
Fundamentals and Debate

Response to Professor Andersen

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Professor Andersen has shifted the emphasis to Schumpeter's work as a whole, and my own admiration for this now prompts me to use this brief response to broaden the discussion still further, to "vision" as Schumpeter explained it in his posthumously edited *History of Economic Analysis*:

Obviously, in order to be able to posit to ourselves any problems at all, we should first have to visualise a distinct set of coherent phenomena as a worth-while object of our analytic efforts. In other words, analytic effort is of necessity preceded by a preanalytic cognitive act that supplies the raw material for the cognitive effort [and this] will be called Vision. ([1954] 1986: 41)

How does this concept apply to Schumpeter's own work? That great student of it as well as of so much else in economics, Mark Perlman, wrote of "my own principal criticism of what Schumpeter offered us, namely his vision". He goes on:

In the absence of any other specification, it seems to me that he was groping for some paradigm of fundamental social morality. He was easily side-tracked, and spent too much effort decrying ideology ... My suggestion is that the vision Schumpeter really sought was something akin to a theological paradigm—integrating fundamental, non-changing, ethical and social values and the dynamic working of an evolutionary economy ... Thus, I conclude that Schumpeter wanted a vision which embraced and bound together the permanent and exogenous with the sociological-transitory and indigenous, *and he failed to find it*. (1986: xxxiii, xxxv, emphasis added)

My own surmise about why Schumpeter failed to find such a wider "vision" was that he never fully outgrew his desire as a young man to see economics as a science in which causality was insulated from external influences. Professor Andersen commented on the extent to which the theoretical parts of *Business Cycles* had roots going back to Schumpeter's student days, from the interest in this topic of the German Historical School

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and the neo-Marxists. This fits in with one of Schumpeter's own observations on the uniqueness of that "sacred, fertile, third decade", when students begin to graft their own ideas on to those of their teachers.

Only such a view of economics could have led him to make the statement quoted by Professor Andersen, that although some

factors which determine any business situation ... act from outside the economic sphere ... we must try to abstract from [them] when working out an explanation of the causation of economic fluctuations ... which are inherent in the working of the economic organism itself.

Such a self-imposed restriction meant that Schumpeter was trying to explain activities caused by human agents in terms of a sub-human concept, that of *Homo economicus*, and it is not surprising that he failed. The same limitation to his "vision" was expressed in his early enthusiasm for econometrics. This he did outgrow, so that he eventually became disillusioned with mathematical economics, with its need to disregard so many variables in real-life business situations in order to get the equations to work. As an aspect of this development, as Professor Andersen notes, in *Capitalism, Socialism and Democracy* he expanded the boundaries of his analysis beyond those which made *Business Cycles* such an inadequate attempt to explain long-term economic fluctuations.

In terms of "vision", Schumpeter never reached the level of the founder of his discipline, Adam Smith. The *Wealth of Nations* is a treatise on economics written by a moral philosopher whose "vision" was expressed in the *Theory of Moral Sentiments*. As a result, Smith's economics is capable of taking in a wide range of human factors that Schumpeter's could not. And paramount amongst the consequences of those human factors are the institutions which people shape for their own public good, and which establish the rules of the game for economic activity. Smith gave pride of place to the market, but far more than Schumpeter, he understood that markets are shaped by law, especially laws of property rights.

When explaining what he meant by "vision", Schumpeter used Keynes as an illustration, claiming that the latter's *General Theory* reflected "an English intellectual's vision of the characteristics of England's ageing capitalism". He then goes on:

The process stands out in this case with such unsurpassable clearness, because we can read a formulation of the vision, as yet analytically unarmed, in a few brilliant pages of Keynes's *The Economic Consequences of the Peace* (1919). So far as this line of endeavor of a man of many interests was concerned, the whole period between 1919 and 1936 was then spent in attempts, first unsuccessful, then increasingly successful, at implementing the particular vision of the economic process of our time that was fixed in Keynes's mind by 1919 at latest. ([1954] 1986: 42)

Keynes's writings do indeed reflect a "vision", and it was one that was much more comprehensive than Schumpeter's. He was *engagé* to an extent to which Schumpeter never was, in spite of the latter's brief involvement in actual political administration in post-World War I Austria. Whereas Schumpeter was the professional economist par excellence, being able to count some of the great names of its European tradition amongst his teachers, Keynes only had 6 weeks' formal economics training, "everything else he had learned on

the job”, as his recent biographer put it (Skidelsky, 1983–2000). And although there can be little doubt that Keynes was a better mathematician than Schumpeter, he never succumbed to the belief that the range of diversity in human activities, even when limited to those which can be measured in terms of money, could be captured satisfactorily through use of mathematical techniques. The *General Theory* was not written as an academic text, but as the contribution of a deeply concerned individual to alleviating the human suffering caused, as Keynes saw it, and as subsequent economic history showed was correct, by inadequate demand.

Schumpeter refers to “a few brilliant pages” in *The Economic Consequences of the Peace*. But this entire book is far more than brilliant, it is prophetic. Keynes’s claim to greatness of vision would be secure because of it, even if he had never written anything else. He produced it at top speed following his resignation as advisor to the British delegation at the Versailles Peace Conference, having earlier written to a friend, “I work for a Government I despise for ends I think criminal” (Letter to Duncan Grant). How different the history of most of the 20th century would have been, if only the governments of Britain, France and the USA had taken the following passages from it seriously, and acted upon them:

[Our proposed policy for defeated Germany] skins her year by year in perpetuity, and however skilfully and discreetly the operation is performed, with whatever regard for not killing the patient in the process, it would represent a policy which, if it were really entertained and deliberately practised, the judgment of men would soon pronounce to be one of the most outrageous acts of a cruel victor in civilised history. (*Consequences*, 155)

But who can say how much is endurable, or in what direction men will seek at last to escape from their misfortunes? (*Consequences*, 235)

If we aim deliberately at the impoverishment of Central Europe, vengeance, I dare predict, will not limp. Nothing can then delay for very long that final civil war between the forces of Reaction and the despairing convulsions of Revolution, before which the horrors of the late German war will fade into nothing, and which will destroy, whoever is victor, the civilization and the progress of our generation. (*Consequences*, 251)

The Economic Consequences of the Peace also includes a passage which anticipates the Schumpeter of *Capitalism, Socialism and Democracy* in a remarkable way:

We are thus faced in Europe with the spectacle of an extraordinary weakness on the part of the great capitalist class, which has emerged from the industrial triumphs of the nineteenth century, and seemed a very few years ago our all-powerful master. The terror and personal timidity of the individuals of this class is now so great, their confidence in their place in society and in their necessity to the social organism so diminished, that they are the easy victims of intimidation ... They allow themselves to be ruined and altogether undone by their own instruments, governments of their own making and a press of which they are the proprietors. Perhaps it is historically true that no order of society ever perishes save by its own hand. (*Consequences*, 222)

These comparative quotations are not offered to decry Schumpeter’s “vision”, but to underscore the point that it is simply not possible to do what he wanted in his writings, which

was to abstract from “the factors from without the economic sphere which determine any business situation”. Capitalism depends upon property rights, which in turn depend upon government, and its evolution reflects a continual tension between rights-holders and those who try to shape the laws of property for the public rather than private good. Schumpeter actually expressed this tension well when he wrote of the State in one of his lesser-known pieces that “It is part of its nature that it opposes individual egoism as a representative of a common purpose. Only then is it a separate, distinguishable social entity” ([1918] 1991: 110).

Capitalism is the modern variant of the systems of individual property rights which made the Western world uniquely rich, because they enable individual human creativity to be directed into economic channels. Such rights force us to serve social ends in following our own interest. Civil society (including democracy) can emerge from the social space and the opportunities to generate wealth which they provide. The unique value of property rights, therefore, is that they can *civilize* self-interest.

However, they can only do this to the extent that they themselves are not the product of self-interest, and the law-making process is always in danger of being captured by those whom its function it is to discipline. The result, as John Stuart Mill observed, is that “The laws of property have never yet conformed to the principles on which the justification of private property rests” (Mill, 1848).

Consequently, the co-evolution that really matters is that which reflects the struggle between an independent vision of the public good on the one hand, and vested interests on the other, in the process of shaping laws of property. This could even be seen in terms of “cycles”, each of which begins with the prosperity which is the result of self-interest being disciplined and forced to serve the public good, and ends with law-making in the hands of those whom the laws can benefit personally. At that point, the State has become, in Marx’s words, “the committee of the bourgeoisie”, terminally unable to deal with an explosive mixture of great inequality and irresponsible wealth (see Kingston, 2000). But because this kind of co-evolution depends on factors which transcend the dream of an autonomous and insulated economic science which constrained Schumpeter’s vision, he never turned his powerful mind to it, to our great loss.

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