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## Was Schumpeter Right After All?

Robert Heilbroner

**T**he purpose of economic inquiry is often described as an effort to explain—I will not use the treacherous word “predict”—the course of events by discovering regularities beneath the seemingly haphazard occurrences of economic life. Adam Smith searched for an invisible hand that bestowed self-regulation and growth on the market process; Marx sought laws of motion that would bring capitalism to its foreseeable fate; many contemporary economists discover rational utility maximization behind a vast array of activities. However different these order-bestowing forces, however diverse the scenarios to which they lead, all of them represent the analytical work that presumably sets economics apart from other ways of describing social life.

This raises the question, of course, of what we mean by analysis—the basic issue to which this paper is addressed. Joseph Schumpeter becomes a central figure in the inquiry because he addressed himself to the question more directly than any of the major scenarists, answering it in a way that will make the meaning of my cryptic title clearer as we progress. For Schumpeter not only devoted the opening chapters of his magisterial *History of Economic Analysis* (1954) to an exploration of the scope of economic analysis, but he advanced a view of the analytic task very different from the axiomatic approach characteristic of so much analysis today. As he specifically defined it, economic analysis required “a command of techniques that we class under three heads: history, statistics, and ‘theory’” (p. 12).

This is a far cry from modern-day “choice theoretics.” Nevertheless, however much his conception of analysis may differ from today’s, there is no doubt that systematic investigation along “scientific” lines constituted a major purpose of Schumpeter’s lifelong work. By combining historically guided

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generalizations, statistically tested empirical data, and theoretically defensible models into “schemata”—a favorite term—Schumpeter hoped to reveal law-like processes at work within capitalist society. This was already a central purpose of *The Theory of Economic Development*, published in 1911, and was even more directly emphasized in *Business Cycles*, which appeared more than 25 years later. The analytic task was brought to a climax in *Capitalism, Socialism, and Democracy* (1947). It was this book that was the subject of an essay I wrote twelve years ago, entitled “Was Schumpeter Right?” (Heilbroner, 1981). My essay began with the bold words: “No. I do not think he was.” Anyone familiar with Schumpeter will recognize the source and style of my response. “Can capitalism survive?” Schumpeter (1947, p. 61) asks early on. He answers: “No. I do not think it can.”

Now, over a decade later, I wish to reconsider the question of whether Schumpeter was right, from a somewhat different point of view. The changed perspective will not lead me to take back my first answer, but will replace it with another: “Right about what?” My reconsidered appraisal arises from an increasing interest in the purpose, rather than in the success of economic inquiry (Heilbroner, 1990), in which Schumpeter’s view of the nature of analysis will play a central role.

## The Ubiquity of Ideology

It is best to allow Schumpeter (1954, pp. 561–62) to set the stage. “In every scientific venture,” he writes, “the thing that comes first is Vision. That is to say, before embarking upon analytic work of any kind we must first single out the set of phenomena we wish to investigate, and acquire ‘intuitively’ a preliminary notion of how they hang together or, in other words, of what appear from our standpoint to be their fundamental properties.”

This is a bold—and, one might add, a typically Schumpeterian—statement. For the acknowledged prior necessity for Vision raises a fundamental challenge to analysis as the sovereign task of economic inquiry. Unavoidably, the explicit recognition accorded to Vision brings in its train an acknowledgement of the role played by subjective elements—differing preferences, values, or simply cognitive abilities that may profoundly affect the “facts” to which we apply our analytical skills. To the extent that these subjective matters then enter the foundation on which analysis stands, we introduce elements whose influence must of necessity interfere with the “scientificity” of our analytic ambitions, and whose buried presence can never be lost to sight with regard to any conclusions to which our analytic work may lead.

When I said above that this was a typically Schumpeterian approach, I had in mind two things. One was Schumpeter’s delight in contentious argument for its own sake. Just as he liked to tweak the noses of his political readers, radical or conservative, so he enjoyed taking stands at variance with those of his

academic readers. Robert Loring Allen emphasizes Schumpeter's reluctance to engage in direct controversy (1991, Vol. I, pp. 311–12), but this did not inhibit him from expressing contrarian views in print, such as the appreciation of Marx or the skepticism with respect to Keynesian views that are prominent themes in *Capitalism, Socialism and Democracy* (Pt. I; Ch. X).

The second reason is more to our point. Schumpeter's work is marked throughout by a curious admixture of pontifical, even arrogant self-assurance, and an unusual willingness to admit uncertainty and doubt. There is no better example of the first than the tone of his famous question-and-answer about capitalism that I have already cited, followed within a hundred pages by: "Can socialism work? Of course it can" (1947, p. 167). And there is no better example of the second than the reflections that follow his initial pronouncement that a Vision must precede analysis (1954, p. 42):

Analytical effort [he writes] starts when we have conceived our vision of the set of phenomena that caught our interest, no matter whether this set lies in virgin soil or in land that had been cultivated before . . . . Now it should be perfectly clear that there is a wide gate for ideology to enter into this process. In fact, it enters on the very ground floor, into the preanalytic cognitive act of which we have been speaking. Analytic work begins with material provided by our vision of things, and this vision is ideological almost by definition. It embodies the picture of things as we see them, and wherever there is any possible motive for wishing to see them in a given rather than another light, the way in which we see things can hardly be distinguished from the way in which we wish to see them.

Having admitted the power of ideology, Schumpeter now tries to contain it. He suggests that there are protective counter-forces that will limit, if not entirely eliminate, its dangers. The principal protective element is the methodological procedures that guide our analytical work. "Our only comfort," he tells us, "is in the fact that there is a large number of phenomena that fail to affect our emotions one way or the other, and that therefore look to one man very much as they do to another. He continues (p. 43):

But we also observe that the rules of procedure that we apply in our analytic work are almost as much exempt from ideological influence as vision is subject to it . . . . In themselves these rules, many of which, moreover, are imposed upon us by the scientific practice in fields that are little or not at all affected by ideology, are pretty effective in showing up misuse. And, what is equally important, they tend to crush out ideologically conditioned error from the visions from which we start . . . . The new facts [the researcher] is bound to accumulate impose themselves upon his schema. The new concepts and relations, which someone else will formulate if he does not, must verify his ideologies or else destroy them. And if



this process is allowed to work itself out completely, it will indeed not protect us from the emergence of new ideologies, but it will clear in the end the existing ones from error.

What Schumpeter here introduces is the hope that something like an autoimmune process will rid analytical work of the dangerous effects of unchecked ideological infection. The suggested remedy, I fear, is not as effective as Schumpeter hopes. For what are the “rules” that will play this all-important role? Schumpeter does not spell them out. The text ends shortly after this passage—or rather, as we know from remarks of the editor (p. 43), it continues in untyped pages found among his papers intended for this part of the *History*, and now appended to the chapter. The pages—three lengthy paragraphs in fine type—deserve to be read carefully, bearing in mind that the majestic editorial “we” refers to conclusions that will follow in later parts of the text (1954, pp. 43–44):

While it is hoped that the foregoing treatment of the ideology problem will help the reader understand the situation within which we have to work, and put him on guard without imbuing him with a sterile pessimism concerning the ‘objective validity’ of our methods and results, it must be admitted that our answer to the problem, consisting as it does of a set of rules by which to locate, diagnose, and eliminate ideological delusion, cannot be made as simple and definite as can the usual glib assertion that the history of scientific economics is or is not a history of ideologies. We have had to make large concessions to the former view, concessions that challenge the scientific character of all those comprehensive philosophies of economic life . . . which are, to many of us, the most interesting and most glamorous of the creations of economic thought. Worse than this, we have had to recognize, on the one hand, that although there exists a mechanism that tends to crush out ideologies automatically, this may be a time-consuming process that meets with many resistances and, on the other hand, that we are never safe from the current intrusion of new ideologies to take the place of vanishing older ones.

This disarming admission is now followed by a promise to discuss four examples of such anti-ideological safeguards. Unfortunately Schumpeter does not proceed beyond the first, which tells us how the concept of the marginal rate of substitution has displaced the older, presumably more value-laden idea of marginal utility. Thereafter the unfinished chapter returns (via a parenthesized insert added by the editor) to the commencement of the section on ideology, bringing us full circle to material we have already covered. Thus, if Schumpeter confronts the problem of Vision more directly than any previous economist, including Marx, it cannot be said that he effectively removes its threat with respect to the objectivity of analysis.

## Defensive Measures

Where does this leave us? Two courses of action seem open: first, to find a defense for the process of analysis that may have escaped Schumpeter's notice; second, to reconsider the problem of Vision itself, including the possible legitimacy of its seemingly inescapable encroachment on analysis.

I shall choose the second course, but that requires, as a precondition, that I address the first. Schumpeter places a faith in the cleansing consequences of scientific procedures that would not, I think, be taken as seriously in our day as they may have been taken in his. Both the confidence in the infallibility of proper "method" and in the unambiguous status of "knowledge" have undergone serious declines since Schumpeter's day. Verification has given way to Popperian falsification—to which, surprisingly, I can find no reference in the *History*—and falsification is already an admission that the certainties implied by verification are not available. Moreover the approach of falsification has itself proved to be less a reliable guide for theorizing than appeared to be the case when Karl Popper first proposed it in Vienna in 1934 (Popper, 1965). A Lakatosian effort to rescue "naive" falsificationism with a "sophisticated" version leaves us with the necessity of recognizing that falsified theories are not disposed of, once and for all, but only consigned to the shelves, whence they may yet be rescued by future investigations (Lakatos, 1970).

All this greatly weakens a Schumpeterian faith in the efficacy of statistics or theory in separating the wheat from the chaff. Since then, more daring investigators, such as Paul Feyerabend (1975), have taken the position that "anything goes" in the methodology of science, and by extension in social science. I do not wish to convey the impression that the economics profession has abandoned any hope of insulating analysis from the contamination of ideology. It is rather that the trend in such discussions is increasingly towards an agnostic, perhaps defensive position with regard to the possibility of shielding analytic work from subjective valuations, or of presenting a "value-free" identification of knowledge itself (Rorty, 1979; Redman, 1991; McCloskey, 1985).

Moreover, the nearly 40 years since the publication of *History of Economic Analysis* provide ample reason to appreciate Schumpeter's warnings with respect to the tenacity of old ideologies and the never-ending supply of new ones. The extraordinary persistence of the rational, maximizing choice theoretic approach as the analytic basis for economic reasoning, despite powerful—not to say devastating—attacks on it, suggests that the ideological element will prove every bit as difficult to weed out as Schumpeter feared. Interestingly enough, the ideological aspect of this conventional starting point for analysis does not lie in the admittedly problematic terms "rational" or "maximizing" or even "utility." It lies rather in "the individual" who is taken to be the irreducible unit of action and decision-making to which these terms apply. For what is the crucial act of economic choice that this individual now performs in

the thousands of textbooks in which he (or nowadays, also she) appears as the embodiment of economic theory? It is the disposition of income among commodities in such a way as to maximize the net utility that each will yield. And what is the manifestly ideological element in this act? It is the sudden appearance of an “income” in a situation that has presumably been reduced to the irreducible unit of a single actor. Does this not show that the irreducible “unit” of society must be at the least a dyad—and by logical extension, “society” itself?<sup>1</sup>

It is not difficult to discover ideological colorations in such matters as the rationalization of income distribution, the presumption of justice or injustice with respect to business or government, and similar questions.<sup>2</sup> More interesting, because less obviously “political,” are the value-laden aspects of even such presumably neutral analyses as the categorization of economic activity. For example, all public expenditure, including infrastructure, is treated as “consumption” in the national income accounts—a decision fraught with political consequences of many kinds, not least in the calculation of the national savings rate. Similarly, all consumption is regarded as a passive element in the national product, and all investment as growth-promoting, overlooking the widely recognized role of education and even health expenditures in augmenting national product, and passing over the fact that misdirected investment may diminish it. In like fashion, depreciation is included in the calculation of gross national product, but not the depletion of natural resources; imputed property income is counted, but not imputed labor income, such as household work. Such well-known omissions and inclusions are not necessarily ideological in the sense of being class-biased, but they clearly introduce interpretative elements, perhaps of significant extent and consequence, into calculations that undergird policy decisions. To acquiesce knowingly and without demur in such a potentially significant misrepresentation of institutional realities is hardly the approach required for value-free economic analysis.

## The Legitimacy of Ideology

I conclude, therefore, that Schumpeter’s audacity in giving prominence and importance to ideology must be seen, from his point of view, as a dangerous concession, insofar as there seem to be no means of protecting analysis against ideological contamination. This then leaves us with the second course of action to which I referred above—namely, to find a legitimacy for these subjective intrusions. This is a course that Schumpeter would have resisted, although, as we shall see, his own analytical work relies heavily on the

<sup>1</sup>For other examples of attacks on the neoclassical choice-theoretic approach see Amartya Sen (1977), Robert H. Frank (1988), and Amitai Etzioni (1988).

<sup>2</sup>For a gallery of examples see Heilbroner (1988, pp. 186–89, Ch. 8).



presence of just such preconceptions. Nonetheless, I believe the case for the valorization of vision is a strong one—indeed, I would go so far as to say that it is unavoidable.

The legitimacy is easily established if we remain within the gestalt-like terms of Schumpeter's initial description of making conceptual sense out of raw data. Society could not exist without the conceptualizations by which we "see" and "understand" its structure; and whereas this does not impart any special status to the interpretations that we put upon things, it bestows on the value-laden act of vision the legitimacy of necessity if we are to get on with any kind of analysis at all.

The question becomes more complex when we move to another level of concept formation, such as we have just seen in the seemingly neutral definitions of gross product. Here our conceptual processes move closer to openly "ideological"—that is, socially or politically oriented—interpretations of reality. Once again a first line of defense is available in the sheer necessity of performing categorial cuts on social reality; but the experience of the stubborn persistence of inappropriate, or even internally inconsistent categorizations—one thinks of the wage fund that long served as a bulwark against unionization—makes us wary of assuming that analysis will, in and of itself, quickly replace dysfunctional categorizations with more appropriate ones. I do not anticipate an instant redesign of the GDP straitjacket.

At this point, a defense of the legitimacy of vision, including its stubborn ideological aspect, requires a different approach. It must start from a recognition of the unexpungeably political character of economic analysis itself. This means no more—and also, no less—than that analytic outcomes must be compatible with the broad requirements of the social order. In the case of all Western economies, those requirements focus on the reproduction of the privileges, duties, socialized roles and perceptions of that ill-defined, but recognizable enough "system" we call capitalism. Analysis that ignores this ideological imperative is doomed to inconsequence: a plausible blueprint for full employment and zero inflation to be gained by the pulverization of large corporations would not be considered "serious" economics. Sismondi offers a stinging commentary on such politically blind analysis in a commentary on Ricardo's statement that the population of a country is of no consequence, "[p]rovided that its 'net real income, its rent or taxes be the same.'" Sismondi (1819 [1991], p. 563, see footnote) replies: "Indeed? Wealth is everything, men are absolutely nothing? . . . In truth then, there is nothing more to wish for than that the king, remaining alone on the island, by constantly turning a crank, might produce, through automata, all the output of England."

Thus vision and ideology establish the framework within analysis must take place. This is, however, not yet an end to the matter. For the visionary field can itself be constructed in many ways, as we know from the history of economic thought. These constructions include, for example, the hopeful interpretation of history that underlies Marx's analysis of the self-destruction of capitalism and



the ultimate triumph of the proletariat; the essentially stable class system envisaged by Mill or Marshall, within which the competitive mechanism would exert its meliorative tendencies; the conservative readings of “human nature” that lay behind Smith’s outspoken belief in “distinctions of rank” as a precondition for a workable socioeconomic order.

Here is where ideology enters Schumpeterian analysis at a subterranean level. Schumpeter’s buoyant projections of capitalism arise from his explicit belief in the “supernormal quality” (1947, p. 204, see also p. 204, footnote 3) of the bourgeoisie. Ironically, this is also the source of his optimistic expectations with respect to socialism which would not fail to make good use of the possessors of these qualities in running a socialist economy. Thus, running through the long analytic examination of capitalism that absorbed so much of Schumpeter’s energies—the Ariadne’s thread that winds through *The Theory of Economic Development, Business Cycles, and Capitalism, Socialism, and Democracy*—is a visionary, or if we wish, an ideological, presupposition as to the centrality of leadership elites (März, 1991; Hoselitz, 1955 [1961]; Heilbroner, 1988, Ch. 7). This is the bedrock on which is founded his powerful—if, to my mind, unconvincing—analysis of the rise and fall of capitalism, as well as the presumed continuation of socialism. It is a principal, but not the only reason that my earlier essay, “Was Schumpeter Right?” began with, “No. I do not think he was.”

All such visions of the necessity for, and degree of sub- and superordination—Smith’s as well as Schumpeter’s, Mill’s as well as Marx’s—embody ideological views that seem to controvert the presumably value-free analytical task of economics. There is no doubt that these views generally lend support to a given structure of social privilege, or in revolutionary situations, to some alternative conception of the political structure of life. But they also serve a deeper purpose: with all their ideological content, and often because of it, visions establish both the historic placement of existing society, and the imaginable possibilities for its successor. These have long been the grand objects of economic inquiry. Hence, if “analytic effort is of necessity preceded by a preanalytic cognitive act”, as Schumpeter wrote (1954, p. 41), then vision and ideology are the preconditions for economic analysis itself.

## A Contentious Conclusion

There remains only a final word, quickly said. To the question “Was Schumpeter Right?”, I now give two answers. Was he right in his analysis of the prospects for capitalism? No, I still do not think he was. But was he right in his approach to the question of economic inquiry itself, an approach that recognized the presence of Vision as the precursor to Analysis? Yes, there I believe that he was not only right, but even more right than he himself realized. I differ from Schumpeter only in an inability to offer the ideal of a social analysis rid of all ideological elements, as either a feasible or a desirable goal. What

Schumpeter could not bring himself to assert was that political and social construals of our historical situation, however analytically vulnerable, are also psychologically indispensable.

If that conclusion be granted, it holds uncomfortable implications for the state of much economic analysis in our time. Here, too, a vision underlies and precedes analysis; but if my reading of today's high theory is correct, that vision is a singularly narrow one. The world has become compressed to the dimensions of a "model" of a curious kind. It is not a model along the lines of the worldly philosophers, who sought, perhaps in naive confidence, to reduce the socioeconomic and political complexity of society to the manageable compass of a few variables. It is a model concerned only with the formal property of variables whose relation to the historical process has become a matter of no importance. Schumpeter's vision, like those of his illustrious predecessors, may already be consigned to the museum of imaginary futures. That is, however, a museum we regularly visit, from whose exhibits we find much to learn. I very much fear that the exhibit for today's High Theory may be a king sitting on an island and turning a crank.

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