

# Joseph Schumpeter, honderd jaar economische ontwikkeling : een historisch-theoretische beschouwing

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# Summary

Economic development changed the world during the all-pervasive industrial era. Economic growth, technological progress, prosperity and welfare have undergone a dramatic metamorphosis. The institutional impact of development may have been even greater. The laissez-faire system and pioneer capitalism transformed since into an institutionalized capitalism with a human face, with rules, values and a society as a symbiosis of prosperity and general welfare – at least according to its idealized image.

Joseph Schumpeter's pioneering work on economic development has been path breaking in explaining the dramatic material progress, the substantial improvement of the quality of life and the institutional impact, which have fundamentally changed the image of Western societies. But until recently in standard economic theory and the economic debates of the twentieth century, little or no attention was paid to his ideas. His original notions of the organic structure of social society, or the economic dynamics and interactions with non-economic domains, were overlooked or viewed with exaggerated scepticism through a neoclassical lens.

The twentieth century economy was dominated by neoclassical theory, whether or not complementary with monetary or Keynesian views. In the theoretical approach it was generally believed that equilibrium was central, and only in the last decades were micro-economic dynamics reluctantly incorporated. The neoclassical analysis based on abstract variables, causal relationships and unambiguous axioms was diametrically opposed to non-deterministic and uncertain economic dynamism. And the debate was dominated by the contradiction between analytical and historical thinking.

The great merit of Schumpeter lies in his explanation of economic dynamism, by which he succeeded in breaking out of the static and exact thinking mode. While economic theory was indispensable for analysing the economic mechanism and interpretation of economic equilibrium, it was unfit as an explanation for economic dynamism. In the dynamic economy there is no longer an abstract image of causal relationships, but a complex reality with frequent interactions, combined with “tâtonnement” and uncertainty rather than unambiguous axioms. To his mind, the theoretical approach should go hand in hand with the historical reflection and is synthesis and not dichotomy central. The ideas of Schumpeter are inseparable from his personal background and character. There is certainly a close link between the scientist and Schumpeter the man. We see an erudite scientist who consistently refers to a reality which is channelled through the creative human spirit.

He wants to capture a reality in a universal social science, with an economic sub-structure. Rejecting any need for formalism, he tries in his multifaceted approach to constantly scan and enlarge his scientific horizon. He sees fixed patterns and deterministic models as rigid and abstract definitions of the complex reality that is constantly evolving. He is not afraid to outline very different aspects of reality, mainly to provoke debate rather than to deliver unified theories.

In his quest for a universal social science, he appears lengthy and uncommitted, in some cases at the expense of depth in his explanation of the economic development process. As a result his theoretical elaborations, as when he describes the underlying factors of the innovation process, miss the necessary depth, or are deficient in their analytical explanation, as when the long-term waves are discussed.

His views on the dynamic economy, which knows no regularity in time or character, are sensitive to the zeitgeist and to unpredictable changes. The economic process occurs, in his view, in fits and starts and may in the course of time take different forms and directions without a single based result. Over the course of time his thinking is determined by the unique nature of history and less by a theoretical look at a reduced reality. A pre-analytical approach to a complex reality is the premise for an objective analysis, with value judgments subsequently.

The great merit of Schumpeter lays in the fact that he broke through the prevailing prejudices of the political economy of the nineteenth century and disproved the prevailing neoclassical axioms of economic development theory.

Schumpeter's vision which until recently was dismissed as a vague and esoteric concept, now seems essential for the solution of the great issues of our time.

Despite his at times theoretical imperfection, Schumpeter with his original thinking belongs to the great economic thinkers of the twentieth century.

A scientist who can no longer be dismissed as a footnote in history, as was the case for many years, but now deserves respect.

In the late twentieth century Schumpeter became recognized for his work on the economic development process, whereby he became very much associated with innovation in the sense of 'new combinations' or 'creative destruction': a process driven by creative and strong-willed entrepreneurs, pushing prosperity to ever higher levels.

In the meantime, economic growth – until recently categorized in neoclassical theory to the realm of 'God and the engineers' – has been increasingly identified with technological progress.

Renewal and development is the essence of economic dynamism at the micro level.

The driving mechanism of material progress is also the basis of general welfare.

Yet there are tensions between economic, social, ecological and institutional aspects. Renewal and development, or the continuous qualitative improvement

instead of purely quantitative growth, as Schumpeter pointed, is an absolute necessity for a world in which the economic system through an unsustainable growth path in the twentieth Century, has currently reached its limits. A growth path which needs to be shifted in an economic sustainable fashion. To this end there needs to be a shift from growth for development in terms of nature and the environment and from material wealth to the welfare of man and world. And an adjustment of the institutional framework to reduce perverse tendencies, including those evoked by neo-liberal ideology, ignorance or as a result of new media.

Schumpeter's contributions have for decades been dismissed as eclectic and lacking in depth, or as mere 'intelligent after-dinner talk' in the eyes of leading peers, such as Lord Robbins of the London School of Economics. This was not only the result of his often rambling and non-committal views, but perhaps also motivated by an overreliance on English translations and versions of his later books, which lacked exposure to his original ideas and thinking.

Analysis of his early German work is essential to understand the reasoning behind his beliefs, as he strove to make a synthesis between the Anglo-Saxon analytical approach and the continental historical approach. His overarching social science total concept of the capitalist system – the essential contribution of Schumpeter – remains as a result underexposed, and often disintegrates into disjointed individual opinions of a stand alone nature.

Yet a glimpse at his collected works – *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie* (1908), *Theorie der wirtschaftlichen Entwicklung* (1912, 1926), *The Theory of Economic Development* (1934), *Business Cycles* (1939) and *Capitalism, Socialism and Democracy* (1942) – gives an insight into his vision of the relationships in economic events and the process of emergence, the development and the possible collapse of capitalist civilization.

The posthumously published *History of Economic Analysis* (1954) finally, appears an attempt to a final summary of his universal social science with an encyclopaedic character.

The analysis of Schumpeter was proven correct in terms of economic development, prosperity and institutional change – albeit less dramatically than the perhaps honourable demise of the capitalist system as he imagined – but did not bring forward barriers for indiscriminate growth and consumption, which up to the 1970s was not seen as relevant.

His views offer though a tool for addressing the major issues of our time, focusing on the sustainability of the economic system. Or as Schumpeter already said 100 years ago: "Economics based upon 'new combinations' ought to be a continually self-reproducing system".