

Schumpeter's General Theory of Social Evolution: The Early Version

Paper for the Conference on
Neo-Schumpeterian Economics: An Agenda for the 21st Century,
Trest, Czech Republic, 27-29 June 2006
Version: 27/02/2006 04:40

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The recent neo-Schumpeterian and evolutionary economics appears to cover a much smaller range of topics than Joseph Schumpeter confronted. Thus, it has hardly been recognised that Schumpeter wanted to develop a general theory that served the analysis of evolution in any sector of social life as well as the analysis of the evolution of social life as a whole. This paper demonstrates this ambition by studying his first two books (from 1908 and 1912, partly available in recent English translations). Schumpeter's starting point was the Walrasian System, which he generalised for the study of any sector of social life. Schumpeter's elitist Vision of all types of social change drove this generalisation, but it is his emphasis on moving from Vision to Analysis that gives current value to his early work.

Introduction

Although the last quarter of the twentieth century experienced an upsurge in neo-Schumpeterian and evolutionary economics, the links to the work of Joseph Schumpeter appear to have been rather weak. This lack of continuity between the old and the new evolutionary economics was pointed out by, for instance, Rosenberg (1986), Hodgson (1993), and Andersen (1994), but Fagerberg (2003, 125) has tried to demonstrate that there actually is ‘a well-defined common core’ (see also Andersen, 2004). This core is the thinking in terms of routine behaviour and the innovative overcoming of this behaviour at the levels of individuals, organisations, economic systems, and broader socio-economic systems. This form of thinking transcends standard modes of economic modelling, and it unites Schumpeter and recent researchers, indeed. A remaining question, however, is the scale and scope of the research programme that emerges from the common core. In this respect, it still seems true that ‘many of Schumpeter’s contributions to economic and social thought remain neglected—even by people who would not shrink from the label “Neo-Schumpeterians”’ (Rosenberg, 1986, 198). Thus, most of us still consider it paradoxical that Schumpeter (1939, 97) in *Business Cycles* emphasised that ‘the theory here expounded is but a special case, adapted to the economic sphere, of a much larger theory which applies to changes in all spheres of social life, science and art included.’ It appears even more paradoxical that Schumpeter (1944) when looking back on his research efforts declared that they had ‘varied but always stayed on the same plane—that of evolving a comprehensive sociology with a single aim.’ By ‘sociology’, he obviously did not refer to the activity of professional sociologists but to a theory applicable to social life as a whole as well as to its individual spheres or sectors (including the economic sector). The ‘single aim’ was to analyse the process of social evolution (including economic evolution). Starting from his Vision of the ever-changing social life, he wanted to develop a general theory of social evolution, and the broad scope of his Analysis reflected that ambition.

Schumpeter’s began with the analysis of the evolution of the system of economic routines, but he quickly came to recognise this evolution is not only propelled by the activities of innovative entrepreneurs within the economic sector but also by the leadership-induced evolution of the political sector and other sectors of social life. Therefore, he wanted a general theory that could account for the both economic and other kinds of social evolution. We find many results of the application of his general theory in *Capitalism, Socialism and Democracy* (= *Capitalism*), but Schumpeter did not describe his general theory itself in that book. If we want to find a

systematic exposition of that theory, we have to turn to his early works: *Wesen und Hauptinhalt der theoretischen Nationalökonomie* (= *Wesen*) and *Theorie der wirtschaftlichen Entwicklung* (= *Entwicklung*). This turn, however, is not easy since Schumpeter quickly became dissatisfied with the form and some of the contents of those works. Therefore, he actively opposed the reprinting and translation of *Wesen*, and he omitted the account for his general theory of social evolution from subsequent editions of *Entwicklung* and from its translation in *The Theory of Economic Development* (= *Development*). On this background, it is hardly surprising that we largely have failed to pinpoint the main ambition underlying Schumpeter's work. The consequence, however, is that this work appears to be more paradoxical than it really is. One solution to this problem is to reconstruct his general theory of social evolution from his early work, some of which has recently been translated into English language. This reconstruction has to include those early parts of Schumpeter's work that he later would like to have changed. Nevertheless, the reconstruction might function as the starting point for a more comprehensive 'dialogue' between Schumpeter and modern researchers.

As emphasised by the title of the memorial volume that came out shortly after his death—*Schumpeter, Social Scientist* (Harris, 1951)—the broad scope of his work has always been obvious. Nevertheless, it has only gradually emerged as a major research issue that Schumpeter sought to grasp and analyse the core of capitalist society through a combination of social science disciplines similar to Max Weber's *Sozialökonomik*, the Social Economics (Swedberg, 1991, 2). This issue is at the very core of Shionoya's (1997; 2005) ambitious treatment of Schumpeter's work seen as a whole. In his book on *Schumpeter and the Idea of Social Science*, Shionoya tried to demonstrate that Schumpeter's ambition was to create an even broader and, actually, 'universal social science' based on an instrumentalist methodology:

In Schumpeter's system, statics, dynamics, and economic sociology are coherent, though they are concerned with different problems and methods. The recognition that each area of social life is interrelated through actions and reactions presupposes that there is a consistent relationship among the knowledge of each area. In the view of science based on instrumentalism, theory is not a description of the real world but a convenient tool for understanding reality. While the criterion for a successful instrument is usefulness, coherence theory must hold for the network of knowledge. ... It can be argued that Schumpeter's synthesis presented a network of useful knowledge organized by the criterion of coherence. (Shionoya, 1997, 310)

It might be argued that the conception of 'Schumpeter after Shionoya' is different than before (to quote from the title of Moura, 2002). However, since most economists and other social scientists are only indirectly

interested in methodology and since the concept of a ‘universal social science’ might easily be seen as a straightjacket, there is a need of complementary ways of approaching Schumpeter’s combination of different social sciences. The approach of the present paper is to reconstruct the emergence and structure of the early version of Schumpeter’s general theory of social evolution. From the perspective of this general theory, Schumpeter’s interest in *Sozialökonomik* and a ‘universal social science’ was not a goal in itself but a necessary means for theoretical development and application.

Starting with the Walrasian System

Before the First World War, Schumpeter obtained his a very original understanding of equilibrated and evolving systems in the economic sector and in other social sectors, and this understanding would influence him for the rest of his life. Actually, his whole research programme can hardly be understood unless we study how he developed it in a critical confrontation with Neoclassical Economics as presented by Léon Walras. This confrontation not only led to Schumpeter’s programme of augmenting the science of economics and other social sciences by means of evolutionary theorising. It also led to Schumpeter’s troublesome relationship to Walras that made some observers to characterise him as a Walrasian economist while others have seen him as an anti-Walrasian or as an economist whose research programme was seriously hampered by an unwarranted attempt to link with the Walrasian legacy. For instance, Morishima and Catephores (1988, 42) represented the idea of the Walrasian Schumpeter: while it is ‘generally believed that Schumpeter’s hallmarks were the terms “entrepreneurs,” “innovation,” and “new productive combination”, the concepts and the underlying ideas is actually ‘a direct extension of Walrasian concerns.’ Schumpeter has also been presented as a ‘Walrasian Austrian’ (Schefold, 1986), while Freeman (1990, 28) suggested that Schumpeter was a non-Walrasian but bound to Walrasian tools of analysis: ‘it was Schumpeter’s misfortune that he attempted to marry it [the Walrasian equilibrium theory] with his own theory of dynamic destabilizing entrepreneurship’.

These different interpretations of Schumpeter’s work have their foundation in his own words. Thus he, in the well known preface to the Japanese edition of *Development*, stated that

when in my beginnings I studied the Walrasian conception and the Walrasian technique (I wish to emphasize that as an economist I owe more to it than to any other influence), I discovered not only that it is rigorously static in character ... but also that it is applicable only to a stationary process. ... If it changes at all, it does so under the influence of events which are external to

itself. (Schumpeter, 1937, 165–6)

Schumpeter ‘felt very strongly that this was wrong, and that there was a source of energy within the economic system which would of itself disrupt any equilibrium that might be attained.’ Many others have had the same feeling, and they normally have reacted by dismissing the Walrasian approach as useless for implementing their vision. Schumpeter reacted in a very different way in *Wesen* (see Box 1). He considered the Walrasian System as reflecting an economic process from which had been removed his ‘source of energy’. In making this interpretation, he got help from the work of John B. Clark. When Clark, at the end of the nineteenth century, considered his own contribution to Neoclassical Economics, it became clear to him that had analysed a stylised and stationary economy in order to determine the distribution of income by means of the marginal contribution to production of the different types of agent. He was, however, aware that his elegant analysis did not provide an explanation for the major determinants of income distribution in the real world. Furthermore, Neoclassical Economics was becoming less productive as it moved into modelling detail. In the perspective of research for the coming century, he argued that it was high time to move to ‘the science of Social Economic Dynamics’ (Clark, 1898, 14). Schumpeter fully accepted the need for moving forward to Economic Dynamics, but he also appreciated Clark’s conviction that this move should start from the well-established area of ‘Economic Statics’. However, neither the Clarkian Statics nor his sketchy Dynamics were suitable for Schumpeter. Instead, he chose Walras’s comprehensive model as his point of departure.

Box 1. *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie*

Wesen covers 626 pages and was finalised by Schumpeter in Cairo in 1908. Its English title would have been something like ‘The Essence and Principal Content of Economic Theory’, but the book has never been translated to English language. It was not even reprinted in German during Schumpeter’s life, but since 1970, reprints have been made. The main structure of the book is:

Preface

Part I. Foundations

Part II. Problems of Static Equilibrium

Part III. Theory of Distribution

Part IV. The Method of Variation

Part V. Summary of Conclusions on the Nature, Cognitive Value,
and Development Possibilities of Theoretical Economics

The Preface summarises in 18 pages the book’s background, purpose and analytical tools. Part I discusses basic methodological issues. It includes Schumpeter’s branding of the term Methodological Individualism (pp. 88–98). Part II presents the core of Walrasian equilibrium economics. We also meet the distinction between Statics and Dynamics in the sense of young Schumpeter (pp. 176–186). Part III tries to demonstrate that this core can handle wage and rent but not profit and interest. It also sketches out Schumpeter’s evolutionary theory of interest (pp. 414–430). Part IV presents what is now called comparative statics. Part V presents Schumpeter’s conclusions and his reform programme for economic science—both broadly and narrowly defined. Here it becomes clear that *Wesen* is conceived together with a second volume, which became *Entwicklung*.

Since Schumpeter had a solid training in both mathematics and the history of mechanics (as I shall later demonstrate in a book), he had no difficulty in exploring the logic of Walras’s static equilibrium analysis, and he, in 1908, presented his results in *Wesen*. Here he pointed out that

[p]ure static economics is nothing but an abstract picture [or model] of certain economic facts, i.e. *a schema that should serve as a description about them*. It depends on certain assumptions, and *in this respect*, it is a *creation of our arbitrariness*, just as every exact science is. ... [But] this does not prevent theories from *fitting* facts. (Schumpeter, 1908, 527; trans. by Shionoya, 1997, 103–4)

The kind of ‘facts’ that could be ‘described’ by the core model of pure economics did not cover all those in which Schumpeter was interested. Nevertheless, this model defined a ‘closed and autonomous province within the realm of knowledge’ (Schumpeter, 1908, 523; my trans.). As Schumpeter (1954, 242, 827), Walras had created the ‘Magna Carta’ of this province (both as the first complete map and as the original constitutional document), and this made him ‘the greatest of all economists’. It was because of Walras’s contribution that Schumpeter could ‘preach a kind of Monroe Doctrine of economics’ (Schumpeter, 1908, 536; my trans.), that is, a dual principle of foreign policy: no acceptance of intervention from

foreigners, no attempt to intervene against outsiders. If this doctrine was accepted, the transgressions of the Battle of Methods were overcome. Instead, most economists could concentrate on developing and applying their analytical tools within safe borderlines, and this result was the starting point for most of Schumpeter's work as a university teacher.

Schumpeter's praise of Walras summarises most of the many pages of *Wesen*, and these pages demonstrate little explicit interest in the realm beyond the fixed borders of pure economics. To superficial readers, they contain the main message of the book, but this interpretation is patently wrong. As an ambitious researcher, Schumpeter had no intention of keeping his research within the safe borders that he had found by analysing Walras's Magna Carta, and this is demonstrated by his constant focus on the *limited* results that can be obtained in this realm. His main ambition, instead, was to develop a mental model that should serve as a description of the facts of 'Social Economic Dynamics'. He felt confident that

there must be a purely economic theory of economic change which does not merely rely on external factors propelling the economic system from one equilibrium to another. It is such a theory that I have tried to build and I believe now, as I believed then, that it contributes something to the understanding of the struggles and vicissitudes of the capitalist world and explains a number of phenomena, in particular the business cycle, more satisfactorily than it is possible to explain them by means of either the Walrasian or the Marshallian apparatus. (Schumpeter, 1937, 166)

Apart from the business cycle, he wanted to explain profit and interest as well as the economic system's endogenous change of its standards of production and consumption. According to Schumpeter, all these phenomena were unexplainable in terms of the adaptive and equilibrium-seeking agents of the Walrasian System, and neither Marshall nor Clark had provided general alternatives. The solution should instead be found by developing the idea of innovative entrepreneurs as a 'force' that was only active in Economic Dynamics. This solution started to emerge in *Wesen*, which contains a large number of pointers to his ideas of the role of entrepreneurs in changing the economic system, but he postponed the exposition of his theory to *Entwicklung*. Nevertheless, it was by means of the analysis in *Wesen* that he gave structure to this evolutionary theory.

In this respect, the main task was to reinterpret Walras's *tâtonnement* (process of groping) for equilibrium. While Walras saw it as a speedy process, Schumpeter followed the Austrian School by considering it very slow. It has thus, somewhat provocatively, been remarked that 'Walras's *tâtonnement* takes a minute; Menger's *tâtonnement* takes a century!' (Streissler, 1973, 174; emphasis removed). This sluggishness of the process of economic adaptation led Menger and his followers to an Austrian version of the entrepreneur. It was also crucial for Schumpeter's very different

analysis of economic evolution, which took its starting point in the problems of the Walrasian System. He wanted to set the stage for the introduction of the innovative entrepreneur, and the sluggish adaptation of the mass of economic agents was crucial for this purpose. Schumpeter reinterpreted Walras's production coefficients (or combinations) as reflecting the routine behaviour of the majority of economic agents, and the function of his innovative entrepreneurs was to change these routine-like combinations. His high level of abstraction also allowed him to make a further move into a general theory of social systems. This move was parallel to that performed in Vilfredo Pareto's sociological works, but much more focussed on evolution. As we shall see, Schumpeter's move was to consider the adaptive processes of seeking for equilibrium within the Walrasian System and the related processes of evolution as concrete examples of similar processes in any other sector of social life.

From evolutionary economic theory to the general theory

In *Wesen*, Schumpeter had more or less explicitly promised a sequel volume. It came out in the autumn of 1911 under the title *Theorie der wirtschaftlichen Entwicklung* (see Box 2). By helping Redvers Opie with the translation of 1934, Schumpeter put his authority behind the English title *The Theory of Economic Development*. However, this translation of the title is unfortunate for two reasons. First, Schumpeter really presented 'A Theory of Economic Development' that was in sharp conflict with the theory that was predominant while he wrote his book, and the German title (which is not 'Die Theorie ...') suggests this translation. Second, and more importantly, the German word 'Entwicklung' has two possible translations into English ('development' and 'evolution'), and it appears as if the least appropriate that was used in the translated title. Furthermore, there are some indications that Schumpeter had his doubts. Even while *The Theory of Economic Development* was being printed, he told in a letter that its title was 'The Theory of Economic Evolution' (Schumpeter, 2000, 267), he accepted the French translation with the title *Théorie de l'évolution économique*, and in *Business Cycles* he only used the term 'economic evolution'. Thus, he tended to comply increasingly with the modern usage according to which 'development' denotes the more or less pre-programmed change of the individual from embryo to an adult organism and analogous changes like that of the gradual maturation of an entrepreneurial firm. In contrast, 'evolution' is an open-ended and largely unpredictable process of transformation of, for instance, language, biological species, and economic structures. However, this fact does not make Schumpeter an ordinary evolutionary theorist. The standard theory of evolution describes a trial-and-

Box 2. *Theorie der wirtschaftlichen Entwicklung*

This book (*Entwicklung*), which covers 548 pages, became available in the autumn of 1911, but the colophon page states 1912 as the year of printing. The overall contents are:

- Ch. 1. The circular flow of economic life as conditioned by given circumstances
- Ch. 2. The fundamental phenomenon of economic evolution [Entwicklung]
- Ch. 3. Credit and capital
- Ch. 4. Entrepreneurial profit
- Ch. 5. Interest on capital
- Ch. 6. The essence of economic crises
- Ch. 7. The model of the national economy as a whole

The details of the contents of this book differ in major respects from those of the subsequent editions (including *Development*). The most conspicuous difference is that Schumpeter deleted Ch. 7 because its sketchy ‘theory of cultural evolution’ distracted readers from the economic contents of the book, but an English translation is now available (Schumpeter, 2002a; extracts in 2002b). Another major difference is that he radically rewrote Ch. 2’s presentation of innovative entrepreneurs as agents of change that challenge the routine system (Schumpeter, 2002b includes translated extracts of the original chapter). Furthermore, he reconstructed the old-fashioned analysis of economic crises of Ch. 6 (Schumpeter, 2003, translates the original chapter).

error process in which the selection between different variants is in focus, while innovations/mutations have the crucial but simple role of creating ‘fuel’ for the selection process. In contrast, Schumpeter considered the selection process in competitive markets as obvious, so that he could concentrate on the problem of innovation as the starting point for the transformation of the system of economic routines.

We can most easily understand Schumpeter’s early move from the Walrasian System to his theory of social and economic evolution on the background of the available elite theories (of Pareto, von Wieser, Nietzsche, and many others). According to März (1991, 58), he wanted to ‘give concrete economic substance to the vague theories of his time’, and Santarelli and Pesciarelli (1990, 689–94) and Heilbroner (2000, 309–10) have made similar observations. The theories of the elite were based on a vague contradistinction between the mass and the elite, and so were some of Schumpeter’s formulations. For him, most economic agents were characterised by weakness with respect to competence and will:

Most people tend to their usual daily business and have enough to do at that. Most of the time such people are on slippery ground and the effort to stand straight exhausts their energies and suppresses all appetite for further exploration. ... [Furthermore, t]hey do not have the force and the leisure to think the matter through. The daily work keeps them down, organization as well as the influence of their colleagues inflict untearable chains on them. This is the masses. (Schumpeter, 2002b, 412–13; cf. 1912, 162–3)

However, Schumpeter obviously made this account for the ‘masses’ for the purpose of contradistinction:

A minority of people with a sharper intelligence and with a more agile imagination perceive new combinations. ... Then there is an even smaller minority—and this one *acts*. ... It is this type that scorns the hedonic equilibrium and faces risk without timidity. He does not consider the implications a failure will inflict upon him, or care whether everyone depending upon him will lose their keep for old age. ... The decisive moment is therefore energy and not merely ‘insight’. (Schumpeter, 2002b, 413–14; cf. 1912, 163–4)

The introduction of new combinations by a minority that is characterised by a surplus of mental energy is pivot of Schumpeter’s theory of economic change, and this fact gives it many of the characteristics of a hero epos (as it was remarked by Franz Oppenheimer, one of his German critics). At the beginning of the epos, ‘progress’ has come to a halt because all the economic agents have adapted to a system of routine, but then the first entrepreneur starts an ‘energetic’ search and finally enters the stage together with a helpful banker. Their example brings forth a ‘swarm’ of additional entrepreneurial projects, and a major effect of these projects is a dramatic fight with the routine-loving mass of agents. If the entrepreneurs are successful, some members of the masses of economic agents go bankrupt or lose the jobs, while others are forced to adapt. Another effect of entrepreneurial action is that the economic system becomes so disturbed that further innovation exceeds the capabilities of the remaining men of action. Instead, the immediate end of the story is the emergence of a new routine system, but this system sets the stage for a new wave of entrepreneurship in an apparently never-ending epos.

Schumpeter’s, however, transformed his Vision into Analysis by means of the modified and augmented Walrasian tools. This is clear throughout *Entwicklung*, but he made a nice summary a couple of years before this book was published:

To summarise: the nature of economic development [Entwicklung] lies in the fact that means of production which were previously applied to certain static uses are diverted from this course and put to serve new purposes. We refer to these processes as the implementation of new combinations. And these new combinations do not generally become accepted automatically, in the same way as the accustomed combinations of statics; but for this an intelligence and energy are required which are found only in a minority of economic agents. The actual function of the entrepreneur lies in the implementation of these new combinations. ... Whichever way an economy might be organised, it always has static equilibrium state. And it must constantly be directed into new directions by leading personalities. (Schumpeter, 2005, 15)

Since most of the outlined theory of economic evolution survived the revisions and abbreviations on the way from *Entwicklung* to *Development*,

we shall move directly to the ‘Lost seventh Chapter’ of *Entwicklung*. The German title this chapter is ‘Das Gesamtbild der Volkswirtschaft’, and it has been translated as ‘The Economy as a Whole’ (Schumpeter, 2002a, 93) and as ‘The View of the Economy as a Whole’ (Schumpeter, 2002b, 414). However, these translations are not entirely satisfactory. Let us first consider the strange word ‘die Volkswirtschaft’. Today, it means both ‘economics’ and ‘the economy’, and Schumpeter obviously related to the latter meaning. However, ‘das Volk’ means ‘the people’ or ‘the nation’, so the word ‘Volkswirtschaft’ points to the economy of the nation—with connotations to the peculiar conception of the nation developed by German Romanticism. Schumpeter did not share this conception, but his chapter demonstrates that he was thinking of a ‘national economy’ that was related to all other sectors of social life within a national framework. The translation of the word ‘das Gesamtbild’ also gives problems. We might translate it to ‘the total picture’, but ‘the picture’ is not the only possible translation of ‘das Bild’. Schumpeter’s meaning is rather that of ‘das Gedankenbild’, that is, ‘the mental construct’, ‘the analytical construct’, ‘the schema’, or ‘the model’. This meaning was well known in German epistemology. Thus, Max Weber (1968, 190–1) used ‘Gedankenbild’ in his attempt to resolve the Battle of Methods by emphasising that the Austrian School was producing ‘unified *analytical* constructs [einheitlichen *Gedankenbilde*]’. The fact that Schumpeter ended his *Entwicklung* by sketching out an even more comprehensive construct can be emphasised by translating the title of his seventh chapter to ‘The Model of the National Economy as a Whole’.

Schumpeter phrased his sketchy modelling of the economic system in its national context in terms of a general theory of social systems and subsystems. First, he studied the economic system under the assumption that its behaviour was co-determined by the other sectors and by the overall environment. Then he studied the influence of the economic system on the other sectors. Finally, he turned to the interdependent behaviour of all the sectors of the nation (‘the *social culture*’ and ‘*socio-cultural development*’; Schumpeter, 2002b, 430; cf. 1912, 545). To handle the general task, he needed to complement his economic theory with theories of the behaviour of all other sectors. He solved this part of the problem by moving his evolutionary theory from the economic sector to the other sectors by means of analogy:

For the processes of development portrayed so far, there exist, as previously emphasized in chapter two, remarkable analogies in other sectors of social life. ... [T]hese analogies can contribute to further illuminate our understanding, and to show that existence and activity in these other sectors can be grasped with a perspective parallel to ours. What are these ‘other sectors’? Well, for instance, the sectors of politics, art, science, society, or moral opinions, etc.

(Schumpeter, 2002b, 422–3; cf. 1912, 535–6)

Thus, Schumpeter drew analogies both to obtain deeper insight into his evolutionary approach and to demonstrate its general relevance for studying the sectors of social life. Let us, according to the present focus, begin with his types of individuals. His generalisation needed a renaming of these types because the terms ‘static-hedonic individual’ and ‘entrepreneur’ [Unternehmer] were closely related to economic theorising. Therefore, he chose the more general terms ‘statically disposed individual’ and ‘leader’ [Führer]. His analogy was then straightforward:

In each sector there are statically disposed individuals and there are leaders. Statically disposed individuals are characterized by essentially doing what they have learnt, by moving within the received boundaries and by having in a determining way their opinion, dispositions and behaviour influenced by the given data of their sector. Leaders are characterized by perceiving new things, by changing the received boundaries to their behaviour and by changing the given data of their sector. (Schumpeter, 2002b, 428; cf. 1912, 542–3)

The postulate was thus that it is possible and fruitful to study the processes of social life in each sector in terms of these generalised types of individuals and behaviour, just as Schumpeter had already done it for the economic sector. However, the exchange of the term ‘entrepreneur’ by that of ‘leader’ served to bring out clearly an elitist aspect of his thinking that had largely been implicit in his economic theorising: The ‘static masses’ are the followers of the present or previous leaders who have determined their behaviour. This determination, of course, is present in the expression that the leaders change the parameters [data] of the behaviour of other agents. However, the determination becomes especially obvious when dealing with art, science, and political life:

Everywhere these types are set apart by the same strong contour lines that make those spirits stand out who *create* new ‘lines’ of art, ‘schools’, and parties, from those spirits who *are created* by the ‘lines’ of art, ‘schools’, and parties. We always find this analogy between *on the one hand* the procedure of the majority in these sectors and in the sector of the economy, adopting, accepting and adjusting to a given situation of material and ideal nature, and *on the other hand* the procedure of a minority in such sectors like those of the economy, characterized by changing the given situation itself. (Schumpeter, 2002b, 428; cf. 1912, 543)

The underlying assumption behind these propositions is that statically disposed individuals cannot by themselves adopt, accept, and adjust to newly emerged ideas. We have already seen that Schumpeter thought that the challenge of transforming such ideas into social practice was too big when compared with the low level of problem-solving energy and competence that characterised the large majority. Therefore, the crucial role

of leaders was not related to the development of new ideas but to the implementation of them into social practice, like in the case of creating a new party or a new school of art or science. Since Schumpeter had first-hand knowledge about scientific evolution, it was natural for him to take science as his example:

Our analogy is discernible in the way new things are carried out. The bare new thought alone is not enough and is never carried out ‘by itself’, i.e., so it would readily be taken into serious consideration and accepted in free decision by those involved. In a drastic manner, the history of science is evidence of that. The usual process is rather that the new thought is taken up by a powerful personality and is implemented by his influence. ... What characterizes the leader—here like everywhere else—is the energy of action and not the energy of thought. ... Without the activity of a leader, a new thought would hardly ever be *perceived a Reality*, a Reality that one must take into consideration, acknowledge, adapt to. (Schumpeter, 2002b, 428–9; cf. 1912, 543)

Schumpeter’s analysis of functioning of leaders and their, direct or indirect, followers depended on definitions of a static system of behaviour in each sector of social life and of the mechanism of change. These definitions, however, was readily at hand because his approach to the equilibration of the economic system and to its evolution was very general. The starting point was the analysis of the state of each sector as the result of the influences from its environment that were assumed to be fixed, and the next step was to introduce the general evolutionary mechanism that involved leadership:

There are thus two different problems, not only for the theory of economic life, but also for the investigation of all other sectors to be distinguished in the life of a nation: That of the explanation of a state and that of development. More precisely: It is *one* problem to specify how the matters of each of the sectors shape under given circumstances, that is, in which way a certain environment necessitates a certain shape of the sector. The other problem is that of the mechanism of development, as we can say for short. Both these problems correspond to different groups of facts, and their solution completes the task of the mental reconstruction of real life. (Schumpeter, 2002b, 426; cf. 1912, 540)

Schumpeter’s statement that his ‘mental reconstruction’ was finished with the analysis of the state and development of each individual sector was case of exaggeration, however. What was missing was the study of the mutual determination of the states of the sectors and of the parallel processes of evolution within these sectors. Thus, he continued by pointing out that ‘the next step in providing insight is to substitute “understanding based on causal chains” by the element of “general interdependence” between the sectors. Thereby, he could obtain an ‘understanding of the holistic state of social life as the result of the holistic state at the point in time preceding the one under consideration’. However, this understanding

would only cover how ‘interventions from without and changes in the natural data’ causes ‘the social life of a people’ (Schumpeter, 2002b, 427; cf. 1912, 541). As we already know, Schumpeter considered this exogenous determination as radically incomplete for the understanding of the evolution of social life. He, however, had only specified his additional cause of evolution within the context of individual sectors. If each of these leadership-based processes took place in complete isolation, then it would be difficult to explain ‘the organic unity of culture’; but this was not the case. The fact that ‘economic development also entails social changes of a non-economic type’ is ‘just one instance of a general phenomenon’:

Success in any sector initially affects social organisation by elevating the position of the successful ‘leader’ and by affording him, to a greater or lesser extent, a social power base. Success in any sector influences the social values in general, what is drawing attention, what is being considered good or desirable. And in this way achievements in any one sector of social activity will end up having a shaping effect across all sectors of social life. ... We thereby untie things from rigid causal chains and give them back their life. And in this holistic understanding of cultural development the economy has its particular place. (Schumpeter, 2002b, 431; cf. 1912, 547).

Conclusions

Schumpeter presented the sketch of his general theory of social evolution near the end of *Entwicklung*. In his final sentence of that book, he emphasised: ‘Our interpretation is no catchword, neither the result of *ad hoc* deliberations, but the result of an already proven method.’ (Schumpeter, 2002b, 432; cf. 1912, 548) However, although he had succeeded substantiating the vague elite theories of his time, neither his method nor his results had reached a fully satisfactory form. This problem led to his extensive corrections on the way to *Development* and it defined the research agenda that materialised in many of his later works. This research agenda largely dealt with the economic contents of *Entwicklung*. The general theory of social evolution, nevertheless, was underlying many of Schumpeter’s efforts, and it surfaced in *Capitalism* and elsewhere. However, its unfinished characteristics have served to give the impression of him as a visionary rather than as an analytical researcher. If he had only been a visionary, we would have to agree with the British economist Lionel Robbins, who knew Schumpeter well from both his works and from meetings at the London School of Economics. In a private conversation, Robbins characterised one of Schumpeter’s books as ‘supremely intelligent after-dinner talk’ (quoted in Elster, 1983, 112). He was talking about *Capitalism*, and the surface of this book do indeed dazzle its reader with vision and style to a degree that raises doubt as to whether it should be presented in plenary sessions of

scientific conferences.

This image is in sharp contrast to Schumpeter's own ambition to move from Vision to Analysis by deriving results from 'an already proven method'. Although we hardly can say that he fully lived up to this ambition, it breeds life to almost every page of *Entwicklung* and *Wesen*. He upheld this ambition throughout his life, and he generalised it in his Presidential Address to the American Economic Association in December 1948. In this Address on 'Science and Ideology', he tried to demonstrate 'that analytically uncontrolled ideas play their role exclusively in the realm of those broad conceptions of the economic process as a whole from which the analytic effort sets out' (Schumpeter, 1949, 283). He used the examples of Adam Smith, Karl Marx, and John Maynard Keynes to reach the conclusion was such conceptions—or visions, or ideologies—are unavoidable aspects of economics since the 'prescientific cognitive act which is the source of our ideologies is also the prerequisite of our scientific work'. Therefore, 'though we proceed slowly because of our ideologies, we might not proceed at all without them.' (p. 286) Furthermore, this development leads to improved analytical tools that tend to transcend their ideological background.

We should take Schumpeter seriously by conceiving his work in the same way. He would hardly have developed the early version of his general theory of social evolution without his elitist Vision, but during his move from this Vision to scientific Analysis he started the development of analytical tools that are valuable—even for those who do not subscribe to the elitist worldview of the early, and later, Schumpeter. His main ambition was to write books that did for his chosen field what *Foundations of Economic Analysis*, by his student and friend Paul Samuelson, did for non-evolutionary economics. Schumpeter never fulfilled this ambition, but in his published books, we find the beginnings of an analytical toolbox that helps us to extend our analysis to the realm of social evolution. This is the main message from Schumpeter's later development of his general theory of social evolution.

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