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Further Reading
Gary B. Madison

SCHUMPETER, Joseph Alois Julius (1883–1950)
Joseph Schumpeter was born on 8 February 1883 in Triesch, Moravia, which was then part of the Austro-Hungarian Empire (now in the Czech Republic). His father, a manufacturer of textiles, died when Schumpeter was four. Six years later his mother married an officer in the Austro-Hungarian army, enabling Schumpeter to enter what was then the leading institution of secondary education in Vienna, the Theresianum, attended mostly by the heirs of the Empire’s elite. In 1901 he enrolled at the University of Vienna, receiving a JD in 1906. During his last year he participated in a seminar taught by Eugen von Boehm-Bawerk; among his fellow students were Ludwig von Mises, Rudolf Hilferding, Emil Lederer, Otto Bauer, and Felix Somary, each of whom went on to distinguished careers, either in economics or in politics, or both.

In 1908 Schumpeter published a major work, Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie (The Nature and Essence of Economy Theory), with which he habilitated the following year to earn the right to teach as a university professor. His first position was at the University of Czernowitz, at the easternmost edge of the Austro-Hungarian Empire, from 1909 until 1911. He then taught economics at the University of Graz until 1921. In 1912 he published what he regarded as his most important work, Die Theorie der wirtschaftlichen Entwicklung (The Theory of Economic Development). In 1913–14 he taught at Columbia University. After the end of World War I, he served on the Commission to Socialize the German Coal Industry, and from March to October of 1919 as Austrian Secretary of Finance. From 1921 until 1924 he was the President of the Biedermann Bank in Vienna. From 1925 to 1932 he was a professor of economics at the University of Bonn in Germany. In 1927–8 and 1930 he taught at
Harvard University, and in 1931 at Hitosubashi University in Japan. From 1932 until his death, he was a professor of economics at Harvard University. Schumpeter died on 8 January 1950 in Taconic, Connecticut.

In 1940–41 Schumpeter served as the President of the Econometric Society, and in 1942 he published *Capitalism, Socialism, and Democracy*, his best-known work. In 1948 he was elected President of the American Economic Association, and was to be the President of the International Economic Association in 1950. *Ten Great Economists from Marx to Keynes* (1951), *History of Economic Analysis* (1954), and *Das Wesen des Geldes* (1970) were published posthumously.

In his well-known book on the history of economics, Robert Heilbroner treats Schumpeter as one of the “worldly philosophers”. As an economic philosopher, the highly interdisciplinary orientation of Schumpeter’s writings exceeded the traditional scope of economic theory and the history of economic thought. He straddled the line between economic theory and social theory, as he pursued an interest in methodological issues relating to the challenge of advancing economics and economic theory beyond the boundaries of the neoclassical paradigm.

Schumpeter conceived of economics as an integrated social science destined to combine economic theory, economic history, economic sociology, and economic statistics. Economics was to be the central social science in, of, and to modern society, as a civilization whose most important sphere of human and social activity is economic in nature. Though frequently associated with the Austrian School in economics, Schumpeter’s perspective resulted from a unique blend of different traditions, concerns, and theories.

Initially, Schumpeter’s concern was directed at identifying the inherently static nature of neoclassical economic theory. In *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie*, he undertook to make explicit the underlying social imagery of neoclassical economics, as far as the functioning of the market process and the rise of capitalism was concerned. He concluded that as neoclassical economists were concerned with the study of an economic system assumed to have an inherent tendency towards states of equilibrium, the implicit vision of social life they presupposed was of the modern market economy as a stationary state characterized best as a “circular flow.” Yet, Schumpeter contended, this vision evidently is in conflict with the defining characteristics of market economies in general – as they are governed by competition – and with the actuality of modern conditions, as they are capitalist in nature. Schumpeter agreed with Karl Marx that capitalism is inherently dynamic, not static, and that the bourgeoisie is a social class which, in order to sustain its position in the overall social structure, continually must revolutionize the instruments of production, and thus all social relations. With its emphasis on equilibrium states, neoclassical economics is unable to provide a theory that would do justice to the dynamism of the economic process in modern, capitalist societies.

In his early masterpiece *Die Theorie der wirtschaftlichen Entwicklung*, Schumpeter developed a dynamic theory of modern capitalism. Framing economic development as the consequence of innovations, or “new combinations,” he examined the economic, social, and cultural origins of change and innovation in the process of economic development within a largely economic framework, and concluded that ultimately, the entrepreneur is the source of qualitative economic development (as opposed to quantitative economic growth).
the history of economic theories on growth and development, The Theory of Economic Development is unique in that it is built around a category both economic and sociological. While neoclassical economists tend to presuppose that the entrepreneur is a product of the free market system comparable to the capitalist, banker, manager, or worker, Schumpeter argued that the innovative activity of entrepreneurs is the economy’s life-blood. Yet Schumpeter’s combination of economic and sociological conceptions made smooth incorporation of his theory of the entrepreneur and economic development into the rigid models of mainstream neoclassical economics impossible, while sociologists with their more flexible frameworks of analysis may have shied away from the difficulties associated with immersion in economic thought and terminology. As a consequence, the second edition of this work, published in 1926 and the basis for the English translation, transposed the theory of entrepreneur onto the level of a more formal theory of the “entrepreneurial function.”

In Economic Doctrine and Method, published first in 1912, Schumpeter provided what he called “an historical sketch,” tracing the development of economics as a science from the ancient Greeks, through the physiocrats, Adam Smith, the emergence of the classical paradigm of political economy, to the German Historical School and Austrian marginal utility theory.

In 1939 Schumpeter published his most expansive work, Business Cycles. The subtitle aptly denotes the content of the work: A Theoretical, Historical, and Statistical Analysis of the Capitalist Process. In two volumes, Schumpeter set out to “test” his theory of economic development. In more than 1000 pages, he presented the theoretical framework of his analysis, the different components of a market economy and its functioning, and three historical sketches. Examining the respective histories of economic development in Germany, Britain, and the United States, he again placed the entrepreneur at center-stage.

At this point, however, his depiction of the entrepreneur had lost most of its former glory. As a detailed account of capitalist development from the late eighteenth century on, the main focus is on the different business cycles; he traced the “swarming” of innovations and the economic crises that result from the disequilibrating activity of the entrepreneur. Yet, despite Schumpeter’s concern with entrepreneurial capitalism, he was not a proponent of the theory of free markets. While he believed in the self-healing forces of the market, he did not do so blindly. Rather, he conceded that businesses have a tendency to undermine, eliminate, or exploit markets, and strive to attain a position of monopoly. Before we can claim that markets work, especially when, where, and how, the larger political and economic context must be considered. Markets are not a universal feature of modern capitalist society, but their facilitation is a constant challenge.

Schumpeter did not regard state intervention as the solution to economic problems, as it produces types of distortion, and it amplifies how large corporations are responsible for market distortions. Rather than presenting a “remedy,” government tends to amplify the distorting nature of large business organizations: the more concentrated capitalism is becoming, the less markets are likely to work. As he wrote in the preface, “[s]cientific analysis of an organic process easily creates the impression that the analyst ‘advocates’ letting that process alone … . In order to … make it clear that my analysis lends no support to any general principle of laissez-faire, I have sometimes indicated valuations of my own, though I do not think them interesting or relevant in themselves.” (1939, p. vi) The possibility and nature of markets is bound to change over time, as is the role, power and size in society of large corporations.

Similarly, the role of entrepreneurship changes over time: rather than being a constant, the actual role and condition of entrepreneurship must be reassessed continuously, not presumed as a categorical feature of
capitalism anywhere, and anytime. Indeed, Schumpeter’s perspective is highly compatible with Michael Polanyi’s concept of “embeddedness”: entrepreneurship is embedded socially, politically and culturally. Its importance differs depending on historical context, religious traditions, cultural patterns, political institutions and structures of inequality. Whether entrepreneurs play a crucial role in bringing about economic development depends on the particulars of context. During the nineteenth century, at the stage of competitive capitalism, economic progress would not have occurred without the identifiable input of identifiable entrepreneurs. In the age of the modern corporation, however, entrepreneurs began to fulfill a much more ideological function, as they served to conceal the actual working of increasingly concentrated economies.

Just as the distinction between dynamic and static features of modern economics was central to Schumpeter’s theory, so too was his historical analysis of the transition from entrepreneurial, or competitive, capitalism, to managerial, or corporate capitalism. In the set of his writings that comprises The Theory of Economic Development, Business Cycles, and a large number of articles up to the 1940s, where the entrepreneur played a key role, his work rested on an action-theoretical and voluntaristic approach wherein creative individuals energize the economic and historical process. In another set of works, ranging from the 1921 essay “Sozialistische Möglichkeiten von heute” (Socialist Possibilities of Today) to Capitalism, Socialism, and Democracy (1942), and “The March into Socialism” (1950), Schumpeter traced the emergence of post-entrepreneurial, managerial capitalism where innovation has been rationalized to a degree that approaches a circular flow at a level that routinizes “new combinations” brought about by “energetic” individuals.

In Capitalism, Socialism, and Democracy, with which Schumpeter’s name came to be associated above all, he addressed issues pertaining to the intersection of economics, political theory, and sociology. Contending that at the stage of managerial capitalism, in economies increasingly dominated by large corporations, the entrepreneurial function no longer was being fulfilled by individual entrepreneurs, but instead by planning departments in businesses, and even in government, responsible for identifying opportunities for innovations, or new combinations. Under such circumstances, the pattern of rationalizing investment, production and distribution tended to reconstitute itself as economic planning. Schumpeter’s claim that capitalism would prepare its own downfall and facilitate the move toward “socialism” continues to be one of his most contested hypotheses.

The concept of creative destruction is of central importance to Schumpeter’s relevance today. Under conditions of globalization, this concept is uniquely applicable. In the chapter on “The Process of Creative Destruction” (1942, pp. 82–6), he introduces the term in order to capture the most disconcerting dimensions of capitalism: all improvements of the economic process, all increases in productivity, all innovations and new combinations, are likely to come at the price of the destruction of forms of production and economic life that were in place for shorter or longer periods of time. The actors involved in the latter forms of production are bound to pay a price as a new form of economic life – a different kind of enterprise, a different method of production – takes hold. Innovations constantly revolutionize the economy from within, destroying old economic structures and creating new ones. “This process of Creative Destruction is the essential fact about capitalism.” (1942, p. 83)

Schumpeter considered himself John Maynard Keynes’s nemesis. Keynes’s work was eclipsed from the 1950s to 1970s, but reemerged after 1980, especially after 1983, the year of centennial celebrations of Marx’s death and Keynes’s birth. Schumpeter’s politico-economic orientation went well with comparisons of Marx and Keynes, especially
since this was the year of his birth also. Contrary to Marx and Keynes, however, Schumpeter represented a conservative outlook: he regarded the age of competitive capitalism as the height of human civilization. In turn, his return after the period of neglect was due in large part to his having advocated the idea of entrepreneurship, which came back into favor during the Reaganomics of the 1980s. However, while this may have been the main reason, there was little substance to it. As has been pointed out repeatedly, Schumpeter tends to be among the theorists that are cited relatively frequently, but rarely read. In addition, he was far more complicated than the recent association of his thought with conservative and free-market position would allow for. Normatively, he certainly was a conservative; yet, analytically – as he was influenced by Max Weber – he was far more interested in the idea of value-freedom, meaning especially that beyond one's normative orientation, it is important to be willing to face facts, especially where facts contradict basic assumptions and are unpleasant.

The distorting impact of large business organizations is especially true with regard to the implications of the rise of modern management, a travesty violating principles of competitive capitalism. In Schumpeter's view, the "merger movement" was effectively the merging of business and bureaucracy, creating a vast system of control that undermines the principle of modern individualism and autonomy. With the rise of modern management, the entire framework undergoes a reorientation that produces a reconfiguration of the values-facts relationship in advanced, capitalist and democratic societies. The most explicit consequence was that bureaucratic capitalism has more in common with actually existing socialism than with nineteenth-century competitive, or entrepreneurial, capitalism. Such, a paradoxical condition ensued regarding the reconciliation of facts and norms, foreshadowing key dilemmas that have been shaping the direction of globalization.

Today, Schumpeter's contribution is most important in the areas of economic sociology, evolutionary economics, and globalization studies. Schumpeter as a worldly philosopher applies not merely with regard to entrepreneurship as a form of economic and social action, but also to issues pertaining to the reconciliation of facts and norms.

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Schurman, Jacob Gould (1854–1942)

Jacob Gould Schurman was born on 22 May 1854 at Freetown, Prince Edward Island, and died on 12 August 1942 in New York City. He began his university studies near his hometown at Prince of Wales College in 1870. After two years he moved on to Acadia University in Nova Scotia where he studied from 1872 to 1875, and then to the University of London where he received the BA in 1877 and the MA in 1878. From 1877 to 1880 he studied in Paris, Edinburgh, and (as a Hibbert Fellow) in Heidelberg, Berlin, and Göttingen. Schurman was appointed professor of English literature, logic, and political economy at Acadia University in 1880. Two years later he became professor of philosophy at Dalhousie University in Nova Scotia.

In 1885 the Cornell family, who had founded the university at Ithaca, New York, persuaded Schurman to become the chair of philosophy there. Seven years later, he became President of Cornell University and in that year became a naturalized citizen. Schurman held the presidency for twenty-nine years; during his tenure Cornell became one of the leading American universities. He established research professorships, and campaigned for scholarly standards. His early work on establishing rules for intercollegiate athletics played a part in the later foundation of the Ivy League. He was a convinced democrat in his academic and political life alike and sought to wipe out every form of discrimination on the Cornell campus. The support of African-American women and scholarships for Chinese students were among his causes. His work on the Philippine Commission was not popular with those who thought the islands should be kept under American tutelage and he spent much of the rest of his life campaigning for Philippine independence.

Throughout his professional career, Schurman had a growing interest in politics, and during leaves of absence from Cornell he served as the first chairman of the Philippines Commission and as US Minister to Greece and Montenegro. He was US Minister to Greece (1912–13), and after his retirement from Cornell in 1920, he was named US Envoy to China (1921–5), and the Ambassador to Germany (1925–30).

All of Schurman’s strictly philosophical books were written between 1881 – when he