

## Schumpeterian Enigmas

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Abstract: Drawing on McCraw's (2007) biography, this paper assesses the character of Joseph Schumpeter. After a biographical summary of Schumpeter's life and career as an economist, the paper considers a thread of deliberate posturing and pretense in Schumpeter's grandiose ambitions and claims about himself. It also takes account of his ambiguous political and moral stance in both his personal, public and scholarly lives, in particular his tenure as finance minister in the short-lived German Socialist government after World War I and his famous prediction of the ultimate demise of capitalism in his celebrated *Capitalism, Socialism and Democracy*. Although he emigrated to the US in the 1930s Schumpeter was suspected of harboring pro-German or even pro-Nazi sympathies during World War II, sympathies that are at least partially confirmed by the letters and papers discussed at length by McCraw. Moreover, despite Schumpeter's support for his student Paul Samuelson, when Samuelson, owing to anti-Semitic prejudice, was rejected for a permanent appointment at Harvard, Samuelson himself judged Schumpeter to have been antisemitic. Nevertheless, despite his character flaws, Schumpeter exhibited a generosity of spirit in his assessments of the work of other economists in his last and greatest work *The History of Economic Analysis*, a work also exhibiting uncharacteristic self-effacement by its author. That self-effacement may be attributable to Schumpeter's own tragic and largely unrealized ambition to achieve the technical analytical breakthroughs to which he accorded highest honors in his assessments of the work of other economists, notably, Quesnay, Cournot and Walras.

\*The views and opinions expressed in this paper do not necessarily reflect the views and opinions of the Federal Trade Commission or the individual Commissioners.

## Schumpeterian Enigmas

The slightly mysterious, often contentious, sometimes disturbing, and endlessly fascinating, life of Joseph Schumpeter was the subject of a riveting 2007 biography by the eminent business historian Thomas McCraw, professor emeritus at the Harvard Business School. Aside from providing an engaging account of Schumpeter's varied and colorful life and a careful rendering and assessment of his scholarship, McCraw draws attention to Schumpeter as a forerunner of McCraw's own field of business history. For all the praise, verging on adulation, heaped upon Schumpeter in his final years and again after the posthumous publication of his magisterial *History of Economic Analysis*, and a reputation with which time has not dealt unkindly, McCraw has even managed to make a new claim to intellectual distinction on Schumpeter's behalf.

Upon his death in 1950, Schumpeter had finally achieved the renown and acclaim that he had always craved but eventually despaired of achieving. The young Schumpeter had achieved remarkable early success, publishing his *Theory of Economic Development* at the age of just 28, and shortly thereafter became Professor of economics at the University of Graz. But his early successes were followed by a series of crushing personal and professional setbacks, and a weary resignation set in as he reached middle age.

By withdrawing into an almost uninterrupted regimen of research, teaching and writing, he eventually found a measure of escape and solace from the inner pain and disappointment that consumed him, even as he displayed an outward facade of high spirits and joviality. Even this retreat into scholarship led to added frustration and disappointment after his exact contemporary and sometimes rival John Maynard Keynes gained, through the hugely successful *General Theory of Employment, Income and Money*, a work more envied than admired by Schumpeter, the renown, acclaim, and influence so coveted by Schumpeter. Whatever hopes he might yet have nurtured for displacing his rival were crushed three years later in 1939 when his gargantuan work *Business Cycles: A Theoretical Historical and Statistical Analysis of the Capitalist Process* was published in two weighty volumes to almost deafening silence.

The product of a decade of heroic, but astonishingly misguided, effort, the book, apart from its unmanageable size, was organizationally chaotic, thematically and theoretically unfocused, and, despite Schumpeter's talents as a prose stylist, in long stretches virtually unreadable. Not only did the book fail to break, or even loosen, the Keynesian grip on economic theory and policy, it was forgotten almost as soon as the ink dried, except by a few hardy scholars who recognized the value of his comparative historical excursions on the development of modern capitalism and the emergence of business cycles in Great Britain, America, and Germany. Buried deep in the mass of cumbersome and irrelevant modeling and data manipulation with which Schumpeter vainly tried to provide a rigorous method for measuring business cycles, was a notable historical narrative of capitalist development and the evolution of business cycles that McCraw now rescues from this scholarly shipwreck. Amazingly, Schumpeter himself managed to salvage something remarkable from the failed enterprise: much of the raw material from which he created the work that extended his reputation well beyond the economics profession, *Capitalism, Socialism and Democracy*.

Schumpeter's unyielding commitment to scholarship, which endured despite the collapse of his grandiose ambitions amid the ruins of *Business Cycles*, had to survive another, but equally agonizing, psychological challenge not long thereafter. Deeply conflicted in his feelings about

American involvement in World War II, which set him at odds not just with public opinion generally but also with his Harvard colleagues and friends, Schumpeter was given to making derogatory and offensive remarks about President Roosevelt, whom he scorned for what he considered political demagoguery at home and obsequiousness to British imperial interests abroad, thereby inviting suspicions that he harbored pro-German, or even pro-Nazi, sympathies.<sup>1</sup> He soon became the target of an FBI investigation in which J. Edgar Hoover took a more than passing interest. Although Schumpeter's response to World War II can arouse little sympathy, it is not easy to withhold admiration for his response to his personal disappointments and to his alienation from American policy and goals in World War II: total dedication to and immersion in the scholarship. That single-minded dedication enabled him to achieve, first, the unexpected popular success of *Capitalism, Socialism and Democracy* and then his crowning achievement, the *History of Economic Analysis*, another massive work whose prodigious erudition, beguiling exposition, and, most of all, a deeply felt sympathy and understanding of both the contributions and shortcomings of predecessors and colleagues in building the analytical framework of economic theory that remains largely intact 70 years after the pen dropped from Schumpeter's hand.

Especially in his last work, Schumpeter was singularly fortunate to have had the selfless assistance of his third wife, Elizabeth Body Schumpeter. A distinguished economist in her own right, who, valiantly resisting the breast cancer that eventually took her life and the emotional turmoil inflicted by Schumpeter's own complicated feelings toward her, she enabled Schumpeter to work without distraction until he died in his sleep in December 1950. After his death, she rescued the vast and scattered manuscript left behind by her husband from the oblivion to which it would surely have fallen had she not undertaken the heroic task of fitting together its thousands of, often unnumbered, pages of his barely decipherable handwriting, into a coherent, if not quite finished, whole.

## I

That Schumpeter was among the greatest economists of his generation there can be no doubt. Before the two masterpieces of his later years, he had already written important books on economic (*The Theory of Economic Development*) and sociological (*The Social Classes and Imperialism*) theory. Few would challenge his claim to a distinguished position in the history of economics, even aside from his impressive claim to be its greatest historian. Schumpeter's career spanned almost the entire first half of the twentieth century, when economics was maturing from its second foundational epoch (initiated by the seminal work of Carl Menger, Leon Walras, and William Stanley Jevons in the 1870s) in which its basic theoretical insights were developed and its theoretical framework elaborated in detail. That framework continues to be revised and extended, but in its broad outlines, it did not change drastically in the succeeding half century. The first half of the twentieth century, in short, was an era of rapid advance and extraordinary

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<sup>1</sup> Certainly there were legitimate grounds for not wanting to go to war to support British imperial interests, but it was not unreasonable to infer from the ferocity of Schumpeter's opposition to Roosevelt and his invidious characterization of Roosevelt's motives that Schumpeter's opposition was grounded in pro-German sympathies rather than mere anti-imperialism.

achievement spearheaded by a few dozen exceptionally gifted economists who made seminal contributions in a number of branches of economics.

Many of these contributions were of an abstract, often mathematical, nature, and involved the invention of analytical tools that remain the stock in trade of most analytical and applied research in economics. Schumpeter was enthusiastic about these developments in economics, and in the *History of Economic Analysis*, it was these additions to economists' tool kits (as he, borrowing a phrase coined by Joan Robinson, liked to describe them) that elicited his highest praise. Yet, despite being a leading figure in that extraordinary epoch in the history of economics, Schumpeter, himself, made no contribution to the new analytical apparatus then under rapid development. One of the founders of the Econometric Society, a distinguished group of economists who in the early 1930s joined together to promote the use of mathematical tools in economics, Schumpeter, not for lack of effort, made no analytical breakthrough and invented no analytical instrument that found its way into those tool kits. Indeed, the one work in which he self-consciously sought to achieve such a breakthrough, the ill-fated *Business Cycles*, was an abject failure.

Schumpeter's immense gifts, however, lay elsewhere. His massive erudition, keen insight, and philosophical detachment made him a superb critic, able to identify both the strengths and weaknesses in the work of others, even works for which he had little sympathy. His uncommon impartiality allowed him to incorporate their contributions into his own thought, and in the process bring forth something new and fresh, even surprising. Those dialectical gifts were deployed most notably when he used Marx both as inspiration and point of departure for his own account of the evolution of capitalism. Schumpeter's analytical weaknesses in no way detract from the importance of his account, which lies in articulating, in a marvelously learned, colorful, and compelling way, a vision of the process of economic growth under modern entrepreneurial capitalism as it took shape during and after the Industrial Revolution. This vision, fleshed out in Schumpeter's historical account of the economic, technological and sociological forces that converged to produce the industrial revolution and the modern market economy, was ultimately too rich, too textured, too complex, and too dynamic to be easily captured by the analytical and mathematical models that he so much admired and tried so hard to invent himself. Yet, by an almost miraculous, oxymoronic linguistic invention, Schumpeter managed to encapsulate that rich, textured, complex, and dynamic vision into the immortal phrase of just two explosive words that would become part of the verbal tool kit of almost anyone venturing into a discussion of economic growth and capitalism: *creative destruction*.

Schumpeter hinged his extraordinary insight into economic development under capitalism on the key role of the entrepreneur, in contrast to the corresponding (and, by comparison, passive) role of the capitalist in Marx's vision, as the critical agent or catalyst in the process. It is entrepreneurial risk-taking and innovation in pursuit of profit that generates the new products, processes, and technologies that, in turn, unleash waves of investment in new equipment and infrastructure embodying, or complementing, those new products, processes and technologies. What makes his vision so compelling and, yet, so difficult to cast into the kind of formal analytical model so highly esteemed by economists (not least by Schumpeter himself) was its indeterminate and open-ended character, entirely focused on the new and unknown. Who could predict, much less reduce to a determinate soluble model, an ongoing process whose essential quality is the discovery of the unknown and the inherently unforeseeable? In

Schumpeter's view it is just because capitalism is uniquely oriented to generate new products, new processes, and new technologies rather than reproduce, with at most minor refinements, what already exists, that distinguishes it from every other economic system.

However brilliant Schumpeter's insight into the nature of capitalist development, the process he described would not submit to the analytical tools then available to him. Not all economic problems and processes are amenable to analytical treatment or solutions, and certainly not all are tractable with the tools available when the problems are initially posed. Almost seven decades after Schumpeter's death, neither creative destruction nor entrepreneurship has yielded sufficiently to modeling attempts to allow those concepts entry into the canon of conventional economic theory now practiced by professional economists. Indeed, the most important and most interesting ones may be precisely those that do not admit of analytical treatment or solution.

Moreover, as both a master sociologist and economist, Schumpeter was undoubtedly also coming to realize that the fields in which he had devoted his intellectual efforts in his final years, the evolution of capitalism and the history of economics, were becoming increasingly tangential to the research of his fellow economists, especially to the new generation of economists then coming of age. The very professionalization of economics, which he had enthusiastically encouraged, was raising the premium on analytical rigor and mathematical sophistication in the scholarly journals in which the professional discourse of economists was increasingly confined. The research environment nourished by this process of formalization and quantification would inevitably steer the best and brightest students away from the humanistic, interdisciplinary, and historical studies for which a scholar of Schumpeter's extraordinary gifts was best suited. One could argue that the new research environment has ultimately led to an unnecessary and unhealthy preoccupation with analytical virtuosity and sophistication for their own sake as criteria for advancement within the profession, but that argument need not be deployed to appreciate Schumpeter's curious position at the end of his career as both icon and dinosaur. Even as he inherited the mantle of the world's most eminent economist when Keynes died in 1946, Schumpeter must have understood that within his own profession he had become a revered, but marginal, figure who would leave behind a body of work that, for all its profundity, would not greatly affect the future trajectory of the discipline.<sup>2</sup>

Indeed, Schumpeter, in his later years, seems to have been overtaken by a tragic sense that the trend of events -- not just in his profession, but in the world -- was headed in the wrong direction. If we can only surmise that he understood that the unexpected celebrity he earned late in life did not presage an enduring influence on the development of economics, he gave full expression to his pessimism in *Capitalism, Socialism, and Democracy* and in subsequent discussions in which he argued that capitalism would be replaced by socialism. A self-styled conservative, he did not hide his admiration for the achievements of capitalist civilization or his distaste for socialism. He coupled his prediction of the demise of capitalism with a lament for its

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<sup>2</sup> It may be legitimately questioned whether that trajectory of increasing use of formal mathematical and statistical techniques has enhanced the usefulness and relevance of mainstream neoclassical economics as mode of understanding social and economic phenomena as Schumpeter, one of the original founders of the econometric society, hoped and expected it to become. Alternative paradigms, like evolutionary economics that are more in tune with Schumpeter's vision and his practice, may eventually prove to be more fruitful than the neoclassical paradigm that Schumpeter embraced in principle, if not in practice.

undeserved demise. While deploring the tragedy that capitalism, victimized by its own success, would be replaced by either socialism or by a pale, hobbled and overtaxed incarnation of its youthful and robust nineteenth-century self that, in essence if not in name, would resemble socialism more than capitalism, he delivered his prognostication in a tone of ironic detachment and amused resignation that made his lament resemble a bitter joke. Though hedging his forecast with an academic disclaimer that he was only projecting the evident tendencies already at work, not prophesying the future, and that such tendencies might be reversed if, countervailing forces later emerged, Schumpeter did not dwell on his disclaimer sufficiently to comfort readers sharing his dismay at the likely outcome of the trends he had identified.

If Schumpeter drew any solace, or more likely ironic pleasure, from his analysis, it was from his insight that, if Marx had indeed correctly foreseen the end of capitalism as he had known it, the founder of scientific socialism had done so for exactly the wrong reasons. It was not class struggle, a concept for which Schumpeter had no sympathy and much disdain, but success, that would undo capitalism. The multiple layers of irony that Schumpeter weaved together in spinning and re-spinning this yarn surely provided Schumpeter with one of the chief delights of his old age.

The ironic detached tone that Schumpeter affected in much of his work, but nowhere more effectively and comprehensively than in *Capitalism, Socialism and Democracy*, leads – I think, misleads – McCraw to argue that Schumpeter did not really believe that capitalism was destined to be undone and replaced by some form or other of socialism. In this conjecture, he follows another eminent emigré Austrian economist, Fritz Machlup, who, in reviewing *Capitalism Socialism and Democracy*, described Schumpeter's prediction of the ultimate downfall of capitalism as an exercise in the sustained use of irony comparable to Swift's "Modest Proposal." Machlup's reading is not lacking in plausibility, and it might even be the best way for a contemporary reader, aware of the subsequent trajectories of the two economic systems, to approach this still classic work of comparative economics, politics and sociology. But there are just too many other places in which Schumpeter reiterated his expectation that the days of capitalism on this earth were numbered to make a convincing claim that Schumpeter was not more than half-serious in prognosticating the ultimate demise of capitalism.

Indeed, the gloomy prediction dovetailed perfectly with the persona that Schumpeter liked to affect. He chose the paradoxical formulation ("creative destruction") and the ironic touch (capitalism undone by its own success) wherever possible, and eschewed predictability at almost any cost. Deeply conservative politically from his youth, he betrayed no misgivings in serving as finance minister in the post-war Socialist government. And if McCraw's account of his unhappy tenure in that position is to be credited, Schumpeter was hardly the voice of caution and moderation in cabinet deliberations.

Almost his last paper (Schumpeter 1949), his Presidential address to the American Economic Association in 1948, provides a fittingly baroque example of Schumpeter's quest for the paradoxical. Schumpeter wrote about the relationship between science and ideology," elaborating at length on the regrettable tendency of lesser economists to be diverted from the search for truth by their ideological attachments, and deploring the consequent slowdown in the advance of scientific knowledge. To model the non-ideological research that other economists might try to emulate, Schumpeter could find no better example than his own *Capitalism, Socialism and Democracy* in which, despite his personal preference for capitalism over

socialism, he concluded, in obedience to scientific objectivity, that socialism would eventually overtake and replace capitalism. Yet, in a surprise conclusion, Schumpeter conceded that the motivation that stimulated economists to do most of their research was precisely the ideological commitment that he so deplored. In the end, therefore, “though we proceed slowly because of our ideologies, we might not proceed at all without them.” The obvious implication was that while this surprise conclusion might apply to lesser mortals, he, at any rate, had transcended the mean and pedestrian motivations guiding the research of his inferiors.

From the perspective afforded by the seven decades since Schumpeter delivered that famous lecture, it could be argued that it was Schumpeter’s own analysis that was misguided, if not by ideology, then by a deeply personal, trans-ideological, agenda, an agenda hidden behind a pose of Olympian objectivity and aristocratic hauteur. While Schumpeter openly declared his own disdain for the future he described, his distaste for socialism was overshadowed by his ambition to play the role of a sage and seer whose unerring vision, unclouded by self-interest and undistorted by ideology, could penetrate the confusion of current events to discern the future. It was not only the paradoxical nature of his message, but its subtly self-aggrandizing subtext that made this argument so irresistible to Schumpeter.

But to make his case, Schumpeter had to show not only that capitalism would be undone by its own success, which he did through a superb argument, a masterpiece of economically acute sociological reasoning, he also had to show that socialism, as the designated successor of capitalism, was a viable alternative to capitalism. The undoing of capitalism was not possible without something with which to replace it. It was in making the latter argument that Schumpeter, while dressing it up in the jargon of economic theory, had to resort to some dodgy reasoning.

In arguing that socialism constituted a viable alternative to capitalism, Schumpeter, of course, knew that the viability of a socialist economy had long been a matter of controversy among economists. As early as 1920, his own mentor Max Weber (1920 [1978], vol. 1, pp. 100-03) had questioned whether central planners in a socialist economy could make rational judgments about how to allocate the resources under their control without access to the price data generated by the very market transactions central planning aimed to eliminate.

The question was taken up at length shortly thereafter in a monumental critique of socialism by Schumpeter’s exact contemporary Ludwig von Mises (1936 [1922]) who, together with Schumpeter and the famous socialists Otto von Bauer and Rudolf Hilferding, had studied under the great Viennese economist and finance minister, Eugen von Bohm-Bawerk. Von Mises’s categorically negative conclusion was, in turn, challenged by other economists who pointed out that a socialist economy would be confronted by essentially the same resource allocation problem as a capitalist economy. It therefore followed that just as the competitive equilibrium in a market economy could be characterized (as the Swiss economist Leon Walras had shown) as the solution of a system of mathematical equations, so, too, could the equilibrium of a socialist economy be characterized as the solution of an equivalent set of equations.<sup>3</sup>

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<sup>3</sup> Mises’s position was also considered suspect, because he was an unusually doctrinaire laissez-faire liberal ideologue (even compared to F. A. Hayek) for whom any form of state intervention in the pure market economy was hopelessly doomed to produce unintended consequences that would make almost everyone worse off

Mises's younger colleague F. A. Hayek (1948) then entered the fray, arguing that the mere fact that a set of abstract equations, whose solution would, in principle, correspond to the equilibrium of a capitalist market economy, could be written while a similar set of equations corresponding to the optimal allocation of resources in a centrally planned socialist economy could also be written does not mean that any such equations could ever be written down with sufficient specificity and detail to be solved explicitly for an actual economy of either sort, much less that such a set of equations could be continuously revised and updated and solved repeatedly to reflect changing conditions of technology, resource availability, consumer and household demand, and the like.

The problem for an economy of whatever type, Hayek argued, is that all the knowledge and information about resources, technologies, consumer and household preferences that would have to be embedded in those equations before they could be solved is never in the compass of any single mind. Nor is it feasible for such dispersed information to be collected and processed in a way that would allow the abstract equations characterizing the general characteristics of an economy to be made operational.

However, in a market economy, Hayek explained, individuals, pursuing their own self-interest through market exchange, observe and transmit relevant information in the form of the prices at which they are transacting. Relying on those prices, economic agents make and revise their plans thereby taking into account much, if not most, of the information that would have to be embedded in the equations characterizing a market economy before they could ever be solved. This process of marshaling and transmitting relevant information may, for a variety of reasons, be imperfect. Not all the relevant information is always brought to bear, and it may somehow be garbled in transmission. But most of the time, the market economy works well enough to function in a coherent fashion, so that most people can carry out their plans to work, produce, feed, clothe and house themselves with a fair chance of success.<sup>4</sup> But a socialist economy lacks any corresponding mechanism by which to communicate the information relevant to decisions about the use of resources those who make the decisions.

In response to Hayek, it was argued that a socialist system could indeed develop mechanisms that would mimic capitalist markets, and in their own way would provide a set of signals to decision-makers under socialism analogous to the price signals relied upon by decision-makers in a capitalist market economy. The ensuing debate among economists turned out to be largely inconclusive, with the socialists perhaps being credited with having dodged the theoretical bullet aimed at them by their laissez-faire liberal ideologues, even as it became increasingly clear that central planning under socialism was beset by practical problems that it could not resolve. Not until the collapse of the Soviet Union and its satellite regimes in the late 1980s and early 1990s did a consensus emerge that Mises and Hayek had been right all along:

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than without the intervention.

<sup>4</sup> The chief exceptions to this statement, which Hayek and others certainly recognized, are first business-cycle related breakdowns in economic activity when businesses can no longer sell their products and workers are unable to find employment, and, second, scarce resources that, for one reason or another, are treated as if they were free, usually because the resources, like clean air and water, cannot be appropriated and therefore are used without considering the full cost of using them.



that central planning under socialism cannot be rationally implemented to execute a coherent plan for allocating resources for an entire national economy.

## II

My goal here is not to review or assess what used to be called the socialist-calculation debate, but to reflect on how Schumpeter characterized this debate, because it was critical to his own discussion of socialism and the survival of capitalism. How, indeed, could Schumpeter, from his Olympian perspective, have concluded that some form of socialism would, more or less inevitably, replace capitalism, unless he could show that socialism was a viable alternative to capitalism? And if the viability of socialism was a necessary predicate for the proposition that socialism would replace capitalism, he had to offer an account of an academic debate about that very subject. He did so by citing Mises's original argument about the viability of socialism in order to refute it with an abstract, essentially mathematical, point mentioned above, which, as we have just seen, had been parried by Hayek.

Ignoring Hayek's counterargument, Schumpeter peremptorily sided with the socialists by asserting that a socialist central planning board could provide households with vouchers that would be redeemable at state-owned stores for the available goods. The prices for consumer goods in terms of vouchers would then be determined by market forces, and Schumpeter asserted, as if this were obvious, that, given the determination of market prices for consumer goods, the valuation of productive resources (and, hence, the calculation of costs) would be a matter of simple arithmetic, because "consumers in evaluating consumers' goods ipso facto also evaluate the means of production which enter into the production of these goods." Thus, in a cursory discussion of barely three pages, Schumpeter elided the nub of the problem of central planning, begging the question of how a central planner would determine how to allocate the productive resources under its control among the many technically feasible ways of using them to produce the variety of final products that consumers desire. As years of experience had already shown when Schumpeter wrote those words,<sup>5</sup> that problem was never solved.

Schumpeter nevertheless wrote as if the problem was but a minor nuisance easily overcome, intimating that to think otherwise was a sign of ignorance or confusion. From his characteristic pose of all-knowing objectivity, he thus took one side and misrepresented the other in an unresolved debate. Such a slip might be forgivable if this were only a minor point, but it was not minor; it was critical to his central thesis. For had he not been able to argue that socialism was a viable alternative to capitalism, he could not have sustained the delicately balanced anti-ideological straddle at the heart of *Capitalism, Socialism and Democracy*. I am unaware of other examples of bad faith in his scholarly career, but even one such misstep is a blot on the career of a scholar of Schumpeter's stature. Even more unfortunately for his reputation, he chose the losing side.

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<sup>5</sup> The practical experience of Soviet bloc economists who struggled with that problem led many of them to work out for themselves the essential analysis that Hayek had undertaken decades earlier. Among the most notable such efforts along these lines were those of Janos Kornai. See for example his *By Force of Thought: Irregular Memoirs of an Intellectual Journey* and his forthcoming *From Socialism to Capitalism*.

Although this judgment is harsher than that rendered by McCraw, who, while passing over Schumpeter's discussion of the economic viability of socialism in silence, characterizes his argument that socialism would replace capitalism as an extended exercise in irony, it does not conflict with McCraw's own portrait of Schumpeter's character.

Indeed, McCraw provides ample evidence of the pretense and posing with which Schumpeter embellished his public persona. Born into a well-to-do German-speaking bourgeois family in what is now the Czech republic, Schumpeter's social standing and education, after his father's premature death, depended on his mother's desperate struggle for social status and her eventual marriage to a government official and lower-level Viennese aristocrat. To maintain his social position, Schumpeter literally had to live by his wits, which, for him, meant assuming the role of scholar/aristocrat.

Part of the aristocratic pose meant affecting an air of natural superiority, which involved among other things, a certain personal flamboyance, and a disdain for all ideology, and especially bourgeois ideology, i.e., liberalism. A certain type of elitist, but paternalistic, conservatism was thus far more becoming than bourgeois liberalism to the aristocratic persona, and Schumpeter was never reticent in affirming his own conservative inclinations. But more than anything, that persona required a propensity to transcend mere ideology, which is why Schumpeter could, without evident scruple, take the post of finance minister in a socialist government and complain openly of the government's timidity in pursuing its socialist agenda.

The element of posturing and preening that colored Schumpeter's public pronouncements can never be discounted. Moreover, desiring to confound as much as to instruct, Schumpeter probably also relished the thought that his listeners and readers could never quite be sure whether he really meant what he was saying, or was simply trying to shock: *épater les bourgeois*. Schumpeter strove, above all, to avoid saying anything that was obvious or predictable.

These were not necessarily base motivations, but neither were they the motives that Schumpeter ever acknowledged, though one can well imagine him chortling with self-satisfaction to a confidant about the reaction one of his comments had provoked. But the image of himself that he endeavored mightily to create and uphold was that of a sage and scholar whose objectivity and disinterestedness transcended the ideological commitments that biased those of less aristocratic upbringing and possessed of less catholic intellectual tastes. What he failed, or refused, to realize was that if he had risen above ideology, it was, at least in part, because he was too self-regarding to commit himself to any ideology or political doctrine.

### III

His analytical limitations and dubious scholarly ethics notwithstanding, the quality and importance of Schumpeter's scholarship cannot easily be overstated, though McCraw, who seems just a tad overawed by his subject, certainly pushed that envelope to the breaking point. To be sure, Schumpeter's reputation, which, despite that not quite so respectable side of him, was never in eclipse or disrepute, has only gained luster with the passage of time. Indeed, McCraw goes so far as to suggest that Schumpeter's scholarly influence exceeded that of J. M. Keynes, whose ascendancy so discomfited Schumpeter during his own lifetime. To support this contention, McCraw compares trends of scholarly citations to Schumpeter and Keynes over time.

After lagging far behind Keynes for decades, Schumpeter has gradually caught up and overtaken Keynes in the number of citations being made in scholarly journals.<sup>6</sup>

This is not the place to discuss the use of citation statistics as a measure of scholarly influence or importance. Suffice it to say that there is an unresolved issue of causality at stake here. Schumpeter was certainly prescient (or lucky) in having written about topics (economic growth and development, comparative economic systems and the study of institutions, entrepreneurship) in which economists and others have become increasingly interested over time. But the statistics do not tell us whether Schumpeter is being cited because his work has exerted posthumous influence on current researchers, or because contemporary scholars have discovered that his work in some way anticipated their own. No doubt there are examples of both, but, to me at any rate, the suggestion that Schumpeter's direct influence on the subsequent development of economics is comparable to that of Keynes, which I do not by any means regard as entirely benign, still seems a bit far-fetched.

But if the questions I have raised about Schumpeter's scholarly ethics do not seriously undermine his scholarly reputation, they do reinforce other troubling questions about his character that McCraw, avoiding adverse judgments, raised, but did not explore as deeply as one might have wished. These questions, which involve mainly, but not only,<sup>7</sup> the depth and virulence of his racism and antisemitism as well as the nature and extent of his wartime sympathies for Nazi Germany, must be evaluated through the veil of pretense and paradox behind which Schumpeter masked his true feelings and beliefs. That opaque, perhaps impenetrable, veil makes it difficult to arrive at the true character assessment that ought to be the goal of any serious biography. The challenge that Schumpeter poses to anyone who would assess his character was well summarized by his most famous student, Paul Samuelson. In a mostly admiring and affectionate memoir of Schumpeter as a teacher, written shortly after Schumpeter's demise, Samuelson described him as "half mountebank, half sage."

Because Schumpeter was so reluctant to commit himself to any set of principles (or what Schumpeter would dismiss as "ideology"), rendering a judgment on his attitudes and reactions to events in the 1930s and 1940s is fraught with uncertainty and guesswork. However, we do have Schumpeter's own correspondence and diaries and eyewitness accounts of his conversations, which record in some detail his racist and antisemitic biases.

From these we know, too, that Schumpeter, bitterly disappointed that the US did not ally itself with Germany against Stalin rather than compel Britain to sue for peace with Hitler. That Roosevelt, even before the attack on Pearl Harbor, chose to form a virtual alliance with Britain against Hitler instead of supporting the Germany campaign against Stalin enraged and disgusted Schumpeter. Coupled with his longstanding antipathy toward Roosevelt's "soak-the-rich"

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<sup>6</sup> Recent follow-up studies suggest that although Keynes did enjoy a bounce in citations after the 2008 financial crisis and Little Depression, he continues to lag behind Schumpeter. See J. T. Dalton and L. R. Gaeto "Schumpeter versus Keynes Redux: 'Still not Dead'" [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3301547](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3301547)

<sup>7</sup> There is also the matter of his first marriage in 1907 to an Englishwoman Gladys Seaver, several years his senior. Separated from his wife when World War I broke out, Schumpeter never resumed the relationship. When Schumpeter married his second wife, Annie Reisinger, in 1925, Seaver wrote an indignant letter asserting that they were still married. Within a few months, Annie Schumpeter would die in child-birth, an emotional blow from which Schumpeter never fully recovered.

rhetoric, and the general drift of New Deal policies, Schumpeter's scorn for American foreign policy evoked expressions of contempt for Roosevelt that are shocking in their hostility, especially coming from a former finance minister in Germany's postwar socialist government who, in public at any rate, styled himself as a disinterested and philosophically detached observer of events.

Without any considered or reflective expressions of beliefs and values, let alone a clearly stated political, social, or moral philosophy against which to assess his expressions of prejudice and animus, those emotional outbursts of hostility and prejudice cannot be discounted as aberrations inconsistent with other, more deeply held, values, principles and beliefs that otherwise informed and governed his conduct. Indeed, avowals of principle, moral or political, are not easily found in Schumpeter's public or private writings.

While Schumpeter did profess a kind of political conservatism, and he went so far as to muse about writing a philosophical defense of conservatism, he never provided any clear statement of his conception of conservatism, beyond what comes out of his writings: opposition to Bolshevism and redistributionist tax policies and a general sympathy for big-business which he regarded as the primary engine of capitalist growth. Nor is a conservative political philosophy or orientation, which can cover a very wide range of potential values and beliefs, necessarily inconsistent with, though it surely need not entail, a deeply prejudiced attitude toward disfavored races or religions. While the evidence does not justify a charge that Schumpeter was a pro-Nazi, evidence that Schumpeter was deeply offended (let alone outraged) by, or opposed in principle to, the official racism and antisemitism of the Nazi regime is lacking. On the contrary, his limited and generally unhappy youthful involvement in politics shows him to have been motivated primarily by opportunism.

Opportunism in politics is hardly unusual, much less reprehensible. Nor does the opportunism of Schumpeter's tenure as finance minister necessarily betray a deep character flaw. However, we have little evidence suggesting that his opportunism was constrained by anything other than his own sense of personal expediency. While we have no reason to believe that Schumpeter harbored deep sympathy for Nazism or fascism, it would not be farfetched to believe that, like many other German and Austrian conservatives, he viewed the Nazi regimes as a more reliable bulwark than the democracies against the Bolshevik threat that he thoroughly abhorred. If it seems implausible that Schumpeter could have actually embraced Nazi or fascist ideology, one can still imagine him, like his friend and patron at the University of Bonn, the economist Arthur Spiethoff, accommodating himself, without excessive discomfort, to the New Order.

In his survey of fascist economics in the *History of Economic Analysis*, Schumpeter observed that, unlike Communism, which was explicitly committed to a particular set of beliefs about economic theory, the fascist and Nazi ideologies had little or no economic content. So, from Schumpeter's point of view, opposition to Bolshevism followed from fundamental issues of economic theory, while no such barrier had to be overcome in accommodating fascist or Nazi ideology.

Denying that Schumpeter was pro-Nazi, McCraw provides little evidence that Schumpeter ever took a clear stand in opposition to the Nazi regime. He quotes from the memoir of Schumpeter's friend and Harvard colleague Gottfried Haberler (1950) that Schumpeter used to say that had he stayed in Germany he would have been among those who would have been sent to the concentration camps. Perhaps, but it is not exactly clear why. And the self-serving nature

of the comment, made in the safety of his American domicile, to dispel the not entirely groundless suspicions about where his sympathies lay, is evident. It might be suggested that, given Schumpeter's propensity to deliver his opinions wrapped in tones of sophisticated condescension, expressions of unqualified moral outrage, even about the enormities perpetrated by the Nazis, would have been out of character for him. However, his papers and the recollections of others about conversations with Schumpeter show that he was not always above unburdening himself in unusually direct and explicit terms on certain subjects, e.g., FDR, about which his passions were aroused.

Elsewhere, McCraw cites the recollection of another of Schumpeter's famous Harvard students, James Tobin, that Schumpeter overcame his reluctance to express unqualified moral outrage after the US dropped the atom bomb on Japan, the only such instance that Tobin could ever recall. Such outrage is certainly understandable and, considered in isolation, suggests no moral shortcoming. But given Schumpeter's emotional opposition to the US demand for unconditional surrender by Japan, Schumpeter's outrage simply reinforced his strongly held convictions. However, the lack of evidence of similar expressions of moral outrage by Schumpeter at the Nazi abominations, once they became widely known at the end of the war, much less any acknowledgment that he had misjudged the Nazi regime, only reinforces one's suspicions about Schumpeter's true sympathies.

An earlier biographer, Schumpeter's student Wolfgang Stolper (1994), also sought to defend Schumpeter against the charge of antisemitism. Wolfgang was the son of Schumpeter's close friend Gustav Stolper, a baptized Jewish economist, whose position as editor and publisher of the magazine *The German Economist*, became untenable, owing to both his liberalism and his ancestry, *after* Hitler gained power. Upon arriving at Harvard, Schumpeter helped Stolper and his family relocate to the United States. Wolfgang, who, as an undergraduate, had studied under Schumpeter at the University of Bonn, wrote his Ph.D. dissertation under Schumpeter at Harvard<sup>8</sup> before embarking on a distinguished academic and consulting career. While Stolper's defense of Schumpeter cannot be disregarded, neither can one reject the possibility that personal gratitude for Schumpeter's intervention on his family's behalf was a stronger influence on his defense of Schumpeter against the charge of antisemitism than his own Jewish ancestry. And if Stolper had been privy to the diary entries quoted by McCraw, he might have rendered a different assessment of Schumpeter's character from the one rendered in his biography of Schumpeter.

Perhaps a more reliable assessment than Stolper's of Schumpeter's character and his biases was provided by Paul Samuelson. Inasmuch as Stolper and other defenders of Schumpeter cite the latter's outspoken advocacy of Samuelson when he was considered for a Harvard professorship as evidence that Schumpeter was not antisemitic, or, at worst, that his antisemitism was superficial. That Samuelson, having just written a doctoral dissertation under Schumpeter

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<sup>8</sup> Stolper was one of several Jewish doctoral students who wrote their dissertations under Schumpeter at Harvard. Two eventual Nobel Prize winners, Paul Samuelson and James Tobin, were among the others. Another of Schumpeter's prize pupils was Paul M. Sweezy, a committed Marxist who regarded Schumpeter as a sympathetic mentor who, unlike other Harvard economists, could tolerate his economic and political beliefs, despite Schumpeter's own deep distaste for those beliefs.

(eventually published as *The Foundations of Economic Analysis*) that became an immediate classic of higher economic theory, containing many of the contributions for which Samuelson would eventually win the Nobel Prize, was rejected for an appointment could only have been caused by Harvard's antisemitism. Outraged at the injustice to his prize pupil, Schumpeter bitterly denounced the University's decision not to hire Samuelson. Nevertheless, Samuelson (1999) himself had no doubt that Schumpeter was antisemitic affirming that judgment in print more than once.

The most reasonable interpretation seems to be that Schumpeter, while harboring anti-Jewish prejudices, was in fact capable of viewing particular individuals whom he liked or respected not as Jews, but as unique individuals. Even Richard Wagner, after all, was capable of friendships with various suitably deferential Jews with whom he collaborated musically. Gustav Stolper, befriended by Schumpeter, was a professional economist, journalist and an admirer of Schumpeter who wrote extensively about Schumpeter's work. It is not difficult to imagine that Schumpeter, despite general feelings of antisemitism would want to help someone like Stolper, especially when Stolper's position grew increasingly precarious under the Nazis.<sup>9</sup> He would therefore have been more than willing to help Stolper's son come to America, and, recognizing the younger Stolper's gifts, forged a close relationship with the younger man.

It seems unlikely that Schumpeter felt any strong attraction to Nazi ideology. While he was not a liberal, nothing in his writings evinces any trace of the hostility to liberalism that was surely one of the chief bugbears of Nazi ideology. Nor is it obvious what someone of his aristocratic pretensions and vast erudition and appreciation for the achievements of modern capitalism would have found attractive in Nazi ideology, though one might also ask the same question about people like Carl Schmitt and Martin Heidegger. Even if he was not personally well-disposed towards Jews, there is no reason to think that he was obsessed by this prejudice as the Nazis were. If he was an antisemite, at least there is no evidence that he was a vicious one. He may have preferred not to socialize with them, may have found fault with their social habits and mores, but there is no evidence he believed that there was a Jewish problem that required a solution, much less a final one. On the other hand, the aristocratic prejudices that he affected, the patriotic and emotional attachment to Austria, which he largely transferred to Germany after World War I, and his visceral anti-Bolshevism caused him to turn a blind eye to the looming catastrophe towards which the Nazi regime was leading mankind.

#### IV

A generosity of spirit and a kind of *nobl  sse oblige* were certainly among Schumpeter's admirable qualities. He recognized and admired talent, and was generous in praising the talents and achievements of others – at least those by whom he did not feel threatened. Perhaps overshadowed only by his scholarship, it is his generosity of spirit expressed enthusiastically with sincerity and genuine feeling that shines brightly from almost every page of the *History of*

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<sup>9</sup> In a similar circumstance, Oskar Morgenstern, whose diaries contain many antisemitic comments, was instrumental in saving the life of Abraham Wald (my cousin) who had for many years been a mathematical tutor and consultant to Morgenstern in Vienna by helping to secure for Wald a Rockefeller Fellowship that enabled Wald to escape Vienna just before the *anschluss* and to come to the United States in 1938.

*Economic Analysis*. Nowhere was this generosity of spirit more honestly expressed than in his defense of the young Paul Samuelson, whose mistreatment by the Harvard administration he protested bitterly. Schumpeter's relationship with Samuelson is doubly impressive because Samuelson's chief gift was precisely the facility in mathematics, deployed almost effortlessly by Samuelson to solve and illuminate deep theoretical problems, that Schumpeter prized, perhaps to excess, so fervently.

It is said of Schumpeter that, after Samuelson had finished the oral defense of his doctoral dissertation, he asked Samuelson to leave the room so that he and the other members of the Samuelson's doctoral committee could deliberate on Samuelson's presentation. Then, upon Samuelson's departure, Schumpeter turned to his colleagues and asked: "well, gentlemen, did we pass?"

Despite failing to contribute to the analytical progress of economic theory, Schumpeter, whose mastery of its analytical structure was complete, must have grasped his dilemma. Driven to investigate the historical and evolutionary forces governing the development of modern capitalism, he also longed for the ultimate professional distinction to which only those who, like his heroes, Quesnay, Cournot and Walras, contribute to the analytical advancement of economic theory are entitled.

In evident admiration for Schumpeter's uncharacteristic self-effacement, McCraw remarks on the almost complete absence of references in the *History of Economic Analysis* to Schumpeter's own contributions. While Schumpeter's modesty in the *History* about his own contributions to economics undoubtedly reflects a certain aristocratic gallantry, his diffidence may have reflected a deeper, unspoken, insecurity about his own theoretical limitations. To have drawn attention to his own contributions would only have underscored his failure to make the kind of analytical contributions for which he reserved the highest praise in evaluating the work of others.

Among the most poignant personal details that McCraw culls from Schumpeter's diaries was Schumpeter's life-long practice of assigning, at the end of each day, a grade for his scholarly performance and accomplishment that day. In reviewing Schumpeter's papers, McCraw found that as he got older, Schumpeter had mellowed greatly in grading his students, but the standard to which he held himself remained, to the end, unmercifully harsh and demanding. In his comprehensive account of the history of economic analysis, Schumpeter may, for once, have preferred not to draw attention to himself, if only to spare himself from his own unremitting self-scrutiny.

Even toward the end of his career, enjoying the acclaim of his profession, in the eyes of many having even succeeded Keynes as the world's most distinguished economist, Schumpeter may have understood, or at least feared, that his moment would be fleeting. Increasingly concentrated in university faculties whose primary focus was producing research that would be read and cited by other researchers and training of graduate students who would become producers of their own research, the economics profession was becoming an ever more insulated group in which professional advancement would depend mostly on the judgment of other professional researchers. For young economists, especially, advancement would increasingly depend on their proficiency in, and creation of, new, and largely mathematical, tools and techniques that were beginning to change the content and style of theoretical and empirical research.

Schumpeter's two great ideas, entrepreneurship and creative destruction, were notable not because they became part of economists' tool kits or changed the analytical structure of economics, but because he wrote about them colorfully and eloquently, convincing both economists and non-economists of their importance. Their importance lies in their rhetorical appeal to our imagination in describing capitalism as a dynamic, ever-changing, ever evolving, process, given to ups and downs but characterized most of all by material growth at a faster rate than had ever been achieved, or even imagined, before modern capitalism and the industrial revolution emerged almost simultaneously at the close of the eighteenth century. Schumpeter introduced his vision of entrepreneurial capitalism in his first significant contribution to economics, *The Theory of Economic Development*, published in 1911 when he was not just 28. The book is justly regarded as a classic -- one of those classics more often mentioned than read.

Schumpeter's inability to render his youthful vision in a more analytically precise and structured form than his original version was a source of deep frustration. His hopes of revolutionizing economics by applying new mathematical tools that would permit him to cast his dynamic vision in terms of a tractable economic model only lured him into the disastrous dead end that his book on business cycles became. It seems astonishing that Schumpeter lacked the self-knowledge to realize not only that he was incapable of converting his vision into the mathematical language in which he wanted to articulate it, but that the ideas were of a nature that, even one more mathematically adept than he, could not have usefully expressed them in a mathematical model.<sup>10</sup>

Through a supreme act of will, Schumpeter managed to recover from the disappointment of his book on business cycles by writing two classic works, *Capitalism, Socialism and Democracy* and his *The History of Economic Analysis* in the final decade of his life. The former, however, was marred by the theoretical sleight of hand with which he attempted to mislead his readers and perhaps even himself.

It was only in his final work -- a selfless expression of his love of scholarship for its own sake and his admiration of those who have contributed, in greater or lesser measure, to the worthy endeavor of creating and adding to that body of knowledge -- that he finally achieved the greatness in whose pursuit he gave his last full measure of devotion.

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<sup>10</sup> In this connection the essay by Jack Schwartz, "The Pernicious Influence of Mathematics on Science" in *Logic, Methodology and Philosophy of Science* (1964) edited by Ernest Nagel, Patrick Suppes and Albert Tarski, is very relevant.



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