CHAPTER 1

Introduction

Schumpeter once wrote: “Not the first, but the last chapter of a scientific system should deal with its methodology” (1908, xv). This means that in science one cannot effectively discuss methodology independently of concrete problems and actual practice. Now that all of Schumpeter’s work is available, it is possible, in light of this precept, to examine his methodology for the purpose of understanding and evaluating his whole body of work. The aim of this book is to reconstruct Schumpeter’s contributions to the social sciences from a methodological point of view.

The purpose of the book

Schumpeter was interested in pairs of grand problems such as statics and dynamics, development and cycles, economic development and sociocultural development, theory and history, science and ideology, economic systems and political systems, the economy and civilization, and mind and society. Thus, he was invariably conscious of broad perspectives on problems and developed an overall approach to their resolution in order to give a global picture of reality. Although he stressed the need to restrict the scope of a study, Schumpeter always considered questions in a wider context. He mastered the achievements of other scholars in many fields and, at the same time, went beyond existing scientific knowledge to put forward a new understanding of concepts. His grasp of issues was global as well as multifaceted, and his use of methods was synthetic as well as analytic.

A universal social science

Schumpeter’s studies, extending over numerous disciplines and schools, contain ideas that appear so inconsistent that they might create the impression of cynicism, eclecticism, and occasionally even paradox. Because Schumpeter opposed the viewpoint of policymaking in economics and was fond of advocating novelty, he has sometimes been considered insincere. This is so, to
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a great extent, because his rich and unified body of thought, if apprehended only in bits and pieces without perceiving the underlying unity of his overarching theory, can lead to a serious misunderstanding of that thought. The essence of Schumpeter’s work lies not so much in his separate scientific treatment of the component parts of a whole, as in his capacity to generate comprehensive designs, ideas, or insights that assign each component its proper place in the total picture. One cannot adequately evaluate the significance of his individual scientific achievements without recognizing his global vision of the economy, society, and science. It is my view that such recognition will be obtained through methodological investigation.

There is no need to argue methodology in the case of scholars who are content to work within an existing paradigm to solve an ordinary set of problems with standard techniques. To understand the rationale for Schumpeter’s thinking, however, one must reconstruct a scientific system by examining his implicit habits and styles of thought through methodological study. These steps are all the more necessary because Schumpeter deliberately avoided reflecting upon his own scientific system. Although he accomplished a large-scale work on the history of economics, he did not place his system of thought in history by sticking to what he called “my principle of effacing myself in this book” (1954a, 1019).¹ But he did not conceal his blueprint at all times. It can be discovered and explicated. Schumpeter’s system of thought, if interpreted accurately and reconstructed methodologically, can be regarded as based on the research program of a “universal social science” (1926b, 365).²

The Schumpeterian style of thought

Over time Schumpeter’s achievements in particular areas may become obsolete, as does any scientific work. Although he did not leave a system or a doctrine that would be embodied in economics textbooks and a school that shared it, his characteristic point of view, on the most primitive level of cognition, which might be labeled a “Schumpeterian style of thought,” will survive insofar as the efforts of social science will continue. A mind-set, a style of thinking, or an inclination of thought in a scholar precedes his design, idea, and vision about external objects and lies as tacit knowledge on the side of a subjective agency. While Schumpeter emphasized the importance of having a vision before constructing a theory, he also drew attention to implicit habits of thinking that precede both vision and theory (1949a). He admitted that vision originated from personal tastes and peculiarities.³ This is the reason why an outstanding biography of a scholar will succeed in linking his character and achievement. Schumpeter himself demonstrated remarkable skill in writing biographical essays on eminent economists.⁴
The purpose of the book

This book is not a biographical study of the man Schumpeter; rather, it is intended to portray his style of thought, which can be generalized and thus shared with social scientists, through the interpretation of his work. In other words, I am more interested in the Schumpeterian style of thought than Schumpeter’s thought per se.

How, then, can one formulate conceptually what may be called the Schumpeterian style of thought? I got a hint from the concept of habitus as it is represented by the French sociologist Pierre Bourdieu (Bourdieu 1977, 1990a). The Latin habitus means condition, habits, disposition, deportment, or character, but it is better identified with a mental habit or a habit-forming force. Bourdieu defines habitus as “systems of durable, transposable dispositions, structured structures predisposed to function as structuring structures” (Bourdieu 1990a, 53). The aim of this concept is to intermediate between two extreme approaches in the social sciences, namely, individualistic subjectivism and supra-individualistic objectivism. Habitus is not only a personal propensity but also can be held socially in common; it not only generates and organizes an image of the world as the object of study but also can be reproduced socially through institutional devices such as education and the formation of schools. The concept of habitus, together with the concept of the “intellectual field,” provides the framework of Bourdieu’s sociology of science, which will be a useful reference in this study of Schumpeter.

In the light of these concepts, Schumpeter’s characteristic work and activities are interpreted as his habitual practice, and the organizing principles responsible for his practice should be found in his entity. These principles, however, were formed and applied in a social space called the intellectual field and are transposable between individuals. It is my contention that the practice of the Schumpeterian mode of thought, thus viewed, was not a singular, one-time phenomenon confined to one individual; rather, it is a method of social science that can be repeated, experienced, and transposed through an appropriate formulation.

A methodological perspective

Contrary to the general opinion among economists, Schumpeter was extremely conscious of method and methodology. As the methodologist Fritz Machlup pointed out (Machlup 1951, 95), one of his earliest articles was “Über die mathematische Methode der theoretischen Ökonomie” (1906) and one of his last articles was “The Historical Approach to the Analysis of Business Cycles” (1949c). His first book, Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie (1908), was a serious work of methodology, and his posthumous publication History of Economic Analysis (1954a), which was originally intended as a revision and translation of his earlier study Epochen der
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Dogen- und Methodengeschichte (1914a), was an overall evaluation of economics with regard to not only the content of economic doctrines but also the methods of economic analysis. Still other important studies demonstrate his methodological perspective. Nevertheless, Schumpeter’s methodological work has been almost completely neglected. Even his archetypical Das Wesen has not received a proper place in the history of economic methodology.5

If Schumpeter is viewed from the standpoint of his famous work, Theorie der wirtschaftlichen Entwicklung (1912), or its English version, The Theory of Economic Development (1934), or his most widely read book, Capitalism, Socialism and Democracy (1942), he might be considered as unfamiliar with methodology and philosophy. Moreover, if he is evaluated on the basis of his occasional remarks on the sterility of methodological debates, he might be regarded as even hostile to methodology and philosophy. The following observation gives the impression that he was opposed to philosophy: “Economics is not a philosophy of economy, nor is it a view of essence. We must be less philosophical so that economics may become more productive. Even if economics used metaphysical elements, these are indifferent to the knowledge of specialized science” ([1932] 1952, 603).

In fact, however, Schumpeter was reared in the intellectual atmosphere of Austria and Germany at the turn of the century. His student life was dominated by a classical education at the Austrian Gymnasium, and both the Methodenstreit between Carl Menger and Gustav von Schmoller on theoretical versus historical methods and the debate between the Austrian school of economics and the Austro-Marxists on the working of a capitalist economy made a profound impression on him. Although he was imbued with the historicism and idealism prevalent in German thought, he started work on positive economics following Anglo-Saxon and Austrian positivism. Accordingly, he often pretended indifference or sometimes hostility to the Germans’ favorite philosophical speculation, but his penchant for method and methodology was apparent throughout his academic life. It was his fundamental habit of thought.

This book will discuss his contributions to methodology, which he himself used generally to clarify the nature of science and specifically to integrate theory and history in economics, and attempt a reconstruction of the background of his thought and the framework of his analysis. In this book methodology is utilized as a tool for organizing Schumpeter’s many-sided achievements and is not considered independently from his substantive work.

It follows that my attempt to identify the Schumpeterian style of thought and to construct a bird’s-eye view of the Schumpeterian cosmos will raise some basic questions beyond a study of Schumpeter’s economic thought. First, the investigation of Schumpeter’s methodology will mean a clarification of his idea of social science, which goes well beyond the narrow concept of
The metatheoretical framework

economics. No contemporary economist has tried to establish a system of thought broader than Schumpeter's, with the exception of Friedrich von Hayek, Kenneth Boulding, and a few others. Indeed, his methodology gives us a rare frame of reference for our own perspective on economics. Schumpeter's viewpoint is timeless.

Second, in order to understand and evaluate Schumpeter's methodology it will be necessary to place it in the context of the philosophy of science of his time as well as our own. Although he did not speak as an expert philosopher of science, his work is worthy of serious examination. Through this inquiry we can expect not only to gain a clarification of his methodology but also to see how his thinking was rooted in the stream of thought preceding the heyday of logical positivism and how his methodology deserves our attention because of its contemporary relevance.

The metatheoretical framework

For convenience's sake, I have used the term "methodology" only in a symbolic and representative sense. To be precise, I will refer to "metatheory," or "metatheoretical framework," a part of which is methodology. It is, of course, necessary to clarify the meaning of metatheory in order to approach Schumpeter's theoretical work from this point of view and establish the conceptual framework of this inquiry. In presenting the metatheoretical framework, which covers the view of science as comprising normative, social, and historical activities, I have kept in mind recent developments in the philosophy of science since the decline of logical positivism.

Three metatheories

The first element of the metatheoretical framework is the methodology of science. Here one must distinguish between method and methodology; although related, they are two distinct things. For Machlup it was very problematic that people often confused the two, calling something methodology when they were only speaking of methods (Machlup 1963, 204). The explication of methods is not necessarily methodology. Methods in science consist of a series of rules and technical procedures relating to concept formation, setting of assumptions, building of models, formulation of hypotheses, observation of facts, testing of theories, and the like. Methodology, on the other hand, involves a philosophical inquiry into the reasons why certain methods are utilized and gives criteria for appraising theories derived by certain methods. In this sense scientific methodology is a synonym for the philosophy of science; it provides a normative prescription for science as well as a philosophical analysis of science. Different methodologies can justify one and the same
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method, whereas different methods can be justified by one and the same methodology.

Methodology must be linked with the sociology of knowledge – the second element of the metatheoretical framework – because science does not work with methods alone. As the terms “problems and methods” or “scope and methods” indicate, science needs to define the scope of the subject matter to which methods are to be applied. The choice and setting of problems, which are prescientific acts, depend on the visions of scientists working in a society. Based on neo-Kantian philosophy, Heinrich Rickert (1902) and Max Weber (1904) called this relationship “value-relevance” (Wertbeziehung). Because the formation of a scientist’s vision of what is important takes place in a social process that is historically conditioned, values, ideologies, and institutions affect the choice and setting of problems in the prescientific stage. The effects of social factors are not limited merely to the choice of problems; they may also extend to methods of science. This is the theme of the sociology of knowledge or the sociology of science. Broadly speaking, the sociology of science is concerned with the relationship between thought and society.

The third element, the history of science, deals not only with the historical development of scientific achievements addressed to the “problems” and assisted by the “methods” of science, but also with the historical evolution of the relationship between science and society. In other words, the history of science describes not only scientific activities that are under the control of the abstract rules of procedures, but also those activities that are not scientific in themselves but are conducted in relation to science within a specific context of social circumstances. By so doing the history of science is concerned with all those factors, which both the methodology of science and the sociology of science deal with, from the historical point of view, and supplies the place for testing empirically what these two disciplines advocate.

Thus my conceptual framework for dealing with science consists of three components: the methodology of science, the sociology of science, and the history of science. Their relationships are depicted in Figure 1.

This framework includes not only the methodology of science concerning the precepts of science, but also the sociology of science concerning the practice of science in society and the history of science concerning the evolution of science in history. I call this system the “metatheoretical framework.” Since the fall of logical positivism, the philosophy of science has moved toward the sociology of science and the history of science, so that the three disciplines are integrated in a comprehensive study of science. Schumpeter’s idea of social science was defined by the overlapping interests of philosophers, sociologists, and historians, and his substantive work in social science was constructed in a correspondingly cosmic fashion. All three disciplines can be called metatheories in that they deal with a theory or science from different angles, that is,
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from the perspective of philosophy, sociology, or history. Metatheory is contrasted with substantive theory, to which it is addressed.\(^6\)

Apart from Schumpeter’s substantive examination of the economy and society, my framework covers all of his work on metatheory. His major contributions in these three fields are represented by *Vergangenheit und Zukunft der Sozialwissenschaften* (1915) and “Science and Ideology” (1949a), *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie* (1908), and *History of Economic Analysis* (1954a). Among his metatheories, the best known and the most esteemed come from his studies in the history of economics. But his work involving the sociology of science and the methodology of science was also significant. In Part I of *History*, he planned to discuss the sociology of science and the methodology of science as an introduction to the history of science, but he did not complete it. Nevertheless, he worked in all three fields. Thus, the metatheoretical framework for organizing Schumpeter’s wide-ranging studies in this book is his own, and on the basis of this framework I have attempted to reconstruct his total work.

Theory and metatheory

Now, let us consider Schumpeter’s substantive theory in contrast to the metatheory. As will be explained in chapter 3, his theory about economic society encompasses economic statics, economic dynamics, and economic sociology. Having constructed the statics and dynamics of an economy, Schumpeter developed his idea of a universal social science by assuming that an economy was embedded in a society as a whole and by approaching this task by means of economic sociology. Today’s studies on Schumpeter, though they often neglect his contribution to static theory, do evaluate his work on economic development, technological innovation, entrepreneurship, and economic sociology.\(^7\)

How then can one explain such an economist’s invariable interest in
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metatheory? Specifically, how did the author of *The Theory of Economic Development* come to be the author of *The History of Economic Analysis*? It might be said that economists are naturally drawn to the history of economics. In the case of Schumpeter, however, there was a deeper reason. In his idea of a universal social science, both the development of an economy and the development of thought were social phenomena to which he applied parallel treatments. He intended this concept to replace Marx's social theory based on the economic interpretation of history. Just as Marx's theory, another version of a universal social science, addressed the relationship between production (substructure) and a system of ideology (superstructure), so Schumpeter focused on the interrelationship between the economy and ideas. Schumpeter's interest in both economic development and scientific development was not accidental; his work on the history of economic thought was not merely the hobby of an erudite scholar.

Thus viewed, it is suggested that in Schumpeter's idea of a universal social science, a set of substantive theories (economic statics, economic dynamics, and economic sociology) is matched with another set of metatheories (methodology of science, history of science, and sociology of science) with a parallel structure. First, the methodology of science is concerned with the static structure and rules of science; second, the history of science deals with the dynamic development of science; and third, the sociology of science involves scientific activities as social phenomena. If the two sets of thought are likened to buildings, we can envision two intellectual buildings—one for economy and one for science, respectively; they have three stories, and their third floors are linked by a passage representing sociology. I call Schumpeter's total system of thought the "two-structure approach to mind and society."

In this way, the concepts of metatheories, which I have introduced to organize and interpret Schumpeter’s substantive theories on the working of an economy, play the part of a universal social science and analyze the working of thought as a social entity. Viewed from this perspective, the past and present studies that consider Schumpeter’s system of economics in terms of economic statics, dynamics, and economic sociology at most and that never integrate his work on the history of economics—let alone his achievements in the methodology of science and the sociology of science—are obviously flawed.

The plan of the book

Figure 2 shows the structure of this book based on the metatheoretical framework.

Chapter 2 provides an overview of Schumpeter’s life, career, and activities; it demonstrates how his character and the circumstances of the time in which
The plan of the book

Chap. 11 Value judgments and political economy

Chap. 2 Scientists and social conditions

Chap. 4 Sociology of science

Chap. 6 Economic statics

Chap. 7 Economic dynamics

Chap. 8 Methodology of economic sociology

Chap. 9 Economic sociology

Chap. 5 Methodology of science

Chap. 3 Problems and methods

History of science......

Science

Figure 2 The structure of this book

he lived shaped his prescientific outlook and influenced the directions of his scientific work. The substantive and methodological ideas of science do not emerge in a vacuum. Because science is a kind of social activity, social and historical conditions always play a role in the performance of science in addition to the efforts and contributions of scientists. What kind of vision did Schumpeter embrace when he launched his economic studies at the beginning of the twentieth century? By illuminating his personality and social circumstances and using the sociology of knowledge, we can better understand his work.

What kind of problems and methods did Schumpeter draw upon to implement his vision? In chapter 3 I will argue that he created a unique, comprehensive research program that distinguished between three problem areas: statics, dynamics, and sociocultural development. With regard to methods, he identified four: theory, history, statistics, and economic sociology. From a combination of the problems and methods thus distinguished came his varied achievements in substantive theory, consisting of economic statics, economic dynamics, and economic sociology (considered in chapters 6, 7, and 9 respectively). Underlying his research program was the idea of integrating theory and history, an approach that was distinctly influenced by ideology inherent in the German intellectual field.

Chapters 4 and 5, corresponding with chapters 2 and 3, explore Schumpeter's sociology of science and methodology of science, both of which have been least discussed in the Schumpeter literature. Chapter 4 focuses on the relationship between science, ideology, and schools of thought and examines the structure of Schumpeter's ideology concerning the three research fields of statics, dynamics, and sociocultural development. Chapter 5 takes up his maiden work, Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie, and interprets his methodology as instrumentalism, which was first developed to
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lay a foundation for neoclassical economics but later functioned as an anchor in his attempt to construct a universal social science designed for the integration of theory and history.

The most characteristic feature of Schumpeter’s methodology is that its argument is not confined to an abstract or general level but is united with concrete problems and methods. Thus chapters 6, 7, and 9 deal with his economic statics, economic dynamics, and economic sociology, which are concerned with circular flow, economic development, and sociocultural development, respectively. These bodies of theory are widely recognized as his specific contributions, but locating them within our metatheoretical framework will clarify the logical connection between them and dispel existing misinterpretations about them. For example, Schumpeter’s theory of technological innovation in economic development is particularly well known, but it is only one aspect of the total picture that he wanted to describe; thus it is linked with discussions of economic sociology and yet does not deny the logic of economic statics.

Having started from a foundation of neoclassical economics and engaged in basic methodological work in order to establish this young science on a secure basis, Schumpeter then tried to supplement it with dynamic economics. However, as Schumpeter was also brought up in the traditions of German historical economics, German cultural sociology, and Marxist socialist thought, he did pay attention to the historical, social, and institutional aspects of an economy; the outcome was his economic sociology. Chapter 8 examines whether his instrumentalist methodology is valid for economic sociology, and in this connection considers the relationship between Schumpeter, Schmoller, and Weber with regard to the methodology of economic sociology or historical science.

Chapter 10 is concerned with the history of economics. Schumpeter’s monumental History of Economic Analysis has been regarded as the most authoritative work in this field, but, contrary to what is generally believed, I contend that it is not a description of the developments in economics in the narrow sense, which converged in the establishment of the general equilibrium theory. As Figure 1 (see page 7) shows, his history of science, while focusing on science, describes the interplay between the evolution of the relationships between society and scientists addressed by the sociology of science, on the one hand, and the development of problems and methods addressed by the methodology of science, on the other. Thus Schumpeter’s concept of the “filiation of scientific ideas” (1954a, 6), a key term in his history of economic analysis, is conceived as the development of economic theories embedded in the sociological and methodological inquiries of science. What is noteworthy is his view that scientific activities are not only passively conditioned by social factors that pose the theoretical problems to be solved at a specific time, but