

Schumpeter and economic man

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Abstract

Purpose – The purpose of this paper is to examine the writings of Joseph Schumpeter on economic man to demonstrate that Schumpeter is a precursor of personalist economics.

Design/methodology/approach – This paper addresses two intertwined questions. What evidence supports the claim that Schumpeter rejected *homo economicus*? What evidence indicates that Schumpeter actually embraced the human person – the acting person – as a replacement for *homo economicus*? The evidence is presented in four sections: Schumpeter's rejection of *homo economicus*; Schumpeter on economic agency; Schumpeter, a precursor of personalist economics; and final remarks.

Findings – As to the first question, there is no doubt that Schumpeter rejected *homo economicus*. Regarding the second, the evidence does not indicate that Schumpeter proposed replacing *homo economicus* with what today we refer to as the acting person. This paper concludes that by insisting on the critical role of the active, spontaneous, and eager-to-initiate change entrepreneur in economic affairs and our understanding of those affairs Schumpeter was a precursor of personalist economics.

Originality/value – To a large extent Schumpeter's insights regarding economic agency and William Waters role in interpreting those insights have been buried in the economics literature. It was Waters in 1952 who stated that Schumpeter identified the inadequacy of economic man as the efficient cause of economic activity and re-established the human person as the true efficient cause, principally in terms of entrepreneurship.

Keywords Economic man, *Homo economicus*, Passive vs dynamic economic agent, Precursor of personalist economics, Walter Ong, William Waters

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[Walras] would have said [...] that [...] economic life is essentially *passive* and merely adapts itself to the natural and social influences which may be *acting on it*, so that the theory of the stationary process constitutes really the whole of theoretical economics [...] I felt very strongly that this was wrong [...] (Schumpeter quoted in Haberler, 1951, emphasis added).

Economic man, *homo economicus*, has been deeply embedded in conventional economics for more than 150 years. Beginning with introductory economics, students see the two terms used in every text and classroom. They are now a part of the human consciousness of every student and instructor of economics.

When *homo economicus* is repeated over and over again in the printed materials used across generations of students, the concept is accepted without question, and becomes the centerpiece of a paradigm that directs teaching, learning, and publishing. Thus, *homo economicus* becomes entrenched until it is challenged at long last by institutionalists, behavioralists, humanists, social economists, along with critics from other disciplines. That challenge is slow to take hold in conventional economic thought because changing the paradigm is threatening and widely resisted in the academic world.

Walter Ong's insights regarding the three stages of human communication – oral/aural, script, and electronic – are relevant and important to the topic at hand because he helps us understand how we communicate to one another as professional economists across those stages. Notice, whether we are referring to a book or scholarly article, we are in the script stage of human communication. What has been written is difficult to change unless the book's author(s) issue a revision in a new edition or the author(s) of the article are drawn into the back-and-forth of response/reply in later issues. Or with the passage of time the book is challenged in another book[1]. In all three instances, however, what is missing is the give-and-take of direct face-to-face, oral/aural discourse where arguments and claims are stated and rebutted and change unfolds more rapidly than in the print media (Ong, 1982).



In Adam Smith's age and for many years afterward the isolated individual made sense because humans communicated face-to-face with only a very small set of other individuals and in writing with probably an even smaller set. Schumpeter himself lived in professional isolation at Harvard where, according to 20-year friend and colleague Seymour Harris (1951b), he never "asked anyone to read his manuscripts" and hardly ever engaged with others face-to-face when he was encountering a problem in his work. The isolated individual is still very much entrenched in contemporary economics in spite of inexpensive lightning-fast electronic communication over long distances that have removed much of the isolation in the real world. It is not passive isolation that characterizes economic agency today. It is dynamic interaction.

Consistent with Ong's views though he died before any of Ong's writings were published, Schumpeter identified the reason for the continued use of *homo economicus* in the easy acceptance of and failure to re-examine dated concepts notably the eighteenth century script-stage ideas of Bentham that are foundational to economic agency:

We are in the habit when discussing questions of policy of accepting at face value the slogans of our own, and indeed, of a by-gone time. We reason exactly as if the Benthamite creed of the eighteenth century had been valid (Schumpeter, 1951).

In the early 1950s, William Waters argued that it was Schumpeter who revealed the inadequacy of economic man as the efficient cause of economic activity. But Schumpeter did not leave it there. He, according to Waters, re-established the human person as the true efficient cause, principally in terms of entrepreneurship:

We wish to give recognition to the great man who restored the human person as the dynamic factor in the explanation of economic activity (Waters, 1952).

Those who knew Waters personally have no reason to question the conclusions and assertions he made about Schumpeter, even though they were made in his doctoral dissertation. Waters was a careful scholar, never given over to the kind of overstatement and stretching of evidence that doctoral students often engage in to drive home their argument.

For others, however, more proof may be called for and the development of the evidence necessary to back Waters' argument prompted this undertaking. Much of the evidence was available to Waters when he was writing his dissertation and that evidence is explored at considerable length. Some of the evidence, however, emerged after Waters completed his degree and therefore is not referenced in his dissertation[2].

This paper addresses two intertwined questions. What evidence supports the claim that Schumpeter rejected *homo economicus*? What evidence indicates that Schumpeter actually embraced the human person as a replacement for *homo economicus*? The evidence is presented in four sections: Schumpeter's rejection of *homo economicus*; Schumpeter on economic agency; Schumpeter, a precursor of personalist economics; and final remarks. To carry out this assignment, Schumpeter at times is quoted at considerable length.

Schumpeter's rejection of *homo economicus*

Well before Schumpeter (1954a), conventional theory was taken to task by the historical school for its political and social philosophical foundations "with almost complete success." In that sense, Schumpeter's criticism is not breaking new ground.

The earliest evidence that demonstrates Schumpeter's rejection of *homo economicus* is his 1940 article "The meaning of rationality in the social sciences." His criticism centered on Bentham's pleasure-pain calculus and the defense of utilitarianism that is grounded in the greatest-happiness-of-the-greatest-number argument (Schumpeter, 1940/1991).

In the same place Schumpeter (1940/1991) acknowledged that Pareto accepted *homo economicus* but Marshall did not. The problem with *homo economicus*, according to

Schumpeter, is that economic change is not incorporated in its representation of the economic agent. Here he insisted that economic agency must include entrepreneurs who “are certainly not economic men in the theoretical sense” (Schumpeter, 1940/1991).

Five years later Schumpeter (1945/1991) in “The future of private enterprise in the face of modern socialistic tendencies” attacked the utilitarianism that supplies the philosophical foundations for *homo economicus*. He did not, however, argue clearly and explicitly for a different philosophical foundation. Nevertheless his reference to a “spirit of social irresponsibility” that is embedded in utilitarianism suggests that Schumpeter was leaning in the direction of a philosophy that encompasses human sociality.

In his presidential address at the 1948 meeting of the American Economic Association, Schumpeter took a gentle swipe at utilitarianism and *homo economicus* but did not engage them fully because his central purpose was to expose how ideology and vision enter into economic analysis and economic theory and why ideology that originates in the prescientific cognitive act “[...] is [...] the prerequisite of our scientific work” (Schumpeter, 1949c).

In his 1946 article “Comments on a plan for the study of entrepreneurship,” Schumpeter continued his attack on the conventional way of thinking about economic affairs that regards change as inconsequential. He specifically regards “passive” as completely out of place in characterizing economic life. Schumpeter (1946/1991) herein asserted that conventional economic theory is flawed and is out of touch with economic realities because it is based on the passive behavior of economic agents.

We are convinced that the passivity of the economic agent, which is commonplace in the texts used by conventional economists, is consistent with and follows from Ong’s (1982) observation that writing as opposed to speech is essentially passive and this passivity reinforces an “unreal, unnatural world.”

More is revealed about Schumpeter’s views on conventional economic theory following his death in 1950. Once again Pareto came under attack by Schumpeter who found fault with his physical-science perspective on economic activity that essentially diminishes the human factor and accused him of being delusional (Schumpeter, 1951). In the same place, Schumpeter (1951) called attention to the dichotomy between the premise of conventional economic theory that *homo economicus* is entirely rational in all decision-making and the reality accepted by conventional economists that “habit, impulse, sense of duty, and imitation” enter into economic decision-making, and the failure of Pareto’s psycho-sociology to successfully rationalize the two.

As stated earlier, Schumpeter (1951) attributed the easy acceptance of *homo economicus* in the failure to re-examine slogans that date from the time of Bentham. As Ong (1982) argued, what appears in a book must be true.

The open revolt against economic man has been building support slowly over the years. Drucker (1995/1939) agreed with Schumpeter that “[...] the innovator does not behave economically, does not try to optimize, is not motivated by economic rationale [...]” Nelson and Winter (1982) rejected the assumption that the economic agent engages in optimizing behavior. In his Nobel lecture Stiglitz (2001) called into question the entire neoclassical paradigm including the argument that households routinely maximize utility and firms maximize profits.

More recently, Hodgson (2011) discarded the assumption that “in the economic sphere self-interest was overwhelming, and our altruistic and moral tendencies could be ignored as we enter the world of contract and business.” Davis attacked *homo economicus* on grounds that the economic agent is more than a bundle of preferences. Properly represented, the economic agent possesses ability, capability, and capacity (Davis, 2011). Levi and Menaldo (2014) argued that the new economic institutionalists are raising questions about conventional neo-classical economics including the way it represents the economic agent as *homo economicus*. Zafirovski (2014) stated that demise of *homo economicus* in the contemporary economics literature has implications for sociology.

Over the years many replacements for *homo economicus* have been called for by its critics including *homo politicus*, *homo sociologicus*, *homo socio-economicus*, *homo hobbesianus*, *homo darwinianus*, *homo orthodox*, *homo heroicus* (O'Boyle, 2009). See the author's own published comments on *homo economicus* that do not reference Schumpeter (O'Boyle, 2007).

Schumpeter on economic agency: from passive to active

In his *Economic Doctrine and Method*, translated by Aris and published in 1954, Schumpeter (1954a) attacked utilitarianism more aggressively and suggested that conventional economists are easily satisfied with that philosophy in spite of its "radical lack of understanding for everything that moves man [...]," the pleasure/pain calculus, and the self-interest of economic man that goes back to the very beginnings of economics as an independent discipline.

In *Economic Doctrine and Method* Schumpeter (1954a) used "actions," "actors," and "act" that implicitly reject the passivity implied by conventional economists who use instead "calculations," "agent," and "behave". Further, he used "action" and "act" in his explanation as to why entrepreneurship declines with the passage of time:

The entrepreneurial performance involves, on the one hand, the ability to perceive new opportunities that cannot be proved at the moment at which *action* has to be taken, and, on the other hand, will power adequate to break down the resistance that the social environment offers to change. But the range of the provable expands, and *action* upon flashes or hunches is increasingly replaced by *action* that is based upon "figuring out" (Schumpeter, 1947b; emphasis added).

In the same place he addressed the problem of economic change:

As a rule, no factor *acts* in a uniquely determined way and, whenever it does not, the necessity arises of going into the details of its *modus operandi*, into the mechanisms through which it *acts* (Schumpeter, 1947b; emphasis added).

Commenting on *Capitalism, Socialism, Democracy*, Samuels (1985) underscored the role of human action in Schumpeter's thinking about economic affairs. In his biography of Schumpeter, Swedberg (1991b) also used "actors" rather than "agents"[3].

Crediting Mill and the French before him, Schumpeter (1954a) identified in the entrepreneur the characteristic that is missing in *homo economicus*: a positioning in which it is possible to hold "a wide view over" economic affairs wherein "his deliberations form a very important motive force in the economic nexus."

Nothing, according to Schumpeter, drove home the distinction between "mere economic man and the entrepreneur" more forcefully than the development of the US automobile industry in the early 1900s (McCraw, 2007[4]).

Schumpeter's (1954b) disdain for the way in which economic agents are represented by conventional economic theory as "clotheslines on which to hang propositions of economic logic" is nowhere more evident than in his *History of Economic Analysis* published in 1954. However, Schumpeter did not leave us without any general direction for the re-construction of economic man:

The impossibility of universally applicable, practical maxims was fully recognized as was *the necessity of studying actual human behavior in all its local and temporal varieties* – which should have taken off the curse from the economic man for all times (Schumpeter, 1954b; emphasis in original).

According to Swedberg (1991a), in Schumpeter's representation of the economic agent, change and entrepreneurship are to be emphasized, while rationality and consumer sovereignty de-emphasized, and hedonism rejected. Heilbroner, himself a student of Schumpeter's, in essence agreed with Swedberg's assertion that to Schumpeter the entrepreneur is no *homo economicus*: "[The innovator] is obviously not a 'normal' businessman, following established routines."

Rather, entrepreneurs are “revolutionists of production” (Heilbroner, 1986). Also in need of repair is the mechanical nature of the conventional circular-flow concept (Swedberg, 1991a).

Though appreciative of Walras’ equilibrium theory, Schumpeter rejected the passivity in his economic agent. In the preface to the Japanese edition of his *Theory of Economic Development* Schumpeter wrote the following:

[Walras] would have said [...] that [...] economic life is essentially *passive* and merely adapts itself to the natural and social influences which may be acting on it, so that the theory of the stationary process constitutes really the whole of theoretical economics [...] I felt very strongly that this was wrong, and that there was a source of energy within the economic system which would of itself disrupt [...] equilibrium. If this is so, then there must be a purely economic theory of economic change which does not merely rely on external factors [...] (quoted in Haberler, 1951; emphasis added).

For Schumpeter, “[...] the only real equilibrium is a constant state of disequilibrium” (McCraw, 2007). His entrepreneur is anything but passive.

Schumpeter: precursor of personalist economics

Schumpeter found nothing in utilitarianism, authoritarian statism, or democratic socialism to relieve the moral confusion and social irresponsibility of the age. However, he was an explicit advocate of corporate organization advocated in Pius XI’s encyclical *Quadragesimo Anno* (Schumpeter, 1945/1991). The following is taken in part from the author’s paper on Smith, Schumpeter, and Sen as precursors of personalist economics presented in 2014 at a conference in Milan (O’Boyle, 2014).

Notwithstanding his strong aversion to and attack on *homo economicus* and utilitarianism[5], Schumpeter apparently never promoted person and personalism as replacements in writing. Indeed, the only one who identified Schumpeter as a personalist is William Waters[6]. Schumpeter’s personalism is linked to the entrepreneur who, according to Waters, is a personalist because:

[...] (a) he stands alone in his struggle against both private and public opposition [...] (b) he is an individual in the sense that he is the member of no hierarchical class: class status demands a certain conservatism and respect for tradition that he, qua innovator, cannot be expected to give [...] [and (c)] the entrepreneur is an originator and leader: he envisions changes within the economic community and realizes these changes by his active participation and leadership (Waters, 1952).

Waters (1952) called Schumpeter “by philosophical preference a true personalist [who] seems to have made a conscious effort to conceal or deemphasize the influence of personal activity in economic life.” Given what has been noted about “actions,” “actors,” and “act” in Schumpeter’s work, with some confirmation from Swedberg and Samuels, there is reason to question Waters on concealment/de-emphasis.

Schumpeter was not a personalist in the sense that he never directly challenged conventional theory on grounds of its insistence on the instrumental valuation of the economic agent[7]. In this regard, there is little evidence in his work of a strong advocacy for the sacred dignity of the economic agent. Furthermore there is little in Schumpeter of an understanding of the effect that work has on the person who works, the difference between economic development and integral human development, and the ultimate objective of the economy – the human perfection espoused by Dempsey[8] and Divine (Dempsey, 1958; Divine, 1960).

Even so, Schumpeter is a precursor of personalist economics in the sense that: he openly rejected utilitarianism, economic liberalism, authoritarian statism, and democratic socialism; explicitly discarded economic man especially because there is no room in that concept of economic agency for the entrepreneur who brings about change that demands an active economic agent not a passive one; and embraced the promise of *Quadragesimo Anno* that is grounded in the “action of free men and [...] the faith that inspires them” (Schumpeter, 1945/1991). For those reasons, and given his encouragement of the

development of a working model of an economic system that follows *Quadragesimo Anno* (see Waters, 1961)[9], Schumpeter saw the economic agent as the “efficient cause of endogenous economic change” (Waters, 1952) who today is referred to as the acting person. The acting person matures as a human being through acts of goodness in economic affairs and slips backward through acts of wickedness.

In 1934 Schumpeter explained the longevity of economic man in conventional theory and argued that the entrepreneur does not fit that mold. He stated that the difference is captured in three opposites: equilibrium vs spontaneous change; statics vs dynamics; managers vs entrepreneurs (Schumpeter, 1934, 1949a).

Schumpeter has supplied a working if not a full description of the entrepreneur in which “active, spontaneous, and eager to initiate change” replace “passive, deliberate, and comfortable with the way things are.” Also he has offered ample reason to reject *homo economicus* entirely but not a full description of its replacement. In describing the problems Schumpeter faced in articulating a full description of the replacement economic agent it is helpful to consider the young married couple who know what they do not like in the apartment they have been living in, what they want in the new house they are about to build, and have just sat down with an architect to begin drafting a floor plan. What that new house will look like when they move in will reflect the details they must sort through with the architect in an evolving floor plan and the changes made with the contractor as the new house takes shape. In that sense, Schumpeter has just hired an architect – those economists like Dempsey, Divine, and Briefs who founded the Catholic Economic Association in 1941, and Waters and Danner who subsequently provided the critical leadership in developing personalist economics.

Danner’s *The Economic Person* adds the kind of detail to the economic agent that is very instructive:

As the subject of economic science and analysis, human beings tend to lose their distinctiveness as individual persons and are seen simply as impersonal economic agents, placing acts that become the subject of economic analysis. Such is the implication of *homo economicus*. By contrast the concept of the “economic person” is of a fully fledged and morally responsible human being, who may be viewed as analyzing and studying economics but mainly as doing economics (Danner, 2002).

Others descriptors, more general in nature and based on John Paul’s dissertation “The acting person” are: activity centered, decision-making, self-determining, able to discern the difference between good and evil, intelligent-free-responsible, united with others (Rourke and Rourke, 2005).

We agree with Schumpeter (1940/1991) that “entrepreneurs are certainly not economic men in the theoretical sense.” However, the evidence leads to a rejection of his argument that there are “two types of individuals: merchants and entrepreneurs” (Schumpeter, 1934, 1949a). There is only one type of economic agent who, paraphrasing Danner, represents all kinds of economic activities including buying-selling-bartering, hiring-employing-producing, saving-investing-building, borrowing-lending-innovating. All of these activities are characteristic of the acting person and the entrepreneur is the quintessential acting person.

Final remarks

In this paper two intertwined questions are addressed. What evidence supports the claim that Schumpeter rejected *homo economicus*? What evidence indicates that Schumpeter actually embraced the human person – the dynamic acting person – as a replacement for the passive *homo economicus*?

As to the first question, there is no doubt that Schumpeter rejected *homo economicus*. Regarding the second, the evidence does not indicate that Schumpeter proposed replacing *homo economicus* with the acting person. By insisting repeatedly on the critical role of the

active, spontaneous, and eager-to-initiate-change entrepreneur in economic affairs, Schumpeter was in fact a precursor of personalist economics. In 1951 several of Schumpeter's colleagues and former students at Harvard – Harris, Smithies, Haberler, Samuelson, Tinbergen, Hansen, Machlup, Sweezy, and others – prepared a collection of essays to honor his life's work (see Harris, 1951a).

It is remarkable that even though Stolper (1951) in that collection identified Schumpeter's intellectual ancestors not as Hume, Locke, Hobbes, and Smith but Plato, Aquinas, Augustine, and Thucydides, there is barely a hint anywhere in that collection that Schumpeter rejected *homo economicus* and no mention at all that he was struggling to find a better representation of the economic agent. What is even more remarkable is that one year later Waters, still a graduate student, identified so clearly in Schumpeter “the great man who restored the human person as the dynamic factor in the explanation of economic activity” (Waters, 1952).

Even though Schumpeter worked alone as confirmed by Harris and Smithies (see Smithies, 1951b), his writings both published and unpublished along with his ideas must have been well-known to his colleagues and friends at Harvard. Why, then, did they not see what Waters at virtually the same time saw so clearly?

As noted above, and as Schumpeter (1951) argued in essential agreement with Ong, “we are in the habit [...] of accepting at face value the slogans of our own [...] of a by-gone time.” His Harvard colleagues apparently fell into that trap. Waters did not.

Notes

1. Consider the dominant role of Smith's *Wealth of Nations* throughout the entire history of economic thought and the nearly forgotten different perspective on economic agency in his *Moral Sentiments*.
2. In his 1952 dissertation Waters cites the following three books by Schumpeter: *Business Cycles: A Theoretical, Historical, and Statistical Analysis of the Capitalist Process*; *Capitalism, Socialism, and Democracy*; and *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit Interest, and the Business Cycle*. In addition he cited the following six articles: “The analysis of economic change”; “Creative response in economic history”; “Economic theory and entrepreneurial history”; “The instability of capitalism”; “Science and ideology”; and “Theoretical problems of economic growth.” Full citations are found in the references section.
3. Hanusch and Pyka (2007a, b) also use “actor” in their huge collection of essays on neo-Schumpeterian economics. However, the index to their collection does not include economic man, *homo economicus*, individualism, or utilitarianism. It is particularly disappointing that Perlman (2007), who wrote an introduction to a 1994 printing of Schumpeter's *History of Economic Analysis*, had nothing to add about Schumpeter and economic agency in the Hanusch-Pyka collection.
4. McCraw's (2007) biography of Schumpeter “is not concerned with Schumpeter's economic thinking [...]” As with Hanusch and Pyka, McCraw's book's index contains no entries for economic man, *homo economicus*, individualism, or utilitarianism. For those reasons, neither McCraw nor the Hanusch-Pyka collection is instructive herein.
5. Smithies (1951a) stated that Schumpeter “had no utilitarian blood in his veins.” Perlman (2007) in effect concurs.
6. In his *L'Homme Agent Du Développement Economique*, which was published in 1951 but was not cited in Waters' dissertation completed in 1952, Taymans also identifies Schumpeter as a personalist (Solterer, 1954).
7. Ironically, conventional theory, which embraces the instrumental value of the economic agent is, in that regard, logically inconsistent with individualism's strong defense of the absolute dignity of the human person that totalitarianism denies. See Thornhill (1967) on individualism and the absolute dignity of the human person. See Crosby (2004) on the two sources of the absolute dignity of the

human person, the first is extrinsic, the second intrinsic: created and redeemed by God, and sharing with other humans the common nature of a rational being and, most importantly, unrepeatably himself/herself whose loss through death cannot be recouped in any other human being.

8. Schumpeter knew Dempsey well. He directed Dempsey's dissertation, which was published as *Interest and Usury*, and wrote a very complimentary introduction when it was published. No doubt Dempsey (1948) introduced Schumpeter to the Scholastics and their work on utility, interest, and money.
9. In this paper Waters showed how Schumpeter's two main contributions – the process by which capitalism evolves into socialism and the process of economic development – are linked to Catholic social thought. Waters provides no additional insights regarding Schumpeter and the economic agent.

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