

Introduction

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Alfred Marshall (1842–1924) and Joseph Schumpeter (1883–1950) have rarely been discussed jointly as serious subject matter in the history of economic thought. The absence of concern in contemporary Marshall and Schumpeter scholarship to link the two giants of economics cannot be wholly attributed to the research practice of specialization in the history of economic thought. Rather, it might be explained by the traditional understanding that while Marshall was the synthesizer of neoclassical economics, Schumpeter challenged the dynamic conception of the economy in place of the static structure of economics. Although the difference between their works appears obvious, it would not become an appealing topic such as the contrast between Schumpeter and Marx, Walras or Keynes, which historians of economics have been much concerned with.

Then, the question may arise whether there is anything similar between Marshall and Schumpeter, the former regarding the capitalist economic process as a cumulative process (*'natura non facit saltum'*) and the latter characterizing it as 'creative destruction'. It might be argued that an effort to establish similarities in place of differences would be more effective in stimulating exploration and synthesis of knowledge. As the logic of the dialectics might indicate, the synthesis of antitheses requires a logically higher dimension than that on which antitheses are located. This volume attempts to put Marshall and Schumpeter in the perspective of evolutionary thinking.

The concept of evolution must be loosely defined here because it belongs to a field of economics under incipient exploration and is subject to different approaches and interpretations. Moreover, the contributors to this volume working in different fields of thought are invited to freely explore evolutionary aspects of either Marshall or Schumpeter, or both of them. In these circumstances, the imposition of any stringent definition on their works would suffer from the charge of the Procrustean bed.

Nevertheless, it is incumbent on us to describe our broad vision of evolution which helps shed new light on the economic thought of Marshall and Schumpeter, keeping 'the many in the one' and 'the one in the many' as the ways of interpretation. Our vision of evolution to be applied to both

Marshall and Schumpeter studies will demand a departure from the received view on the nature of their works, that is, the stereotyped view on Marshall as the synthesizer of neoclassical economics and on Schumpeter as the theorist of economic development. Indeed, in each scholarship there are strong recent movements extending beyond the traditional lines of interpretation; these movements are seen as the attempts to peruse what Marshall and Schumpeter really wanted to accomplish even if they failed to develop it fully in practice and their visions remained more or less unfulfilled goals. Such attempts to discover the neglected aspects of their works naturally disclose diverse directions reflecting different theoretical structure and background of Marshall and Schumpeter. It is our intention to gather these views for creating the common ground of evolutionary thinking. We propose to identify their theme of evolution as the economic sociology or the theoretical formulation of history (reasoned history) in the process of capitalist development.

The idea of evolution is familiar to the reader of Schumpeter's *Theory of Economic Development* (1912 [1934]), if evolution is interpreted as synonymous with development. Although he sometimes used the terms 'evolution' and 'development' interchangeably, he definitely distinguished evolution (or development) of the economic sphere from that of the society as a whole. The terms as such do not matter, but the phenomena do. Schumpeter's system of economics consists of three branches: economic statics, economic dynamics and economic sociology. His conception of economic statics is represented by the Walrasian general equilibrium theory, which provides us with the basic logic of an economy and explains the establishment of equilibrium through the adaptive behaviour of economic agents. In contrast, Schumpeter's idea of economic dynamics is uniquely concerned with the revolutionary process of an economy caused by innovation of the entrepreneurs. Underlying the distinction between statics and dynamics is the distinction between the types of man: the hedonistic man and the energetic man. Schumpeter applies this typology of human being not only to the economic sphere but also to all spheres of social activity, and constructs a set of statics–dynamics dichotomies for all aspects of social life including the economy, politics, science, the arts and morality. His conception of economic sociology as the third branch of economics deals with the interactions between the economy and other social areas, under the assumption that each area is equipped with a distinctive type of the statics–dynamics mechanism. For him, the development of society as a whole through the interactions among various areas is better characterized as immanent evolution.

In his famous essay on Gustav von Schmoller, the leader of the younger German historical school, Schumpeter appraised the research programme

of Schmoller as a prototype of economic sociology and described its goal as a 'unified sociology or social science as mentally ('theoretically') worked out universal history' (1926: 382). He called the goal also a 'universal social science' (ibid.: 365). Later, when he surveyed the whole areas of economics in the *History of Economic Analysis*, he regarded economic sociology as one of the tools in economics, defining it as 'a sort of generalized or typified or stylized economic history' (1954: 20). As a simplified expression, he liked to use 'a reasoned (=conceptually clarified) history' (1939: vol. 1, 220) or '*histoire raisonnée*' (1954: 690, 818). The economist of top rank to whom Schumpeter (1950: 44) attributed the term '*histoire raisonnée*' was Karl Marx.

In Schumpeter's view there is another slightly different way of explanation: economic sociology deals with the institutional framework of economic life which is exogenously given to static as well as to dynamic economic theory (1954: 21). Combining this explanation with the above definition in terms of a reasoned history, we can say that economic sociology is the attempt to integrate history and theory through the analysis of institutions, because the specification in terms of institutions will make the method of economic sociology incorporating a 'generalized or typified or stylized economic history' more articulate.

In Schumpeter's view, a universal social science is closely connected with study of history. He emphasizes that the subject matter of economics is a unique process in historical time and that the historical materials reflect the development phenomenon and indicate the relationship between economic and non-economic facts, thus suggesting how the disciplines of the social sciences should interact. The recognition of the connection between the unity of social life and historical development was the essence of the German historical school as he understood it, and constituted his central idea of a universal social science (Schumpeter, 1914 [1954]: 176–80). The historicity of an economy and social unity in a development process can be addressed only by the apparatus of economic sociology. In his book *Capitalism, Socialism and Democracy*, the major work of economic sociology, he presented the thesis of falling capitalism due to its economic success based on the interaction between economic and non-economic areas (Schumpeter, 1950).

Schumpeter, the polymathic historian of economic thought, did not fail to critically evaluate a number of past attempts of a universal social science. He favourably appraised Vico, Marx and Schmoller among others, who were more or less related to historicism, while he rejected a 'single hypothesis of the Comte-Buckle-Marx kind' that attributed historical evolution to simple factors (Schumpeter, 1954: 811). Schumpeter's evaluation of Marx and Schmoller was mentioned above with regard to their methods of

a reasoned history: here a reference to Giambattista Vico, the precursor of historicism, is still necessary. Schumpeter discussed Vico as follows:

His New Science (*scienza nuova*) is best described by the phrase ‘an evolutionary science of mind and society.’ But this must not be interpreted to mean that the evolution of the human mind shapes the evolution of human society; nor, though this would be nearer the truth, that the historical evolution of societies shapes the evolution of the human mind; but that mind and society are two aspects of the same evolutionary process. (Ibid.: 137)

Nothing expresses Schumpeter’s view of a universal social science than this passage. He also identified the social sciences in the form of eighteenth-century moral philosophy with ‘the sciences of “mind and society”’ (ibid.: 141).

The science of mind and society can be interpreted and constructed in various ways. It is an approximation in terms of dichotomy to the development of society as a whole instead of all-embracing treatment of relevant factors such as the general equilibrium approach. It focuses on the division and interaction between human beings and the institutions of society among which they live; between the ideational-cultural field and real-social field, as defined in German cultural sociology; between the superstructure and substructure in Marx’s sense; between mind-subject-self and body-object-world in the philosophical sense; and between the system of metatheory of economics and the system of economics, as defined by one of us (Shionoya, 1997: 260–65). In so far as economic sociology, institutional economics and evolutionary economics, as distinct from economic statics and economic dynamics, take into account non-economic factors along with economic factors, they are all concerned about the interactions between economic changes, on the one hand, and non-economic changes in value, culture, and *Zeitgeist*, on the other. For Schumpeter, the analysis of the concurrent evolution of mind and society is the third branch of economics which remains to be explored.

In sum, what might be called the postulates constituting Schumpeter’s idea of evolution is summarized as follows:

1. Evolution consists in the development of society as a whole, which is the object of a universal social science. The unity of social phenomena is one of the basic premises of a universal social science.
2. Evolution is scientifically worked out as the reasoned history or *histoire raisonnée*, which is obtained by the integration of theory and history in terms of changing institutional framework. The concern for the historicity of development is another premise of a universal social science.

3. Evolution depends not so much on mechanistic motion as on organic adjustment of a society, which consists of social interactions based on the statics–dynamics typology of human nature and the adaptive–active forces in various social areas.
4. Evolution is addressed in practice by a strategic approach to the mind and society (or the economic and non-economic spheres) rather than by an all-embracing approach to the development of society as a whole.

These headings articulate the form of evolutionary thinking, still allowing for a variety of substantive approaches that can be formulated in practice.

Although both Marshall and Schumpeter admitted the legitimate role of pure economic theory as the economic organ or economic logic, they were not satisfied with it because it was unable to explain the problems of real life, and refused to separate the study of economic from that of social, cultural and institutional factors at a more advanced stage of knowledge. Compared with Schumpeter's utmost concern for history, Marshall was much more motivated by ethics in opening up a broader vista for economics. Marshall's famous definition of economics that it is not only a study of wealth but also a part of the study of man suggests its broader orientation than its well-defined scope (Marshall, 1920: 1). Evaluating Marshall's *Principles of Economics*, Schumpeter found out an economic sociology constructed on historical foundations 'behind, beyond, and all around' the core of the analytical apparatus and characterized it as follows: 'His mastery of historical fact and his analytic habit of mind did not dwell in separate compartments but formed so close a union that the live fact intrudes into the theorem and the theorem into purely historical observations' (Schumpeter, 1951: 94). Marshall himself would emphasize the nature of his own task as a close union between ethical aspirations and the economic theorem. For him, history must be a history of man as the object of philosophy and psychology.

In economics we deal with the whole of man's nature, though we lay chief stress on certain special aspects of it. From this it follows that, in so far as we base ourselves upon the history of past times at all, it must be history as a whole. We need more than economic history . . . we want a history of man himself, and economic history as contributing to that. (Marshall, 1897 [1925]: 299)

Thus, he coined the term 'the reasoned history of man' as a synonym of social science, implying that 'social science is seeking her unity in the forces of human character' (ibid.: 299–300). For both Marshall and Schumpeter the study of human character was the real foundation for expanding the narrow boundary of economic statics in order to explain the problems of

real life. If Schumpeter replaced the model of 'economic man' with that of 'energetic man', Marshall did the same job of restoring real life by the model of 'public spirit' based on the social interaction among agents.

Progress, for Marshall, means not merely an increase in material wealth but also a rise in the quality of life made possible by an increase in the physical, intellectual and moral faculties of human beings. Progress would be available only if an increase in material wealth contributed to a rise in the quality of life. The study of wealth and the study of man are connected by a study of changing human nature in relation to socio-economic circumstances. His theory of organic growth describes the evolutionary process of a national economy as an organism, in which an increase of national income would be accompanied by an improvement in character, quality and ability of human beings, and vice versa. The plasticity of the human mind with respect to environmental conditions is the focal point of industrial organization and economic institutions.

Nothing describes Marshall's conception of economics better than Pigou's memorial remark:

So economics for him was a handmaid to ethics, not an end in itself, but a means to a further end: an instrument, by the perfecting of which it might be possible to better the conditions of human life. Things, organisation, technique were incidents: what mattered was the quality of man. (1925: 82)

If Marshall's economic inquiry was motivated by ethical aspirations for the improvement of human life, there were two major tasks for him. First, business and industry had to be explored as the organizations for creating those opportunities for human improvement. Problems of organization, knowledge, technique and training, which are reservedly inserted into Book IV (*The Agents of Production*) of *Principles* and extensively discussed in *Industry and Trade* (Marshall, 1919), are not a historical appendix to economic theory but constitute a historical-ethical approach to economic sociology in terms of the evolution of mind and society. Underlying his thought on organizations there was the unique philosophical idea of piecemeal evolution in terms of the interaction between conventional automatism and innovative conscious efforts, as argued by Tiziano Raffaelli in Chapter 2 of this volume.

Second, an ethical theory had to be established to evaluate economic activities and institutions in place of hedonistic utilitarianism. Marshall tried to develop some substantive thoughts on ethical beliefs based on the theory of evolution, most of which remained as fragmentary manuscripts (Whitaker, 1990). Whereas his attitude against utilitarianism is clear, his ethics of economic chivalry addressed to members of the social organism was not accomplished. Virtue ethics or perfectionist ethical theory should be taken into account in the critical consideration of mind and society.

Virtue ethics, which is concerned not only with the improvement of human capabilities, the perfection of character and self-realization but also with the corresponding organizations and institutions for human development, was consciously pursued by the contemporaneous Oxford philosophers and economists, including T.H. Green, A. Toynbee, J.A. Hobson, L.T. Hobhouse, and so on. Marshall's well-known urge for 'cool heads but warm hearts' (1885 [1925]: 174) in his inaugural lecture at Cambridge must have been inspired by a moral atmosphere of Oxford which he had encountered during his short tenure as the successor of Toynbee.

It is illuminating to see how Marshall's work fits our Schumpeterian conception of evolution under the four postulates derived in the above. Despite the differences in their styles of thought, they share formidable challenges to a broader type of social science beyond economics. Marshall's economic sociology is addressed to:

1. the development of society as a whole based on 'the whole of man's nature',
2. the reasoned history of mind and society in terms of changes in industrial organization and economic institution,
3. the organic adjustment between human nature and institutional conditions through piecemeal evolution in the gradual process of 'history as a whole', and
4. a strategic approach to the mind and society in terms of the science of character formation as an intermediary between economics and ethics.

It is not an accident that Marshall and Schumpeter can be viewed from the evolutionary perspective, because they were influenced by the German historical school, Schmoller in particular, along with other sources of ideas. The reference to German historicism has been mentioned only as a biographical episode not as a scientific legacy in both Marshall and Schumpeter studies. The present volume not only demands a departure from the traditional views on the two giants, but also an introduction of historicism into the research perspective. Whether such a reorientation yields results of interest in the future, we leave the reader to judge.

The present volume emanates from an international workshop on the history of economics, 'Marshall, Schumpeter, and Social Science', held at Hitotsubashi University, Tokyo, Japan on 17–19 March 2007. While the workshop started several years ago and has dealt with several aspects of the Cambridge school of economics, the conference as the source of this volume was organized with a focus on Marshall and Schumpeter. The workshop was made possible through the generous support of Hitotsubashi University,

COE/RES project, and JSPS's Grant-in-aid for scientific research. We wish to record our acknowledgement to these for making possible a stimulating and productive meeting. We would also like to thank the authors for developing their papers, and we are also very grateful for participants' thoughts and comments over the three days, particularly to Heinz Kurz, Marco Dardi, Bradley Bateman, Marcello de Cecco and Robert Dimand.

The following chapters take up specific topics about Marshall and Schumpeter under the overarching theme of the book as just outlined. The book is organized into four parts: I) Vision and Method of Evolution; II) Social Science and Evolution; III) Conceptions of Evolution; and IV) Evolution and Capitalism, although these parts are not rigidly differentiated.

Part I is devoted to the detailed observations on the vision and method of evolution in Marshall and Schumpeter based on the brief general explanation in the above.

The first chapter, by Yuichi Shionoya, goes deeply into the ontological foundations of Schumpeter's idea of evolution. It presents the first attempt of ontological reading of Schumpeter. Referring to the distinction between analytical philosophy and continental philosophy, Shionoya characterizes Schumpeter's idea of evolution as reflecting German Romanticism and historicism, and interprets his statics–dynamics dichotomy as a central theme of hermeneutics concerning the volitional projection and social embeddedness of the self. Shionoya's interpretation of evolution in Schumpeter differs in scope and method from that of neo-Schumpeterian economics largely confined to the discussions of technological innovation, entrepreneurship and market competition.

In Chapter 2 on the general pattern of Marshallian evolution, Tiziano Raffaelli highlights the evolutionary interpretation of Marshall based on the recent research in Marshall scholarship. He tries to confirm Marshall's standpoint with regard to the different contemporaneous conceptions of evolution by natural and social scientists and Marshall's metaphorical attempt to extend the knowledge of neurophysiology to a model of human and social evolution. This chapter formulates Marshallian conception of the evolution of mind and society in which tradition and innovation are interacted through the standardization and innovation of component parts of a society.

In Chapter 3, Roger Backhouse traces Schumpeter's attitude to Marshall from his maiden work to posthumous work and argues that his evaluation of Marshall reflects the different battles he was fighting in his career. Schumpeter is seen here from the viewpoint of his economic theory rather than of his history of economics. Backhouse demonstrates Schumpeter's shift of emphasis in his attitude to Marshall, from Marshall the creator of the engine of economic analysis to Marshall the user of these tools. He

deals with a subtle question whether Schumpeter's antagonism against Keynesian economics was reflected in his critical view on Marshall's quasi-macroeconomic concept of social value.

Part II of the volume focuses on methodological position of evolutionary thinking in social science with special reference to Marshall and Schumpeter. In Chapter 4, referring to the two authors, Richard Arena contributes an absorbing chapter on, first, the complementary relationship between economics and sociology, and second, the incorporation of organization and institutions in economic analysis. Despite the different approaches of Marshall and Schumpeter, Arena enumerates the main points of their agreement on the scope and function of economic sociology primarily focused on the institutions of market economies.

In Chapter 5, Geoffrey Hodgson points out that although Marshall and Schumpeter were devoted to reorganize economics as an exact science, they also tried to broaden the scope and boundaries of economics to establish economic sociology under the influence of the German historical school. Meanwhile, economists following Lionel Robbins chose the narrow definition of economics as the 'science of choice', while sociology was concerned with the explanation of values and ends. By the 1990s, however, Hodgson maintains, these disciplinary definitions were breaking down, and a major re-examination of their scope and boundaries is required.

Chapter 6 by Stanley Metcalfe explores the foundations of evolutionary approach to economics by considering Marshall, Schumpeter and Hayek in the light of evolutionary theory. In particular, he demonstrates that they are linked by a thread of evolutionary reasoning addressed to the link between wealth creation and the growth of knowledge in the context of economic development. He argues that, although with the elaboration of the canon of economics the thread was broken and neglected by the mainstream, the evolutionary reasoning depending on the intertwining of dynamic principle, institutional analysis and historical record is necessary to understand the working of capitalism.

Part III is concerned with various conceptions of evolution, which will serve to analyse the evolutionary schemes in terms of more substantive, socio-economic concepts. Chapter 7 by Tamotsu Nishizawa offers a comprehensive account of Marshall's historical-ethical approach against the background of the growing attention to social policy and historicism in the period from the 1870s to 1914. While the main topic of this period in the history of economics is usually taken as the establishment and development of neoclassical economics, Schumpeter defined an aspect of economics during this period as the 'social policy and the historical method'. Following this interpretation, Nishizawa's chapter extensively discusses the relationship between economics, history and ethics in Marshall.

Katia Caldari and Fabio Masini in Chapter 8 deal with the issue of sustainable growth based on Marshall's view of economic development and progress. The conventional approach of economists to the question of the limits to growth has been concentrated on the price mechanism that creates incentives for technological progress and input substitution. In contrast, some British economists of the nineteenth century considered the worsening of quality of life as the consequences of economic growth. Among others, the authors maintain, Marshall offered a pioneering contribution to the modern concepts of limits to growth and sustainable growth by proposing the goal of higher quality of life. They enquire into the cultural heritage and scientific background which preceded and accompanied his work, and demonstrate his continuities and innovations along the line of nineteenth-century economic thought.

Chapter 9 is by Richard Swedberg, who contributes a compelling essay on the theory of entrepreneurship. He argues that Schumpeter's work can serve as the point of departure for the general theory of entrepreneurship that is still missing in modern social science. He calls attention to the original definition of economic dynamics and entrepreneurship in the first German edition of Schumpeter's *Theory of Economic Development*. Schumpeter discussed the typology of human beings as the basis of the statics–dynamics dichotomy: the 'Man of Action' was the model of the entrepreneur compared with the static person. Swedberg suggests a way of sociological conceptualization of the idea of entrepreneurship as a combination, on the one hand, and the idea of resistance to entrepreneurship as tradition, norm and order, on the other.

In Chapter 10, on Schumpeter's distinction between invention and innovation, Kiichiro Yagi discusses Schumpeter's exchange of ideas with Harvard scholars (A.P. Usher, A.H. Cole, and so on) on technological invention and entrepreneurial history. He argues that a peculiar scheme of social evolution lay behind Schumpeter's distinction between invention and innovation. Although Schumpeter distinguished between invention and innovation on a theoretical level, technology and economy are no longer independent in the context of evolutionary historical process, which he finally arrived at in the form of the empirical research of entrepreneurial history.

Analysis of capitalist economy in terms of evolution is the focus of attention in Part IV. In Chapter 11, Harald Hagemann outlines the skeleton of Schumpeter's system of thought and is specifically concerned with his changing attitude towards the use of the term 'evolution'. Schumpeter was against the biological analogy and the implication of progress, both of which the term 'evolution' can invoke. Later, however, Schumpeter accepted the term 'evolution' by defining it as 'the changes in the economic

process brought about by innovation, together with all their effects, and the response to them by the economic system' in his book *Business Cycles* (1939: vol. 1, 86).

Mauro Boianovsky and Hans-Michael Trautwein write Chapter 12 on a topic – frictions and unemployment – which is the dark as well as neglected side of economic development in Schumpeter's theory. In his analysis of economic development and business cycles, unemployment is explained as frictional as well as technological unemployment. The authors of the chapter regard this conception as unconventional compared with the contemporaneous view of frictional unemployment and Marxian view of technological unemployment. They try to provide a comprehensive investigation of Schumpeter's view on the relationship between unemployment and technological innovation and its relevance to the modern neo-Schumpeterian search and matching paradigm. The chapter suggests that Schumpeter's view still remains to be exploited in the modern framework.

The final chapter is concerned with Marshall on economic chivalry and business ethics. Kenji Fujii opposes the conventional view of Marshall's advocacy of economic chivalry as trivial digression that has no relation to his economic theory. Starting from Marshall's notion of a firm, he argues that a firm is the basic context in which economic agents (workers and entrepreneurs) create and acquire shared knowledge and values. It is argued that the role of an entrepreneur is to control and lead a firm as a context because both the economic productivity and moral quality of a firm depend on the nature of its underlying contexts. Economic chivalry is nothing but the social ideal of entrepreneurship.

As we have noticed, there has been a growing interest in evolutionary thinking in evolutionary economics, institutional economics and economic sociology independently of Marshall and Schumpeter. We hope that this volume will provide a stimulus not only to Marshall and Schumpeter scholarship in the perspective of the history of economic thought, but also to the recent efforts of economists to explore a research field beyond mainstream equilibrium economics. Evolutionary thinking is the best context in which the co-operation between economists and historians of economics could be obtained because it has been the economist's Mecca.

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