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SCHUMPETER on Economics and on the Values of Economic History

Joseph Alois Schumpeter (1883-1950) was appointed Professor of Economics at the University of Cernowitz in 1919, and subsequently took up a similar chair at Graz; and during this period he was also, briefly, Minister of Finance in the new post-WWI Austrian Republic. From 1925 to 1932 he held the chair of Public Finance at the University of Bonn; and from 1932 until his death in 1950, he was Professor of Economics at Harvard University. Amongst his major and very influential publications are: *Theory of Economic Development* (1912); *Business Cycles* (1939); *Capitalism, Socialism, and Democracy* (1942); *Imperialism and Social Classes: Two Essays* (1951); and, the following, published posthumously.

Joseph A. Schumpeter, *History of Economic Analysis*, edited from manuscript by Elizabeth Boody Schumpeter (Oxford and New York: Oxford University Press, 1954), pp. 12-13

Chapter 2: Interlude I: The Techniques of Economic Analysis

Let us begin in a thoroughly common-sense manner. What distinguishes the 'scientific' economist from all the other people who think, talk, and write about economic topics is a command of techniques that we class under three heads: history, statistics, and 'theory'. The three together make up what we shall call Economic Analysis.[1]

Of these three fundamental fields, economic history -- which issues into and includes present day facts -- is by far the most important. I wish to state right now that if, starting my work in economics afresh, I were told that I could study only one of the three but have my choice, it would economic history that I would choose. And this on three grounds.

(1) First the subject matter of economics is essentially a unique process in historic time. Nobody can hope to understand the economic phenomena of any epoch, including the present, who has not an adequate command of historical *facts* and an adequate amount of historical sense or of what may be described as historical experience.

(2) Second, the historical report cannot be purely economic but must inevitably reflect also 'institutional' facts that are not purely economic: therefore it affords the best method for understanding how economic and non-economic facts are related to one another and how the various social sciences would be related to one another.

(3) Third, it is, I believe, the fact that most of the fundamental errors currently committed in economic analysis are due to a lack of historical experience more often than to any other shortcoming of the economist's equipment.

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[1] Schumpeter later intended to add a fourth field: economic sociology.

Two ominous consequences of the argument above should be noticed at once. First, since history is an important source – though not the only one – of the economist's material and since, moreover, the economist himself [herself] is a product of his [her] own and all preceding time, economic analysis and its results are certainly affected by historical relativity, and the only question is how much....

Second, we have to face the fact that, economic history being part of economics, the historian's techniques are passengers in the big bus that we call economic analysis. Derivative knowledge is always unsatisfactory. Hence, even economists who are not economic historians themselves and who merely read the historical reports written by others must understand how these reports came into being or else they will not be able to appraise the real meaning...