Schumpeter and the History of Economic Thought

Estrada, Fernando

Universidad Externado de Colombia

2014

Online at https://mpra.ub.uni-muenchen.de/59053/
MPRA Paper No. 59053, posted 03 Oct 2014 09:00 UTC
Abstract

Schumpeter's *The History of Economic Analysis*, is a *tour de force* of scholarship. The display of erudition is truly unbelievable. How may one man and then digested have acquired much knowledge? Not only does the History offer two thousand years of economics, from Aristotle to Paul Samuelson, But also, it expertly almost ranges over all the other social sciences, history and *belles lettres* as well. For more that 1,100 pages on the prose flows in a way That one has come to expect from Schumpeter the fluent style, the vivid analogy, the striking metaphor, the arresting aside. Our goal is to present the main thoughts of Schumpeter on the complex relationships between Economic History and Epistemology of Science. This design has three aspects that interest us: (a) its amplitude to conceive the economy as part of the overall development of scientific knowledge; (B) its relevance and the Applied examples used by the author; (C) its methodological facing tremendous problems facing the economy with the other sciences.

*Keywords:* Schumpeter, Economics History, Epistemology, Econometric, Industrial.

*JEL Classification:* B1, B13, B15, B2, B25, B31.

Introduction

Following the same line of argumentation J.A. Schumpeter [1925,1946,1954], we propose a problem with two apparently antagonistic responses. First, you need to define the relationships established with other economic fields of knowledge that have influenced or have "family resemblance"\(^1\). Moreover, it convenient to explain some principles and concepts that dominate the debates in the history of economic analysis [Rammohan, 2005, Kisch, 1979, Swedberg 1995). The problem we propose to estimate suggests reasons why the history of economic thought prominently in current economics programs (Shionoya & Perlman, 1992; McCraw,

\(^1\) See: Ludwig Wittgenstein, 1953.
Schumpeter introduced the topic with general common sense annotations. That distinguishes economics as a discipline of common speech or writing in other fields, is the recursive use of some techniques can be classified into three basic areas: history, statistics and theory. These different fields of the discipline, we will call "economics science".

**History of Economic Thought**

Schumpeter regarded the history of economic thought as "the almost important field of study economics" ... "leads to current events and includes them."

And expressed his preference in personal tone:

> I am pleased to state right here that if we had to start over from scratch, my efforts in the field of economics and tell me that I would only be possible to study one of its three main branches: history, statistics and theory, choosing between them, choose the History of Economic Thought.

We found the choice of Schumpeter justified for three reasons: First, because the problems of the economy may be seen as part of a single deployed along the historical time process. No one can be trusted to understand economic phenomena of any time-primarily the present not properly mastered historical facts or does not have a enough sense of history, or what may be called: historical experience.

Second, the historical observation cannot be solely economic, but must also reflect inevitable institutional facts that contain nothing of economics: the story thus provides a better perspective for understanding how economic events are not related -economic, and how the social sciences should be related to each other.

The third reason is that most of the errors in the economic analysis are due to the lack of historical experience more often than any other limitation of the economist's toolkit. In this discussion, however, be understood history, including fields that have acquired other names as a result of specialization, ie, prehistory, ethnology.

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3 Schumpeter, 1954, p.54.

4 This is not to declare the failure of statistical theory and experience of economic knowledge, but place them in the right spot next to the history of economic thought.

5 As proposed by Thomas S. Kuhn, theories do not provide a natural interdependence, the puzzle of normal science is part of the daily work of the scientific community, and nothing beats the story to establish the nexus between the facts considered by the theories.
We should note two questionable consequences of the above:

1. Since history is an important, although not the only source material economist and as thus economist himself is a product of its time, and all the previous time, economic analysis and its results will be affected by the relative position of the observer, to the point that the only open question is the extent to which they can relativize this position. We do not have a conclusive answer to this question by philosophical means; and a solution to these problems is still open.

2. Our discussion of economic thought for each period will be preceded by blanks style of thought\(^7\), and particular the policy of each era. We have to record that, as the history of economic thought is part of the economy, the techniques of economic analysis conducted by the historian are as passengers on a bus will call economic analysis. The second-hand knowledge is always unsatisfactory, for that matter non-economists, economic historians who merely read the financial information written by others will have to understand how this information has been obtained, or may not understand what they read.

**History of Economic Thought and Statistics**

It seems reasonable that the statistics, that is, the number or series of numbers relevant to statistics-economic studies. This has been recognized in practice since at least the sixteenth and seventeenth centuries, a period in which much of the work was to gather political figures and interpret statistics. This pointed to a respectable English, French and Italian tradition. In economics statistics are needed not only to explain things, but also to rigorously adjust the precision required to explain. However, we must add some similar observations which were previously made on history. It is impossible to understand curves, figures or statistics, if trends do not know where the information or understand that information once the specialists formulated without understanding the methods by which specialists achieve these results, or better without understanding the epistemological foundations that give sustenance to the figures. So the domain of statistics related to the economy is a necessary, but not sufficient to prevent the economist argues nonsense, although the arguments may have value in another context; our dependence on related scientific disciplines is therefore important in the formation of the economist. For analytical resources as correlations or variances, the economist must be able to recognize issues related to other fields of knowledge.

These relationships between history of economic thought and statistics have

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\(^6\) Anthropology is understood in the sense given by Claude Levi Strauss (1969).

exceeded the field of econometrics; pose as diverse as behavioral economics fields, game theory and the theory of business cycles. Statistical methods are part of the tools of economic analysis, although originally were not particularly structured in order to solve problems related to discipline. The Ars Coniectandi Jacques Bernoulli and Laplace's Theorie Analytique have their place in the history of various sciences, but also in economy\(^8\).

**History of Economic Thought and "Theory"**

The third key area is the theory. This term relates to a broad field of knowledge, but economics has two specific meanings. The first-and less important, has to do with what is understood as explanatory hypotheses or theories. Of course, these assumptions are essential elements of historiography and statistics. For example, neither of the empirical-in economics and other sciences historians can prevent the formulation of explanatory hypotheses or theories, if you are talking about the origin of cities. The statistic has to formulate a hypothesis or theory, about the joint distribution of the stochastic variables involved in the problem. But it is a mistake to look too widespread that one of the fundamental tasks of theory is to formulate explanatory hypotheses; especially if we believe that the explanatory hypothesis can be insulated in a vacuum or in air. Judged Kant's theory without experience (empirical data) was pure imagination and experience without theory is blind.

Economic theory does business differently. Just as in theoretical physics, the economy cannot move forward without resorting to models to reproduce certain aspects of reality and takes as given certain assumptions to reach conclusions according to shared procedures. In this case it common ground if we refer to conjectures, postulates, axioms or theorems, that which allows us to assume certain principles. A statement may appear in economy -depending on the problem in question- as principle, axiom or theorem. However, although the hypotheses of this kind are suggested by the facts, strictly speaking, are creations of scientific rationality to explain certain phenomena. Differ from the assumptions of the first class that do not contain the final results pose interesting research themselves; in economy these hypotheses are mere instruments or tools built with aim of achieving interesting results. Moreover, the construction of such assumptions do not work conforms theoretical economist, just as the development of statistical hypothesis does not exhaust the theoretical work in statistics. No less important is to hire other records where you can have the results of the hypotheses, and conceptual grounds (eg "marginal rate of production," "marginal productivity", "value", "multiplier" or "accelerator") relations concepts and methods to manipulate these relationships, none of which is hypothetical. The sum total of those records, without forgetting the recursive assumptions, actual is the task of the economist.

\(^8\) See for example, Daniel Kahneman / Tversky (1979) for development of Bernoulli's theorem; Nassim N. Taleb or (2007-2010).
According successful and unsurpassable expression of Mrs. Joan Robinson, economic theory is a toolbox\(^9\).

This conception of theories also applies to many similar fields of scientific knowledge\(^10\). Experience has shown that a certain class of phenomena-economic, biological, mechanical, electronic or what are actually individual cases, each of which is presented as offers its particular aspects. But experience teaches us that the sum of many cases may have certain properties or some commonality and economy is achieved enormous mental effort if cases are treated together according to shared properties.

Such similarities may well offer the same problems in economics. For example, for certain purposes individually analyze the formation of prices in a particular market, each case of formation of income, every business cycle in particular, each international transaction, etc. When that happens, we discover that we are using in a case concepts that are being used for the study of all others. Then we discovered that all cases, or at least a representative set of them, which have similar features, along with its implications may be in all cases through general schemes on price formation. Of income, about cycles, international transactions, etc. And finally, we also learn that these schemes are not independent, but are related to each other, so it makes sense to move up the "ladder of abstraction" from which to build a compound instrument, a research program\(^11\).

**Epistemology of Economics**

We largely economic relations with the epistemology of science to Leon Walras\(^12\). And although it is not our aim to present in detail these relationships, the following may help us understand the bridges from the workings of Walras economy has the fundamental problems of epistemology of science.

This requires clarification needed on the so-called received view of theories, their nature and functions with the assumptions in economics. The argument of the previous paragraph came from a mode basically related sciences which have a general analytical framework applicable to all subjects. But with the economy this comparison has its limits, especially in regard to two important issues:

(A) the economy does not have anywhere near an experimental apparatus similar to physics. The experiments of the "experimental economics" offer similar conditions to those regularly applied physics laboratories; the economy, however

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has a non-existent source of information in physics, namely the broad sense of human knowledge of economic actions. This source of information not without controversy either among economists. But its impossible to ignore its fundamental role in the contemporary economy. When we speak of motive or intent; better yet, when we refer to "incentives" in the economy, analysis procedures economists take into account aspects of individual or collective behavior. Phenomenon that part of the most revolutionary developments in the theory, as is the field of psychology of economic behavior. So the methods and designs of analysis in economic theory have had to learn a lot of contemporary developments in psychology.

This does not mean that economists psychologists, or vice versa is true. Nor to make the "law" of diminishing returns, suppose that economists are speculating in the classical mechanics of particles. There, however a less dense logic to interpret the meaning we give to our action formulation. If we say, for example, that under certain conditions, a company's profits are maximized with that amount of product [output] at which the marginal cost equals marginal revenue (the latter being equal to the price in the case of pure competition), you can say that I am describing the characteristics of a logical situational conditions and an outcome that would have the same functions as a general law, regardless of whether a particular person do this action.

The latter means that economics can be established with regulatory characteristics postulates or assumptions that have a similar performance to that meet the regulatory ideals in science. Clearly the theorems formulated in this regard offer much more than formal, as it hypotheses that can be empirically tested. To give an example, if we want to know to what extent employment expectations affect employee spending on consumer goods or the extent to which wage changes affect the rate of unions between couples. You can play both types of hypotheses through debugging "purely observational" aspects, assuming as a starting point accumulated common sense observations. But I considered the problem globally, this procedure remains controversial. In both cases we can simply appeal to what we are or think we are able to deal with such conditions, and represent the implications of what we understand by diagrams constructed with a high level of rigor.

(B) The above argument may be excluded charges of "physicalism" regarding the economic explanation. Reviews extended by theorists such as Hayek, aimed to question an uncritical assimilation of the economic theory of the methods used in the natural sciences. First, the generalization bias with the laws of science like physics, astronomy and mathematics. A history of economic thought should provide answers to these problems, either contrasting the methods used by theorists to explain empirical problems, or the same way of presenting the mathematical models in scientific articles.

13 In several passages of his extensive work, Hayek makes this kind of criticism, see: The Constitution of the Liberty, Chicago, University Press, 1960.
Schumpeter is skeptical of such relationships: "You have to overlook naturally programmatic proclamations have been so numerous from the towering successes of the physical sciences in the seventeenth century, but that hardly means anything real."¹⁴ Similar arguments are in a scientific tradition that goes back to Aristotle, and extending to modernity in names like Dilthey, Scheller, Montesquieu, Weber; the scope of the current debate include Habermas, Taylor, Winch.

However, the matter of interest to the economy located in a different context to this general debate. The issues addressed by the economy relate to what kind of analytical resources "adopt", before judging whether or not the instruments are "scientific". At this point the economist must get rid of your blinkers, just as orthodox Marxists refuse in their terms dictionary as "price", "cost", "geography", "interest" or "use value of the land" when thought about the future of socialism. Such concepts are used in economics generally, regardless of the reasons alleged against capitalism by Marxists. The same thing happens with the fundamental concepts of mathematics, initially developed to solve problems of physics, without this meaning that mathematics textbooks used in higher education to respond to the demands of "physicalism". The same goes for used in physics as "oscillator" "balance", "static" or "dynamic", which are cited in economics with equations similar concepts. What is taken in economics to use, for example, the term "balance" is the word.

Two conditions that confuse uses vocabulary with methodological problems are added. For one, when physicists and mathematicians came up with these general concepts that we have been presented to us, but later they were not limited to baptize, but also developed their logic. It's just obvious to use that logic element until you enter physicalist bias. The other condition is that analogies in physics often allow a better understanding of the case studies in economics. Overall the education given in different sciences takes advantage of innovative terms from the vocabulary. And economics is no exception. This does not mean that the terms of a shared discipline, reduce all methodologies to one. It does not mean ignorance of the differences between the explanation in the natural sciences over the social sciences. The shared biology or physics, vocabulary is only part of a series of advances in the sciences that also extends to the process economy.

(C) If the economic theory was a simple discipline and took its conceptual basis of other sciences, we would like to explain the hostility that has raised since its inception, and especially in physiocrats and Adam Smith. An extension to respond to the differentiated nature of the economy can be made based on the history of economic thought.

• In all historical periods including the present, if judged from the requirements for each period (without transferring different conceptual trials) shows that the performance of economic theory has fallen short of reasonable expectations as a

¹⁴ Schumpeter, p. 53.
science, and has been always cause for justified criticism.

- That unsatisfactory theory has always been accompanied by unjustified claims, and particularly irresponsible application to the problems that were and remain outside the scope of the analytical apparatus of the economy.

- But although theoretically the economy has not been tailored to the natural sciences, has not been available to most of the stakeholders. And the effect these people often react with resentment at any attempt to analytical refinement. There are always disgruntled economists because discipline does not meet the demands of the masses of facts accumulated to interpret certain problems, ie, an explanation rarely meets all expectations. Something similar happens with the experiments in economics. The resentment at the exclusion of data that are important for some reasonable misgivings awake. It is very important that students learn to distinguish between justified criticism and prejudiced criticism. The latter is almost always practiced among those who are outside of the discipline, and the first among those who believe have a higher allocation to the general knowledge of the economy.

- Another form of hostility to economic theory comes from the relationships that provides economic knowledge of political issues, in particular the role played by professional economists and government consultants, companies, corporations or banks and the financial sector. During the nineteenth century the economy served the interests of political liberalism. So defeated economic liberalism as an ideology, many found justified claim the death of the economy as a theoretical discipline. In the twentieth century, during the Conservative government of Margaret Thatcher and Ronald Reagan, the economy became confused with Republican policies and purposes of dismantling the Welfare State Model. In this same period the programs of neoliberal economics economists did see as spokespersons of the doctrines of the minimal state. In many periods of history, economists have yielded to the temptation given by governments and their programs. When it has not been the case that government programs were the work of economic advisers, as in the case of George Bush, Bush father and son. The role of consultants given to leading economists has ended undermining the credibility of economics as a separate science.

- The following point has been raised before, but it should be stressed again. It is the prejudice that economic theory is based on speculative assumptions. Especially the general economic theory and historical reach. So that is appropriate

15 A notable example of this critical position was Carl Schmitt. See: A notable example of this critical position was Carl Schmitt. See: The Concept of the Political, 1932, (Translation, Alianza Universidad, Madrid, 2002.)
to exclude the economy of the kingdom of science. Modern science after Newton did much in favor of expanding this type of prejudice. Although Newton himself was a contradictory theory to the causal explanation of physical phenomena. Of course, neither Galileo before Newton, rejected the value of theories and hypotheses. What both considered outside the scientific explanation were deliberately unfounded hypothesis. Allergy experienced by these authors regarding the metaphysical -defensores causality hypothesis, lay in the extrapolation of his imagination, "beyond all empirical limits." He was not a struggle against metaphysics as a discipline, but against abuses by its defenders.

**History of Economic Thought and Sociology**

We have suggested before that the economist faces three training camps in their discipline, namely, history, statistics and theory. In no event recognized schools or schools give these areas in one package. And the three fields are uncomfortable between them. Although understanding of economic history has inevitably to save some correspondence with the theory. An argument of this type is the one that relates the development of the coffee economy since the mid-nineteenth century with oil discoveries in Colombia after the second half of the twentieth century. Schemes of economic theory, in turn, depend on the economic history and institutions in which they arise. As with the history of economic thought, we can explain the changes in the dynamics of land ownership, income and capital; means of production and prices, emergence of large estates and the agricultural economy.

Since then, economic history is not alone in providing benefits to theoretical analysis, are also the institutions that facilitate property contracts, employment, services, or regulatory mechanisms created to protect key market agencies. Institutional economics and its subsequent developments make a solid field of knowledge within the discipline. In general, say they are advancing and developments in various forms of human behavior that expand the links between the history of economic thought and other sciences.

In treating an economy - unlike manual use- the teaching of economics is introduced by a recognition of the institutions and the public service fields that belong to the history of economic sociology. In Germany, says Schumpeter, a key field named with the term "economic sociology" (Wirtschaftssoziologie). In this field the economic analysis studies the questions of how people behave at any given and what are the economic effects arising from this behavior time; The study of individual and collective actions, the behavior of people at social events currently of great importance to the economy. Economic sociology studies the motives and incentives of individuals, but also social institutions that help describe such

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16 This bias has roots in our time after the influence of logical positivism, but before the growth trend of the modern science of Galilean type, see: George von Wright, Explanation and understanding.
behavior. Contracts, inheritances, negotiations, property, transactions, etc.. These economic developments are relevant to the history of economic thought, but their differences are not always clear in the authors we study.

**History of Economic Thought and Political Economy**

The economy considered social science is then the result of adding historical, statistical and theoretical techniques that are incorporated into studies in schools of higher education. The recognition given to the economy as "science", is recognized condition by the research community; at least from the great treatise A. Marshall, in 1890, in the United States tradition. Although for much of the nineteenth century, the term used was "political economy".

We add two cases of relative importance. First, "political economy" means different things between the authors, and in some cases the assignment of the term called general economic theory. Until the early XVI century meant "pure economics". At present some ambiguity remains in the uses of the concept, but is important to note the scope and methods used to understand political economy, specifying each author or trend the features you want to emphasize. Taking into account this recommendation is key to avoiding misunderstandings.

Second, since economics was baptized with the name of political economy, Adam Smith, was predominantly considered as a science devoted to the state's economy. And not exactly in the sense given by the Greeks to Polis, public behavior of an economic nature. According to Schumpeter, "this conception implied a too narrow version of the scope of the economy". The critique of this forecast the economy to achieve corporate and business research, the author expresses in these terms: "well exaggerating (A. Smith-not mentioned in the quote) the distinction, largely empty and meaningless, between the economy and what today is called business economics" [Business economics] 18.

Because we do not explicitly distinguish between these two notions of the economy, since all major analytical tools for studying the behavior of firms, companies or corporations, enter the economy in the same way that the behavior of states, and that the first be added as part of the history of economics in general. And not its opposite, namely, the history of economic thought in times past or present, can not be reduced to a history of the industry or factories. In any case, the term economy policy conserves significant force must review the content.

Some economists during the first half of the twentieth century thought that the economy was too empty of empirical content, if not take into account that the results could be applied to solve practical problems. Moreover, they believed that the economy could not confront the issues of the day without appealing to the

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18 Schumpeter, Ibíd., p.58.
framework of political history. They demanded a contextualized economy. This thinking became generalized so that the work of improvement of the theoretical instruments was underestimated. According to Schumpeter, it was "an expression of the inability to perceive the inexorable need for skilled labor" (p.58).

In contrast to the above, an economy that includes a proper analysis of government policies, political parties, pressure groups and the public agenda, more meant for beginners may have. The coordinated management of different disciplines and their relations in a broader theoretical framework, it may be less easy. Schumpeter invoked the doctrine in the writings of Karl Marx, an illustration: "Sometimes it is presented with the name of political economy, an economy of this type. Adding economic sociology, partially recognize the truth that appears in this program."

The political economy in this sense suggests a broader understanding of the term, namely, a discussion of the systems of political economy throughout its history. Approach implies a specific relationship with our idea of "economic thought". In short, the unit of arguments to support the importance of history in economics, is complementary to the comprehensive unit having Schumpeter on Economic History and History of Economic Analysis.

Recognizing this difference means integrating undoubtedly also recognize the genius of the author.

**Conclusions**

Since Joseph. A. Schumpeter wrote these comments on the History of Economic Analysis, the research and teaching of the economy have increased, as well as the specialty division. Own conception inherited by education professionals in the area, has acquired very extensive features. With the development of fields such as "experimental economics" and the growing demand for consultants associated with public policy or private banking sectors, the history of economic thought facing new challenges. Many economics curricula at universities in Latin America, seem to respond stout-in model of courses and seminars designed for American higher education.

When you begin your studies those entering economy take courses general. History of economic thought, economic mathematics, statistics, microeconomics, economic theory (introduction). All these courses make conventional part of the so-called general economy. Every body is separated by the relative autonomy of professors who teach courses. In support of this general introduction, we can say that the introductory courses retain a "family". Then there are courses in financial analysis, econometrics, macroeconomics, monetary and fiscal policy, foreign trade, and in some schools, students are seminars on international relations, business management, project design, and so on. The management-oriented courses have been gradually relegated to a small population-what meaning a mistake or
incorporated into graduate programs in business and enterprise. For this specific demand universities have been created for the sole purpose of preparing market professionals. Economics faculties constituted by the received view have given in this field; so that the few courses devoted to these areas are isolated from the overall program.

A group of complementary seminars whose contents can respond to classical themes such as public economics, agricultural economics, labor, transport and services, economic law, tax savings, institutional and neo-institutional economics, social security, state theory appears in the curriculum etc. In some schools a group of courses on comparative economics, Marxism, spatial geography, economic demography is introduced. Using the metaphor of the traveler, the number of passengers occupying that we have described as a bus, would increase significantly if we added the subdivisions between the various integrated curricula chairs. The list we have summarized, can emphasize any case at least three findings related to the subject of this article.

First: there is no order or stay in the accumulation of courses offered in the curriculum in economics. Neither there are substantive differences in methodologies to teach. Matters arise and dissipate, increasing its offer or diminish its importance depending on the distribution of teachers, teaching methods or level of educational requirement. In favor of this broader picture, that plays the same is true in almost all parts of the world. There is no uniformity to establish a single curriculum, which is good; but there is much diversity of programs, which is bad. And so there would be, say, if we conceive of the economy as an evolving science.

Second, these applied fields of specialization are mixtures of facts related to the four divisions established in the type of Schumpeter techniques. The combinations of courses and introductory seminars or specific lectures, differ little in many cases, because the instruments are mathematical or statistical modeling used in very specific fields of economics. Or because these quantitative methods are unnecessary to raise problems. Instead, in addressing economic issues is vital to pay attention to their historical perspective. Combinatorial courses and seminars also differ in another respect. Specialists in some fields have, however, a basic-individual or group-preparation varies fundamental areas; why mixed analysis techniques according to the subject at hand, regardless of their specialty. You have to understand this issue to realize why the economy has particular characteristics. In principle, it is necessary to emphasize the mutual dependence between the applied fields of economics and fundamental theoretical principles.

Third, the supposed separation between experimental economics (if necessary) and theoretical economics, it is in appearance. Actually, what happens to the "experiments" laboratory, is that their accumulation over time demands a general explanation. Or, expressed in terms of the received view, individual cases have value when they are reinforced by testable hypotheses. However, it also has its opposite value in economics, namely the detailed log of events and data differentiates and compare the general ideas. The modern industrial economy is an
example. Before we look at the importance of institutions for the proper functioning of businesses, the basic measure of efficiency passed through the theory of prices. Until the transaction costs are introduced, then the records accumulated facts could be read differently, but this time the genius named Ronald Coase.

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