only two years after publication of *The Theory of Economic Development*, he produced another study: *Economic Doctrine and Method*. This short book is a virtuoso performance, as perceptive as it is learned. Schneider has referred to it as “a masterpiece whose merits basically only an expert can appreciate.” The connoisseur who reads the book’s four essays (particularly the second, on the emergence of the “circular” flow) will immediately recognize another aspect of this study: These are the working papers, the running commentaries on the literature both new and old, of a fine scholar, one who in his prescientific groping for a “vision” as well as in his analytic formulation explicitly relies on his famous ancestors. In the case of *The Theory of Economic Development*, these forebears were the physiocrats and, above all, Marx.¹⁴ Obviously, it could never have been said that Schumpeter perpetrated what Gunnar Myrdal once called “pleasing but unnecessary originality.”

Concerning Schumpeter’s creativity during the years before World War I, Arthur Spiethoff would write 36 years later: “One scarcely knows which is the more amazing, that a man of twenty-five and twenty-seven should shake the very foundations of his chosen science, or that a man of thirty should write the history of that discipline!”¹⁵ Clearly, Schumpeter was speaking of his own intellectual evolution when, time and again, he emphasized (especially in his fascinating biographical essays) that the third decade in a scientist’s life is the “holy decade of fertility.”

The outbreak of World War I apparently did not interfere with Schumpeter’s scholarly existence. According to Haberler, Schumpeter was known in wartime Vienna as pro-Western and anti-German. After 1916 he joined a peace group that rallied around the young Emperor Wilhelm in the hope of negotiating a separate peace treaty with the Allies. But whatever the stresses and strains of war, Schumpeter’s academic output continued undiminished. In 1917 he published an important survey of monetary theories; the paper is characteristically Schumpeterian in its comprehensive treatment of the literature.¹⁶

During 1918, two long essays appeared, “Imperialism” and “Crisis of the Tax State.” In the former, Schumpeter elaborates on his well-known hypothesis that capitalists and capitalist forces *per se* do not generate international tensions and armed conflicts. Instead, according to Schumpeter, feudal and precapitalist elements still extant in industrial economies are the sources of imperialistic aggression and jingoism. Whatever the merits of this argument (and it is obviously a direct challenge to the interpretations of Lenin and Hilferding), Schumpeter’s thesis should be viewed as part of his broader conception that the purely economic forces of capi-

talism are self-equilibrating, and that it is within the political realm, with all its irrationalities and inconsistencies, that one must look for the causes of chaos and breakdown threatening modern society.¹⁷

The second article (also of monographic length) is an account of the taxing power of the state. It is a historic survey (from ancient times to the modern period) that concludes with a most topical issue: the outline of a plan on how an impoverished and much reduced Austria might best solve the financial and economic problems of postwar reconstruction. Schumpeter is convinced that, given its past record, private enterprise left to its own devices is certainly up to the task of achieving postwar recovery. As part of his program to assure a smoothly working *laissez-faire* society, Schumpeter recommends that the postwar inflation be brought under control through a capital levy. This is not the place to examine the political feasibility of implementing these proposals. But whatever their relevance, they express Schumpeter's simple and unswerving faith that capitalism can achieve great feats, if only the entrepreneurial climate and especially monetary stability are assured.¹⁸

Soon after the Armistice, Schumpeter was invited to become a member of the Socialization Commission. It had been organized by the new German Republic to investigate the feasibility of nationalizing industry. The commission, which included Schumpeter's former classmates, Emil Lederer and Rudolf Hilferding, was presided over by Karl Kautsky. When questioned about why he, the protagonist of *laissez-faire*, would want to join a collectivist group of this sort (although other nonsocialists were members), Schumpeter gave his well-known reply: "If somebody wants to commit suicide, it is a good thing if a doctor is present."

Several months later, the first parliament of the new Austrian Republic was elected. The Social Democrats emerged as the largest party and were asked to form the new government under the leadership of Karl Renner, the legal scholar. The Foreign Office was offered to Otto Bauer; he recommended Schumpeter (because of his reputation as a nonpartisan expert) for the post of Minister of Finance. Schumpeter's seven months in office (March to October 1919) were unhappy ones. His position was untenable. Given the chaos in Austria and in neighboring Bavaria and Hungary, no one could have succeeded in implementing the stabilization plan which Schumpeter had outlined in his "Crisis of the Tax State."¹⁹

Furthermore, as the months wore on, Schumpeter became increasingly objectionable to his socialist colleagues in the cabinet because of his stance against nationalization and union with Germany. At the same time, he became even more suspect to Austria's middle class because of his proposal for a capital levy. Even the bureaucracy sabotaged his efforts. Fi-

nally, Schumpeter was considered expendable, and his resignation from the government was hastened by "an affair" that involved the sale to Italian investors of shares of the "Alpine Montan," Austria's largest iron and steel producer. Details of this incident are discussed more fully in Charles A. Gulick's book, *From Habsburg to Hitler*.²⁰ Following his resignation, Schumpeter was subjected to unflattering comments in parliament and the press.²¹ It is not surprising that he was somewhat disappointed with his socialist colleagues. Glimpses of that disappointment can be gleaned from an article Schumpeter published a few years later, contrasting what he thought was the rigid and doctrinaire attitude of the Austrian socialists (and continental socialists generally), with the more open-minded and flexible strategy pursued by the English Laborites.²²

Two years after he resigned his ministerial post, Schumpeter became the president of a small and highly regarded Vienna bank. Once more, the times were against him. The bank failed in 1924, following the stabilization crisis, and even his own assets were involved. According to those who knew, it was years before the debts Schumpeter incurred were paid.

At least two comments may be in order about these episodes in Schumpeter's life. First, his forays into the nonacademic arena stand in marked contrast to the worldly successes of his English counterpart, John Maynard Keynes. As a Treasury official during the two world wars, Keynes made history, and after a false start he accumulated millions as a shrewd and lucky financier throughout the interwar period. Second, during the interwar years, Vienna University could have offered Schumpeter a chair on several occasions. However, his alma mater declined to appoint him, even though Schumpeter by then was clearly one of its most distinguished alumni. "Nemo propheta. . ."²³

By 1925, Schumpeter wanted to return to academic life. He received calls from a university in Japan and from Bonn University. In the end, Schumpeter decided on Bonn. Family tragedy, however, marred Schumpeter's first year on the Rhine. The young woman (twenty years his junior) he had married, shortly before leaving Vienna, died in childbirth. His mother died a few months later. Schumpeter was disconsolate, and work seemed his only solace.²⁴

In Bonn he was to work with great intensity, as if to make up for the years he had lost while pursuing politics and business. He wrote on money and credit, on doctrinal issues, biographical essays, papers on the social stratification of the Weimar Republic, on the state of German economics, on the reform of the economics curriculum in German universities, and on growth and the business cycle. Schumpeter also ventured into journal-

ism, publishing articles on topical questions in the *Deutsche Volkswirt*, edited by his friend, Gustav Stolper.

Above all, Schumpeter made an impact upon Bonn in his role as a teacher.²⁵ He was the first German professor to lecture on the more recent developments in economic theory as propounded in Vienna, Lausanne, and Cambridge. This was, according to Schneider, “an event of great consequence for German economic science.” Students at Bonn were exposed to the new perspectives and new modes of analysis of such celebrities as Léon Walras, Alfred Marshall, Knut Wicksell, and the Austrians. Until that time, most German economists, as adherents of the Historical School, had totally and deliberately ignored them. It was no wonder that during the late 1920s and early 1930s young scholars flocked to Schumpeter’s classes and seminars. Some became his disciples and eventually made their mark on both sides of the Atlantic.

Considering his standing in the profession, Schumpeter’s friends and admirers increasingly felt that he deserved what was then regarded as the most prestigious economics chair in Germany—the professorship at Berlin University.²⁶ Werner Sombart was to retire in 1932, and Schumpeter’s friends did all they could to promote his appointment. The Berlin faculty recommended three candidates to the authorities, with Schumpeter at the head of that list. However, the Social Democrat Minister of Education in Prussia felt that it was time to appoint a socialist to the Berlin chair, and Schumpeter was passed over.

Whatever other personal, academic, or political reasons Schumpeter may have had for leaving the rapidly disintegrating Weimar Republic, this official slight decided the matter. He accepted the standing offer that Harvard University had extended to him upon his visit there in 1931. Schumpeter enjoyed a great reputation in the United States and also in Japan, which he had visited on his return journey from the United States in 1931.

When Schumpeter arrived at Harvard, Frank William Taussig and his family took him into their home as a permanent guest. There he remained until his marriage to Elizabeth Boody in 1937. The marriage was to be a most harmonious one. His new wife, an economist in her own right, became, in time, his counselor and aide. Above all, she was to provide Schumpeter with optimal conditions for his work. According to Haberler, throughout his Harvard period, Schumpeter did nothing but work: seven days a week, twelve months a year. Even on so-called holidays, he never ceased his labors.²⁷

Schumpeter’s attitudes toward the United States were not surprising. On the one hand, he was grateful to his new homeland for the opportunity

to continue his scholarship under the best possible circumstances. On the other, as a European conservative, there was much that he did not care for in the New World, especially in academic life. For example, he thought that undergraduate training was given too much emphasis at the expense of the graduate program. This view was characteristic of his general outlook and, according to Seymour Harris, explains why Schumpeter never exercised the influence in the university at large that his eminence would have warranted. In the university community he was clearly in the minority and generally not too popular.²⁸

He bewailed the low esteem in which American professors were held, compared to their European counterparts. He also decried what he thought were excessive burdens of teaching and administration placed upon the American academic. Yet, despite his criticisms, it is quite obvious that Schumpeter never shirked his duties. Indeed, he was untiring in his efforts as a teacher and advisor to students. During his own lifetime, his teaching activities at Harvard became a legend. It should, of course, be underscored that the climate in which Schumpeter could fulfill his role as a professor was certainly ideal. He was the most stimulating of men, always eager for contact with the young, whatever their points of view. In addition, given Harvard's preeminence in American academic life, a large number of his students were among the most talented the country could offer. Thus, it is not surprising that some of his former charges eventually achieved great distinction both as scholars and as national leaders.²⁹

At Harvard, Schumpeter's scholarly interests ran along established lines. He wrote biographical essays, notable review articles, and interesting commentaries on current economic conditions. Above all, with able assistants, he continued to expand his long-run investigation into the nature of cyclical fluctuations and economic progress. The fruits of his life-long research of more than three decades of devoted labor and reflection were finally published in 1939: *Business Cycles—A Theoretical, Historical and Statistical Analysis of the Capitalist Process*.

As the subtitle indicates, this two-volume work of almost 1,100 pages is a full-scale elaboration by the mature scholar of the skeletal outline which he had originally presented to the world in 1912. This work was reissued and revised in somewhat enlarged form during the mid-1920s. The main theme of *Business Cycles* is the workings of two centuries of capitalist growth within a cyclical framework. Its main findings, as corroborated, according to Schumpeter, by the statistical series, are these: (1) The undulating movements that inhere in capitalist advance are dominated by the interaction of three cycles: the forty-month Kitchin, the seven- to

eight-year Juglar, and the fifty-year Kondratieff; (2) each cycle, especially the Juglar and the Kondratieff, is subject to four phases—prosperity, recession, depression, and recovery—whose respective interactions are responsible for the historic uniqueness of each individual cycle; and (3) each full cycle is characterized by a specific innovation and the working out of its consequences.³⁰

The reception of *Business Cycles* by the economic profession proved disappointing. Viewed against the background of conditions during the 1930s, this is not surprising. The United States (and most of the Western world) was in the throes of the depression; consequently, government economists—and their academic colleagues—were concerned about discovering substitutes for supposedly vanishing investment opportunities. Even more important, they were seeking measures that would increase the number of jobs for the millions of unemployed. Schumpeter's main theme—long-run considerations of economic growth (however crucial we now know they are for practical purposes)—was ignored in favor of all those *ad hoc* policies that promised at least some relief from the most pressing problems of the day.

Most of the reviews in the learned journals were unsympathetic. Some critics accused Schumpeter of having squeezed the facts into a Procrustean bed of his own far-fetched theories. Others maintained that the various hypotheses are not borne out by the evidence. Still others felt that the treatment of international cycles was much too perfunctory, considering the cyclical significance of international factor movements throughout the nineteenth century. Despite its shortcomings, *Business Cycles* remains, I think, an important book. Its lasting value lies not in the theoretical part which at one time students were expected to read, but in those hundreds of pages of *histoire raisonnée* (in that applied analysis of cycle and growth) which convey more effectively than any other study I know a sense of process and evolution—perspectives young economists may still want to acquire as part of their education.

By contrast, *Capitalism, Socialism and Democracy*, which appeared in 1942, was a resounding success from the very beginning. It was Schumpeter's only major venture into *haute vulgarisation*. If it was meant to bring his views before the educated reading public, it certainly achieved its purpose. To judge by the reviews, the tone and thrust of the book struck a most responsive chord among Americans in the midst of war and concern about the future of civilization after the Axis powers had been defeated.

The dominant theme, that the creation and preservation of a propitious business climate—in which innovators can fulfill their strategic role—is

the prerequisite for a dynamic capitalism, was most acceptable to conservative opinion. So was the subsidiary argument that large-scale corporate enterprise, enjoying some degree of monopoly power and somewhat higher than competitive rates of profit, is the key to economic progress. Moreover, readers were fascinated by the Schumpeterian paradox that socialism would eventually triumph because of the success and not the failure of capitalism. As Schumpeter saw it, successful private enterprise would transform innovating activity into a routine procedure which, in turn, would render the entrepreneurial function otiose. Hence the excitement and adventure of capitalist risk taking would lapse into a general *ennui*. Increasingly, the affluent children of capitalist fathers would turn to subverting the system that lays the golden eggs.

There is surely a good portion of autobiographic experience in Schumpeter's portrait of those *bourgeois* scions becoming renegades to their own class—memories of pleasant hours spent in dialogue with dispeptic Viennese coffee house intellectuals and earnest students and instructors in the vicinity of the Harvard Yard. But whatever the peculiarities and limitations of Schumpeter's arguments, if the market is any kind of arbiter, it is worth remembering that, to this day, *Capitalism, Socialism and Democracy* remains a popular standby of countless Social Science courses throughout the Anglo-Saxon world.³¹

The war years must have been among the saddest in Schumpeter's life. He was vehemently opposed to U.S. foreign policy. Apparently, he was especially critical of U.S. policy toward the German and Japanese people, as distinct from their leaders. Although the details of Schumpeter's opinions have never been spelled out, his views were such as to cause a rift between himself and many of his friends and colleagues. According to Toni Stolper, even his oldest friends came to avoid him. The more isolated he became, the more he buried himself in his work, especially in the history of economic thought; that field in particular seemed far removed from the unpleasant realities of current existence.³²

During the later war years and during the immediate postwar era, Schumpeter continued to publish reviews, obituaries, and various essays bearing upon economic problems of the day. Rereading these now, one is struck, perhaps more so than in the publications of any other period in his life, by two Schumpeterian traits: his perception and diligence as an observer of the current economic and political scene in the United States and elsewhere, and the constancy, some would say the inflexibility, of his *Weltanschauung*.³³

Viewing postwar developments, Schumpeter's framework of analysis and policy recommendations are very much those he originally pro-

pounded thirty years before in “Crisis of the Tax State.” “Capitalist methods,” he wrote in 1943, “have proved equal to much more difficult tasks.” Private enterprise, to do its postwar job, must be given its proper “social atmosphere . . . sufficient freedom of action.” Specifically, it must be protected against bureaucrats who would want to perpetuate wartime controls and thus their own power in peacetime.³⁴ Five years later, in 1948, Schumpeter wrote quite explicitly about the personal experiences that had shaped his outlook and his prescriptions:

I have been a close observer of inflations that ran their courses in and after World War I. . . . If I were asked what it is that strikes me about them more than does anything else, my answer would be this:

Those inflations were simple processes. There was nothing mysterious about them or about the remedies. . . . All of them were the results of war finance and could have been stopped within a year or two. But they were not stopped because the people who counted politically did not *want* to stop them.³⁵

Clearly, all his adult life he stood by the established verities and what he thought were universal truths. He also believed in the efficacy of the old medicine, irrespective of its being applied in little Austria in 1918 or in the giant United States in 1945. Neither time nor place seemed to make a difference. In 1949 Schumpeter reviewed for the *Journal of Political Economy* a series of postwar publications written by English economists and bearing upon the English predicament after 1945. One senses Schumpeter’s shock that some of these English colleagues (notably Lionel Robbins and John Jewkes), who throughout the 1930s had resisted the Keynesian lure, had now succumbed to at least a few of the propositions of the “Managed Economy,”³⁶ or what Schumpeter contemptuously referred to as “capitalism in the oxygen tent—kept alive by artificial devices and paralyzed in all those functions that produced the successes of the past.”³⁷

His Presidential Address to the American Economic Association in December 1949, “The March into Socialism,” was also to be Schumpeter’s farewell to the profession. What stands out in that last “sermon” is not only the pessimism of his aristocratic outlook, but also his position, within the discipline, of splendid isolation. He had not nurtured a school of disciples, nor did he belong to any one group. He had never accepted the tenets of collectivism or Keynesianism in any shape or form. Nor, for that matter, did he accept the postulates of those who (naïvely he thought) put their faith in establishing a purely competitive economy.³⁸

But perhaps he relished his detached position, the pose he supposedly

had affected ever since his younger days, part *enfant gâté*, part *enfant terrible*. He died suddenly in February 1950, while putting the final touches on the Presidential Address before publication—very much with his boots on or, to put it more appropriately, pen in hand. Characteristically, he prepared his own epitaph.

Two years after his death, his widow published the unedited manuscript he left behind: *History of Economic Analysis*. It is a *tour de force* of scholarship. The display of erudition is truly unbelievable. How could one man have acquired and then digested so much knowledge? Not only does the *History* offer two thousand years of economics, from Aristotle to Paul Samuelson, but also it ranges most expertly over all the other social sciences, history and *belles lettres* as well. For more than 1,100 pages the prose flows on in a way that one has come to expect from Schumpeter—the fluent style, the vivid analogy, the striking metaphor, the arresting aside. In the *History* Schumpeter's personality and prejudices come to the fore much more so than in any of his books: his love-hate relationship toward English economists,³⁹ especially those who achieved recognition in their own lifetime; his admiration and revulsion for Marx and his *epigoni*; his innate conservative propensities; his general eccentricities; his disdain for middle class values. Last but not least, what comes across is the didactic ability of an enthusiastic teacher, forever young, forever intellectually curious.

He was a giant of modern social science. Indeed, the Moravian plain that over the centuries has already produced so much talent—Johan Amos Comenius, Frantisek Palacký, Thomas G. Masaryk, Gregor Mendl, Sigmund Freud, Ernst Mach, Leopold Janáček, and Gustav Mahler—can be equally proud to have brought forth one of the greatest economists of the twentieth century, Joseph A. Schumpeter.

Notes

1. For an account of Schumpeter's youth, indeed for most of the biographical facts about him, I have relied on that excellent collection of essays, *Schumpeter—Social Scientist*, edited by Seymour E. Harris (Cambridge, Mass.: Harvard University Press, 1951). Within that collection I have found the essay by Gottfried Haberler, "Joseph Alois Schumpeter—1883–1950" (pp. 24–47), and the two contributions by Arthur Smithies, "Memorial: Joseph Alois Schumpeter, 1883–1950" (pp. 11–23) and "Schumpeter and Keynes" (pp. 136–42), particularly useful.
2. For an account of all these impressive accomplishments within the context of class tensions and ethnic rivalries that plagued Vienna at the turn of the century, see the very interesting study by Manfred Diersch, *Em-*

piriokritizismus und Impressionismus—Über Beziehungen Zwischen Philosophie, Asthetik und Literatur im 1900 in Wien (Berlin: Rütten and Loening, 1973).

3. Haberler, "Joseph Alois Schumpeter," p. 26.
4. Ibid. About Böhm-Bawerk, see J. A. Schumpeter's memorial essay, "Eugen von Böhm-Bawerk 1851–1914," in *Ten Great Economists* (New York: Oxford University Press, 1951), pp. 143–90. "And now," writes Schumpeter in the introductory paragraph, "this great master has left us. . . . No words can express what he has been to us, and few if any will have yet resigned ourselves to the realization that from now on there is to be an impenetrable wall separating us from him . . . and that the road ahead will have to be traversed without him."
5. For the expert assessment of Schumpeter's intellectual evolution by Erich Schneider, a Schumpeter student at Bonn University, *Joseph A. Schumpeter—Leben und Werk eines grossen Sozialökonomen* (Tübingen: J. C. B. Mohr, 1970), esp. pp. 10–11.
6. Ibid., pp. 15–21.
7. Haberler, "Joseph Alois Schumpeter," pp. 27–28.
8. Ibid.
9. For a perceptive evaluation of Schumpeter's *Theory of Economic Development* within the context of its own times, see Schneider, *Joseph A. Schumpeter*, pp. 22–33.
10. Ibid.
11. See Eduard Marz, "Zur Genesis der Schumpeterischen Theorie der wirtschaftlichen Entwicklung," in *On Political Economy and Econometrics—Essays in Honour of Oscar Lange* (Oxford: Pergamon Press, 1965), pp. 363–87. It is a most perceptive and thoughtful evaluation of Schumpeter's theory against the prevailing Austrian background, both with respect to intellectual currents as well as with respect to economic developments. As for the concept of the "entrepreneur," Marz makes the point that Schumpeter in this instance assimilated into economics the various elite theories of Mosca, Pareto, Michels, and Le Bon that, at the time, were very much in vogue. März also reminds us that the interaction between banker and entrepreneur was a "vision" that Schumpeter was able to perceive in his own Austrian backyard, as it were.
12. For a competent summary of what Schumpeter's dynamic model is all about, see Richard V. Clemence and Francis S. Doody, *The Schumpeterian System* (Cambridge, Mass.: Addison-Wesley Press, 1950). For a much more detailed account of Schumpeter's vision of capitalist dynamics, see François Perroux, *La Pensée économique de Joseph Schumpeter—les dynamiques du capitalisme* (Geneva: Librairie Droz, 1965).
13. Gottfried Haberler, "Schumpeter's Theory of Interest," in *Schumpeter—Social Scientist*, edited by Harris, pp. 72–78.
14. Schneider, *Joseph A. Schumpeter*, pp. 35–39.
15. Arthur Spiethoff, "Joseph Schumpeter—in Memoriam," *Kyklos* 3 (1949/1950): 291.
16. "Das Sozialprodukt und die Rechenpfennige. Glossen und Beiträge zur Geldtheorie von heute," reprinted in Joseph A. Schumpeter, *Aufsätze zur ökonomischen Theorie*, edited by Erich Schneider and Arthur Spiet-

- hoff (Tübingen: J. C. B. Mohr, 1952), pp. 29–117.
17. For a critique of his views on imperialism, see Paul M. Sweezy, “Schumpeter on Imperialism and Social Classes,” in *Schumpeter—Social Scientist*, edited by Harris, pp. 119–24.
 18. “Die Krise des Steuerstaates,” as reprinted in Schumpeter, *Aufsätze zur Soziologie*, pp. 1–71.
 19. Toni Stolper, *Ein Leben in Brennpunkten unserer Zeit—Wien Berlin New York—Gustav Stolper 1888–1947* (Tübingen: Rainer Wunderlich Verlag, 1960), pp. 141–45.
 20. In two volumes (Berkeley and Los Angeles: University of California Press, 1948), vol. 1, pp. 139–41.
 21. Haberler, “Joseph Alois Schumpeter,” pp. 33–36.
 22. “Der Sozialismus in England und bei uns,” reprinted in J. A. Schumpeter, *Aufsätze zur ökonomischen Theorie*, pp. 511–26.
 23. Haberler, “Joseph Alois Schumpeter,” pp. 35–36.
 24. For this tragedy in his life, see his correspondence with Gustav Stolper in Stolper, *Ein Leben in Brennpunkten*, pp. 192–96.
 25. For Schumpeter’s activities in Bonn, see Schneider, *Joseph A. Schumpeter*, chapters 7 and 8.
 26. Stolper, *Ein Leben in Brennpunkten*, pp. 194–95.
 27. Haberler, “Joseph Alois Schumpeter,” p. 37.
 28. Seymour E. Harris, “Introductory Remarks,” in *Schumpeter—Social Scientist*, edited by Harris, pp. 6–7.
 29. Paul A. Samuelson, “Schumpeter as a Teacher and Economic Theorist,” in *Schumpeter—Social Scientist*, edited by Harris, especially pp. 50–53.
 30. See Clemence and Doody, *The Schumpeterian System*, for a summary of the highlights to be found in *Business Cycles*.
 31. In trying to sketch his own background, the distinguished economic historian Eric J. Hobsbawm refers to *Capitalism, Socialism and Democracy* as a “notable and very central European work.” What makes this book so “central European” is of course its *fin de siècle* attitude. See *Revolutionaries—Contemporary Essays* (New York: Pantheon, 1973), pp. 250–51.
 32. Stolper, *Ein Leben in Brennpunkten*, p. 420; and Haberler, “Joseph Alois Schumpeter,” p. 38.
 33. Harris, in his “Introductory Remarks” to *Schumpeter—Social Scientist*, writes that Schumpeter “had to a substantial degree frozen his system by the World War I period.”
 34. “Capitalism in the Post War World,” reprinted in Richard V. Clemence, *Essays of J. A. Schumpeter* (Cambridge, Mass.: Addison-Wesley Press, 1951), p. 178.
 35. “There Is Still Time to Stop Inflation,” in *ibid.*, p. 237.
 36. “English Economists and the State Managed Economy,” in *ibid.*, pp. 296–307.
 37. “Capitalism in the Post War World,” p. 180.
 38. Note his dig at the members of the Mont Pélerin Society: “I believe that there is a mountain in Switzerland on which congresses of economists have been held which have expressed disapproval of all or most of these things [stabilization policies and government intervention in general].”

But these anathemata have not even provoked attack." "The March into Socialism," *American Economic Review—Papers and Proceedings* 40 (May 1950): 449.

39. According to one distinguished economist, Schumpeter's lack of enthusiasm for the English economic tradition was rooted in his "Austrian" heritage with its emphasis on "Catalactics" (exchange) rather than "real cost." "I may take another example," writes J. R. Hicks, "from that great book of Schumpeter's—his *History of Economic Analysis*. There are countless ways in which Schumpeter deepens one's understanding of what economists—ourselves and our predecessors—have been doing. But it is impossible not to notice that he always judges economists by their contribution to economics in the catalactic sense. It is the great catalactists (Jevons, Walras and Menger, together with their predecessors such as Turgot and Say) who receive particular praise; while others whom most would regard as greater names (such as Smith and Ricardo, Marshall and Pigou), are treated somewhat grudgingly. Why does he write them down? Because they belong to the other party." "The Scope and Status of Welfare Economics," *Oxford Economic Papers* 27 (November 1975): 325, n. 1.