Schumpeter and Evolution: An Ontological Exploration

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I. Introduction

In the past two decades there have been a growing number of works on evolutionary economics which are alleged to be Schumpeterian. These works, sometimes labeled 'neo-Schumpeterian economics,' are based on an interpretation of Schumpeter’s contribution to economics as the exploration of a dynamic theory of innovation, entrepreneurship, and competition, and on the belief that his idea should be further developed now because it was not favorably received in the Age of Keynes.1 While the underlying belief of neo-Schumpeterian economics is understandable, its interpretation of Schumpeter should be questioned for two reasons: the lack of the sociological perspective and of the philosophical foundations.

First, it is indeed worthwhile to recognize and exploit the potential of his dynamic economic theory for evolutionary economics, but economic dynamics is only one of a wide range of subjects which he addressed at least as seriously. One of the shortcomings of the current interpretation is that it simplistically associates the notion of evolution with his dynamic economic theory in isolation from observations on non-economic circumstances. For Schumpeter, the idea of evolution is identified not with economic development in isolation but with the processes of interrelated economic, political, social, and institutional changes, because the most characteristic purpose of his work was to analyze the evolution of capitalism as a civilization.

Schumpeter introduced the ideas of innovation, development, and evolution in his Theorie der wirtschaftlichen Entwicklung (1912). In the final chapter (Chapter 7) on the “Overall View of the Economy” (Das Gesamtbild der Volkswirtschaft), he summarized the preceding chapters on the economy, located them in the wider context of social life, and attempted to provide a comprehensive vision of the development of society as a whole, covering such areas as the economy, politics, social relations, the arts, science, and morality. His argument in this chapter offers an important viewpoint on a comprehensive

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grasp of social phenomena, applying the static-dynamic dichotomy to all these areas and
gaining a picture of the overall development of society through interactions between them.
These interactions take place through changing social values and social classes of each
area.²

If one is to speak of Schumpeter’s notion of evolution, it must be worked out in the
context of his program of a universal social science, which consists of the three-layered,
two-structure approach to the mind and society.³ Schumpeter’s work, in fact, covers the
system of substantive theory (economic statics, economic dynamics, and economic
sociology), on the one hand, and the system of metatheory (philosophy of economics,
history of economics, and sociology of economics), on the other. The organizing principle
of the program was the “Soziologisierung” of the social sciences, which means a
sociology-oriented universal social science (1915, 132-33). He did not develop it to a full
extent but two sociologies—economic sociology and the sociology of knowledge—,
which may be interpreted as its strategic version. Schumpeter’s two sociologies seem to
reflect the division of various areas of social life by the contemporary German sociology
of culture into ideal-cultural fields and real-social fields. When he first presented a sketch
of a universal social science in Chapter 7 of Entwiclung, he called the whole picture of
the interrelated behavior of all the areas “socio-cultural development” (1912, p. 545).

Unfortunately, Schumpeter omitted Chapter 7 from the second and subsequent
German editions (1926 and after). The English translation, The Theory of Economic
Development (1934), which is an abridged version based on the second German edition,
does not contain this chapter.⁴ The reason for the omission was, according to his account,
that while the chapter had unexpectedly attracted a great deal of attention from historians
and sociologists, he feared that the readers’ attention would be diverted from his main
contribution to economic theory. The omission was not essential.

Second, even if the discussion were confined to economic dynamics, it should be
noted that Schumpeter emphasized, in his definition of economic development, the
endogenous changes in economic life in distinction from the exogenous changes imposed
on the economy. In the explanation of the endogenous changes in the economy as the
cause of development, he originally depended on the typology of human being: the
distinction between the hedonistic-static man and the energetic-dynamic man (1912, p. 128). Whereas the hedonistic type of man behaves to attain the maximum satisfaction of wants under given conditions, the energetic type of man pursues creative forms in the economy. In his view, changes in technology, along with changes in capital, labor, wants, and economic organization, would only cause the adaptive responses of the economy involving the majority of economic agents and remain the subject matter of static economic theory. The essence of evolution and development lies not in technical changes per se but in the energetic human activities carrying out innovation. Schumpeter called the type of energetic person Mann der Tat (man of action), leader, and entrepreneur.

The basis of a universal social science is provided by the premise of the static-dynamic dichotomy in terms of human typology that is equally applied to the major areas of social life. The typology of the passive and active man constitutes the ontological premise of Schumpeter’s concept of evolution as a critique of the traditional concept of the economic man.

Unfortunately, again in the second edition of Entwicklung, the emphasis on the human typology of leader and follower was much reduced primarily as the result of the criticism that Schumpeter glorified the entrepreneurial type. In the second edition, he put not so much emphasis on the personality of innovators as on the functions of innovations. Thus, there has been a tendency to interpret the analysis of such external forms as technological changes as the core of his dynamic economics.

In sum, compared with Schumpeter’s original vision of evolution, the current conception of neo-Schumpeterian evolutionary economics is narrow in the two senses. The elimination of both the idea of the development of society as a whole and that of the typology of human being has deprived Schumpeter’s original conception of the sociological width and of the philosophical depth. In view of his strategic version of a comprehensive sociology, the lack of the sociological perspective means not only a neglect of his economic sociology but also his sociology of knowledge. It is possible that the current narrow conception, as is held by neo-Schumpeterian economists, was created by Schumpeter himself through his 1926 revision of Entwicklung. This is an interesting theme that is related to the struggles between an internal impulse of a thinker and an
external impact of contemporary thinking on him. The theme concerns the destiny of the genius who was confronted with changing currents of two philosophies, analytical and Continental philosophies and of two cultures, Anglo-Saxon and German. More basically, the theme has to do with the structural relationship between scientific and pre-scientific stages of the social sciences.

This paper attempts to return to Schumpeter’s original view of the evolution of society as a whole based on the human typology, and to explore the ontological foundations of his conception of evolution. It is widely acknowledged that the conception of the economic world emerges with a pre-scientific act called vision. The term vision was made familiar to economists by Schumpeter himself. Vision, however, is not an ultimate factor which constitutes the objects and viewpoint of inquiry. Ontological premises always underlie a vision. Ontology, a branch of philosophy, is the science of being in general. Economic ontology concerns what may be called the economic universe, which is explicitly or implicitly posited by economists as a vision concerning the subject matter and basic method of economics. The boundaries and contents of the economic universe are given by the ontological commitments of economists as the Weltanschauung. By focusing on Schumpeter’s vision, this paper also attempts to examine the possibility of economic ontology that has been neglected in the positivist age of the Entphilosophierung.

The paper is organized as follows. First, I analyze Schumpeter’s all-embracing concept of evolution, which is to be addressed by a universal social science, into three fundamental ideas relating to socio-economic concepts (the static-dynamic dichotomy, social unity, and development). This analysis is carried out with reference to the intellectual fields in which Schumpeter was involved (Neoclassicism, Marxism, and Historicism) (section II).

Second, I get down from the socio-economic dimension to a philosophical level in pursuit of an ontological basis of Schumpeter’s vision. In view of the division between analytical philosophy and Continental philosophy, I examine the affinity of his ideas with Continental philosophy (section III), and identify his specific commitments to the components of Continental philosophy, namely Romanticism and Historicism, by referring to his inquiry into the history of economic thought (section IV).
Third, since Romanticism and Historicism, the two grand systems of Weltanschauung, are the outcome of ontological investigations, it is necessary to look at an underlying process in which they are derived and work together to depict the object of inquiry. This process shows how the objects of scientific inquiry are constructed as a vision in the pre-scientific stage. I first take up Schumpeter’s approach to the sociology of science in terms of vision and ideology (section V), and then extend it by the medium of K. Mannheim and M. Scheler to the ontological investigations in terms of Heidegger’s framework of hermeneutics (section VI). The paper concludes with some remarks on the implications of the approach taken here (section VII).

II. The Fundamental Ideas of Schumpeterian Evolution

Schumpeter demonstrated a strong interest in the intellectual products of the past in a wide area of the social sciences, and constructed his positions by responding to the totality of challenges posed by the intellectual fields of the time. He disdained to follow any single school of thought. Rather he was avid in his desire to examine all points of view and to absorb everything that was good in them. His erudition is well known, yet it was not a matter of taste but of resources for scientific work. To identify the source of his vision I examine the intellectual fields in which he was deeply involved. For Schumpeter the most relevant intellectual fields were three: Neoclassicism, Marxism, and Historicism. No other authors could ever address such wide intellectual fields. Schumpeter could assimilate plural, even conflicting ideas, since, for him, they were not alternatives to be chosen for professional specialization but materials to be integrated for intellectual innovation.

To understand Schumpeter’s framework of a universal social science I will set out the fundamental ideas underlying the framework by referring to the intellectual fields in which he was interested. There are three such ideas in Schumpeter’s thought: (1) the dichotomy of statics and dynamics in terms of the type of man, (2) the evolutionary development of society through interactions between social areas, and (3) the notion of institution as the synthesis of theory and history. Each of these ideas represents his responses to the problematics of Neoclassicism, Marxism, and Historicism.
Although Schumpeter discerned the strength of these intellectual fields, he had a keen awareness of their weakness. He offered alternative conceptions to eliminate their defects, while accepting their merits. Each response is not only offered as a solution to what he perceived as shortcomings in the dominant intellectual fields, but also designed in total as scaffolding to organize the framework of a universal social science. The conjunction of these responses constitutes his tripartite ideas of universal social science: innovation, social unity, and institutional development.

Schumpeter’s first fundamental idea was to introduce dynamic type of man into social science. The conception of the agent as a rational utility-maximizer based on fixed preferences has occupied a central place in mainstream economics. Although Walras’s general equilibrium theory was quite satisfactory as the methodological foundation of economics, Schumpeter thought it was deficient in a dynamic analysis of a capitalist economy. His problem was to explore a new horizon of dynamic economics vis-à-vis static economics.

For this purpose, he proposed to construct economic dynamics on the basis of the concept of the dynamic man as the carrier of the creative power of life in distinction from the traditional economic man who is concerned with adaptation to given conditions and restoration of economic order. This conception of innovations views the economic world as an organism with a living unity and has no parallel in Marx and Schmoller. Schumpeter’s division of the static-dynamic typology can only be compared with Nietzsche’s distinction of artistic forms between Dionysos’s creation and destruction and Apollo’s equilibrium and order. Life resides only in the animate and organic entities. This is a romanticist legacy to economics in emphasizing the individual creative spirit, but orthodox in keeping methodological individualism in comparison with other competing dynamic approaches in terms of saving-investment relations, monetary disturbances, period analysis, disequilibrium analysis, and expectations.

There is no question about the limitation of economic agents in neoclassical economics. His criticism of the classical school including Marx pointed out the lack of “the element of personal initiative” and overemphasis on the importance of mere increase in physical goods in their conception of economic development (1954, p. 572). In
examining the future of capitalism, Schumpeter was absorbed in estimating the source of innovations that was nothing less than a “particular ‘human element’ of what is after all a human organism” (1950, p. 388).

Schumpeter described the social process as the interactions between innovations led by the dynamic men and routines followed by the static men. Innovation and adaptation are integral parts of social life: while innovation disrupts existing equilibrium, adaptation absorbs the consequences of innovation as a new order, just as the Apollo’s harmonizing form integrates the Dionysos’s disruptive forces of life. In the economic sphere, this process takes the shape of business cycles.

Schumpeter’s second fundamental idea was the evolutionary development of society through interactions between various social areas. This was first and foremost his response to the Marxian economic interpretation of history. Schumpeter appraised that “Marxist analysis is the only genuinely evolutionary economic theory that the period provided,” calling it a “unitary social science.” (1954, p. 441). However, he was critical of Marx’s view of historical processes for unilateral relations from production processes (as the substructure of society) to political, social, and cultural processes (as the superstructure of society) through the pivotal position of the class structure of capital and labor. For Schumpeter, social class occupied an important place in evolutionary development as a whole, but his conception of social class was not confined to the economic area but consisted of more open social dynamics derived from leadership formation in various social areas (1927).

The focus of his sociological concern was a theory of social class that would serve as the crucial link between the concept of leadership in various areas of social life, on the one hand, and the overall concept of civilization and the Zeitgeist, on the other (1912. pp. 525-35). This sociological link became the key to his thesis of failing capitalism in Capitalism, Socialism and Democracy (1950), an immortal analysis of capitalism.

His third fundamental idea observes that the concept of institutional development is intended to achieve the synthesis of theory and history. This was his response to the Methodenstreit between theory and history and opened a new frontier to the theoretical analysis of history, or what he called a “reasoned history” (1939, vol. I, p. 220) or “histoire
raisonnée” (1950, p. 44). In accord with the German Historical School, Schumpeter believed that history is much more important than theory because “the subject matter of economics is essentially a unique process in historic time” (1954, p. 12). The concept of institution is a means of generalizing historical events, but it is generally limited due to its historical relativity. Thus it is a compromise between the generality meant by theory and the individuality meant by history. For him, institutional economics or economic sociology was a device of integrating economic theory and economic history. In this respect, Schumpeter admitted that Marx was the first great economist who synthesized theory and history and set the goal for the historical school of economics (1950, p. 44), while characterizing the goal of Schmoller’s program as a “unified sociology or social science as the mentally (‘theoretically’) worked out universal history” (1926b, p. 382).

The set of Schumpeter’s fundamental ideas given above suggests that the broad tenet of Schumpeterian evolutionary economics is a challenge to mainstream economics. Both what he wanted to add to Neoclassicism (the concept of leadership) and what he succeeded from Marxism and Historicism (the concepts of social unity and institutional development) were heterodox elements to mainstream economics.

III. Schumpeterian Evolution in the Philosophical Perspective

Starting with Schumpeter’s fundamental ideas, I descend gradually to the ontological foundations of his whole structure of thought, instead of ascending the structure of his substantive theory. In this section I describe an overview of philosophical thought to understand how his basic ideas differ from mainstream economics in the philosophical perspective.

Classical economics was established by François Quesnay and Adam Smith against the philosophical background of the eighteenth-century Enlightenment. While their works were restricted by existing economic and social conditions, they presented the exemplars of what economics looked like and succeeded in establishing the paradigm of economics. Neoclassical economics also belongs to this line of thought as far as its philosophical worldview is concerned. The scientific worldview of the Enlightenment, which was expressed by a series of concepts with different nuances, such as rationalism, positivism,
empiricism, objectivism, and naturalism, has dominated mainstream classical and neoclassical economics. The Enlightenment was a philosophy of social science that was modeled after natural science. Schumpeter’s idea of evolution differs from the basic philosophy of the Enlightenment: it cannot be understood exclusively within the scope of the scientific worldview of the Enlightenment.

Toward the end of the eighteenth century powerful currents of anti-Enlightenment thought, including idealism, subjectivism, historicism, and romanticism, were developed—particularly in Germany—against the natural-scientific worldview. The anti-Enlightenment was not the obscurantism that had prevailed before the Enlightenment, but an alternative to both obscurantism and Enlightenment. Despite the ‘Copernican turn’ between the subject and object in Kant’s critical philosophy, dualism remained apparent between the subject and object, between the spirit and nature, and between consciousness and unconsciousness. Philosophical efforts to resolve this dualism resulted in the developments of German idealism by Fichte, Schelling, and Hegel, and gave a philosophical basis for anti-Enlightenment thought. An important consequence was the emergence of an epistemology and ontology for cultural, social, and historical science as distinct from those designed to support natural science. In terms of the present configuration of philosophical thought, the conflict between the Enlightenment and anti-Enlightenment is represented by the contrast between analytical philosophy and Continental philosophy.\(^5\)

The Enlightenment or analytical philosophy claims (1) the primacy of reason in knowledge, (2) the analysis of objects into components, (3) the mechanistic view of man and the universe, and (4) the generalization and universality of knowledge by the dismissal of history. Anti-Enlightenment or Continental philosophy, in contrast, maintains (1) the relevance of feelings and intuition to knowledge, (2) the holistic synthesis of objects, (3) the organic view of man and the universe, and (4) the historicity and plurality of knowledge. Occasionally—in economics too—several versions of alternative thought, more or less influenced by Continental philosophy, have appeared to challenge mainstream economics: for example, socialist economics, romantic economics, historical economics, institutional economics, and economic sociology.
Why are there such wide differences? The differences seem to arise out of the
differences of the two philosophies with respect to a perspective between the life-world
and the scientific-world and with respect to a target between pre-theoretical and theoretical
knowledge. Continental philosophy starts from the life-world and formulates the rules and
procedures for not theory but pretheory, whereas analytical philosophy addresses the
scientific-world and describes a methodology for theory construction. Thus understood,
the two philosophies are not inconsistent but can be linked.

In twentieth-century economics Schumpeter was one of the practitioners of
Continental philosophy. He was not a philosopher; he pretended to be an anti-philosopher
and hated metaphysics. As an economist, he behaved as an analytical and empirical
economist, even as a patron of mathematical economics and econometrics. In fact, he was
an unconscious practitioner of the philosophy of the Continental tradition, and played a
role in introducing it into the Anglo-Saxon world of economics under the guise of
theoretical and empirical economics, especially after he moved to the United States. It is
my contention that the background for Schumpeter’s conception of evolution should be
understood in a wider context of the conflict between analytical philosophy and
Continental philosophy. Indeed, it is a mistake to view the two philosophies as mutually
exclusive, but the philosophical context of a division can be used to shed light on
Schumpeter’s deviation from mainstream economics.

In 1944, in an interview with the university gazette Harvard Crimson, Schumpeter
called his long-standing research program a ‘comprehensive sociology’ and observed:

“Early in life I formed an idea of a rich and full life to include economics,
politics, science, art and love. All my failures are due to observance of this
program and my successes to neglect of it; concentration is necessary for
success in any field.”

This cynical aphorism reveals signs of distress which the genius had suffered from under
the growing pressure of positivism and formalism. According to Schumpeter’s definition,
the innovator swims against the current of the time, and overcomes all resistance, and
thereby succeeds in creating new directions. Major difficulties with Schumpeter’s research
program lay in a gap between his vision of overall developments and his method of
positivist philosophy. His working principles and evaluative standards swayed between Continental and analytical philosophy, while the received view of economics had gradually but definitely shifted to positivism. The omission of Chapter 7 and the deletion of the element of personal initiative in the second edition of Entw·icklung in 1926 were symbolic events that forced him to succumb to positivist philosophy and to withdraw his innate orientation toward Continental philosophy to a certain extent.

However, he never renounced his claim for a universal social science based on the sociological perspective and the human typology. In that same year, 1926, he wrote a monumental essay on Gustav von Schmoller, positively interpreting Schmoller’s research program for the German Historical School as a prototype of universal social science in the midst of the declining authority of Schmoller. As late as 1934, he wrote on the static-dynamic dichotomy in his preface to the English edition of the Entw·icklung:

“I keep to the distinction, having repeatedly found it helpful in my current work. This has proved to be so even beyond the boundaries of economics, in what may be called the theory of cultural evolution, which in important points presents striking analogies with the economic theory of this book” (1934, p. xi).

Thus Schumpeter maintained the distinction between statics and dynamics and the underlying distinction between the static and dynamic man as the premises of the theory of socio-cultural evolution or a universal social science, for he believed that the interactions between the two forces of innovative disturbance and equilibrating adaptation constitute the content of separate social sciences. Also in Business Cycles (1939), he did not fail to remind the reader of his larger theory sketched in the lost Chapter 7 of Entw·icklung:

“The writer believes, although he cannot stay to show, 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” (1939, vol. I, p. 97).

An overload of Continental philosophy in excess of the standard of analytical philosophy must be jettisoned to reach the scientific-world and engage in the formulation and generalization of scientific knowledge. The affair of 1926 for Schumpeter is
understood as his attempt of reducing the overweight. But he kept it as pre-scientific knowledge.

IV. Romanticism and Historicism in Schumpeter’s Writing

Against the background of the two major philosophies, it is now useful to refer to more specific thought to interpret Schumpeter’s program. I argue that Schumpeter’s departure from analytical philosophy or his excess weight over the standard of analytical philosophy is German Romanticism and Historicism. Although the two overlap and strengthen each other to a certain extent, they are unique and significant components of Continental philosophy.

According to Schumpeter’s understanding, “Unlike utilitarianism, romanticism was not a philosophy, or a social creed, or a political or economic ‘system.’ It was essentially a literary fashion that linked up with a certain attitude toward life and art” (1954, pp. 418-19). This means that the romanticist worldview is so flexible that it can be developed in any direction because it consists of primitive intuitions and feelings directly derived from the life-world. Nevertheless, he tried to formulate the romanticist attitude as follows:

“On the surface, it spelled revolt against classic canons of art, for instance, against Aristotle’s three dramatic unities (of time, place, and action). But below this surface, there was something much more important, namely, revolt against convention, particularly against rationalized convention: feeling (possibly genuine) rose against cold reason; spontaneous impulse against utilitarian logic; intuition against analysis; the ‘soul’ against the intellect; the romance of national history against the artefacts of the Enlightenment. Let us call this attitude anti-intellectualism” (1954, p. 419).

His early “idea of a rich and full life” expressed in the newspaper interview was the embodiment of the romanticist worldview, and his conception of economic development was nothing less than a romanticist revolt against the conventional circular flow of a static economy, which was arranged on the utilitarian hedonistic calculation of life. His static-dynamic dichotomy based on the human typology was an ingenious device to integrate hedonism and romanticism into the foundations of economics.
Dynamic man as the key concept of evolution is characterized by energetic behavior and non-rational motivations. With regard to behavior, while this type of person encounters uncertainty and resistance, he has enough energy and will, foresight and creativity to overcome difficulties and introduce innovations. Regarding motivations, the dynamic man has different principles from those of the rational economic man: the dream and the will to found a private kingdom, the will to conquer, and the joy of creation (1934, p. 93).

Contrary to his contempt for Benthamite utilitarianism, Schumpeter favorably discussed its cultural antipode romanticism and evaluated the importance of romanticism for sociology and economics. With regard sociology, he described:

“It seems possible to speak of a romanticist sociology or at least of definite contributions of romanticist writers to economic, political, and general sociology. …. It consists in the insertion, into the analysis of institutions and of behavior within institutions, of the compound of nonrational—not necessarily irrational—human volitions, habits, beliefs, and so on, which largely make a given society what it is and without which a society and its pattern of reaction cannot be understood” (1954, p. 422).

The romanticist concern for “the compound of nonrational human volitions, habits, beliefs, and so on” in the analysis of institutions and behavior within institutions corresponds with an aspect of the research program of the German historical school. Thus he argued:

“The [German historical] school professed to study all the facets of an economic phenomenon; hence all the facets of economic behavior and not merely the economic logic of it; hence the whole of human motivations as historically displayed” (1954, p. 812).

The meeting point of Romanticism and Historicism is provided by the common recognition of the whole of human motivations and all the facets of social phenomena. While romanticist ideas seek for the wholeness of life on the level of the life-world, historicist ideas emphasize an understanding of the way in which a society as a whole actually changes. It is just here that Schumpeter found an important relevance of Romanticism with economics:
“The chief importance of the romanticist movement for analytic economics consists in the impulse it gave to all kinds of historical research. It taught us better understanding of civilizations other than our own—the Middle Age, for example, and extra-European cultural worlds as well. This meant new vistas, wider horizons, fresh problems, and, above all, the end of the stupid contempt that Voltaireans and utilitarians professed for everything that preceded ‘this enlightened age’” (1954, pp. 422-23).

Schumpeter’s account of Historicism is more comprehensive. In his early work on the history of economic doctrines and methods, he summarized six viewpoints of the German Historical School: (1) a belief in the unity of social life and the inseparable relationship among its components, (2) a concern for development, (3) a recognition of the plurality of human motives, (4) an organic and holistic point of view, (5) an interest in individual relationships rather than the general nature of events, and (6) a viewpoint of historical relativity rather than universality (1914, pp. 110-12). This is an excellent analysis of the methodological characteristics of the German Historical School in particular and Historicism in general.

The greatest significance of Historicism for Schumpeter was the recognition that historical materials reflect the development phenomena and indicate the relationship between various areas of social life. It is not possible to explain a historical process of development merely in terms of economics alone, because in history all aspects of society change together with interactions between them. Thus, the concern for development in history necessitates the notion of the unity of social life. This recognition, that is a combination of (1) and (2) above and supported by (3), constitutes Schumpeter’s central ideas of a universal social science except for the romanticist conception of dynamic human type. Schumpeter accepted viewpoints (1), (2), and (3) as the valuable contributions of the German Historical School.

Referring to viewpoint (4), he repudiated the contention that the economy or society has its own aims and interests, except for the influences of the institutional and cultural factors on the behavior of individuals. For economic sociology incorporates the notion of institutions and social rules as the determinants of individual behavior. Although the unity
of life is a vision of Romanticism, Schumpeter offered an alternative approach of integrating individual or partial elements into the whole, instead of starting from an indivisible metaphysical whole. When all variables are seen as endogenous and interdependent, investigations of these interactions among the social areas will reveal functional relations rather than causal relations, and will substantiate the idea of the unity of social life without presupposing an organic and holistic point of view.

Schumpeter wanted to overcome viewpoints (5) and (6), the most controversial issues of the Methodenstreit, by his conception of economic sociology that would integrate theory and history by means of the concept of institutions. According to Ernst Troeltsch, who contrasted naturalism and historicism as “the two gigantic creation of knowledge in the modern world,” historicism means making all our thinking about human beings, their culture and values basically history-oriented, in contradistinction to a rationalist and universalist view of knowledge in the Enlightenment. Without commitment to such an extreme standpoint, economic sociology and institutional economics have contributed to incorporating the point of historicity into economics.

It becomes clear that although Schumpeter’s vision of a universal social science was constructed as responses to Neoclassicism, Marxism, and Historicism, the concept of dynamic human type and the related concepts of leadership and innovation are to be found elsewhere, namely German Romanticism, the least relevant thinking to economics so far.

Isaiah Berlin characterized romanticism as follows:

“the importance of romanticism is that it is the largest recent movement to transform the lives and the thought of the Western world. It seems to me to be the greatest single shift in the consciousness of the West that has occurred.”

Despite Berlin’s statement, romanticism has not left its mark on economic theory. Schumpeter’s invaluable dream might mean a renaissance of the neglected half of modern thought in the field of economics. In the rest of this paper, I will examine the locus of Historicism and Romanticism in Schumpeter’s fundamental ideas.

V. Knowledge Formation between Vision and Ideology

The question how a vision emerges in the pre-scientific stage is exactly the central
problem of ontology concerning the object of study and can be approached from two
standpoints: the sociology of science and the philosophy of ontology. The present section
and the next are concerned with these approaches. Since vision is a pre-scientific
preconception of the objects of study, it has not been regarded as the proper subject for
discussion in the positivist philosophy of science. However, in his article ‘Science and
Ideology’ (1949) and his unfinished chapter on ‘The Sociology of Economics’ in History
of Economic Analysis (1954, Part I, Chapter 4), Schumpeter discussed this question by
focusing on the relationship between vision and ideology in the context of the sociology of
science.

By ‘vision’ Schumpeter means the perception of facts as having some meaning or
relevance that justifies our interest in them. On the other hand, there exist in our mind
preconceptions about the economic process, which are given to us before we start
scientific work; Schumpeter called them ‘ideology.’ His conception of ideology is
different from the ordinary usage oriented to moral and political claims of values.

Schumpeter’s concern is that ideology must inevitably intervene in the plotting of
vision. Vision of the economic universe does not emerge from nothing but from the
historical world into which economists are thrown. Economists are constrained by the
historical world in two senses: first, the historical world consists of the structure of the
scientific-world that is defined by given research problems and methods, and second, it
consists of the changing nature of the real world or life-world that is characterized by time
and space. By interpreting Schumpeter’s conception of ideology in terms of the historical
world, we get one of the pillars of economic ontology, i.e., a disciplinary tradition.
Although pre-scientific knowledge of the economic universe is largely governed by the
disciplinary conventions that have been established by the past scientific activities,
Schumpeter holds the view that economic knowledge is not only built up through the
accumulation of legacies from the past but also developed by a struggle of escape from
habitual modes of thought. The latter path crucially depends on a role of creative vision on
the economic universe, another pillar of economic ontology.

According to Schumpeter, the combination of vision and ideology, though both are
delusive concepts, provides us with dual moments: the creation of the future and the
constraint by the past. It can be argued that the relationship between creative vision and
traditional convention in knowledge formation is patterned after the relationship between
the creative destruction by innovations and the preservation of the existing order in
economic life. Our next task is to inquire into the basis of the dual forces working in
knowledge formation.

In view of the fact that Schumpeter referred to two sociologists of science, Karl
Mannheim and Max Scheler, I recognize that two contrasting moments are implied in his
discussion: historicism and phenomenology. Mannheim defined the key theme of the
sociology of knowledge as ‘knowledge being existentially related’ (Seinsverbundenheit
des Wissens), meaning that social existence is linked with knowledge through the structure
of a perspective. Perspective is a Weltanschauung, a style of thought, and an intellectual
viewpoint, which in turn depends on various social factors. The idea of knowledge
correlated with the totality of social existence is based on the thought of historicism, in
which knowledge is characterized by social conditions at particular time and space. But
the problem with Mannheim is that a perspective is not uniquely socially given.

Scheler took a different approach to the sociology of knowledge. Mannheim called
his own approach ‘historicist approach’ in contrast to Scheler’s ‘phenomenological
approach.’ He criticized the latter for the atemporal, static, and universal criteria of truth.
With respect to the central theme of the sociology of science that knowledge is
conditioned by social existence, Scheler’s concern was to seek for the essential and eternal
truth that is not volatile in accordance with historical conditions. This attempt was made
possible by his phenomenological approach. Phenomenology focuses on the facts given
by intuition, which makes us experience the world most directly; the slogan is ‘Zu den
Sachen.’ Intuition does not presuppose reason or analysis but addresses the facts that exist
before logical operation in the life-world. It allows feelings and desires to work so as to
grasp all that exists in the mental experience of human beings.

The approaches of Mannheim and Scheler are not inconsistent but complementary. It
is possible to interpret the relationship between historicism and phenomenology as the
philosophical representation of the relationship between ideology and vision in
Schumpeter’s argument of knowledge formation. While Mannheim’s historicist sociology
of knowledge regards knowledge as constrained by social existence, Scheler’s phenomenological sociology of science identifies knowledge with a reflection of human existence in the community. Both approaches are one-sided. Later Martin Heidegger locates human beings (Dasein) plunged into a social and historical context at the center of his ontology. Human beings are historically thrown into the world (Geworfenheit), but still project themselves into the future (Entwurf). According to Heidegger, the analysis of Dasein’s understanding entails the ontological formation of the world. Historicity and subjectivity are intertwined each other at the pre-cognitive stage of science.

From the preceding discussion of the sociology of knowledge arises the importance of phenomenology as a principle organizing pre-scientific activity along with historicism. Although an orientation toward theory emerges out of the experience of life, theory construction means a departure from the life-world. To fill a gap between theory and the life-world, phenomenology grasps our experience in the life-world by intuit and recurs to the life that prevails before the theoretical work of abstraction and formulation begins; from that perspective, the subjectivity is understood as a whole man having various facets of human existence, as romanticists strongly maintain. Thus, phenomenological approach, on the one hand, tries to break up the historical givenness of theories, which Schumpeter called ideology, and clarify its meanings by tracing back to their origins in the worldview. On the other hand, it tries to find the origins of the pre-scientific ideas, which Schumpeter called ‘vision,’ in the context of the life-world and the life experience.

VI. Dasein between Statics and Dynamics

To quest for the ontological structure of being as the object of study under the historical constraints and forward-looking projection, it is necessary to proceed from the sociology of science to philosophical hermeneutics developed by Wilhelm Dilthey, Martin Heidegger, and Hans-Georg Gadamer among others. Dilthey called disciplines addressed to historical and social phenomena ‘human sciences’ (Geisteswissenschaften), meaning that activities of human mind create history and society. The Geist in this context characterizes the whole aspect of human life with plural functions including ‘intellect, feeling, and will.’ Intellect grasps an object, feeling prescribes a value, and will sets an
objective. Dilthey attempted to build the human sciences on the structural nexus of the psychological functions and to reconstruct the existence by means of ‘lived experience, expression, and understanding’ (Erlebnis, Ausdruck, and Verstehen). Through this attempt he finally arrived at hermeneutics, i.e., a discipline of understanding and interpretation of all human behavior and products. Hermeneutic is the self-reflection of human beings addressed to the historical and social world. Whereas the natural sciences are concerned with the formulation of causal relationship, the human sciences interpret the structural relationship among the objects from a teleological viewpoint and clarify their values, significance, and meanings. An interpretation of the historical and social world leads us to various worldviews or visions, which are constructed in accordance with different weighing of the structural nexus of life. The most comprehensive system was Dilthey’s ‘theory of worldviews’ (Weltanschauungslehre). It is suggested that Schumpeter’s vague concept of vision can be interpreted as the self-reflection concerning the economic universe by the use of hermeneutics.

In this connection, Heidegger’s framework will be useful. For him, phenomenology of the Dasein (human beings) means nothing but hermeneutics because phenomenology is an ontology concerning the existence in general, based on Dasein’s own understanding of being. The basic thesis of his ontology is that “only as long as Dasein is, is there being.”\(^{15}\) He attempted a hermeneutics of human beings and tried to interpret the understanding of existence with which they were implicitly endowed. An interpretation must understand in advance what is interpreted; here is what is called a ‘hermeneutical circle,’ i.e., a circle between preceding understanding and present interpretation. Heidegger put forward a notion: ‘pre-structure (Vor-struktur) of understanding.’\(^ {16}\)

According to Heidegger, interpretation in hermeneutics aims to advance understanding which includes pre-knowledge from the life experience of the Dasein. Vor-struktur, namely the pre-structure of understanding, consists of three concepts: first, Vorhabè, that is what we have in advance or fore-having; second, Vorsicht, that is what we see in advance or fore-sight; and third, Vorgriff, that is what we grasp in advance or fore-conception. Vorhabè indicates an object of interpretation, Vorsicht a viewpoint of interpretation, and Vorgriff a worldview of interpretation. This set of concepts shows the
structure of preconception in the pre-scientific process of knowledge formation, in which
the duality of existential projection of the Daasein oriented to the possibilities of human
beings (creation) and of its thrownness into the historical and social world (tradition)
should be developed. In Schumpeter’s terminology, Vor-struktur is the combined result of
vision and ideology.

After Heidegger, hermeneutics has been developed again more in the direction that
emphasized the historicity of human existence. Gadamer criticized Dilthey for the split of
hermeneutics into psychology and historicism and aimed at the construction of
hermeneutics rooted in the historical existence of the self.17 Dilthey attached much
importance to the correspondence between the psychological nexus and the structure of
the objective world. For Gadamer, historical reason is not only reason conditioned by our
historical condition but also reason for shaping a new history; he thus stressed a
forward-looking viewpoint of history. He advocated the ‘fusion of horizons’
(Horizontverschmelzung) of the past and the present; this idea is parallel to Troeltsch’s
‘present cultural synthesis’ and Heidegger’s ‘projection under thrownness.’ All these ideas
are the philosophical efforts to go deeper into Schumpeter’s duality of vision and ideology,
which was presented in the context of the sociology of knowledge as the prelude to the
history of economics.

Depending on hermeneutical ontology, I have tried to show that Schumpeter’s
insight into the interactions between vision and ideology has been a focus of philosophical
discussions in historicism, phenomenology, and hermeneutics. The next task is an analysis
of the Daasein which leads to Schumpeter’s static-dynamic dichotomy.

Schumpeter’s two types of agency are not Heidegger’s Daasein, that has a privilege
of interpreting the being of entities. Heidegger distinguishes between entity and its being
and calls the difference an “ontological difference.” According to him, whereas an
investigation into entities (Seiende) is an ‘ontical’ (ontisch) study—economics is an
ontical study of the economy—, an investigation into the being (Sein) of entities is an
‘ontological’ (ontologisch) study— economic ontology is an ontological study of the
economy. Among various entities in the world, human being is special in that it exists with
the understanding of its own being and has a role of understanding the meanings of other
entities; hence it is called Dasein (being-there), meaning that human being is the place where the meanings of being of all entities are made clear. For Heidegger, being is nothing but a viewpoint or vision which is projected by the Dasein as a plot of the universe. In other words, being is the meaning of the entities in question. Thus the Schumpeterian concepts of static and dynamic agencies are not ontological but ontical. To identify the ontological basis of the economy, one must stand on the ontological level of agency (the Dasein) and ask the meaning of the economy based on the capacity of the Dasein to understand its being.

The Dasein or the ontological self is not an abstract rational entity presupposed by modern philosophy after the Enlightenment, but an average person living an everyday life with the whole aspects of personality, which include ‘intellect, feeling, and will,’ as characterized by Dilthey’s psychological investigation. There is a difference of chemistry between Heidegger’s Dasein and Schumpeterian Dasein. Heidegger’s Dasein tends to project oneself with a general ‘concern’ (Sorge) for the universe and with a basic mental state of ‘anxiety’ (Angst) due to its ‘being to death’ (Sein zum Tode). As a result, it contributed to a rise of existentialism based on a critical mind toward a crisis of the age. The Dasein that is assumed to sustain Schumpeter’s two kinds of the ontical selves is more optimistic and passionate about the projection of self. Although Schumpeter did not reveal his own ontological self, it is possible for us to construct it so as to be consistent with his definition of the ontical selves. My hypothesis is to interpret the essence of Schumpeterian Dasein as Romanticist constrained by Historicist.

Romanticism depended on the emotion and volition as the motive power of life rather than on the pursuit of reason and uniform knowledge. Instead of seeking for the reason as the Enlightenment thinkers did, the Romantic thinkers pursued ‘imagination, feelings, tradition, organism and the mystery of the soul.’18 The Romantic agenda sought to heal the wounds of modernity and technology and to restore unity with the self, with others (communities), and with nature.19 Defining Romanticism as the counter-Enlightenment, Isaiah Berlin regards Johann Georg Hamann as the first person who began the whole Romantic process of revolt against the Enlightenment; he repeats without hesitation an assertive judgment that Hamann was the true originator of modern anti-Enlightenment.
The following passages from Berlin on Hamann convey the contrasting essence of the Enlightenment thinker Voltaire and the anti-Enlightenment thinker Hamann:

“Voltaire thought that they [men] wanted happiness, contentment, peace, but this was not true. What men wanted was for all their faculties to play in the richest and most violent possible fashion. What men wanted was to create, what men wanted was to make, and if this making led to clashes, if it led to wars, if it led to struggles, then this was part of human lot….For Hamann, of course, creation was a most ineffable, indescribable, unanalyzable personal act, by which a human being laid his stamp on nature, allowed his will to soar, spoke his word, uttered that which was within him and which would not brook any kind of obstacle.”

This contrast is compared to Schumpeter’s static-dynamic dichotomy of human being and consequent economic structure.

The ideal of Romanticism was not objectively given universal truth but creation of the mind based on emotion, imagination, introspection, desire, and aspiration, all of which reflect dynamic life. Creation is everything; it has originality; it is based on the energies of man. Thus, Ricarda Huch summed up the thesis of Romanticism as ‘Das Romantisierung besteht in Lebendigmachen.’ Schumpeter’s conception of innovation and dynamic economy retains remarkable traits of the Romantic view of man and the universe. First, innovation is the only ways and means to make an economy lively; second, it is contrasted with the routine of a changeless economy; third, it is based on the maximum realization of human faculties and energies; fourth, it causes destruction and disturbance to the existing order but the outcome is uncertain and unpredictable; fifth, it is unique with respect to a historical context; and sixth, it emphasizes the causal importance of volition rather than reason.

Indeed, for Schumpeter, innovation and its consequences to the economy and society are the subject matter of economic research, which is the concern of an ontical study of the economy. But the causes of innovation reside on the Dasein, which is the concern of an ontological study of the economy. Schumpeter did not conceal his ontological root of the dynamic economic vision despite his pretension to be a positivist economist. The notion of Schumpeterian evolution aims to crystallize and substantiate a
vision derived from the life-world. Addressing a wide range of phenomena covering the nature, human beings, and society, the romanticist viewpoint tempts one to integrate arts, science, and ethics. This was nothing but Schumpeter’s lifetime dream.

VII. Conclusions

Starting with the criticism of neo-Schumpeterian evolutionary economics, this paper attempted to identify Schumpeter’s notion of evolution in a broader perspective. His notion of evolution is sociologically wider and philosophically deeper than the contemporary view and is ultimately based on the premise of the static-dynamic interrelationship of multi-faceted agents.

To search for the pre-scientific process which would have led to such notion of evolution, we have discussed his meta-theoretical view from the two perspectives: first, his view on vision and ideology in the context of the sociology of knowledge, and second, his view on the static-dynamic dichotomy in the context of the philosophy of ontology. Against the background of a contrast between analytical philosophy and Continental philosophy, it was suggested that Schumpeter entertained the worldview of Historicism and Romanticism. In terms of ontological decision, Schumpeter’s DasEr was confronted with a tension between subjective projection and social embeddedness. In the sociology of knowledge, in the philosophy of ontology, as well as in economic theory of development, there is a parallel structure of ‘creation’ versus ‘tradition,’ which can be called ‘isomorphic duality.’ It is illuminating to interpret Schumpeter’s conception of innovation in the context of phenomenological-hermeneutical ontology, because innovation seen in that context represents the manifestations of human energies, a theme recurring like a refrain in all areas of social activities.

The confrontation between the two approaches to evolution, i.e., technological innovations versus human qualities, will become a consistent thought if a link could be assumed between them. Human creativity alone is not enough as a theme of social science: in fact, institutions or rules of the games work as a link between the real world and the ideational world. Schumpeter found that markets in capitalism are the most effective means to attract human creativity and venture into an economy and to permit the
established order to be invaded by innovations. Markets and related institutions are more important than innovations in the sense that they permit creation and destruction of an order at the same time. Schumpeter’s Dasein might have depended on the existence of teleologically effective institutions in various social areas. He mentioned the greatest contribution of capitalism in attracting the best brains to business:

“by creating the social space for a new class that stood upon individual achievement in the economic field, it [capitalism] in turn attracted to that field the strong wills and the strong intellects…. So, in this sense, capitalism—and not merely economic activity in general—has after all been the propelling force of the rationalization of human behavior” (1950, pp. 124-25).

Despite his famous thesis of declining capitalism, he did not complain about the future of a modern society because even if the economic world will lose the only source of romance and heroism, there would be a transfer of talents and energies from the economic area to the non-economic areas. Schumpeter describes: “Human energy would turn away from business. Other than economic pursuits would attract the brains and provide the adventure” (1950, p. 131).

The crucial problem is that the present method of recruiting human energy into the economic sphere will come to an end or at least become less important. Schumpeter thought that after capitalism had accomplished the task of increasing the standard of living through economic development, another system would take its place, one based on a highly rationalized economy that would allocate economic resources and social leadership into broader areas of a society rather than to the narrow economic area from a social point of view. A true crisis of capitalism is that the traditional method of recruiting the best human energy into the economy continues by force of habit even when it is not necessary any more. Schumpeter’s theme of falling capitalism suggests that the whole scheme of innovations in the economy has become an obsolete routine. It is a paradox that innovations become a routine. This is exactly the case that Heidegger diagnoses as the degradation of the Dasein by the pressure of the historical givenness. A solution to the problem depends on how an existing balance between the projection into the future and the thrownness into the past will be upset. The function of the Dasein is to posit a new
meaning of the economy at a historical context from the overall point of view covering the
economic and noneconomic areas. The significance of Schumpeter’s vision is determined
by the plasticity of Schumpeterian Dasein that would lead to a vision of a post-capitalist society on the level of ontology.

1 Works of neo-Schumpeterian economics are published in Journal of Evolutionary Economics. For the accomplishments of the new discipline, see Horst Hanusch and Andreas Pyka (eds.), Elgar Companion to Neo-Schumpeterian Economics, Edward Elgar, forthcoming.


3 See Shionoya (1997, Chapter 3).

4 The original German text of Chapter 7 and its English translation (by Ursula Backhaus) are now available in Backhaus (2003).

5 For historical and contemporary issues around Continental philosophy, see Critchley and Schroeder (1998).


7 “Professor Schumpeter, Austrian Minister, Now Teaching Economic Theory Here,” Harvard Crimson, April 11, 1944.

8 Schumpeter (1926b).

9 Troeltsch (1922, p. 104).


12 Scheler (1926).

13 Max Scheler (1954).

14 Dilthey (1910).


17 Gadamer (1960).
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