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**A Review of *Marshall and Schumpeter on Evolution: Economic Sociology of Capitalist Development*, Edited by Yuichi Shionoya and Tamotsu Nishizawa, Cheltenham UK, Edward Elgar, 2008, 285 pp.**

*Andreas Stamate*

Joseph Alois Schumpeter (1883-1950) and Alfred Marshall (1842-1924) had more or less successfully delivered to humanity their vision about evolution and made connections between this and other concepts which deserve attention, such as development or capitalism. The volume *Marshall and Schumpeter on Evolution: Economic Sociology of Capitalist Development* is a tool for starting to understand these connections, and at the same time for observing the differences, if any, between the two.

First part starts with an editor's paper, professor Yuichi Shionoya, and has the task of revealing Joseph Schumpeter *in all one's glory*. It is a very suggestive paper because it allows the reader a *meeting* with Schumpeter. It shows not only the background of the economist, but the system he conceived and proposed for posterity. Shionoya writes *Schumpeter and evolution: an ontological exploration* having in mind two targets. They are more philosophical than economical, in the sense that Schumpeter created (being influenced by three main schools of thought: neoclassicism, represented by Leon Walras, Marxism, represented by Karl Marx, and historicism, represented by Gustave von Schmoller) an idea of a world with the man whose existence is conditioned by action to change. But he did not take as given the theoretical roots of the three schools. He tried to combine them in a measure that permitted him to add something new to mainstream economics.

As framework of a universal science, Schumpeter had three ideas: a. *Introducing the dynamic type of man into social science* (a man who reacts, not who adapts), b. *The evolutionary development of society seen as a whole through interactions between various social areas*, and c. *The institutional development as a means of generalizing historical events*. As Shionoya puts it, "the conjunction of these

responses constitutes his tripartite idea of a universal social science: innovation, social unity and institutional development" (p. 18). These proposals were viewed as something heterodox, which "challenged mainstream economics" (p. 20). The second level of the discussion concentrates on the ontological paths used by Schumpeter to explain his vision on evolution. In the light of continental philosophy (which means feelings and intuition against rationality, holism against positivism, organic view against empiricism, historicity and plurality of knowledge against objectivism and naturalism), Schumpeter believed in a new way of evolution. Schumpeter becomes a romantic writer with the belief that the man must be opened to confront and eventually pass over old canons (in any area) and that the dynamic man is the "key concept of evolution, characterized by energetic behaviour and non-rational motivations" (p. 23). Schumpeter's thoughts gave birth easily to what we call *hedonism*. In fact, he succeeded, Shionoya observed, to "integrate hedonism and romanticism into the foundations of economics" (p. 23).

On "The general pattern of Marshallian evolution", Tiziano Raffaelli makes a brief introduction in Marshallian research paths. He points out that Marshall, *the champion of static equilibrium analysis*, developed a kind of economic research system (technically known as mainstream) of which the reader may possibly have some problems understanding it. That is because, he was criticized for some inadequacies consisting first, in the failure to realize the intrinsic limits of marginal analysis, second, in the gap between the general equilibrium theory and his partial equilibrium theory and third, setting forth by miming the Darwinian evolution concept, a way of explaining organism evolution by looking only to one part of the whole, or focusing on local change. As Raffaelli puts it, this third claim, comes in contrast with the general theory of equilibrium according to which every part of a whole is in a permanent connection with the rest of the whole parts and cannot be treated as distinct.

The first part ends with a paper written by Roger E. Backhouse concerning Joseph Schumpeter's remarks on Alfred Marshall. Schumpeter firmly stated that Marshall had "the form, not the essence" (p. 53) of the classical approach, and further on that *in reality his theory was the same as theirs*. We also find out that Schumpeter criticizes Marshall by not taking into account the great importance of mathematics in developing a *modern engine of research*, although Marshall's *entrance* in economics was accomplished by having translated John Stuart Mill's doctrines into mathematics, in the 1860s. Schumpeter considers that Marshall was a great economic historian, and like most of historians, the theory must be

combined with reality, facts about past and present. This is exactly the same thing that happened with Marshall, which did not strictly separate the historical facts from his analytic habit of mind (observed and appreciated by Schumpeter), so that things evolved forming a structure, an analytical *corpus* valid only for a specific period of time. In the words of Schumpeter, "his vision (Marshall's) of the economic process, his methods, his results, are no longer ours" (p. 53).

The second part of the volume consists of discussions on *Social science and evolution*. An interesting observation is involved in the paper of Richard Arena *On the relation between economics and sociology*. Arena finds a similarity between the ways Marshall and Schumpeter looked at the economic phenomena, that of the strong connection with sociology. Both Marshall and Schumpeter sincerely believed in the improvement of economic analysis with sociological imprecations. For instance, Marshall is not a supporter of a pure economic theory; his faith is in historical facts which deeply influence the economic sphere. Marshall thinks that you cannot judge separately those two. So did Schumpeter, offering also a scheme of understanding what it meant when he referred to the *dynamic type of man* and to the *institutional development* as paths for evolution; this scheme contains an unshaped idea of a business cycle model. As Arena writes "entrepreneurs are the economic leaders of the market economy. This represents 'a fundamental truth of the sociology of industrial society' since entrepreneurs create the 'institutional patterns' of economic development" (p. 74). It's worth mentioning that Marshall saw these complementarities in connection with a third discipline called 'reasoned history' (derived from the influence which Marx stressed on him) while Schumpeter was the patron of the so called 'economic sociology'.

J.S. Metcalfe in his paper *The broken thread: Marshall, Schumpeter and Hayek on the evolution of capitalism* builds a *thread* between the evolution theories of the three economists. He sees connections that Marshall, Schumpeter and Hayek made between capitalism and evolution, in which the latter is a synonym of the former. *The thread* consists in an insight that all three economists had dealt with it, knowledge as the link the intellectual heresies left on 'capitalism and evolution' by the three economists. A little different is the presentation of Hayek. Hayek is aware of the importance of knowledge as an important element which conduct people to evolution. Knowledge cannot be considered as *datum*, although sometimes people hold this impression, but rather something that they must work for or be content in having it. In Hayek perspective, we find that progress is a state of individual forces of people, and only through them (and guided by a

rigorous system of law and institutions) can the society evolve. Hayek's economy evolves because "its individual members know different things and hold different beliefs about the economic world, and it is because knowledge is specialized and individual that an economy is an adaptive system that is a marvel of but not an intended product of human design" (p. 128).

A revisiting of the German historical school and the influence it stressed on Marshall is made in the third part of the book. Here we find that Marshall created a new school, a school of industrial and applied economics. This school was supposed to give a different kind of disciple, other than the classic one. This was the economic historian. A man who sees the past and shapes the future through it. An empirical observer who, like Schmoller, has the job to judge economics by combining it with *what happened*. But soon, a need of determining of how people can live better was sensed, more or less influenced by the historical school. This is what, nowadays, we call *welfare economics*. Some economists, mainly neoclassical, had been questioned about how man can know the secret of welfare, of growth. Only one of them offered a solution. That was a brilliant student of Alfred Marshall, a disciple of him, Arthur Cecil Pigou, who gave this answer: a man's marginal utility diminishes as his money income increases; thus, because a rich man values a greater income less, this means, *other things being equal*, that we can establish a progressive income tax which takes from the rich and gives to the poor. Marshall, when he was in his *metaphysical stage* (1868) (p.158), was emphatic with the works of Immanuel Kant. He was preoccupied of improving life conditions, but not with or through economics, but more through philosophy and ethics. An interesting inquiry in Schumpeter's theory of entrepreneurship is also made by Richard Swedberg in his paper *Rebuilding Schumpeter's theory of entrepreneurship*. Swedberg gives a refreshing view of Schumpeter's visions of entrepreneurship mentioning the keystones of his theory: the concept of combination (used first in chapter 1 of *The theory of Economic Development*) and the concept of resistance *to innovation or entrepreneurship* (this idea is present in the same chapter and generally claims the necessity of permanent adaptation of the enterprise).

Harald Hagemann writes in *Schumpeter on Development* about the *Schumpeter's triad*: innovations, pioneering entrepreneurs and bank credit. The triad constitutes Schumpeter's vision of development. Also, an interesting point in Hagemann's paper is the observation about Schumpeter and Austrian School of economics: "In its specific combination with Marxian research programme giving emphasis to the

long-run development of the capitalist economy including capital accumulation and technical progress as central elements, the evolutionary perspective in Schumpeter's work takes a form which places him outside the mainstream of the Austrian school" (p. 228). This statement gives a strong argument to the ones who firmly believed and believe that Schumpeter is a knight of the Austrian school. Hagemann speaks about Schumpeter's influence on development economics, one of these being his leading students, Hans W. Singer, who was a pioneer of development economics. Singer "got his name as a development economist with his famous study on the long-run relative decline of the prices for primary products compared with the prices of manufacturing goods" (p. 237). In a different paper (*Frictions in Schumpeter's theory of unemployment*), the theory of unemployment developed by Schumpeter in *Theory of Economic Development* is the central theme of Mauro Boianovsky and Hans-Michael Trautwein. The theory states that the business cycle which is caused by the technical progress "through swarms of innovations and subsequent elimination of obsolete production processes" (p. 248) finally creates unemployment.

Before concluding, we must to observe that this concentration of papers written by different people, deeply engaged in the academic research field, works for accomplishing one special, interesting need: the need to know about how the two economists viewed the evolutionary process. I think it succeeds in presenting not only their vision on evolution and the connections which both of them make between evolution and capitalism, but also the historical context through which they had managed their writings. Even though, as few contributors remark, neither Schumpeter nor Marshall succeeded in the field of popularity with their evolutionary visions, they are still mentioned among the first who influenced economics in general years after their deaths.

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