

Opening Doors

The Life and Work of Joseph
Schumpeter
Volume One: Europe

Robert Loring Allen



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Foreword by
Walt W. Rostow

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*Dedicated to
Jeanne Miriam Allen*



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Foreword

W. W. Rostow

Loring Allen's study of Joseph Schumpeter is a distinguished addition to a small set: biographies of major economists. And this is not surprising. The art of biography and professional knowledge of a scientific field are only rarely combined in the same individual. There is even a generalized warning against the effort to make that combination. Sir Peter Medawar has written: "The lives of scientists, considered as Lives, almost always make dull reading. . . . their private lives may be unhappy, strangely mixed up or comic, but not in ways that tell us anything special about the nature or direction of their work."¹

Nevertheless, we have not only David Hume's terse, charming autobiography but also several substantial accounts of his life.² Hume, however, was a figure whose wide-ranging grandeur was widely perceived in his own time and transcends his underrated place in the history of economic thought. There are several accounts of Adam Smith, but none penetrates his prototypical Medawar surface or significantly links his life and his economics except, perhaps, for his dislike of Oxford.³ Again, we know something of Malthus⁴ and Ricardo and their remarkable friendship,⁵ but there are no efforts to explore their personalities deeply.

John Stuart Mill and Karl Marx are a different case. For quite different reasons, they did generate substantial biographical literatures that I shall not attempt to annotate here. Mill's *Autobiography*, with his eccentric education, psychological and intellectual crisis, and intriguing tie to Harriet Taylor, invited intensive exploration, including a small book on Mill and Mrs. Taylor by Friederich von Hayek. Marx's effort to shape history with a theory of

economic and societal dynamics, and his egomaniacal, obsessed private life, have challenged a good many analysts.

Alfred Marshall generated Keynes's superb memorial essay, one of the most successful efforts to illuminate a body of economic thought through an understanding of its creator.⁶ And, as with Mill and Marx, Keynes himself has triggered a biographical cottage industry: notably, the works of R.F. Harrod and Robert Skidelsky. I could, of course, cite many memorial essays, including Schumpeter's *Ten Great Economists*. But essentially, that's about it.

I believe Loring Allen's study of Schumpeter belongs mighty close to the top of this class. In dealing with Schumpeter's life, he exhibits a rare consciousness of the extraordinary complexity and only limited penetrability of the human personality. At each stage of Schumpeter's life, one is reminded of David Hume's youthful dictum:⁷ "What is man but a heap of contradictions."

Loring Allen provides no grand explicit Freudian (or other) theory to "explain" Schumpeter. But, as Schumpeter's closely interwoven personal and professional life unfolds, Allen develops without dogmatism a pattern of linkages for the reader to contemplate. And, in a splendid final passage, he provides a memorable summation of "a multifaceted man of paradox" whose great professional career left him "frustrated and despairing."

Despite Schumpeter's complexity as a personality, however, there is a remarkable shapeliness and consistency in his work as an economist. From first to last, he was an erudite scholar of the history of economic theory who developed into a teacher with an ability to transmit the fascination and excitement he himself found in the field. He believed that it was in one's third decade that a scholar defined the "vision" whose elaboration dominated his or her subsequent professional life. He not only lived by this insight but it suffused with a kind of reverence his relations with the host of talented students whose lives and careers he touched. As for paradox, who else would have challenged a university librarian to a duel because he was not sufficiently liberal in providing books to his students?

In his evaluation of fellow economists, past and contemporary, he exhibited a rare capacity to capture with sympathy their perspectives, even when they differed from his own, and to suppress substantially, not wholly, his often strongly held prejudices. And, in dealing with students, he systematically avoided using his influence to generate disciples. He encouraged the talented young economists who gathered around him to pursue their own visions.

On the other hand, Schumpeter's vision was defined early with singular clarity and pursued relentlessly to the end of his life. His first book, published when he was twenty-five, was *Das Wesen und der Hauptinhalt der*

theoretischen Nationaloekonomie (1908). A study of static economic theory, with Léon Walras at its center, it nevertheless foreshadows the central, obsessive theme in Schumpeter's career: the effort to produce a coherent formal theory to explain the dynamics of capitalism. In *Das Wesen*, he asserted that statics and dynamics are completely different fields, and concluded: "Dynamics, still in its infancy, is a 'Land of the Future'."⁸

By 1909, he was hard at work in that land: He had worked out the substance of *The Theory of Economic Development*, published two years later when he was still within his "sacred decade." And, in the final phase of his career, he was still struggling to find a definitive formulation of his view of the dynamics of capitalism in *Business Cycles* (1939), *Capitalism, Socialism and Democracy* (1942), and *History of Economic Analysis* (1953).

Capitalism, Socialism and Democracy, the most accessible of Schumpeter's books, argued that the social and political conditions generated by the success of capitalism would inevitably lead to the throttling of innovation and a transition to socialism. (Schumpeter would have been amazed at the relative repute of capitalism versus socialism as the 1980s came to a close.)

Business Cycles sought to capture the dynamics of capitalism and its evolution since the end of the eighteenth century by combining his theory of innovation with historical and statistical materials. It remains a respected but ultimately unpersuasive (and largely unread) monument to Schumpeter's quest.

His *History of Economic Analysis* was meant to serve as a prelude to a definitive synthesis of dynamic analysis. The book was incomplete when he died, despite nine years of arduous labor. He never found a way to fulfill his vision, which can be defined as rendering dynamic Walras's static model of general equilibrium by embracing endogenously major structural innovations. As he grew older, Schumpeter expressed regret on some occasions that he had not become an economic historian; on others that he had not learned more mathematics. In an industrious but essentially amateur way, he tried to reach his goal by both routes, and they both failed him.

Why?

Schumpeter's aim was to expound and present in terms of formal theory the process central to the dynamics of modern societies. What distinguishes the world economy since the late eighteenth century is that, for the first time in recorded history, invention and innovation became a flow, not a series of sporadic, widely spaced events. In part, that flow was incremental and, in some sectors, reasonably steady—geared, as Adam Smith perceived, to the widening of the market. But invention and innovation also took the form of major revolutionary events with great creative and destructive power, altering irreversibly the structure of economies and the contours of social and political

life. As they were brought into the world economy, these great innovations also set in motion in many directions phases of increasing returns.

Adam Smith, almost uniquely, made the distinction that lay at the heart of Schumpeter's insight. Both in his *Lectures* and his *Wealth of Nations*, Smith evoked not merely inventions contrived by those who actually operated the machines—a kind of incremental learning by doing—but those created by “philosophers” (scientists) that involved “new powers not formerly applied.”⁹ Looking back from his own time, Smith noted that such major innovations were occasional events. But, in his last decade (the 1780s), in one of the great watersheds of history, the rhythm of innovations incorporating “new powers” radically altered: Watt's steam engine, factory-manufactured cotton textiles, and coke-manufactured iron came on stage as operational innovations in that decade. Over the next two centuries, they were followed (among other innovations) by railroads, cheap steel, electricity, the internal combustion engine, a flow of new chemicals, microelectronics, genetic engineering, lasers, and a widening group of new industrial materials in a sequence of, roughly, four batches.

Down to about 1870, Adam Smith's successors dealt with the revolutionary changes in technology in a straightforward way linked endogenously to the economic process as a whole. Deep in the eighteenth century, David Hume had enunciated the most fundamental linking principle: “Necessity ... is the great spur to industry and invention.”¹⁰ In the troubled wake of the Napoleonic wars, Malthus and Ricardo debated the impact of the new machines on the level of employment, exports, and national income. Influenced by John Rae and Charles Babbage, J.S. Mill dealt not only with the technological revolution of his time but with its roots in science and with ways to strengthen the scientific foundations of a technologically dynamic economy.¹¹ Marx, also greatly influenced by Babbage, derived from Ricardo's judgment that there were cases where the introduction of machinery could reduce the level of employment, one of his central propositions; that is, to contain money wage rates, the entrepreneur introduced machinery to maintain an ample “reserve army of the unemployed.”

The marginal revolution and the seduction of mainstream economics by the possibility of formally defining microequilibrium and general equilibrium via the differential calculus, changed this easy acceptance of ever-expanding technology, creative and disruptive, as an inescapable reality of economic life and analysis. Innovation was pushed aside or down the hall to some eccentric, off-beat member of the economics department. The reason was simple: Increasing returns, with its falling supply as well as demand curves, did not permit the formal definition of equilibrium positions. And Walras's elegant general equilibrium could only be defined with the structure of the economy given and unchanging.

Alfred Marshall, with the best grasp on mathematics of any of the economists of his time, understood the dilemma with a special clarity. He explicitly separated short- and long-period analyses; dramatized in two appendixes the problem posed for formal theory by the pervasive case of increasing returns; refined the techniques of equilibrium microanalysis under short-period assumptions; wrestled manfully but with little success to formalize long-period microanalysis; and fell back on history and institutional analysis to deal with long-period change. It was out of this experience that he concluded:

The theory of stable equilibrium of normal demand and supply helps indeed to give definiteness to our ideas; and in its elementary stages it does not diverge from the actual facts of life, so far as to prevent its giving a fairly trustworthy picture of the chief methods of action of the strongest and most persistent group of economic forces. But when pushed to its more remote and intricate logical consequence, it slips away from the conditions of real life. In fact we are here verging on the high theme of economic progress; and here therefore it is especially needful to remember that economic problems are imperfectly presented when they are treated as problems of statical equilibrium, and not of organic growth. For though the statical treatment alone can give us definiteness and precision of thought, and is therefore a necessary introduction to a more philosophic treatment of society as an organism; it is yet only an introduction.

[I]t is barely even an introduction to the study of the progress and development of industries which show a tendency to increasing return. Its limitations are so constantly overlooked, especially by those who approach it from an abstract point of view, that there is a danger in throwing it into definite form at all.¹²

Marshall's awareness that he could not solve in formal mathematical terms the problem of long-period analysis did not particularly trouble him. He judged economics to be essentially a biological subject rather than an offshoot of neo-Newtonian physics. And, much to Schumpeter's annoyance, Marshall and his followers were ultimately not seeking to develop a pure economic science but to improve the level and quality of life of the poor. Indeed, almost all the British economists in the tradition of Hume and Smith were men who accepted from the beginning that, in the service of policy, economic analysis had to be merged with social and political analysis and with any other insight history and the social sciences could provide. They were, therefore, much less concerned than Schumpeter to elevate economics to scientific parity with neo-Newtonian physics.

In a sense, Schumpeter's romantic effort to produce an elegant, dynamic version of the Walras general-equilibrium model was an impossible, perhaps

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even a misguided, dream. On his great effort in *Business Cycles*, he concluded:

I took longer than I thought to turn that scaffolding [*The Theory of Economic Development*] into a house, to embody the results of my later work, to present the historical and statistical complement, to expand old horizons. Nevertheless I doubt whether the result warrants that simile. The house is certainly not a finished and furnished one—there are too many glaring lacunae and too many unfulfilled desiderata. The restriction to the historical and statistical material of the United States, England, and Germany, though serious, is not the most serious of all the shortcomings. The younger generation of economists should look upon this book merely as something to shoot at and to start from—as a motivated program for further research. Nothing, at any rate, could please me more.¹³

The drifting off of his *History of Economic Analysis* before completion, despite nine years of labor, was probably, in part at least, a consequence of his frustration and sense of failure.

Loring Allen has pointed out to me that if the mathematics of nonlinear dynamics and chaos theory had been available to Schumpeter, his inner gloom might have been lifted to a degree. Indeed, the introduction of a succession of major innovations renders economic growth a profoundly nonlinear process, with passages of (bounded) creative-destructive turbulence that might well yield chaotic outcomes if we had the requisite data. Even without an econometric filling of empty boxes, the emergence of nonlinear dynamics might well have resolved the schizophrenic conflict in Schumpeter's mind between the elegance of Walrasian equilibrium and an awareness that economic life was inherently in perpetual disequilibrium, and convinced him that he was on the right track. For, indeed, he was.

Starting with Walras's concept of general equilibrium under fixed conditions of supply, Schumpeter introduced a broadly-defined concept of major innovations as "The Fundamental Phenomenon of Economic Development."¹⁴ And he did so in language that clearly foreshadows nonlinear dynamics:

Development in our sense is a distinct phenomenon, entirely foreign to what may be observed in the circular flow or in the tendency toward equilibrium. It is spontaneous and discontinuous change in the channels of the flow, disturbance of equilibrium, which forever alters and displaces the equilibrium state previously existing.¹⁵

Here we have a process built into the system—endogenous, not exogenous. It yields irreversible results and is inherently in disequilibrium so long as the process persists. Schumpeter was quite conscious that his

assumption that the major economic changes of the capitalist epoch occurred in an irreversible, revolutionary way rather than by continuous incremental adaptation was theoretically explosive. He referred, for example, to Marshall's failure to overcome "the difficulties which surround the problem of increasing return."¹⁶ But, to the end, he sought courageously to explore the implications of his proposition and to wrap up his findings in a neat theory.

Schumpeter's proposition is, of course, not a complete theory of growth. It deals with only one component of the production function: that is, the role of major technological change in sustaining the increase of production and inducing cyclical fluctuations. His structure lacks, for example, a theory relating birth and death rates to development, including population-related investment in housing, infrastructure, and agriculture. It lumps the opening of a new source of supply for food or raw materials with technological and institutional change without examining its special features, including prior shifts in relative prices and typically longer periods of gestation than industrial investment. It does not deal with the stages of and limits to growth. But, taken on its own terms and in its own time, *The Theory of Economic Development* is a powerful, creative landmark in the history of economic thought. Subsequent mainstream economics is a good deal less than it might have been had its practitioners not acted in accordance with a *bon mot* attributed to Winston Churchill: "Men often stumble over the truth, but most manage to pick themselves up and hurry off as if nothing had happened."¹⁷

There has been, of course, a great deal of further work done on innovation in the Schumpeterian tradition. But, down to the present day, mainstream economic theory has gone to great pains to avoid what might be called the Schumpeter Problem by rendering structural innovations exogenous or by burying them in one kind of highly aggregated black box or another, such as capital-deepening, intermediate production, the capital-output ratio, or the residual. Its practitioners have, in effect, preferred to go on playing equilibrium games with differential calculus rather than face up to the central characteristic of the dynamic economies for which they have pretended to offer analysis and prescription: Economies are always in the process of irreversible change, never in equilibrium. Surely, as Marshall understood, equilibrium analysis had a useful pedagogical role and was helpful in the preliminary phase of examining a serious economic problem. But it could not deal with the complexities of "organic growth."

I believe Schumpeter's sense of failure derived, in part, from his inability to translate his powerful, correct understanding of the significance of innovation into either an elegant mathematical formulation in the style of Walras or a neat historical pattern. But the limitations of equilibrium analysis and the inherent messiness of history were bound to deny him success in the romantic terms he set for himself. And the reader of this book will find other

sources—personal and professional—for the dark undertone of his apparently sprightly life, including a compulsion to be recognized as the greatest economist of his day, an image perhaps imposed by a widowed mother's search for fulfillment through her *wunderkind*; successive failures in politics and business; the traumatic triple tragedy of 1926 that, in Loring Allen's phrase, "imprisoned him for the rest of his life"; recognition (in his view) denied him by publications of John Maynard Keynes and, in the case of his two most important books, by the timing of the First and Second World Wars; and, finally, the defeat of Germany and Japan in the Second World War, countries with which he sympathized for reasons he could not wholly understand.

So far as his professional life is concerned, Schumpeter's knowledge of the history of his craft was unsurpassed and his capacity to stimulate the talented young and to earn their lasting gratitude was remarkable. And if he did not wholly fulfill his youthful vision, neither did David Hume or Adam Smith, Karl Marx or Alfred Marshall. To use a vivid image of F.H. Hahn and R.C.O. Matthews, Schumpeter did not devote his energies to strengthening and polishing the links in the chain that were already relatively strong.¹⁸ What he did was boldly to dramatize the fact that post-1870 mainstream economics, systematically ignoring or evading the innovational process, was Hamlet without the prince. On a grand scale, he not only explored the innovational process but also began the long, hard, still unfinished task of rendering it an endogenous component of dynamic economics, thus linking it to the main body of theory.

Few of his predecessors, contemporaries, or successors could claim to have done more. He certainly deserves this respectful, candid, and sensitive portrait of his life and work.

Notes

- 1 Sir Peter Medawar, *Pluto's Republic* (New York: Oxford University Press, 1982), 263.
- 2 See, for example, Ernest Campbell Mossner, *The Forgotten Hume, Le bon David* (New York: Columbia University Press, 1943) and John Vladimir Price, *The Ironic Hume* (Austin: Texas University Press, 1965). See also William Bell Robertson's introduction to Hume's *Political Discourses* (London: Walter Scott Publishing, 1906).
- 3 See, for example, John Rae, *Life of Adam Smith* (London: MacMillan, 1895).
- 4 See, for example, Patricia James, *Population Malthus, His Life and Times* (London: Routledge & Kegan Paul, 1979).
- 5 See, notably, P. Sraffa and M. Dobb, eds., *Biographical Miscellany*, vol. 10 of *Works and Correspondence of David Ricardo* (Cambridge, England.: at the University Press, 1955).

- 6 J.M. Keynes, "Alfred Marshall: 1842-1824," in A.C. Pigou, ed., *Memorials of Alfred Marshall* (London: MacMillan, 1925).
- 7 David Hume, *Philosophical Works*, eds. T.H. Green and T.H. Grose (London: Longman's Green, 1912) vol. III, p. 238.
- 8 J.A. Schumpeter, *Das Wesen und der Hauptinhalt der theoretischen Nationaloekonomie* (Muenchen and Leipzig, Germany: Duncker and Humblot, 1908), 182-3.
- 9 Adam Smith, *Wealth of Nations*, ed. Edwin Cannan, with an introduction by Max Lerner (New York: Random House, 1937), 9-10.
- 10 David Hume, *Writings on Economics*, edited and with an introduction by Eugene Rotwein (Madison: University of Wisconsin Press, 1955), 17-18.
- 11 J.S. Mill, *Principles of Political Economy*, ed. V.W. Bladen and H.M. Robson (Toronto: University of Toronto Press, 1965), 969.
- 12 Alfred Marshall, *Principles of Economics*, 8th ed. (London: MacMillan, 1930), 461.
- 13 J.A. Schumpeter, *Business Cycles* (New York: McGraw-Hill, 1939), 1:v.
- 14 The quoted designation is the title of chapter 2 of Schumpeter's *The Theory of Economic Development* (Cambridge: Harvard University Press, 1934).
- 15 *Ibid.*, 63.
- 16 *Ibid.*, n.1.
- 17 Alexander B. Trowbridge, *Private Leadership and Public Service* (Washington, D.C.: National Academy of Pubic Administration, 1985), 14-15.
- 18 F.H. Hahn and R.C.O. Matthews, "The Theory of Economic Growth: A Survey," *Economic Journal* 74, no. 296 (December 1964): 890.



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Preface

This study of Joseph Alois Schumpeter originated in the conviction that the life and work of this great social scientist instructs us in the workings of the human mind and the ways of the human soul. It also informs us of how progress in the analysis of society and the economy takes place, and tells the story of a vital, multifaceted man.

Economists and other social scientists have used and neglected the work of their great men. They have rediscovered only now and again some previously ignored contributor. But, aside from anecdotal knowledge, they have ignored the whole man. Almost the only exception to this observation in recent times is John Maynard Keynes, the best-known economist of the twentieth century.

Beginning as a Harvard graduate student in 1947, I was one of many students of Schumpeter. Although I took his courses in advanced economic theory and the history of economic literature, I was never an intimate nor one of his inner circle of students. Over the years, in my work in economic development and history, my appreciation of Schumpeter grew. In a 1980 conversation with my colleague, Joseph McKenna, also a student of Schumpeter, we both lamented the lack of biographies of great economists. This book evolved from that conversation. That summer and the following six summers I studied the Schumpeter papers in the Harvard University Archives.

I owe staggering debts to many of Schumpeter's students and colleagues, as well as those in America, Germany, and Austria who are interested in his life and work. Among the former are Gottfried Haberler, Wassily Leontief, Arthur Smithies (deceased), Edward Mason, Paul Sweezy, Paul Samuelson, Nicholas Georgescu-Roegen, Toni Stolper (deceased), Herbert Furth, Redvers Opie (deceased), Fritz Machlup (deceased), Paul Rosenstein-Rodan (deceased), Herbert Zassenhaus (deceased), Steffy Browne, Eduard Maerz

(deceased), Lucia Krassnigg, Guenther Harkort (deceased), Christa Hasenclever, Hans Singer, Emily Schumpeter, and many others. I must mention especially the many stimulating conversations I have had with Wolfgang Stolper, professor emeritus of the University of Michigan, one of the students closest to Schumpeter and a Schumpeter scholar of the first order. Dr. Alfred Goessl of the German Department of the University of Missouri-St. Louis has aided me immensely with German texts and translations. Many of those named above have read some or all of earlier versions of the manuscript, resulting in its improvement. Ms. Marla Schorr, an experienced writer and editor, formerly of the University of Missouri-St. Louis, did much to improve the readability of the manuscript.

I have visited Schumpeter's birthplace in Czechoslovakia and am most grateful to Methodej Burian, mayor of Trešt, Dr. Karel Brazda, student of the Schumpeter family, and others for their help. I also visited Schumpeter's home in Taconic, Connecticut, his beloved Vienna, as well as Graz and Bonn, and owe much to the helpful people in all those places. Notes, correspondence, manuscripts, and diaries abound in the Harvard University Archives, and archives in Graz and Vienna preserve many documents. Still, the wartime destruction of most of his notes, diaries, and correspondence from childhood and early Vienna days to 1932 leaves a void.

Financial assistance for this study came from many sources. My own Department of Economics at the University of Missouri-St. Louis helped with money and time off. On two occasions I received money from the University of Missouri Weldon Springs Fund for Research. The College of Arts and Sciences and the Center for International Studies also provided some funds, as did the National Endowment for the Humanities.

This book's purpose is not to convince readers of the greatness of Schumpeter or the merits or lack of merit of his scientific or policy views. Rather, it is to tell the story of his life in relation to his work and the development of his ideas. No "Schumpeter school" exists, nor are there Schumpeterians contending with Keynesians and monetarists since none exist. This is as he wanted it, for, as he told his students many times, "Only fish run in schools, not economists." Many economists and social scientists continue to study and use his analysis while others criticize it.

In 1986, students of Schumpeter initiated a scholarly society—the International J. A. Schumpeter Society in Augsburg. Its purpose is to encourage and sponsor continued scientific work along lines suggested by Schumpeter. Wolfgang Stolper of the United States was the first president; Arnold Heertje of the Netherlands is president at present. In the late 1980s and 1990, many scholars have begun to take an interest in Schumpeter's work; the number of books and articles is increasing rapidly. In this work, I have tried to state his position accurately and sympathetically, although not

without criticism. For those who wish to pursue Schumpeter's thinking in more detail and on a more technical level, and to learn of the thinking of those who would promote or denigrate, attack or defend, and comment or elaborate upon his work, the Bibliography is a generous sampling of the critical literature.

ROBERT LORING ALLEN

Nashua, New Hampshire
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The Majesterial and Paradoxical Dr. Schumpeter

What makes the life story of a person worth telling and reading? The doing of great deeds qualifies. So do the wielding of great power, exemplary performance in the arts, the earning of money, fame, and infamy. However, there is another: the thinking and teaching of great thoughts. Joseph Alois Schumpeter—social scientist and economist, thinker, writer, and, above all, teacher—warrants a biography in this category.

One way to classify scholars is to divide them into public and private persons. Some become known to the public because they make discoveries so spectacular that everyone learns of them, or they write books that strike the public's fancy. Some may even write for the public or have a personality that appeals to the public's imagination. Among notable scientists of the past, Albert Einstein and Charles Darwin, and in economics, Adam Smith, have names that nearly everyone knows.

Another group of scientists and scholars becomes known to only a few scholars and specialists. Even then, they are known mainly for their work, often little for their lives. Perhaps most scholars fall into this category of silent scholars.

Yet, much of the progress of science comes from them. They do their work largely hidden from public view, living out their lives quietly and privately. Their work is often more familiar to fellow scholars and students at universities and institutes around the world than to their colleagues down the hall, their neighbors or barbers, or their communities. They write books and

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papers read by only a few yet containing ideas that often end up in textbooks after a generation. Only later, when they are gone, does it become apparent that the life they led and what they achieved justify the attention of those interested in human progress. Schumpeter was of this sort—the economist’s economist. Even more, he was the social scientist’s social scientist.

Schumpeter’s name is hardly a household word. Although most professional economists know of his work, some of the younger ones are a little fuzzy about his time, place, and ideas. Most historians and sociologists know Schumpeter, and college students of recent years may have a vague recollection of having heard his unusual name in an economics, sociology, or history class. His image among those interested in economic, social, and political affairs is not completely lacking. Where his ideas do emerge, however, they are often so oversimplified or even distorted that they are barely recognizable. On occasion, Schumpeter’s name appears in political and economic commentaries in newspapers and magazines. Today, he seems to have his largest popular following among the intellectual neoconservatives who believe Schumpeter to be their precursor and mentor.

Still, in all, Schumpeter’s social science and even more so, his life, are known to only a few, and this book’s purpose is to make him and his ideas better known. In an age when most scientists achieve solid reputations by working endlessly on a single small idea or subject, Schumpeter’s career appears extraordinarily broad and diffuse. Appendix A gives a chronology of his life and work. It shows a summary of notable events, activities, and achievements in his life, as well as selected publications in economic theory, history, sociology, and public affairs in a career spanning forty-four years, spent mainly at four universities: Czernowitz (1909-11), Graz (1911-19), Bonn (1925-32), and Harvard (1932-50), as well as work in business, banking, and government (1919-25). Yet, despite his work in diverse fields, Schumpeter’s efforts possess cohesion and unity, one of the many paradoxes that characterized his career.

Schumpeter made contributions in half a dozen different fields of intellectual endeavor. He began his career by contributing to methodology, and throughout his life he turned again and again to the question of scientific method. He assiduously promoted the use of both mathematics and history as tools in studying economics and social science. He also refused to draw a sharp line between the study of economics, sociology, and politics. All merged into a grand social science, necessary to understand any aspect of man. Still, economics to Schumpeter was a theoretical science, an exact science, and a quantitative science. His written work embraces not only method and theory, but also money, business cycles, economic sociology, economic history, and the history of economics.

Unlike much writing in economics, Schumpeter's books are accessible to careful readers. Some parts of his work may require technical training in economics for easy comprehension, but most are within the grasp of serious readers. He wrote on broad topics—issues of universal concern—not narrow technical matters. Money, markets, entrepreneurs, innovation, economic development and business cycles, socialism and capitalism were among his subjects. His language, reflecting his manner, is majesterial—he wrote in a florid, nineteenth-century style, never economizing on words. His writing is precise, if ornate, and seldom encumbered with mathematics, geometry, or statistics. His words and arguments require close attention, but his writing style and figures of speech, old-fashioned by present standards, take one back to a time when the elegant and elaborate use of English pleased both writers and readers.

All his life, Schumpeter's driving concern was to advance the theory and analysis of the social system, especially the economy. This effort began with his first book, an erudite treatise on static economic theory written in 1908 when he was twenty-five, and ended with his 1954 posthumous book, a mammoth history of economic theory. Four major books and scores of articles occupied him between those dates.

The core of Schumpeter's contribution was his vision of how the economy functions and changes over time. It was the topic of his first book, and it appeared in his *Theory of Economic Development*, published in German in 1911.

He spent much of his professional career in Germany and the United States, elaborating upon work that he had accomplished while still a young man in Austria. Most of his contributions other than his first two books were made before he was thirty-five, and his intellectual development was nearly complete by the time he left Europe and arrived at Harvard in 1932. Despite his strenuous efforts to formulate his development theory rigorously, his Harvard years witnessed primarily revisions, emendations, and elaborations of ideas developed in Europe.

The verdict is still not in on his economic and social theories. He taught the old economics and his own version of new economics that explained changes in the economy as a result of the activities of entrepreneurs and their innovations. He never reconciled himself to the new economics of John Maynard Keynes, who was and remains his chief intellectual rival. So far, the new economics of Keynes has carried the day in classroom and cabinet room, but the contest goes on. Schumpeter's development theory and his theories of the fate of capitalism command respect and increasing attention.

However, Schumpeter's intellectual endeavors comprise only a part of who and what he was. Having failed early in his life in both his political and business ventures, Schumpeter finally found his calling in teaching, spending

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most of his life as a professor and adviser of students. From Bonn and Harvard, where he taught for a quarter of a century, have come graduates who stood or stand in the front ranks of economists. Four hundred Ph.D.s in economics and thousands of undergraduates of Harvard studied economic theory and other subjects under Schumpeter. His students include Nobel laureates, presidents of the American Economic Association and Econometric Society, internationally renowned scholars, distinguished professors from leading universities, central bank presidents, top bankers, and business and political leaders.

The theme of his life was opening doors to inquiring minds and trying to cajole students through those doors in an effort to create the scholars of the future. By the usual standards, he wasn't a good teacher. To most, he seemed unsystematic and disorganized; the average student was unimpressed with his erudition and put off by his German accent and idiosyncrasies. Yet he taught and even inspired those able and willing to work hard to pass through the portals he opened.

His desire to open intellectual doors was not confined just to the classroom. It permeated his writings and speeches and all his relations with students, colleagues, and the public. Instead of writing textbooks, his books treated new topics imaginatively and explored old topics with a fresh approach. Those who read him even today feel they are in the presence of a powerful mind, and those who heard him speak as professor or lecturer came away feeling that they had learned from a master. His baroque style in speech and writing, his frequent and telling metaphors, and his elaborate continental manners set Schumpeter apart, signalling that he was somebody special.

Paradox, failure, disaster, and disappointment were the keynotes of Schumpeter's life and work. He lived a paradoxical life and had a paradoxical career. He thought paradoxical ideas and wrote paradoxical books. Time and time again he failed as a scientist, scholar, politician, businessman, and even as a human being. Midst success he even failed. Yet, paradoxically this career of failures was, in its totality, a success. Although he learned to expect disappointment, even disaster, he still adopted a mask of good cheer, confidence, and omniscience. Behind the mask, he agonized in hidden despair and chronic depression, pouring out his misery and unhappiness into personal notes to himself.

Schumpeter's life had a dark and secret side, rooted in tragedy and mental turmoil. His beautiful, young, second wife and their first-born child died in childbirth in 1926, less than a year after their wedding. His mother, of whom he was inordinately fond, had died suddenly only weeks before. Never recovering from these shocks, he reverently elevated his wife and mother to sainthood in a private religion he invented. He worshipped them and pleaded

for their protection and help on his behalf. From 1926 on, depression and despair became an albatross bending his shoulders, dogging him, and making life miserable. His private religion sustained him, and in the best of moods, his motto was "peace but not joy." All this received no public expression.

Schumpeter's life and work were one. Leading a quiet life, at least after his return to teaching in 1925, he devoted his entire day to thinking and working, reading and writing, teaching and consulting with students and colleagues, and discussing economics and the social sciences. He knew little of practical business and cared nothing for partisan politics. He tolerated only minimal time for sleeping, eating, recreation (a bit of tennis), and social life. His hobbies consisted of studying mathematics and architecture and reading Greek plays in Greek. Until 1935, he travelled much, but later he stuck close to Cambridge, Massachusetts and Taconic, Connecticut (where the country home of his third wife is located). He acquired no money, had no great and powerful friends, and advised no governments or political leaders.

What is to be learned from Schumpeter's life and work? Perhaps his life story is just an interesting account of a vital and complex man. Perhaps it instructs other scholars that great scholars emerge from the crucible of their times, their experiences, their studies, and their thoughts, and that important intellectual contributions primarily spring from youth. Perhaps Schumpeter's story again confirms that, in scholarship, creativity seems to belong to the young and erudition to the mature. Perhaps it teaches that aristocracy is a garb that some few can appear to don and wear comfortably even without blue blood. Perhaps we can learn that even an elitist can sometimes be attractive. Perhaps a man can make scientific contributions despite tragedy, disappointment, pain, and failure. Perhaps the purveyor of paradox is often paradoxical. Perhaps a scholar can be a success in his colleagues' eyes but a failure in his own. Perhaps a man can live a secret life of ritual and religious devotion, void of the reason, rationality, and skepticism that his public posture expresses. Perhaps his life teaches that innocence and profound wisdom, dedication to science as well as romanticism, hard work as well as the appearance of indolence, go hand in hand in some scholars. Or, perhaps we may learn that, in scholarship, greatness must be its own reward, for there is no other.



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2

A Special Heir of Baron Von Schumpeter (1881-1901)

According to family legend, the Schumpeter family originated from before the time of the founding of the Holy Roman Empire of the German Nation in the thirteenth century. At this time, a Baron von Schumpeter was a great German knight fighting with Count Rudolf of Habsburg, who in 1272 became the first Austrian king and emperor of the Holy Roman Empire. The story cannot be verified, but each generation of the Schumpeter family handed it down to the next.¹

Also long ago, so the story goes, there was a sepulchre in a little church in Nuremburg, Germany with the name “Reichsfreiherr von Schumpeter” carved on it. An inquiry of officials in Nuremburg today reveals no record of such a sepulchre, but they indicate that it may be possible since it happened long before records were kept. (Nor does any record exist today of a nobleman named Schumpeter in either Germany or Austria.)²

Tragedy struck this noble Schumpeter family in the thirteenth century. The last Baron von Schumpeter strayed from the path of honor, became a robber knight, and was beheaded in Nuremburg on Count Rudolf's order. As a result, the name Schumpeter was struck from the roll of noble families and the family banished from the royal court forever.

The Schumpeter family survived, but for centuries wandered through Germany and the Czech regions of Bohemia and Moravia. Cast out of the nobility, they became skilled craftsmen and prospered, appearing in Bohemia as glassblowers and later as cloth weavers in the Sudetan mountain region. At

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last, in the sixteenth century, the Schumpeters settled in Moravia near Třešt and remained a leading and patrician family there until three decades after the birth of Josef Alois Schumpeter of Graz, Bonn, and Harvard.³

1

On Saturday, 3 September 1881, Josef Alois Karl Schumpeter wed Johanna Marguerite Gruener in the Catholic church in Iglau, an old mining community in southern Moravia, now the thriving small city of Jihlava in central Czechoslovakia. Just off the main highway between Vienna and Prague, Jihlava lies 100 miles northwest of Vienna and 65 miles southeast of Prague. The young bridegroom that day had demonstrated great promise as a textile manufacturer from the tiny village of Triesch, now called Třešt, just eight miles south of Iglau. The new Frau Schumpeter was the daughter of Dr. Julius G. Gruener, prominent physician and hospital director of Iglau. From that union, eighteen months later, on 8 February 1883, on a cold winter Thursday in Třešt, was born Josef Aloisius Julius Schumpeter.⁴

The child could trace his ancestry for 360 years. The Czech National Archives record the very first Schumpeter thus: “Barbora of Hladov registers her heritage at Piltenburk at the villages of Rasna, Ruzena, Trestice, Markvarek, Vorechov and Radkov to her husband Vaclav Schumpeter of Mildov, July 21st, 1523, before the St. John’s day.”⁵ The place names are in Moravia near the present site of Třešt.

The following summary shows the development of the Schumpeter family from the earliest days for which documentation is available. This is only a skeleton of what appears in the Schumpeter Necrology.

Wenzel (Vaclav) Schumpeter (14??-15??) married Barbora of Hladova in 1523. Children unknown, although one heir was:

Johann Schumpeter (15??-162?), who married Katharina, and their child probably was:

Nikodema Schumpeter (?); whose wife’s name and marriage date are unknown, but their child was:

Johann Schumpeter (1648-1704), who married Marie Pittauer in 1679. Their child was:

Johann Schumpeter (168?-1742), who married Marie Widerlechner in 1704.⁶

The more detailed documentary of the Schumpeter family tree, according to the Schumpeter Necrology, begins with a weaver named Ludwig Schumpeter who was born in 1704, the son of Johann and Marie Schumpeter. He married Marie Francisca Martigni (Martin) in 1737 and they had four children.

Ludwig Schumpeter's youngest son, Franz (Frantisek) Schumpeter, born in 1740, was also a weaver, as well as mayor of Triesch (Třešť) for a period. He and his wife Anna Marie (Weissenbek) had ten children: five girls and five boys.

One son, the seventh, born in 1777, was Josef Schumpeter, great-grandfather of the economist Joseph Schumpeter and a master weaver as well as an iron monger. In 1832, he founded a textile factory, building it in his garden, adjacent to house number 176 in Třešť. At first he used horse power, but later he introduced a machine driven by a steam engine, the first in Třešť. He also later installed finishing and dyeing facilities. He had seven children: four boys and three girls, and left his prosperous business to Alois Jacob Schumpeter, his fifth son, who was born 8 July 1813.⁷

Alois Schumpeter, grandfather of the economist Joseph Schumpeter, took over the textile factory from his father. He became a prosperous textile manufacturer in Třešť, introducing new methods and machinery. As he was patriarch of the Schumpeter family during most of the nineteenth century, he became known by his Czech workers as *Djedouscek*, which means little old grandfather. From 1867 to 1874, he was mayor of his town, as his father had been. He was one of the most important men in the town—an owner of houses, lands, and factories.

He and his wife, Maria Zdarska, the Czech daughter of the owner of a flour mill and shopkeeper in the nearby village of Telč, had twelve children. Within the Schumpeter enterprise, she was the darling of the workers, who were almost exclusively Czech, establishing a free-lunch program in the Schumpeter home. She was also a great benefactress to the poor in Třešť.

Three of the couple's boys died in infancy (One son, born 18 July 1851, was named Joseph Alois Schumpeter, but he died when he was eleven months old). The youngest son of the pair, and the eleventh of their twelve children, was Joseph Alois Karl Schumpeter, born 15 March 1855. Joseph took over ownership and management of the Schumpeter factory in Třešť, working ten or more hours a day to insure its success. He was also the bridegroom that September Saturday in 1881 who fathered Joseph Alois Julius Schumpeter, born 8 February 1883 and the subject of this book.⁸

2

Paradox and tragedy attended the heritage, family, and early life of the newest Schumpeter. More than half the blood coursing through his veins was Czech since both his grandmothers were Czech and other Schumpeter male ancestors had married Czech women.⁹ The Czech people, language, and culture surrounded him, and the new Czech nation arose in his homeland. Still, he did not recognize his Czech heritage, never learned the Czech

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language, and absorbed none of that culture. For Joseph Schumpeter, his name was German, his heritage was German, and he grew up in a German culture. In his heart he was always an Austrian of German descent and a loyal subject of Franz Joseph of Habsburg, the emperor of that amorphous group of central European kingdoms, dukedoms, and principalities that succeeded the Holy Roman Empire in 1806 and became the Austro-Hungarian monarchy in 1866.¹⁰

Johanna Gruener, Josef's mother, believed deeply in the importance and prestige of the Schumpeter and Gruener families.¹¹ Although the Schumpeters were no longer noble, if they ever really were, Johanna, as a proper German matron and a member of the small ruling minority in Třešť, undoubtedly impressed upon her son the idea that his families were as good and as important as the families of the great dukes and barons of Prague and Vienna.

The Gruener family was as important in its own way as the Schumpeter family was in manufacturing. Raised in the bigger town of Iglau, Johanna's father had attended medical school (as had his father) and entered the Austrian imperial army as a doctor shortly after marrying a home town girl, a Czech. Johanna's father's father, Dr. Franz Julius Gruener, worked as the illustrious doctor and director of the Iglau hospital. When Johanna was born, her father was serving the emperor in the armed forces in Wiener Neustadt, an industrial city south of Vienna. But, in 1869, her family returned to Iglau because Grandfather Gruener wanted to retire as director of the hospital he had served for nearly thirty years and turn the job over to his son.

By her manner and bearing, Johanna showed she firmly believed in the natural if not legal nobility of her own and her husband's families. She was a tall, proud, and self-important young woman—not beautiful, but attractive. Learning early that a well-bred lady wore a hat and gloves out-of-doors, she always wore these accessories outside. Knowing that women of society played the piano, she learned how to entertain her husband and son, as well as guests, by playing the piano. And when visitors and customers visited the textile mill, Johanna and Josef Schumpeter entertained them in their large, three-story stone and stucco house, one of the finest homes in Třešť.¹²

Largely because of the position of the Schumpeter family as well as Johanna's influence, the Schumpeters possessed the attitude of the elite. Třešť had no aristocracy, and only a few German families lived there. Yet, they were the dominant class, owning the land, the factories, and the stores. As leaders among the Germans, the Schumpeters stood in as the local notables.

At least part of the Schumpeters' prestige derived from their strong Catholicism, the dominant religion in the Austro-Hungarian monarchy, including its small Moravian town of Třešť.¹³ Frequently, and always at Easter, Johanna with her small son, following the practice of devout

Catholics, trudged the Stations of the Cross to examine at its end the little chapel dated 1766 and the stone with the initials "IGS 1758" (Josef George Schumpeter). In addition to this evidence of the family influence in the church, one of Jozsi's great grandfathers served as bishop of the town of Olmutz (now Olomouc).¹⁴

According to the Jihlava Archives, the entire Gruener family was Catholic and the family had lived in Jihlava for more than a century. Dr. Franz Julius Gruener (1797-1879) married Aloisia Herbst, who was born in 1803, and their son, Dr. Julius G. Gruener (1827-1887) married Julie Vydra (1835-1888), a Czech. The couple had three children, Johanna (the mother of Joseph Schumpeter), born in 1861, Wilhelmine, born in 1865, and a son, Friedrich, born in 1869 and the only Gruener child born in Iglau.

The Gruener family was a prominent Catholic family in the town. Not one of the parents, grandparents, or great-grand parents of the Joseph Schumpeter born in 1883 was Jewish. This evidence puts to rest the rumor that has long circulated and believed by many that Schumpeter was Jewish.¹⁵

While the growing child was learning to be proud of his Catholic heritage, he was also learning the difference between German Christians and Jews. German families like the Schumpeters told their children that the Jewish people came from a far land but have German names because Emperor Joseph II had ordered them to take German names a hundred years earlier.¹⁶ Nevertheless, the Germans did not consider German Jews really Germans, although the Czechs regarded Jews as Germans. Although clearly the Jews were intelligent and good people, occupying professional and business occupations in the town, the Germans of Třešt regarded them as coming from a different race and religion, keeping to themselves, practicing strange customs, and sometimes speaking a language strange to the Germans and different from Czech. Despite their standing in Třešt as merchants and small craftshop owners, the Jews were denied social and political positions of power. Jozsi, as the young Josef was called, and other German boys seldom played with the few Jewish children in town.

But he did sometimes play with Czech children. And, although most of the people in Třešt were Czechs, little Josef learned soon that they were different, too. They were the agricultural and factory workers, and the Schumpeter home, like most German and Jewish homes, had Czech servants. Although Germans and Czechs played and worked together, the latter smarted under what they considered their subordinate position.

The Germans of that part of Moravia believed that the Czechs were becoming more and more difficult. For centuries, the small minority of Germans had controlled the economic, social, cultural, and political life of this part of Moravia. But in the fourth quarter of the nineteenth century the Czechs began demanding equality.¹⁷ They wanted their own language

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accepted, although the Germans believed it was inferior and refused to learn it. They wanted their own schools to be on a par with German schools. They even started a labor union and demanded shorter hours in the Schumpeter factory and others in Třešt.¹⁸

Feeling that the German merchants and factory owners, the employers of many Czechs, were already doing all they could for the workers, the Schumpeter family opposed the unions. Exposed to this atmosphere, the child Jozsi absorbed the sentiments surrounding him.

3

To illustrate Josef Schumpeter's position as a child of the ruling class, Wilhelm Winkler's *Statistisches Handbuch* reported in 1880 that 4,374 people lived in Třešt that year, but that the socially and economically dominant German population, including the Jews, numbered only 370, or 8.5 percent. By 1910, the same source indicated that the total population had increased to 5,113, while the German population had declined to 136, only 2.7 percent. In 1921, after Czechoslovakia became a republic and Triesch became Třešt, the population dropped to 4,923, with only 45 Germans remaining.¹⁹ Today, neither Germans nor Jews inhabit Třešt.

In 1880, Třešt was a poor village located in the scenic highlands on the southern edge of the border between Moravia and Bohemia. Its rolling hills and picturesque valleys included many stands of trees, but agriculture, primarily potatoes and rye, was poor because of the sandy soil and harsh climate. Cold winters earned the area the name of Moravian Siberia.

Although there were many stores, workshops, and several inns in the town, Třešt developed around its two major industries: wood products and textiles. The forests surrounding the town supported match factories, saw mills, a furniture factory, and wood product shops. At first, the Schumpeters owned the only textile business. Later, other new factories flourished, spinning thread and making cloth, draperies, flat goods, and clothing. With this growth in manufacturing, Třešt had become an important industrial center on a small scale by the time of Jozsi's birth.²⁰

Ample visual testimony of the Schumpeters still exists in Třešt today. In 1758, the Stations of the Cross and a stand made of stone on a slope in a valley called Korecník recorded the initials IGS—Johann Georg Schumpeter—as the donor. Still another such monument with a small chapel built in 1766 shows the initials of IGS as donor. The presbyterate of St. Katharina's Church in Třešt was built in 1771 by Johann Schumpeter. The houses lived in by members of the Schumpeter family still stand in Třešt. The Cross on the textile factory in 1815 records the name of Josef Schumpeter,