

Book Review

Andreas Pyka, Uwe Cantner, Alfred Greiner and Thomas Kuhn, (eds.).
Recent Advances in Neo-Schumpeterian Economics: Essays in Honour of Horst Hanusch.
Cheltenham, UK; Northampton MA, USA, Edward Elgar, 2009.

Reviewed by Howard A. Doughty

Scepticism about the social sciences can be easily understood. As long as intellectuals in the humanities were content to tell us stories of the past that explained our civilization, our national histories and our artistic and literary heritage, all was well. We knew (or should have known) that none of it was completely true, and we knew (or should have known) that even what was objectively accurate was less than the *whole* truth. Still, if our body politic was well massaged without too many outrageous falsehoods to spoil the oils, and if the grand narratives that outlined the achievements of the past and celebrated extraordinary individuals and their military, diplomatic and aesthetic triumphs flattered us without a surfeit of embarrassing gaffes, we were well satisfied. Such accounts, after all, made for social cohesion, cultural identity and a strong sense of community.

Then, something disturbing happened. Some of scholars who traded in our collective consciousness became enamoured (or jealous of) the astonishing success of the natural sciences. In the post-Enlightenment era through to the turn of the 20th century, remarkable advances in astronomy, geology, chemistry, biology, physics and any other inquiry into the material world transformed our understanding of the universe, the Earth and life upon it. From the overarching cosmology to the structure of the single cell, we discovered that almost everything was not as it seemed to be—and all this transpired *before* Einstein gave us relativity, Planck initiated us into the language of quantum mechanics, Heisenberg alarmed us with his principle of indeterminacy and, of course, Watson, Crick and the unfairly neglected Rosalind Franklin unraveled the secrets of DNA.

Compared with the theoretical elegance and empirical precision of the physical and life sciences, tales of the classical ages and romances of the more recent past paled. People interested in the wealth of nations, the exercise of power, the structure of society and even the inner workings of our own brains strove to emulate the scientific method and apply it to human affairs. So, Smith and Bentham, Comte and Durkheim, Marx and Weber, Freud and Jung laid the basis for the human sciences. They aspired to social “science,” appealed to whatever evidence was available, rattled off their own newly empirical narratives and took the intellectual world by storm.

Now, a century or two later, their followers have a good deal to explain. Perhaps it was just a problem of high expectations, but 234 years after Adam Smith explained the “invisible hand” of the marketplace, economists utterly failed to predict the great Wall Street meltdown of 2008 and, worse, they engaged in unseemly public quarrels about what had gone wrong and how to fix it. Twenty years earlier, political scientists were equally “gobsmacked” when the Soviet

Union imploded. No one in the CIA had a clue and few at Harvard or the Rand Corporation could do much more than stand befuddled and flabbergasted at the collapse of their area of “expertise.”

We may be forgiven, therefore, if we approach any of the technical literature in almost any of the human sciences with a studied scepticism. For all their computer models, statistical charts and graphs, arcane and sometimes impenetrable jargon and wild theoretical leaps of what can only be called faith, the results of social studies have generally failed to produce much that can pass for authentic science. In fact, the most successful students of economics, politics, human origins and social evolution are found in only three areas.

First, there are those who have abandoned what Pitirim Sorokin famously called the “fads and foibles” of the soft sciences and gone full bore into the nearest authentically hard (or at least stiff) science. So, the most interesting examples of psychological research are now found in the domain of neurology. We seem more attracted to the technology that lights up the brain than to the sometimes tiresome task of asking people how they feel. Indeed, some of the brightest lights are shone on those who disdain “humanistic” inquiries and limit themselves to the search for purely biological descriptions and explanations of human behaviour.

Second, there are the “traditionalists” who have retreated into earlier forms of “discourse,” mainly institutional and policy studies. They often produce work in the limited form of “case studies,” which yield what they earnestly hope will be insights into “best practices.” If they take account of hard data at all, it is mainly to provide demographic background or to measure success in terms of subjective satisfaction with particular programs—generally not the kind of research that could lead to valid statistical inference about anything of great importance and certainly not the stuff of what C. Wright Mills somewhat contemptuously called “grand theory.”

Third, there are the “radicals,” who are to be found in secure little niches of the academy where they practice a studied form of subversion. They engage in postdoctoral research into postmodernism and postcolonialism. They carry out postliterate investigations into popular culture and produce self-referential polemics about how “texts” (possibly even including their own) are to be endlessly negotiated, authors and readers are to be deconstructed and dismissed, and all values, projects, styles and structures are to be regarded as unfit for serious discussion. Indeed, their supreme coup de grace may yet come when they begin to write in disappearing ink and burn their own books—an unlikely prospect since they are too busy cobbling together CVs in the hope of winning an unlikely tenured position at a third-tier university; but, their dreams may come true anyway, when the obscure journals in which they ply their trade become totally digitalized and someone by chance or by choice deletes their pixelized production.

The book under review here is an exception. It is part of the social science tradition, but it is conscious of the need to revitalize the discipline of economics by becoming more inclusive, but connecting old dots in new ways and by examining dots that had not previously been noticed on the terrain, let alone mapped.

Edited by Andreas Pyka, Uwe Cantner, Alfred Greiner and Thomas Kuhn, it is a celebration and an extension of the economic theories of Joseph A. Schumpeter (1883-1950). At least in my part of North America, Schumpeter is not a household name, not even in homes owned by many economists. He once rivaled Keynes for recognition and relegated to the distinctly second tier; but, it may be time for a comeback and, if it is, this book will be immensely useful in “negotiating” unfamiliar territory.

My only serious early exposure to Schumpeter was in an undergraduate course in political economy. We were asked to read one of his more popular books, *Capitalism, Socialism and Democracy* (1942). My recollections—almost half a century later—have mainly to do with his introduction of “business cycles” and his somewhat sympathetic treatment of Marx’s view that capitalism would collapse at some uncertain but theoretically predictable point in the future. He parted with Marx, however, in thinking that the demise of capitalism would not be the result of its “internal contradictions” and the political revolution that would come from a class-conscious proletariat (undoubtedly with a little help from some well-placed “vanguard” intellectuals). Instead, he paid more attention to the transformative power of innovation within capitalism.

The most intriguing of Schumpeter’s ideas was that of capitalism’s capacity for “creative destruction.” By itself, it could be considered merely a modern adaptation of an idea that Marx (much more eloquently) expressed in *The Communist Manifesto* when he described the consequences of the bourgeois era for the previous feudal society and its remnants:

“Constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones ... All that is solid melts into air, all that is holy is profaned ...

There was, however, more to Schumpeter than that. His analysis of the creative-destructive power of capitalism gave more than one cynical wag the opportunity to cheer on the American race-riots of the 1960s as the necessary first step toward urban renewal. More seriously, Schumpeter’s focus on innovation became a foundation for subsequent inquiries into innovation and entrepreneurship.

Schumpeter was, it must be stressed, very much a classical liberal, with the immediate consequence that he was no great supporter of democracy. The people, he believed were too uninformed, shallow and manipulable to be trusted with the responsibilities of governance. Moreover, despite Schumpeter’s superficial popularity among people beguiled by Marx, his teachings appealed to a wide variety of future economists and public intellectuals. At Harvard, he had a profound influence on neo-classical Nobel Prize-winner Robert Solow, US Federal Reserve Chairman Alan Greenspan, social democratic economic historian Robert L. Heilbroner and Paul Sweezy, a leading Marxist economist and founder of left-wing icon, *The Monthly Review*.

Still, according to J. Bradford DeLong, writing in *The Chronicle of Higher Education* just two years ago, “average literate Americans know of three 20th-century economists: John Maynard Keynes, Milton Friedman, and Alan Greenspan. Perhaps they also know of Paul Samuelson (but as a textbook author, not economic theorist), of Friedrich Hayek (but think he is the father

of an actress), and of John Kenneth Galbraith (as William F. Buckley Jr.'s friend who appeared on TV). The rest of us disappear into a blur of gray suits, spectacles, and, usually, baldness." Educated Europeans are probably better informed, but in the past quarter-century, neo-Schumpeterian economics has gained tremendously in interest and importance. His may truly be the story of a man who was born ahead of his time.

Pyka and her associates are riding the new wave, and doing so with skill. Their work is not a celebration of Schumpeter but of Horst Hanusch, who has arguably been the leader of the neo-Schumpeterian movement for a quarter of a century. Hanusch has been tilling this field for forty years, and the harvest is coming in. His own specific research and theoretical work is of great interest to other economists, but unlikely to become a hot topic in ordinary kitchen-table discussions. Theories of public goods and analyses of tax policies, cost-benefit frameworks and public sector efficiency might be recognized as of practical importance, but their details might be a trifle turgid for banter over coffee and dessert—but not to the editors of this collection of essays. Each one has collaborated with Hanusch over the past two decades, and all of them bring familiarity, personal experience and expertise, and evident admiration for the subject of this tribute.

The editors are all from Germany, and the contributors are fourteen of the other fifteen contributors are located in Germany, France, Italy and the Netherlands. Only Burkhard Drees (currently with the International Monetary Fund in Washington, DC has an exotic address). Their contributions, however, are far from parochial. They treat three issues of global importance: Industry and Innovation; Finance in Modern Economics; and the Future of the Welfare State.

Technological developments were important to Schumpeter, but their role in the contemporary fields of energy and ecology are crucial. Schumpeter's defining contributions to their work are well explained; but, in the hands of Cantner, Giovanni Dosi, Marco Grazzi and Stanley Metcalfe, they are extended through the filter of Horst Hanusch and presented as a path toward economic solutions that can reasonably be provided through the confluence of publicly supported corporate research at high levels of sophistication. As the authors demonstrate, the institutions of capitalism, assisted by a accommodating state apparatus, have far from run their historical course.

Eight writers, including Andreas Pyka tackle the complexities of financial institutions in an era of "bubbles," "crashes" and "currency crises." Investment in research and development and the "psycho-economic forces" behind our currently tumultuous fiscal troubles are presented in lucid prose, but they are accompanied by 44 figures and 78 equations that may intimidate even the most eager non-professional. I nonetheless recommend courage for the effort will be rewarded, especially in terms of understanding what Friedrich Kugler calls the "pathological case of speculative exaggerations and collapse." He does an exemplary job of linking individual decision making to complex market processes, and he shows how speculative bubbles press down whole economies in ways that pop economists (think CNN's Ali Velshi) do not.

In addressing the third "pillar of neo-Schumpeterian economics," seven European economists explore more explicitly the public policy implications of innovation for public policy. In light

of the neoliberal agenda that has dominated the private and public sectors for close to forty years, Alfred Greiner and Norbert Schütt provide an illuminating journey through public debt and public spending in Germany over that period showing that severe restrictions on public indebtedness can seriously threaten prospects for economic growth. Germany has recently carried what some call an unacceptably high debt-GDP ratio, and critics have agonized over the sustainability of government indebtedness and even the solvency of governments both in the short and the long term. There is much fretting (some, but not all of it transparently disingenuous) about the burden being left for our grandchildren. Greiner and Schütt, however, offer a fresh though rather technical perspective that acknowledges the dangers of failure to stabilize public debt as well as the difficulties that politicians face in reducing public spending.

Thomas Kuhn and Michael Pickhardt follow this chapter with an excellent example of the application of Horst Hanusch's concern for the evolutionary dynamics of economies. An enduring feature of his approach is the belief that innovation is "the major driver of economic growth and development." This preoccupation with innovation, however, requires a comprehensive economic theory to integrate the "co-evolutionary dimensions" of innovation.

Among the most significant of such dimensions today is the provision of energy for industrial, commercial and domestic purposes. For those outside the community of professional economists, the most compelling aspect of neo-Schumpeterian research is its emphasis on bringing together all spheres of economic life—not just money and banking, supply and demand and the like, nor even emerging areas of interest such as "behavioural economics."

It is worth remembering that the ancient Greek root for the word economics is *oikos*, meaning home. Economics, therefore, is (or ought to be) about the proper care of the household, which is not just the apprehension about bank balances and the payment of bills, but also for strategies for improving the quality of life provided for the family. (The increasingly antique school programs in "home economics" contained, by these lights, a curious redundancy).

Thus, broad-based issues such as environmental sustainability in an era of post-peak oil and the necessity for innovation in generating non-fossil fuels are not just topics for climatologists worried about global warming, but for everyone involved in with anticipating and shaping a viable global "household" for the coming decades and centuries. So, the neo-Schumpeterian approach reaches out to examine *all* factors of the economy and, in this case, includes an extensive treatment of biofuels. Their development implies less pollution, less dependence on imports and more competition in fuel markets, and it also raises important ethical questions concerning the contest between using arable land to produce fuels rather than food. Each of these matters receive serious consideration.

The book closes with an examination of French industrial policy by Alain Alcouffe and Christiane Alcouffe. An historical account that reaches back to the Industrial Revolution leads to an assessment of digital communications and the aerospace industries and concludes with a close look at the kind of procedures and incentives needed to provide appropriate public support for economic innovation and change.

In other hands and for other purposes, this collection might seem like a disconnected hodge-podge of topics and approaches. Instead, it can be treated as an exhibit of the diversity that is essential to the neo-Schumpeterian project. As understood and advanced by Horst Hanusch, neo-Schumpeterianism focuses on the ways in which innovation—both technological and organizational—influence economic development. It is, of necessity, concerned with novelty, seemingly unrelated variations in attitudes and the behaviour, and the confluence of factors that bring about qualitative economic transformation. Hanusch and Schumpeter before him understood that *stasis* is not an option, nor even a possibility. Economic theory must also be constantly changing as it monitors the way we build, maintain and renovate our collective *oekos*.

Hanusch's life work involved building on the ideas of Joseph A. Schumpeter to erect a framework for a comprehensive economic theory that would be capable of understanding the new economy, whether be called post-industrial, post-classical, post-Marxist, post-Keynesian or even post-industrial and post-modern. It assumes the extension of the market as a defining element is the production and distribution of goods and services, but it allows for much more—from the inclusion of global ecology to the consideration of personal psychology. Neo-Schumpeterian economics is not necessarily destined to become a new orthodoxy; in fact, in its openness to uncertainty, it would quickly be seen as incompatible with any narrow orthodoxy at all. Whether it grows, flourishes and even temporarily dominates economic thinking is itself an uncertainty; however, the dedication with which the contributors to his volume pursue their work and the thought-provoking results they produce is at least a testament to their commitment to bring a new relevance to economics on behalf of all of us.

Bentham's characterization of economics as the "dismal science" came in the post-Malthusian era as William Blake's "dark Satanic mills fouled England's "green and pleasant land." We live in the wake of that explosion of coal and steel. The neo-Schumpeterians are well aware that they are viewing transformational change in the present tense. That knowledge alone may exempt them from the most obvious mistakes made by their predecessors as they tried to apply scientific methods to the study of the human behaviour. They may not have brought all the coloured strands together to weave a seamless and attractive cloth, but they are aware of the strands and understand that they must be woven with an eye to pattern and with extraordinary skill. That attentiveness to complexity and diversity should help them tell their story, which is after all our story, a little bit better.

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