

Dissertation

**THORSTEIN VEBLEN AND JOSEPH SCHUMPETER AS PRECURSORS
OF ECONOMIC SOCIOLOGY**

Submitted by

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In partial fulfillment of the requirements

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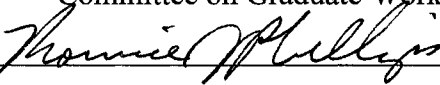
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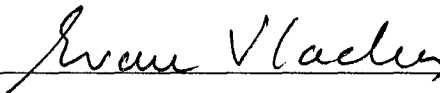
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WE HEREBY RECOMEND THAT THE DISSERTATIONS PREPARED UNDER OUR SUPERVISION BY TIMOTHY A. WUNDER ENTITLED THORSTEIN VEBLEN AND JOSEPH SCHUMPETER AS PRECURSORS OF ECONOMIC SOCIOLOGY BE ACCEPTED AS FULFILLING IN PART REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY.

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Abstract of Dissertation

**Thorstein Veblen and Joseph Schumpeter as Precursors of
Economic Sociology**

This work is designed in order to compare the ideas of two of the twentieth century's most influential economists, Thorstein Veblen and Joseph Schumpeter. Veblen and Schumpeter's works are analyzed and compared to each other in order to examine fundamental similarities and differences about important questions upon methodology and Capitalism. The questions, which are asked, are derived from modern explorations into Economic Sociology and are designed to place the works of Veblen and Schumpeter into that region of thought but this study should appeal to anyone interested in twentieth century economic thought.

One of this study's major purposes is to fill a gap in the current literature of the history of economic thought. Presently research into the literature shows that there is no extensive comparison of the works of Veblen and Schumpeter and such a comparison would allow a better understanding of the two authors with respect to their beliefs. There are many articles that have been written about either Veblen or Schumpeter that will mention the other author in passing, but there are few articles that have actually attempted to compare the two authors. This study is motivated by

the belief that the works of Veblen and Schumpeter still offer many insights to modern social scientists. Many within Economic Sociology are questioning the usefulness of neoclassical analysis and this study will serve to offer a countering method of observing the economy more in line with modern Economic Sociology.

Another important purpose of this study is to offer into evidence the similarities that exist in the works of the two authors. The comparison of Veblen and Schumpeter, which is at the heart of this work, would be difficult, if not impossible if such similarities were not present. In this regard it will be shown that the works of Schumpeter diverge dramatically from mainstream theory. His concept of the individual, methodology, and Capitalism clearly place him closer to Veblen than to the economic mainstream. This study offers the close examination of his work that is needed in order to make clear this distinction.

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Dedicated to

Carole Wunder who helped me to learn the value of learning

Thomas Wunder who gave me the passion to do all things to the best of my ability

And

Ron Stanfield who helped me to learn how to temper that passion with logic and
reason

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Chapter 1: Introduction to the Study

This study will compare the works of two prominent twentieth century thinkers, Thorstein Veblen and Joseph Schumpeter, and it will use that comparison to help define the scope of economic sociology (ES) by creating a partial history of thought for the field. Such an extensive study has never been undertaken and the need for a study like this is self-evident when observing the impact these authors have had in the social sciences. Beyond this, economic sociology is expanding rapidly and it is not clear that there exists an agreed upon definition of the field. Currently there are few systematic histories of thought on economic sociology and this historical study will promote better definition and help to establish the field parameters. A brief overview of the work within the field demonstrates that Schumpeter has highly influenced the thinking of many current contributors, but the works of Veblen seem to have attracted much less attention despite their apparent importance and potential. Perhaps more attention to Veblen's work would clarify the scope, method, and significance of economic sociology. The purpose of this study should be clarified in the following manner: the scope of the study is to examine systematically the work of Veblen and Schumpeter in order to more closely examine the similarities and differences of their ideas.

Economic Sociology is a field that entails a broad area of studies, and in fact, a single definition of Economic Sociology is hard to find because there is a debate over what the field should entail. Currently there is no one uniform, clear

definition of Economic Sociology and this is not surprising in a rapidly developing center of inquiry. Without such a definition the research program for the field has become blurred and individuals within the field are having difficulty in trying to place their works within a broader context. This history of thought, encompassing the authors which have been chosen, will assist these current thinkers in placing their work.

This history will also serve to fill a major gap in the literature because there is no extensive study comparing Veblen and Schumpeter. The few works that do exist are very brief and are not done in a manner that explores extensively the dramatic similarities in the two authors' works. Schumpeter and Veblen both maintained similar views about the fundamental institutions that underlay Capitalism. Beyond this they both recognized the topics that the other concentrated on and never denied the truths that underlay the others' work, but each did emphasize differing areas of focus. This study will make explicit the similarities and differences in an extensive manner and it will show that the differing focuses can be viewed as complimentary to each other.

At this point it is important to offer a general outline of where this chapter will go. The next section will offer a brief overview of the literature available comparing the works of Veblen and Schumpeter in order to demonstrate that this current project comparing the two authors is important with respect to a history of thought. The balance of this chapter will do two things. First it will introduce the reader to the current field of economic sociology and introduce some of the issues of the field. Finally this chapter will create the framework in which this study will

look at the ideas of the two authors with the end goal of achieving a comparison of the two authors' thinking with regards to economic sociological topics and Capitalism. In summary, the present study is written in order to achieve two goals. First, it has been written in order to offer a more complete comparison of Veblen and Schumpeter for historical accuracy. Second, this comparison will help current practitioners of economic sociology place their works in a more historically complete context.

The Literature Comparing Veblen and Schumpeter

One of the primary goals of this study is to offer a comparison of Veblen and Schumpeter that will make the historical record more complete. As Schumpeter argues, an inaccurate understanding of the history of economic thought is often one of the major causes for failures in theory (Schumpeter 1954b). Upon in depth study of both of these two authors, it is clear that certain similarities exist between them and the exploration of one will lead to at least a cursory run in with topics discussed by the other. Research into the current literature demonstrates this in part (For just a few examples see Ebner 2000; Brinkman 1997; Bogart 1995; Raines and Jung. 1992; Leathers 1989). What is more surprising is that even though differing authors in the secondary literature will make comments in passing about these two authors, there has been little interest in a direct comparison of their works. In particular, the reader of Veblen and Schumpeter is struck by the topics of interest they have in common. Yet even though they had so much in common and so much has been written about them separately (there are over 450 citations in EBESCOhost's EconLit database for either Veblen or Schumpeter) there is very little written about

them in tandem. This section first looks at articles that have been written to directly compare the works of Veblen and Schumpeter and then it will explain why an extensive overview is needed.

To begin with it must be made clear there have been a few articles which have been written about Veblen and Schumpeter directly comparing their ideas. The first article by L.A. O'Donnell was written in 1973 and was entitled "Rationalism, Capitalism, and the Entrepreneur: the Views of Veblen and Schumpeter" (O'Donnell 1973). The second article was written in 1977 By Dale L. Cramer and Charles G. Leathers and was entitled "Veblen and Schumpeter on Imperialism"(Cramer and Leathers 1977,). This section will look at each of these in order.

O'Donnell's article is by far the most comprehensive piece comparing the thoughts of the two authors available until the current study. O'Donnell's article does well in pointing out many of the similarities and differences of the two authors but due to its brevity it focuses almost exclusively on the areas of difference between the authors. O'Donnell argues that there are similarities between Veblen and Schumpeter with respect to their shared vision of an evolutionary economy, their concerns over the origins of technology, their observations on the dynamics of Capitalism, and their positions as social scientists observing and commenting on issues far beyond economics (O'Donnell 1973). Yet the major emphasis of O'Donnell's article is to demonstrate the conflicts existing in the works of these two authors. O'Donnell suggests that Veblen and Schumpeter diverge dramatically upon the role of the entrepreneur and on ideas concerning the process of

technological change (O'Donnell 1973). While O'Donnell makes an important contribution by recognizing these similarities, a larger study is needed. Further research into O'Donnell's work finds little else written by him, which seems unfortunate.

O'Donnell argues that Veblen and Schumpeter have fundamentally differing conceptions about the nature of the Capitalist system in that Veblen saw business enterprise coming more and more into conflict with the machine process but Schumpeter saw them as "integrally connected and perfectly harmonious" (O'Donnell 1973, 207). Whereas O'Donnell makes a legitimate point in his comments, it is arguable as to whether such an opinion of the two authors is complete. There is more to Veblen's and Schumpeter's positions than a clear cut visioning of Capitalism as described by O'Donnell and more analysis is needed to get a clear picture than is offered in O'Donnell's article.

O'Donnell concludes his article by stating, "Although there are certain likenesses in the thinking of Schumpeter and Veblen, their visions of Capitalism are fundamentally opposed" (O'Donnell 1973, 214). Such a statement is strong and deserves to be looked at more closely. This current study will go back and look at Veblen and Schumpeter in order to verify or modify this position in a more extensive manner. The importance of the authors and their individual impacts upon the social sciences require such a more detailed comparison.

The second article written to directly compare Veblen and Schumpeter is much more limited in scope. Cramer and Leathers look closely at Veblen and Schumpeter's visions upon the nature of imperialism. While Cramer and Leathers

do an excellent job in making clear the two authors' positions upon imperialism, there are two observations about Leathers and Cramer's work that should be made explicit. The first comment is by way of praise and the second comment is critical.

The reader of Veblen and Schumpeter is often frustrated in that the intentions of the two authors are often differing. Cramer and Leathers make the following statement that offers great insight leading to a better understanding of Veblen and Schumpeter's works. They write "A semantical problem arises in formulating a meaningful comparison between Veblen and Schumpeter as a result of their differences in objectives" (Cramer and Leathers 1977, 241). For whatever reasons, Veblen and Schumpeter often would analyze similar concepts with similar methods and create similar descriptions but offer differing moral conclusions. Due to this, it is hard to see beyond these conclusions to explore the similarities in a comprehensive manner. Recognition of the differing objectives of Veblen and Schumpeter is necessary in order to see beyond the differing moral conclusions and create a broader comparison. This recognition by Cramer and Leathers is therefore very insightful.

Yet even though Cramer and Leathers do an excellent comparison of Veblen and Schumpeter's views on imperialism, they make a mistake in their article with respect to Veblen and Schumpeter's views upon the nature of the individual. In the article it is argued that Schumpeter's views of the individual are very rationalistic and that Veblen's views are based upon an individual nature where instincts play the primary role (Cramer and Leathers 1977). This seems very over simplified and a broader survey of Veblen and Schumpeter's positions is needed. A look into the

works of Leathers and Cramer shows that both authors have continued to contribute to the economic community. Leathers continued writing several articles on Veblen and Schumpeter but there appear to be no other works comparing both Veblen and Schumpeter in depth. Cramer continues to write focusing much of his work on the study of Schumpeter.

Many elementary aspects of this current study have been explored briefly in previous secondary literature, but no lengthy comparison has been offered. The importance of the two authors with respect to their impacts upon the social sciences suggests that such a study is warranted. Veblen is a founder of the institutional school of thought. His impact is still being felt in the organizations directly started in order to maintain his legacy, for example the Association for Evolutionary Economics with its *Journal of Economic Issues*. Schumpeter's legacy is also broad. *The Journal of Evolutionary Economics* is just one journal influenced by Schumpeter. Schumpeter's impact is also heavily felt in modern explorations into the causes of growth and modern economic sociology.

The impacts of these authors, along with the mutual topics of interest, mean that an extensive comparison of their work would be beneficial to a more complete historical record. The current study offers this extensive comparison and gives the historian a place to turn to in order to understand the relationship between Veblen and Schumpeter. Such a source will hopefully prove to be valuable.

What is Currently Happening in Economic Sociology?

Even though the current study will significantly help in the area of history of economic thought it will also help modern economic sociology in two ways. First,

there is no clear definition of economic sociology and this work may serve to help clarify the field. Second, there has been significantly growing interest and research in economic sociology and this work will assist current thinkers in clarifying their thoughts about their topics.

Patrik Aspers sums up what economic sociology is but his description fails to provide specificity. Aspers writes: “One way of describing economic sociology is to say it is about how to bring the social element into the analysis of economic phenomena” (Aspers 1999, 651). One of the current issues in economic sociology’s literature is a quest to define the scope and role of economic sociology in the broader scheme of the social sciences. Differing practitioners have differing ideas and they are reflected in their definitions. The following are just a few of the differing definitions that can be found.

Neil J. Smelser defines economic sociology as:

The application of the frames of reference, variables, and explanatory models of sociology to that complex of activities concerned with the production, distribution, exchange and consumption of scarce goods and services (Smelser 1976, 1).

This definition seems quite simple and straightforward yet it leaves out many of the current issues that face the field.

Pressman and Montecinos state the following about what economic sociology is:

The purpose of economic sociology, at present and in the past, has been to understand culture, social forces, and economic phenomena not as separate domains, but rather as elements that deeply interpenetrate each other forming a complex reality (Pressman and Montecinos 1996, 877).

This definition is subtly different from Smelser's in that it does not separate out a single science's methodology as dominant. Rather this definition argues that the role of economic sociology is to clarify how different substructures, social and economic, are irrevocably intertwined.

Zafirovski and Levine state that:

The subject matter of *economic sociology* can be defined as encompassing economic actions, relations, and processes within their social setting (Zafirovski and Levine 1997, 265).

Notice that this is different from the first two in that it doesn't define a single scientific method but it also does not argue that differing theoretical institutions (such as the market) can only be understood as part of a sociological whole.

Schumpeter gives us a clear picture of what he believes is the distinction between economic sociology and economic orthodoxy. He states:

Economic analysis deals with the questions how people behave at any time and what the economic effects are that they produce by so behaving; economic sociology deals with the question how they came to behave as they do (Schumpeter 1954b, 21).

Looking at the above definitions, it is clear that what economic sociology encompasses is different within each individual's perspective. Each definition has different elements but there does seem to be agreement about certain essential components that must be included within any definition of the field. This agreement allows that economic sociology covers the area of scientific exploration where cultural and societal phenomena interact with economic activities. The inclusion of cultural and societal phenomena makes economic sociology distinct from economic orthodoxy, that is, the mainstream form of economics taught in most universities. Unfortunately, such a definition is too broad to specify the scope and method of

economic sociology. Any definition of economic sociology should specify the essential elements of study that lay within the purview of the field and the elements that distinguish the field as unique. Clarification of the research agenda of economic sociology is needed to guide the work of the practitioners and to focus the development of the field.

A definition, which would clarify what is meant by the differing phrases in the above definitions, would lead to a more specific research agenda for economic sociology. The current lack of specificity has resulted in many of the debates seen within literature. This current history of thought on economic sociology should help to create a clearer definition by looking at past important thinkers who were observing similar questions and pointing out their contributions to current practitioners.

In addition to the lack of a clear definition, the need for a history of thought is substantiated by a growing interest in the field. To show the growing importance of the field the following is offered as evidence.

1. The literature within the field has been growing.
2. There has been interest in the subject matter from several areas that have differing names.
3. Academic departments have created Graduate programs in economic sociology.

The field of economic sociology appears to be growing. A search of the Online Computer Library Center's (OCLC) economic literature database for the keywords economic sociology resulted in 1614 citations. By limiting the search to

all citations since 1990 the number dropped down to 1128. Viewing the subject matters of many of these articles reveals that the majority of the articles would clearly fall within economic sociology. This is simply a rough search on the topic, but it does lead to the conclusion that economic sociology has become a subject of growing interest within the last decade.

In addition to the sheer number of publications, a major book directed towards bringing the multiple topics of ES into one volume has recently been published, *The Handbook of Economic Sociology*. Smelser and Swedberg write:

In 1990, at the very outset of planning *The Handbook of Economic Sociology*, the editors discovered that each of us had come to the same conclusion, independently: that the field of economic sociology, in all its manifestation, had experienced such a season of vitality during the past ten years that the time was ripe for a general statement and consolidation of this accelerating work (Smelser and Swedberg 1994, vii).

This handbook brings together the most impressive thinkers within the field to create a text that covers the essential topics of economic sociology. This handbook also points out areas that need more analysis, one of which is the need for a history of thought.

The lack of a clear definition has created a problem when trying to observe who is doing economic sociology. There is an extensive amount of work being done in many areas that have subject matters and topics that could be considered part of economic sociology. Works created by individuals who call themselves behavioral economists, cultural economists and so forth may, in fact, be part of a larger group, economic sociology. Randall Collins argues that the growth and the lack of a clear definition may be related. Collins writes:

Economic sociology, like many fields experiencing a burst of intellectual energy, seems rather inchoate. Its fuzzy outlines are due in part to the variety of its research programs, which have just enough overlap or family resemblance to be lumped together (Collins 2001, 1).

The following list is offered of groups that are related to, if not part of, economic sociology.

Comparative Political Economy
Studies of economic Regulation
Economic Geography
Behavioral Economics
Cultural Economics
(Univ. Wis. 2001, and Collins 2001)

This list is not intended as an exhaustive list, but rather to show the amount of differing areas that overlap economic sociology. Not included in this list are the Old and New Institutionalists, economic anthropologists, nor economic historians, yet these groups too may be considered part of economic sociology or related to it. There may be other important groups as well; however, it seems obvious that the lack of a clear research paradigm has led to a multiplication of effort that may be considered wasteful.

The interest in economic sociology has grown to the extent that there are universities offering graduate programs in ES. Because the field has grown significantly in importance, *US News and World Report* has listed economic sociology as one of the major fields that it tracks for sociology graduate programs. According to *US News and World Report*, at least the following fourteen important American universities offer graduate programs in economic sociology:

Stanford
University of California – Berkeley
University of Wisconsin – Madison

Princeton
Northwestern
University of Chicago
University of California – Los Angeles
Duke University
Cornell
University of North Carolina – Chapel Hill
Harvard
University of California – Davis
University of Arizona
University of California – Santa Barbara
(US News Online, 2001)

Such programs of study in economic sociology demonstrate at least current interest in the topic within sociology. The common topicality of works by Old and New Institutionalists with respect to economic sociology also implies importance for economists as well.

The rise of interest in economic sociology, together with a lack of a clear precise definition of the field, indicates a need for a history of economic sociology. Such a history may help to clarify the definition and research agenda. This study has been written, in part, to meet this need. This study addresses the need for a history of economic sociology in hopes that such a history will enable researchers to more readily place their works into the proper context.

The Choice of Veblen and Schumpeter

The choice of these two authors is important for two reasons. First, there has been very little work done comparing the two authors despite some apparent similarities of ideas. Secondly, doing this study on the authors chosen is important because these authors entail unique characteristics which will serve to help define the borders of economic sociology and demonstrate that groups which have been

marginalized by mainstream economics may offer powerful insights to this burgeoning field. Looking at Veblen and Schumpeter with regards to their outlooks on how economics was to be done may offer an excellent platform to demonstrate a unified methodology with respect to economic sociology. By demonstrating the common and contrasting themes and vision that are maintained by these two authors the full spectrum of economic Sociological exploration will have historical precedence.

These authors demonstrate clarity in their methods about how research with respect to economic/social actions should be done and they demonstrate similarities with respect to each other in terms of those methods and their conclusions. The emphasis of this history of thought is to specify the unifying and contrasting methods and observations of the differing authors in a single location with the hopes it will assist current thinkers in placing their work within a broader framework. The discussion on Schumpeter will serve to demonstrate historical antecedents of methods and ideas that have been readily accepted as important in economic sociology. The treatment of Veblen will show that other works not recognized by economic sociology should be recognized and that these works may advance the field significantly.

Veblen

Richard Swedberg argues “The task of going through Veblen’s work and trying to establish what is valuable in it from the viewpoint of economic sociology will no doubt be laborious but also exciting” (Swedberg 1987, 41). It is unfortunate that Veblen has not received extensive attention in economic sociology or sociology

(Swedberg 1987; Simich and Tilman 1984). This is unfortunate because the work he did and the ideas he maintained have similarities to Schumpeter and may prove very useful to economic sociology. His work in *Theory of the Leisure Class* is a great example of explaining why individuals behave in the economic manners they do. In fact, his discussions on evolutionary economics, and his methods in general, represent excellent examples of discussions involving the intersection of economic action with the socialization process. Whereas Schumpeter offers us a very clear definition of economic sociology, Veblen actually created great works within an economic Sociological paradigm. In most ways the discussions by Veblen are precisely what Schumpeter defines as economic sociology. Much of Veblen's work is dedicated to discussing why people came to behave as they do.

Besides being a prime example of the economic sociological method, Veblen has been relatively unexplored in economic sociology. Swedberg argues in the only English history of economic sociology:

That the literature which tries to trace the contributions in economic sociology of Veblen is very meager or non-existent. Further research is needed, and it is our belief that if the work (***of Veblen was***) scrutinized from the perspective of economic sociology they would show themselves to contain quite a few interesting sociological observations on the economy (Swedberg 1987, 36).
(Bold added)

Yet even though Swedberg made this call in 1987 there has yet to be any works in economic sociology extensively covering Veblen. By comparing Veblen and Schumpeter in this study current contributors to economic sociology will find observations that are vital to the advancement of ES. Swedberg and other current economic Sociologists are aware of Veblen's work but little interest has been shown

in Veblen within current ES literature. This lack of exploration is not due to lack of important observations on the part of Veblen. Concentrating on Veblen in this work will force greater recognition by economic sociology and may help to set the historical record straight.

Schumpeter

Analyzing Schumpeter as to what form of economist he was leads to interesting observations. William Walters argues that “While Schumpeter may be labeled a neoclassicist, he could as validly be called Neo-Austrian, Marxist, or Institutionalist” (Waters 1994, 259). Schumpeter was a great admirer of Max Weber, often considered the founder of economic sociology, and many of Schumpeter’s ideas with respect to the organization of economic exploration come from Weber. Schumpeter argues in *The History of Economic Analysis* that there are six techniques of economic analysis. These techniques are: economic History, Statistics, Theory, economic sociology, Political Economy, and applied fields (Schumpeter 1954b). By delving into Schumpeter’s definition of economic sociology it may be possible to define the field more clearly. More importantly, it will also be possible to see the commonality between Schumpeter’s vision of economic sociology and Veblen’s practice of economic exploration.

The relationship between Schumpeter and Veblen is less than friendly. In fact, Schumpeter was disrespectful of the OIE paradigm in general (Swedberg 1991). Analyzing the theoretical relationship between these thinkers would benefit economic sociology in that it will accentuate issues that may still need to be addressed. More importantly, if a definition of economic sociology can be

demonstrated that both Veblen and Schumpeter could theoretically agree upon it may serve as a foundation of a greater synthesis between economic sociology and institutional economics.

The reasoning behind the selection of these two authors is clear. These two authors offer a very broad spectrum with respect to their commentary upon economic explorations and due to this broad spectrum a successful comparison of the authors should be able to offer all modern practitioners of economic sociology some clue as to their historical roots. As O'Donnell puts it:

Of the numerous non-Marxian analyses of the evolution of capitalism, those by Joseph Schumpeter and Thorstein Veblen have exerted much influence on our thinking. Little attention has been paid to the striking contrasts and curious similarities of their ideas (O'Donnell 1973, 199).

This study will show that the similarities between the two authors far outweigh the contrasts and it is precisely because of the ideological contrasts between the two authors that such a comparison will serve economic sociology so well.

Overview of the Study

The resurgence in the popularity of economic sociology has led to a need for work dealing with the history of the field. This study is a result of that need and will bring together a limited history of the field by looking at the authors discussed above. In order to create a framework that will be readily understandable to ES thinkers, the works of these authors will be analyzed with respect to issues that are currently important inside the field. The rest of this chapter is directed towards defining which questions will be used and clarifying the salient issues involved with

the questions. Smelser and Swedberg's definition of economic sociology really accentuates the typical concerns that are currently relevant in economic sociology, and the questions that are analyzed in this study flow from these concerns.

Introduction to the questions

The questions analyzed in this study flow from the current literature of ES and originate with what makes economic sociology unique. The following questions will be used to analyze the works of each individual author.

Methodology

- A. What is to be gained by using sociological methods on economic topics?
- B. What is the nature of the individual?
- C. What is the ultimate relationship between economic orthodoxy and economic sociology?

The economic sociology of Capitalism

- A. What important insights can be learned by studying non-Capitalist economic systems?
- B. What are the structural forces in a Capitalist system?
- C. What is Capitalism's future?

The objective of this study is to capture the elements of thought from each of the authors with respect to the major area's of research each participated in. Each question also impacts upon a multitude of discussions that are being held in modern economic sociology. These questions will also bring up issues that aren't currently

being addressed but are, nevertheless, important. The goal of this study is to use these questions as a framework to view the works of the authors in the belief that this history will help current thinkers place their own ideas into the correct historical context. This study cannot and will not attempt to answer these questions outside the manner in which the authors would answer, rather it is for the field of economic sociology to continue to consider these issues and to ultimately bring us closer to better answers.

Issues of Methodology

What, ultimately, is the relationship between economic sociology and economic orthodoxy, what is the nature of the individual, and are sociological methods useful in economic exploration? All of these issues are issues not directly relatable to observations about economic topics yet all are issues important within economic sociology. This section of the chapter will look at some of the discussion that is occurring currently in economic sociology with respect to issues of methodology.

A. What is to be gained by using sociological methods on economic topics?

Economic sociology is asking questions similar to questions being asked in economic orthodoxy and, as such, there may be a perceived need to justify an apparent duplication of effort. A justification for this arrives from the potential benefits forthcoming from using the sociological perspective upon economic phenomena. The idea of a methodological holism is not new but the potential impact such a concept has upon economics is dramatic. Many of the benefits derived from the use of economic sociology come from this holistic viewpoint. One

of the benefits resulting from this viewpoint is the identification of important phenomena that orthodox economics disregard.

Pressman and Montecinos argue that economic sociology can offer much to the study of economics. In particular, they argue that sociologists could offer economists great insight into specific issues that economists are currently unable to deal with, for example power relationships. They Write:

A study of economic sociology can also help to broaden the perspective of economists in a number of different ways. As Smelser and Swedberg point out sociologists operate with a notion of economic power that extends beyond the narrow definition of market power employed by most economists (Pressman and Montecinos 1996, 881).

Issues of power are severely under-analyzed by the economic mainstream and, as a result, the conclusions from their studies often misrepresent the real world. As such, the study of economic sociology could lead to a better outlook by economists and result in more realistic models.

Generally speaking, the question of what is to be gained by analyzing economic phenomena from a sociological perspective is answered in economic sociology by referring to how such studies would advance current economic theory. Yet regardless of how this question is answered, there is little argument that the use of a sociological perspective does lead to many benefits. These benefits lead to the interest that economic sociologists pay towards this question.

This study will serve to show that there was a difference of opinion between Veblen and Schumpeter about how useful using sociological methods would be. This disagreement specifies issues that are still being addressed in economic

sociology today. Issues, such as the controversy surrounding recent economists' explorations of what had formally been the venue solely of the sociologist, have roots reflected in the disagreement between Veblen and Schumpeter about the usefulness of using cross-science methods. This history will serve to show historical antecedents to current controversy and may help modern participants understand their own position better.

B. What is the nature of the individual?

Current economic orthodoxy has a view of the individual that is highly individualistic in origin. This view of the individual is one of the main areas of contention between the economist and the sociologist and finding a middle ground may serve to help economics. Incorporating a greater role for socialization in the economic view of the individual would broaden the realism in economic models. More realistic models would lead to a better understanding of the economy. Mark Granovetter makes the clearest possible statement with regards to this issue. He states:

So even at a rather micro level, economic sociology can make a contribution to our understanding of the economy by paying attention to the mixture of economic and social motives that people pursue while engaged in production, consumption or distribution (Granovetter 2000, 4).

The Neoclassical paradigm assumes that individuals are motivated by self-interest and as such they explain the actions of individuals from that light. The individualism of the neoclassical paradigm is taken as an assumption but the truth of the assumption should be addressed. Many disagree with such an assumption and argue that a more balanced view of the individual should be used. The economic

Sociologist looks at individuals in just such a better-balanced manner where there are more interests involved than material gain. Included in this expanded set of interests are desires for social acceptance, acquiescence to power positions and questions of morality.

Individual economic motivations are set within a broader set of social motivations according to economic Sociologists. Individual self-interest is constrained and influenced by socialization. This concept of economic motivations is much different from the orthodox individualistic concept of self-interest. The social construction of individual motivations means that phenomena orthodox economics takes for a given are in fact objects of study for the economic Sociologist.

Discussions on the nature of the individual seem to be of great interest within the field and for this reason analysis of the opinions of Veblen and Schumpeter about the individual are included in this study. The reason being not to define the nature of the individual, or to defend it, but to show how important past thinkers viewed such issues.

C. What is the ultimate relationship between economic orthodoxy and economic sociology?

A discussion about the benefits of using a sociological perspective with respect to economic issues leads quickly to a discussion about the division line between economics and sociology. This question is a major issue within the field of economic sociology and experiences much discussion from its adherents. As was stated above, it is not the intent of this study to answer this question; rather this

study will use these questions as a tool to analyze the works of the two authors. However, before this question can be used it is important to first take a look at what is happening within economic sociology with respect to this question.

Currently, economic sociology is struggling with the issue of how to define itself in relation to other fields. This struggle for definition results in considerable discussion over fuzzy borders and poorly defined issues. To a certain extent, this issue is not an issue of what economic sociology does but rather where economic sociology sits in relation to the economic mainstream. The spectrum of ideas in regard to this relationship is as varied as the number of individuals who are adherents to the field and like any spectrum there is a broad range of opinions. This range extends from hostility towards the mainstream all the way to the desire for cooperation and mutual benefit.

The current tension existing about this question is a tension that has existed for a long time. A lack of a clear agenda led to two distinct views on how economic sociology and orthodoxy should relate. One view believed that economic sociology was to be used to supplement orthodoxy where orthodoxy failed to address issues. The second view held that economic sociology should go beyond such a limited role and was to look at all aspects of interaction between the economy and society. The ideas of the first group grew to dominance for an extended period of time whereas the ideas of the second group became more influential in the 70's and continue currently. The two groups have been labeled old economic sociology and new economic sociology. This distinction proves useful in describing the different views of economic sociology's adherents towards the interdisciplinary role of ES.

Granovetter does an excellent job of clarifying this position in an interview with Richard Swedberg. He states:

There was a very respectful attitude in most of the old economic sociology toward classical and neoclassical economic theory. And I think that the single thing that most clearly differentiates what I call the “new economic sociology” from the “old economic sociology” is that it is much less respectful of orthodox economics. “New economic sociology” is much more ready to argue that sociologists have something to say about standard economic processes and that this supplements and in some cases also replaces what economic theory has to say (Granovetter in Swedberg 1990, 107).

The old economic sociologists were led by Parsons who wished to see economic sociology fill in the spaces that were left over at the boundaries of the neoclassical paradigm. The justifications of the correctness of the neoclassicals by Parsons served to placate the economic mainstream and apathy between the orthodoxy and sociology was the result. The resurgence of economic sociology since the 70’s has taken on a new flavor and there is currently vibrant discussion in economic sociology about the correctness of the economic orthodox position. The position of criticism in new economic sociology means that there is a definite need for broader understanding of Thorstein Veblen by the new economic sociologists. Whatever the relation is between the economic mainstream and economic sociology the question is clearly one of current interest and, therefore, will be part of this study.

The economic sociology of Capitalism

Methodology is an important area because it defines the form economic sociology should take. Yet in many respects the following questions on the nature

of Capitalism have a greater impact because they look at issues that are truly economic explorations rather than arguments over scientific turf. In essence, the discussions that will occur under this section are discussions about empirical observations. The section is divided into three subsections that are broad in character in order to address major issues important to Veblen and Schumpeter. The sub-topics on non-Capitalist systems, the nature of Capitalism and the future of Capitalism come from the interests shown by Veblen and Schumpeter and are essential topics that contain the roots of most of the questions currently being explored in economic sociology. The topics being explored by modern economic sociology are often not framed in the manner to which Veblen and Schumpeter framed them but most of the explorations currently being undertaken in economic sociology would fit within the structure of this work. In essence, these questions are much more ambitious than the current topics of economic sociology but it is just such ambition which made Veblen and Schumpeter the notable historical thinkers which deserve detailed study. It is also just such ambition that is needed in order to give economic sociology the focus and definition that it is currently struggling to find.

A. What important insights can be learned from studying non-Capitalist systems?

In any society where there is a division of the labor it becomes important to reintegrate the material output created by the production process so that all members of society can get the multiplicity of material possessions needed for survival. Throughout history the method of this integration has taken on many forms.

Economic orthodoxy has emphasized the theory of integration that has occurred under the Capitalist system, the market. Economic sociology emphasizes a much broader overview of the forms of integration and this overview is more representative of a socially embedded study of the economy. The authors covered in this work understood the differences between economic systems and emphasized the characteristics which made the current economic system different from non-Capitalist systems. Modern economic sociology is still exploring the differing issues of integration but the conversation within the field is being directed by an emphasis upon the market and the static concept of equilibrium. With such an emphasis the distinguishing characteristics of economic sociology are being muddled and the direction of inquiry is being narrowed to merely studying the Capitalist system. The exploration of non-Capitalist forms of integration and economies was of particular interest to Veblen and may serve to refocus areas of exploration within economic sociology.

One of the central components of neoclassical theory is the concept of the market, yet a cursory view of neoclassical literature yields few articles relating to the market as socially defined phenomena. People in economic sociology have not missed this lack of analysis and because of this there is great interest within the field about discussing markets. In Smelser and Swedberg's *Handbook of Economic Sociology*, three of the seven articles within section B, "The sociology of economic Institutions and economic Behavior," are devoted to analysis on market issues.

The unique combination of sociological and economic methods which reside in economic sociology lend themselves to analyzing issues left untouched elsewhere. One of these issues is the market. Douglass North argues:

It is a peculiar fact that the literature on economics contains so little discussion of the central institution that underlies neo-classical economics—the market (North 1977, 710).

It would be incorrect to argue that neoclassical economics does not discuss the issue of the market; rather the proper argument is that the neoclassical paradigm does not define what the term market means. This lack of definition with respect to the social phenomena related to markets leaves a role for other fields and economic sociology has taken on these questions. Markets are not the sole institutions of integration, and an analysis of the markets by people within economic sociology often becomes part of a broader analysis of the social structures of integration. Swedberg talks about this failure of orthodoxy in the following citation:

Social structure can be defined in a number of ways, but what is usually meant by this term is some kind of recurrent and patterned interactions between agents that are maintained through sanctions. In a discussion of markets as a specific kind of social structure, it is consequently not very helpful to define them simply as price-making mechanisms (as is often done in economic theory), since this tells us little about the basic interaction involved. A more useful approach in this context is to view markets in terms of exchange, especially if exchange is conceived of in a broad sense (Swedberg 1994, 255).

The idea that markets are the central form of integration and that their primary function is price setting is a concept that is only as old as the Capitalist system. Many systems do not demonstrate this form of societal construct yet the individuals within those systems successfully obtain the material necessities of life.

Economic sociology recognizes that markets are not simply price setting mechanisms but are socially created phenomenon that require study.

Such inquiries into the social aspects of markets are a major part of economic sociology. People who have done extensive work upon markets as a social phenomenon are mostly part of groups who should be associated with economic sociology. In the book *Markets and Morals* compiled and edited by Dworkin, Bermant, and Brown author Bernard Barber offers a list of individuals working on some of the social aspects of markets. Barber writes:

If one looks to see which social scientists have direct analytic interest in the institution of the market, one sees a European institutional economist such as Polanyi (1944, 1957); a social system sociologist such as Parsons (Parsons and Smelser, 1956) or an anthropologist such as Malinowski (1922), Firth (1929), and Codere (1968). All of these social scientists see the market as a type of exchange system that is only one among various alternative structural possibilities (Barber 1977, 20-21).

The concept of the market as a socialized institution is a primary area of study in economic sociology and many people who are associated with economic sociology are exploring this issue. Yet such exploration with its focus upon markets is myopic and limiting with regards to economies that are not based in Capitalism. Such an emphasis upon equilibrium, as created by the over reliance on market analysis resulting from neoclassical influence, devalues the dynamic aspects of economic systems. The authors covered in this history take their explorations beyond themes set forth in a Capitalist dominated world and explore non-Capitalist systems as well as Capitalist systems. Modern economic Sociologists may wish to consider this when forming an agenda.

Markets are not always the primary form of economic integration but more importantly even when markets do exist often times reliance on market observations neglect important issues dealing with social power. These issues of power may serve as another defining measure of economic sociology and are currently being explored in the field. Pressman and Montecinos argue:

A study of economic sociology can also help to broaden the perspective of economists in a number of different ways. As Smelser and Swedberg point out sociologists operate with a notion of economic power that extends beyond the narrow definition of market power employed by most economists. For most economists, exchange takes place among equals, and there is no room for consideration of the notion of power. For sociologists, power encompasses that ability to exercise political power, class power, and social power (Pressman and Montecinos 1996, 881).

By focusing attention on issues of power, economic sociology shifts attention to a broader area needing analysis. All relations are by definition social and as such market relations are not made in some unique manner different from non-market relations. Zafirovski and Levine argue that the relationships occurring in markets are extensions of social relationships and involve issues of power. Markets are not simply based on relationships between equals. Zafirovski and Levine write:

From the viewpoint of economic sociology, the market is not just a geographical or even an economic entity but a “social space” embedded in a complex set of interrelated social actions, positions, and networks. This embeddedness *ceteris paribus* holds true of market actors, especially firms which are characterized by institutional or organizational rather than financial or ownership embeddedness (Zafirovski and Levine 1997, 275-276).

The issues of power and the social embeddedness are slowly making their way into the economic mainstream but the changes that are occurring are not changes in the direction of inquiry but are solely new ideas being added on to pre-existing dogma. These issues, which are being raised by economic Sociologists, are important, even essential, but the questioning should go beyond simple issues of markets.

The focus upon the market as the defining issue of social exchange has been a focus defined by economic orthodoxy. This review of Veblen and Schumpeter may help to redirect focus of economic Sociologists towards better questions. In particular, the work of Veblen may serve to enable better questions to be asked about the social constructs that serve as the foundations to Capitalism.

B. What are the structural forces in a Capitalist system?

The neoclassical model describes a world in which people operate fluidly with one another and equilibrium is like a force of nature that will be quickly achieved. Such a world, as described by this model, lacks key phenomenon often observed empirically, not the least of which is the existence and need for institutions. The current system of Capitalism is clearly not the system that is described by the neoclassical model. Capitalism, like any form of economic activity, is a socially defined endeavor and to understand Capitalism social factors must play a part in its description. Economic sociology has begun to emphasize these social factors in its own exploration of Capitalism and these social questions have taken a central role in the field. Many important questions have arrived from this exploration, including questions about the social unit of production and

differing leadership roles within the social unit of production. These questions have been inadequately explored by orthodox economics and, as a result, the economic Sociologist has taken up the answering of these questions. Granovetter even suggests that the question of “why firms exist” may be “in fact appropriate as the orienting question for studying the social organization of the economy” (Granovetter in Smelser and Swedberg 1994, 453).

Within economic sociology, the issue of business organization takes on new life as an extension of normal social relationships. Included in this discussion is the question of how society shapes the actions of the businessperson. Standard neoclassical assumptions about individual behavior are called into question. It is suggested that the success of western business firms is not based on some inherent human ability but rather by the socialization process occurring under Capitalism. Western firms profit maximize because that is what they are taught to do and social sanctions support this behavior. Businessmen cost minimize not because of some normal psychological desire but rather due to the loss of position and prestige if he/she does not (Huppel 1976).

Social factors, according to this theory, guide the behavior of the social players. It is not the natural state of man that creates the business enterprises but rather business enterprises arise due to the socialization given under the economic system. Capitalism socializes some people into becoming capitalist managers. Chandler expands upon this issue with respect to empirical observations about major American firms. Chandler writes that:

A company's strategy in time determined its structure and that the common denominator of structure and strategy has been the

application of the enterprise's resources to market demand. Structure has been the design for integrating the enterprise's existing resources to current demand; strategy has been the plan for the allocation of resources to anticipated demand (Chandler 1969, 383).

Chandler points out that structure and design of the firm is a result of the views and opinions of the individuals in charge. These opinions are created in the managers by the interaction and experience each receives in life. The life experiences are the result of the society to which they belong. The form of the business follows the functionality as seen by the individual in charge, and that individual is a social creation. Economic sociology's analysis of business behavior offers a different view from the neoclassical individual economic rationality. This view is based on the idea that humans are social as well as individualistic creatures and optimization occurs by the individual due to social training.

This discussion about the formation of business structures is irrevocably intertwined with a discussion about issues of business leadership. Economic sociology views the individual in a manner that is more sociologically defined than does economic orthodoxy and this socialization is responsible for the creation of business leaders. Within Capitalism there is clearly differences between different types of business leaders. The concept of the entrepreneur is a unique concept from the concept of a manager, but how to define the difference has been called into question. Economic orthodoxy with its mechanistic view of the economy has not delved into this issue and Martinelli clarifies some of the differences in approaches between economics and other observers such as the economic Sociologists. Martinelli writes the following in *The Handbook of Economic Sociology*:

In recent decades, entrepreneurship has been studied by various disciplines and through different approaches which can be broadly divided into two scientific camps: on the one hand, for most economists – with notable exceptions from Schumpeter to Kirznir – the question of entrepreneurship is not problematic. Entrepreneurship is a variable dependent upon economic factors, such as availability of capital, labor and technology, factor mobility, and access to markets; entrepreneurial activities will emerge more or less spontaneously, whenever conditions are favorable, as an instance of rational profit maximization.

On the other hand, other social scientist mostly sociologists, social psychologists, business historians, and anthropologists, tend to see entrepreneurship as more a problematic phenomenon, deeply embedded in societies and cultures; they focus on the influence of, and the mutual interplay among, non-economic factors, such as cultural norms and beliefs, class relations and collective action, state intervention and control, organizational structures, bounded solidarity and trust, deviant behavior and marginality status, and motivations for achievement. (Martinelli 1994, 480)

Sociological ideas should play a much larger role in describing business leaders, where business leaders come from, and why they behave as they do. To simply say that the individual business leader naturally does what is economically smart is a massive oversimplification. Due to the importance of the business leader in Capitalism, it would make sense that a description of business leaders should hold an important position as a central question of economic sociology. In particular, economic theory needs to make clarification of the difference between management and entrepreneurial skill. Management implies the simple running of a business, whereas the entrepreneur seems to mean much more. Such exploration is perfect for economic sociology. This differentiation is a major theme in the works of the authors described in this study and this overview will help other writers to clarify the economic Sociological position on this topic.

Currently there is still debate over a precise definition of the entrepreneur within economic sociology, but there is little debate over the importance of the entrepreneurial activity in a Capitalist system. Although there is a lack of consensus about a definition, Don Lavoie gives a good description about what such a definition must entail. “A theory of entrepreneurship should help us identify the conditions – economic, political, legal, and cultural – that enhance decentralized development process” (Lavoie 1991, 31). Such a definition must preclude a simple definition of a rationalizing individual out solely for materialistic ends. Such an entrepreneur is situated within a socialized framework and that socialized framework leads to explorations of issues very suited to economic sociology.

Actually, some argue that such a definition of the entrepreneur can only be explored in a multidisciplinary method such as economic sociology. Don Lavoie writes the following in *The Culture of Entrepreneurship* (edited by Brigitte Berger):

In other words, the study of the relationship between culture and entrepreneurship demands working with both meaning and economic change, whereas the way disciplinary divisions have evolved, few researchers are capable of handling both categories together (Lavoie 1991, 35).

What Lavoie points out is that a good understanding of the entrepreneur will require analysis of the phenomena from across disciplinary lines. The role the entrepreneur plays in economics and the position they hold within Capitalism means that any analysis done must be done with regards to both economics and sociology.

The multidisciplinary approach of economic sociology gives the greatest chance of achieving a good definition of the entrepreneur. Martinelli writes:

At the end of this critical appraisal of major research studies of entrepreneurship it appears that the most interesting ones are often

located at the borders between disciplines, by economists who reject simplified rational action models and recognize the influence of social interaction and culture, or by sociologists and anthropologists who reject over socialized conceptions and take into account the strategies of individual actors. The most convincing interpretations are those away from the extremes of the actor-system continuum, which reject oversimplified views of the interaction between the actor and the systemic context (Martinelli 1994, 487).

If there will ever be a clear separation and understanding of the difference between the concepts of the manager and that of the entrepreneur within the Capitalist system, it must entail a discussion of the social positions both encompass. Such a clarification will be made simpler by reference to this study. Such a clearer position holds roots in the works of Veblen and Schumpeter.

C. What is Capitalism's future?

Asking to predict the future in many ways is the most difficult question that can be asked of the theoretician. Modern economic sociology has not endeavored on a major level to ask such a question and in its defense neither has mainstream economics. To ask, and answer, such a question requires intellectual courage beyond the scope of the average academic (and far beyond the courage of this author). Yet such predictions have often been in the venue of the greatest of economic thinkers and disciplines.

Perhaps some reluctance upon the part of modern theoreticians to explore such issues results partially from the Marxian connotations contained in any such exploration and the stigma attached to being labeled Marxist. Reluctance also comes from the idea that any classification of the economic system such as “Capitalist” is often an over-generalization. Yet such questioning serves a much

broader purpose in economic exploration because it opens up avenues of discussion as to trends occurring within the economy and the possible direction where those trends are leading society. Is the Capitalism of today the same as the Capitalism of twenty years ago? A century ago? The answer is clearly no, so the question of what the system is like and where it is going becomes important. Schumpeter and Veblen spent extensive time on this question, implying they believed the question was important, and therefore the analysis of their exploration will be equally important. Economic sociology and economic orthodoxy should go back and reexamine both of these authors on this topic because their ideas may prove very important in the changing economic circumstances of today.

In summary, this study will look at the works of Veblen and Schumpeter in a systematic approach for two reasons. First, research into the literature upon Veblen and Schumpeter suggests that an extensive comparison has never been done, and the impact that each of the authors have had warrants such a comparison. Second, such a study would prove very useful to current economic sociology because it will allow current economic sociologists a historical perspective on their current works. This study has chosen these two authors because they represent the broad spectrum needed in order to encompass the diverse topics currently under observation within economic sociology. The method of this study is to explore how Veblen and Schumpeter would answer six questions on methodology and Capitalism. These questions are all questions that are currently important or should be considered within current economic sociology. This chapter will end by offering the reader a brief overview of the five chapters that follow.

Chapter 2: Thorstein Veblen's Economic sociology. This chapter goes through the writings of Veblen and offers answers to the six questions asked by the current study. This chapter is designed to explore the questions and attempts to offer answers to the questions in a way that Veblen might answer.

Chapter 3: Joseph Schumpeter's economic sociology. Like chapter two, this chapter is an exploration of writings. In this chapter the reader of the current study is introduced to the important ideas in Schumpeter's works that impact upon the current questions under observation. This chapter offers answers to the questions in a manner Schumpeter may have answered.

Chapter 4: A Comparison of Views on Economic Methodology. This chapter takes methodology ideas that were introduced in chapters two and three and brings the ideas together for purposes of comparison. The important concepts from Veblen and Schumpeter used in previous chapters to explore this study's questions are brought together and compared in order to allow clearer understanding

Chapter 5: A Comparison of Views on Capitalism. This chapter is designed in a similar manner and for a similar purpose, as was chapter four. This chapter compares Veblen and Schumpeter's ideas about Capitalism as were discussed in chapters two and three.

Chapter 6: Study Conclusions. Chapter six summarizes the ideas introduced in chapters two and three and clarifies the comparisons made in chapters four and five. This chapter also makes clear the implications that arise as a result of the work done in this study.

Chapter 2: Thorstein Veblen's Economic Sociology

Veblen's works are very different from the work done by mainstream economists. Yet even though Veblen differs from mainstream economists, it is clear that on most topics the ideas of Veblen are similar to the ideas finding voice in economic sociology. Veblen sees the need for a broader role with respect to sociological methods. He looks at the dynamic aspects of the Capitalist system and compares that system with aspects of other non-Capitalist systems. Yet most importantly, Veblen gives us an example of how to incorporate economic sociology into economic exploration.

Veblen's Methodology

In terms of Methodology one of the greatest criticisms raised against Veblen is that he does not offer a clear system to replace the orthodox system that he criticizes so loudly. (Rutherford 1998, 463; Blaug 1996, 700-703; Schumpeter 1991, 292) Veblen did not offer a clear alternative theory to orthodoxy because this was not his goal. Veblen in his discussions about method, in particular his discussions about evolutionary economics, was commenting about why people were doing science in the manner they were. (Peukert 2001, 546) Veblen's position on orthodox theory was that he felt that orthodoxy was doomed to end as a result of a changing societal structure. Beyond this Veblen's concept of an evolutionary economics was in many ways an embryonic form of Economic Sociology and, as

such, it can now be considered the alternative method that his critics wanted. This section of the chapter will look at Veblen's views on methodology.

A. What is to be gained by using sociological methods on economic topics?

It is difficult to begin this section since, unlike Schumpeter, Veblen does not specifically look at sociology or economic sociology. Rather, the observer of Veblen's work is impressed with the amount of attention that Veblen devotes to what he calls evolutionary economics. The objective of this section will be to explore Veblen's evolutionary economics and demonstrate that the similarities between it and economic sociology are striking.

Veblen's call for an evolutionary economics is arguably one of the precursors to later calls for economic sociology. In fact, in one of the early clarifications of what evolutionary economics was, there is a striking similarity between the definition given of what constituted institutional economics and what Schumpeter labeled economic sociology. Silke R. Stahl-Rolf brings this similarity into light while discussing Walton Hamilton whom Silke argues "follows in Veblen's tradition" (Stahl-Rolf 2000, 895). What Hamilton writes is:

Thus used the word "genetic" suggests, not a historical account, but a method of analysis. It goes to the past only with the end in view and so far as is necessary to explain what a thing is in terms of how it came to be (Hamilton 1919, 315).

This quotation seems to sound very similar to Schumpeter's definition of economic sociology. This definition indicates economic sociology deals with the question of how people come to behave as they do (Schumpeter 1954b). Even though these definitions are not identical, it seems plausible to argue that this early

call for a evolutionary form of economics is in many ways an anticipation of the later calls for a broader role for economic sociology. Beyond this by looking at what evolutionary economics is about, it can be seen that it has much in common with economic sociology.

Veblen argued that evolutionary economics is a form of economics to which the biological model of scientific inquiry is applied to economic subjects. Veblen did not mean that biological science should be the goal of economic theory, but rather that economic theory could no longer be based upon teleological principles derived from the archaic frames of reference of the bygone era of handicraft production. In particular, Veblen argued that the pre-Darwinian science was based upon a taxonomical viewpoint. Veblen writes:

The questions of science were directed to the problem, essentially classificatory, of how things had been in the presumed primordial stable equilibrium out of which they, putatively, had come and how they should be in the definitive state of settlement into which things were to fall as the outcome of the play of forces which intervened between this primordial and the definitive state of equilibrium (Veblen 1961, 36-37).

This taxonomical viewpoint is the foundational method of both natural rights theories and classical economic positions. Veblen argued that the creation of this view was the result of the conditions that existed within the cultural context of the individuals using this view at the time of their work. Veblen's discussion about the taxonomical process allows us a method of viewing Veblen's outlook with respect to a form of economic sociology. This outlook is based upon the idea that all individual behavior is shaped by the cultural institutions and the social phenomena that make up the history of the individual in question. Veblen did not argue that the people are solely the creations of society, but rather individuals were the result of

multiple forces including social influences and biological factors. According to Veblen, the heart of human nature is individual instinctive behavior. Veblen writes:

The complement of instinctive dispositions, comprising under that term both the native propensity and its appropriate sentiment, makes up what would be called the "spiritual nature" of man -- often spoken of more simply as "human nature." Without allowing it to imply anything like a dualism or dichotomy between material and immaterial phenomena, the term "spiritual" may conveniently be used in its colloquial sense (Veblen 1964, 14).

According to this way of thinking, the existence of instincts in individual behavior results in the expenditure of large amounts of effort by the individual when making decisions. Such effort results in what Veblen called habitual behavior and this habitual behavior by individuals becomes the center of society. Veblen writes:

On the other hand the habitual elements of human life change unremittingly and cumulatively, resulting in a continued proliferous growth of institutions. Changes in the institutional structure are continually taking place in response to altered discipline of life under changing cultural conditions, but human nature remains specifically the same (Veblen 1964, 18).

Veblen argued that institutions formed from the needs of individuals to simplify the activities of their daily lives and these institutions take on vital roles within society. According to Veblen, institutions are the changing aspect of society, not human nature. Veblen argued that human nature was far more concrete and was based on biological instincts.

Evolutionary economics is not the study of how human nature changes but rather it is the study of how human culture is changing. Veblen writes:

From what has been said it appears that an evolutionary economics must be the theory of a process of cultural growth as

determined by the economic interest, a theory of a cumulative sequence of economic institutions stated in terms of the process itself (Veblen 1961, 77).

It is by combining Veblen's call for an evolutionary economics with his argument that institutions are the changing component within society that the position of economic sociology can be seen within Veblen's schemata. The economy is changing over time and will continue to change. If individual nature is constant, and based on instincts, then it is not possible to explain the changing economy by referring to the individual; rather, you must look to some other body. Institutions are this other body in Veblen's work, and since institutions are a societal body, evolutionary economics requires the exploration of issues of economic sociology. Thus, by using sociological methods on economic topics it becomes possible to create an evolutionary economics.

Veblen's views about sociological methods are not clearly stated and, as such, inferences with respect to this topic must be made. Veblen wanted to see a change in the economic methodology to a more biological/evolutionary form, but by evolutionary he was referring to the changing of human institutions not a changing human nature. By calling for an evolutionary economics that focused upon institutional change, Veblen was implicitly calling for a broader role for economic sociology and implicitly argued that the use of sociological methods on economic topics would advance the understanding of the evolutionary change of institutions.

B. What is the nature of the individual?

The nature of the individual in Veblen's work is complex in that there were instincts that were biologically set and institutions that would often mold the

direction in which instincts made themselves felt. Institutions, in Veblen's work, guided the direction of individual instincts and it was this guiding role that is central to societal advancement. This section will take a look at specifically how Veblen viewed individuality.

Veblen's view about the nature of humanity was clearly present throughout his writing, and this view is striking in the manner in which it demonstrates two major components. These components are the instinctual behavior that is at the heart of individual motivation and the institutional creations that evolve from this instinctual behavior.

Veblen's separation between these two components is used to offer a possible method for observing evolutionary economic change in action. Veblen's concept of instinctual behavior and the behaviorally shaping activities of institutions are irrevocably intertwined when it comes to the real world. Instincts are the driving force of the individual and are what defines individuality. The individual is the foundational unit of all economic activity in Veblen's schemata, and this individual is not a self-rationalized calculator of pleasure and pains but is rather provoked to act in an emotional manner. The fact that the individual is the basis of Veblen's work may seem a misinterpretation of Veblen since he is considered a founding member of Institutionalists, but it is at the heart of his ideas. Veblen writes:

The Group is made up of individuals, and the group's life is the life of individuals carried on in at least ostensible severalty. The group's accepted scheme of life is the consensus of views held by the

body of these individuals as to what is right, good, expedient, and beautiful in the way of human life (Veblen 1953, 135).

Veblen's individual operates in a universe heavily influenced by emotions which Veblen called instincts. All of these emotions are intertwined and affect the individual in a myriad of manners that result in the activities chosen by the individual. Even though there are so many wide-ranging instincts, some instincts do take a higher precedence than others. "With the exception of the instinct of self-preservation, the propensity for emulation is probably the strongest and most alert and persistent of the economic motives proper" (Veblen 1953, 85). It is with this instinct of emulation at the center of an individualized reality that Veblen sets off to try and explain individual and social economic activities. Veblen argued that the individual takes actions in a teleological manner in an effort to achieve the social acclaim that is the motivating factor of the individual. Emulation is of such high importance to the individual that it becomes crucial to the individual's own perception of self-worth. Veblen writes:

The usual basis of self-respect is the respect accorded by one's neighbors. Only individuals with an aberrant temperament can in the long run retain their self-esteem in the face of the disesteem of their fellows (Veblen 1953, 39).

As seen in the citation above, Veblen believed that individual conformity to the norms of society was reinforced not by external measures of force, but by the internal instinct for social acceptance. Veblen's individual is a creature of society and not a self-actualized rational optimizing automaton. The society that is based upon these individuals is a society of habitual activity based on uniform consensus

of individual instincts. The group's accepted means of life becomes the foundation of social norms and of institutions.

This concept of the individual has differences from the concept as described by Clarence Ayres. Veblen's works contain a much greater role in it for the individual than the descriptions of the individual contained in Ayres. Ayres argues that "there is no such thing as the individual" (Ayres 1961, 175). To Ayres, the individual is like a cell in an organism and the cell has important functions, but with respect to the whole organism the cell is irrelevant (Ayres 1944). Yet such a position on the individual greatly diminishes the importance of the individual as compared to the importance within Veblen's work. As Ann Mayhew writes:

In Institutional economics, especially as it developed in counterpoint to twentieth century neoclassicism, the importance of culture tended to overshadow Veblen's other point that humans were (by virtue of idle curiosity) incorrigible changers of their own worlds (Mayhew 1998, 456).

The description of the individual as described by Ayres does have many of the components of the Veblenian version. Ayres believed that "man and society evolved together; and that human nature is a social phenomenon, not a biological one" (Ayres 1952, 11). Yet Ayres went far beyond the Veblenian position with respect to the possibilities of individual potential. Veblen was much more individualistic and he believed that it was possible to be individualistic even though the individual was the product of society (Tilman 2002).

To Veblen the individual was the producer as well as the product of the social world. Many factors play into the creation of social change. Individuals often

took actions that would shock the system and resulted in a myriad of unintentional consequences. These consequences would force change in the system and in individuals. As Mayhew puts it, “Veblen’s active, curious and pragmatic humans were not left intact by the process they initiated” (Mayhew 1998, 455).

To Veblen social institutions did shape the behavior of individuals but the institutions arose from the individual instincts/emotions conceived of by the majority as good and right. These institutions are reinforced within the individual by the individual's desire to achieve social acclamation and his fear of social scorn.

Veblen writes:

The development of these institutions is the development of society. The institutions are, in substance, prevalent habits of thought with respect to particular relations and particular functions of the individual and of the community; and the scheme of life, which is made up of the aggregate of institutions in force at a given time or at a given point in the development of any society, may, on the psychological side, be broadly characterized as a prevalent spiritual attitude or a prevalent theory of life (Veblen 1953, 133).

To Veblen the development and evolution of these social institutions was the development of society. Individuals change to conform to the institutions of society and to conform to the standards of the society in a quest for social acclaim and self-respect. These institutions and norms are useful in the efficacy of their ability to achieve the socially agreed upon standards, but the standards themselves were derived from the consensual instincts of the individuals within society. The institutions may change but individual instincts remain constant. Veblen writes:

Changes are going forward constantly and incontinently in the institutional apparatus, the habitual scheme of rules and principles that regulate the community's life, and not least in the

technological ways and means by which the life of the race and its state of culture are maintained; but changes come rarely -- in effect not at all -- in the endowment of instincts whereby mankind is enabled to employ these means and to live under the institutions which its habits of life have cumulatively created (Veblen 1964, 35).

Veblen argued that institutions change but the underlying instinctual foundations of the individual remain constant. In other words, the heart of human nature, his instinctual frame of mind, is hard wired into his thinking, but the habits and creations derived to press forward these instinctual goals change with the changing situation of the environment. "The evolution of society is substantially a process of mental adaptation on the part of individuals under the stress of circumstances which will no longer tolerate habits of thought formed under and conforming to a different set of circumstances in the past" (Veblen 1953, 103). Institutional change is carried forward when individuals are faced with new situations where old methods will no longer achieve the teleological goals created by the hard-wired instincts of the individual.

Individuals, in Veblen's way of thinking, are responsible for the changes to institutional constructs and those changes could be on a minor or a major level. Small changes may arise to new or unusual situations and would not require individuals of any particular capabilities, but Veblen also understood the unique capabilities that could be endowed within some individuals who were different than the average. The instinct of curiosity mixed with the unusual ability to disregard other peoples' opinions would, in some cases, create very unique individuals. Veblen writes:

Sporadic individuals who are endowed with this supererogatory gift largely in excess of the common run, or who yield to its incitements with very exceptional abandon, are accounted dreamers, or in extreme cases their more sensible neighbors may even rate them as of unsound mind. But the long-term consequences of the common run of curiosity, helped out by such sporadic individuals in whom the idle curiosity runs at a higher tension, counts up finally, because cumulatively, into the most substantial achievement of the race, -- its systematized knowledge and quasi-knowledge of things (Veblen 1964, 87).

Veblen believed that some individuals could move beyond the norms set out in the institutional process and alter the shape of society. Some individuals were blessed with the gift of not needing social acceptance for the maintenance of a positive self-image, and these individuals could make radical changes to human understanding. To Veblen these 'dreamers' were the people who created new technological breakthroughs and scientific discoveries. Veblen sums up this interaction as follows:

The economic life history of the individual is a cumulative process of adaptations of means to ends that cumulatively change as the process goes on, both the agent and his environment being at any point the outcome of the last process (Veblen 1961, 74-75).

To Veblen the individual and society are intertwined within a dance of stability and change. Veblen believed that at the core of the individual was a hard-wired propensity for instinctual/emotional behavior that was genetically passed on from generation to generation. Next to self-protection, the emotion of emulation is one of the primary instincts of the individual and because of its place of predominance guarantees the social nature of the individual. Veblen argued that the institutions of society arose from the commonly held instincts of groups of individuals and these institutions created habitual forms of actions. Institutions will

be changed when they no longer achieve the goals as laid forth by the consensus of the group or they may change when unique individuals (dreamers) step in.

C. What is the ultimate relationship between economic orthodoxy and economic sociology?

Veblen is strikingly consistent with respect to his position about the role society plays on the thinking of individuals, and in Veblen's thinking this societal influence directs how economics, as a science, will change. Using evolutionary analysis, Veblen argued that the methods of economics are influenced in the same way that the methods of all questioning and behavior are influenced. The role of institutional pressure influences the direction of economic researchers in the same manner it influences the behavior of all individuals. To understand Veblen it is essential to put aside the emotive language of his work and try to comprehend his observations about human behavior. His discussion about the taxonomical aspects of orthodoxy is just one such situation. Veblen was critical of orthodoxy and believed that economics should take a different path with respect to methodology, but he believed that the reasoning behind the taxonomical flavor of orthodoxy arose when orthodoxy was founded and that it could be no different than it was. Individuals operating at the foundation of the orthodox position were instinctual and one of these instincts is curiosity. Veblen writes:

So that associated with the pragmatic attention there is found more or less of an irrelevant attention, or idle curiosity. This is more particularly the case where a higher range of intelligence is present. This idle curiosity is, perhaps, closely related to the aptitude for play, observed both in man and in lower animals (Veblen 1961, 7).

According to Veblen's way of thinking, the instinct of curiosity is inherent within all individuals and this curiosity is the root of scientific questioning and all forms of questioning the universe. How the individual channels this instinct to answer these questions relies upon the culture he lives within. The way the Shaman answers these questions is the result of the societal community in which he lives. The scientist also answers the question he asks in the manner he does because of the methods that are acceptable to the societal community to which he belongs. "His canons of validity are made for him by the cultural situation; they are habits of thought imposed on him by the scheme of life current in the community in which he lives; and under modern conditions this scheme of life is largely machine-made" (Veblen 1961, 17). Veblen argued that societal pressure shaped economics in the past, and he believed that ultimately societal pressure would force economics to transform into a form of economic sociology.

In Veblen's schemata, economic sociology is dealing with the issue of how economic institutions change over time. How these institutions change is the subject of much of Veblen's work and will be discussed in greater extent below, but what is more remarkable is that Veblen used the institutional framework to explain how economics has been shaped by cultural influences and how it is still being shaped. Just as the Shaman's method of question answering is the result of the cultural environment in which he works, so too is the scientist's method of answering questions. In the case of current scientists, it is the machine process that influences the method which is used to answer questions. Veblen writes:

In point of fact, the sober common-sense of civilized mankind accepts no other end of endeavor as self-sufficient and ultimate. That such is the case seems to be due chiefly to the ubiquitous presence of the machine technology and its creations in the life of modern communities. And so long as the machine process continues to hold its dominant place as a disciplinary factor in modern culture, so long must the spiritual and intellectual life of this cultural era maintain the character which the machine process gives it (Veblen 1961, 30).

To Veblen, the technological methods of the production process were the foundations of the method of thinking within any social system. Shamans would answer the questions of the universe using analogies to the situation at hand. The universe was ordered in the spiritual manner of the human life cycle and the methods of the means of survival were reflected in their explanation of the universe's behavior. Natural rights arose from the handicraft industry of medieval Europe where the concepts of quality and methods of production were considered universal and unchanging. Scientists in modern times are resorting more and more to evolution to explain the universe because the machine process forces individuals to think in terms of non-taxonomically changing processes. Veblen argued that in all cases, the individual questioner's common sense has changed due to the methods employed by society to achieve economic survival.

Veblen felt that the orthodox position was the result of the time period in which it arose. The writings of the Physiocrats, Adam Smith, and the Classics were not observations of natural, universal economic activity but appeared to the observers as such due to the methods of thinking that arose from the handicraft system. The rise of the machine era was a new phenomenon and the impact of this disturbance on scientific inquiry had not been fully felt. Veblen writes:

In the sciences which lie farther afield from the technological domain, and which, therefore, in point of habituation, are remoter from the center of disturbance, the effect of the machine discipline may even yet be scarcely appreciable. In such lore as ethics, *e.g.*, or political theory, or even economics, much of the norms of the regime of handicraft still stands over; and very much of the institutional preconceptions of natural rights, associated with the regime of handicraft in point of genesis (Veblen 1961, 55).

According to Veblen, the era of the classical economist was an era remarkably different than the modern era of the machine process. Handicraft industries were characterized by a much smaller use of machinery in the production process. These industries differed greatly from the technological production methods of Veblen's time and the modern era. It is true that the machine age was beginning around the time of Smith, but the indoctrination of the machine process had not permeated far within society. In actuality, very few people were operating within the mindset of the machine era at the time of the classical writings. The methods and situations that predominated were quite different. Veblen writes:

It was under the conditions of this inchoate phase of the machine age that the earlier generation of economists worked out their theory of the business man's part in industry. It was then still true, in great measure, that the undertaker was the owner of the industrial equipment, and that he kept an immediate oversight of the mechanical processes as well as of the pecuniary transactions in which his enterprise was engaged; and it was also true, with relatively infrequent exceptions, that an unsophisticated productive efficiency was the prime element of business success. A further feature of that pre-capitalistic business situation is that business, whether handicraft or trade, was customarily managed with a view to earning in a livelihood rather than with a view to profits on investment (Veblen 1927, 23-24).

Veblen believed that the productive processes going on around them influenced the thinking of the writers of this "inchoate" phase. As such, their theories and, more importantly, their methods were a product of an age that was

dying at the time and has long since been buried. Veblen argued that the work created by these thinkers was and is useful, but that there would be pressure to change economic methods. He writes:

Self-contained systems of economic theory, balanced and compendious, are no longer at the focal center of attentions; nor is there a felt need of such. The felt need runs rather along the lines of conjugation between economic science and those fields of knowledge and belief that are cultivated by the material and biological sciences (Veblen 1945, 8).

To Veblen the changing foundations of economic theory are the result of the changing “common sense” of the era. The perceived usefulness of economics arises not from the participants and educated discussants of the field, but rather from the benefits arising from the field as seen by the man in the street. The common sense of an era is the result of the production process that the common man is exposed to.

Veblen argued that classical economics was successful because it appealed to the common sense of the time. As time has progressed, and the methods of production have changed, common sense has changed as well. economics has not kept up with these changes. Veblen writes:

In the days of the early classical writers economics had a vital interest for the layman of the time, because it formulated the common sense metaphysics of the time in its application to a department of human life. But in the hands of the later classical writers the science lost much of its charm in this regard. It was no longer a definition and authentication of the deliverances of current common sense as to what ought to come to pass; and it therefore, in large measure lost the support of the people out of doors, who were unable to take interest in what did not concern them; and it was also out of touch with that realistic or evolutionary habit of mind which got under way about the middle of the century in the natural sciences (Veblen 1961, 69).

Veblen believed that economics was out of touch with the layman's common sense and that such a situation could not exist indefinitely. Veblen believed that the habits of thought, which existed in the mainstream of economic theory, could not persist, and a switch to evolutionary economics was inevitable. Veblen writes:

Provided the practical exigencies of modern industrial life continue of the same character as they now are, and so continue to enforce the impersonal method of knowledge, it is only a question of time when that (substantially animistic) habit of mind which proceeds on the notion of a definitive normality shall be displaced in the field of economic inquiry by that (substantially materialistic) habit of mind which seeks a comprehension of facts in terms of cumulative sequence (Veblen 1961, 81).

According to Veblen's way of thinking, it was impossible for economics to continue working in a taxonomical way when society was indoctrinating individuals with a different way of looking at the world. The longer the machine process was to last, the more likely economics would be forced to change into an evolutionary science.

Veblen's view on the ultimate relationship between economic orthodoxy and economic sociology was that it was inevitable the economics would eventually evolve into a form of economic sociology if economics was to maintain relevancy. Individuals who explore the questions of the universe are forced by social programming to examine the world from the point of view of the society they live in. To Veblen these societal points of view are the result of the methods of production of the differing societies. The classical economists created their model under a handicraft mode of production and the machine process replaced this mode. The machine process has changed the common sense of the era and taxonomical

economics is not in line with the more evolutionary frame of consciousness inculcated by the machine era. Veblen believed that by being out of step with this new common sense economics would be forced to take on a more evolutionary form and become closer to what has come to be known as economic sociology.

Veblen's Economic Sociology of Capitalism

To observe Veblen's thoughts about Capitalism are much easier than to observe his observations about sociology because it is in this area where Veblen spends the majority of time exploring. The casual observer of Veblen's work often will come across his commentary on Capitalism as a system long before they will come across his observations about methodology and the state of the social sciences. This section will first explore Veblen's basic concepts about systems of economy that are not Capitalistic in nature. This section will then look at Veblen's observations about the forces within Capitalism that are forcing it to change and finally this section will observe Veblen's beliefs about the future of Capitalism.

A. What important insights can be learned by studying non-Capitalist economic systems?

Veblen observes historical systems of economic organization in part to explain why the system we currently live under exists. Veblen's view of the individual plays a major role in how he describes historical systems. One of the complex issues involved with his explorations is the issue of the role of instincts in the evolution of the system. Paul Twomey has argued, "the main analytical concern for Veblen was how social habits were formed as a joint outcome of natural instincts, material conditions and social history" (Twomey 1998, 434). In fact there

are many articles that have been written about the importance of instincts within Veblen's works. Some argue that the concept of instinct is very vague and has left much confusion over the issue (Weed 1981). Others have suggested that in total there were only six instincts in Veblen's schemata (Jensen 1987). Still others suggest that Veblen had more than six (Dugger 1984). Yet other authors suggest that Veblen's use of instincts was before its time and current psychology is backing up Veblen's views (Boyles and Tilman 1993; Twomey 1998). So it can be seen that the issue of instincts in Veblen's work is still an issue under much consideration. This section will concentrate on the interplay of instincts and institutions that occur in non-Capitalist systems as Veblen described them.

As was discussed in the above section, on the nature of the individual, instincts are integral to the nature of the individual according to Veblen. These instincts form the justification as to why people observe behavior as good or bad and institutions maintain their justification in society from the consensus of the majority as to the impact of these institutions on instincts. The methods used in production and in integration are products of the evolution of institutions according to Veblen and the foundation of these institutions were based upon the perceived goodness of the institutions in meeting the instinctual goals of society. This section will look at the foundations of these institutions; in particular this section will show Veblen's theories as to how certain institutions arose out of certain instincts.

Veblen's concerns with ownership did not come from issues of who created the goods and services, but rather his concerns centered on issues of what instincts had given rise to the valuations in the first place. Veblen believed that all valuations

arose from the teleological goals created by specific instincts and, as such, any economic action that was seen as valuable from a societal point of view receives that sense of value from the underlying instinct. Veblen held that instinctual activities were standardized into institutional phenomena by groups and “a change in the institution is a change in men’s views concerning what is good and right” (Mayberry 1969, 317).

Veblen's exploration of issues regarding the integration of goods under Capitalism extended into areas where institutional behavior came into conflict with instinctual foundations. This section will look at the rise of those institutions. but later it will be shown that it is the conflict between outdated institutions and instincts that is an important factor in the motion of Capitalism. Veblen argued that modern society had in many cases forgotten or confused the original reasons that certain behaviors occurred due to those behaviors occurring in specific institutionalized ways. The possession of wealth is a good example of this form of analysis. Society often confuses the possession of wealth with the creation of said wealth and this confusion results in the possessor gaining acclaim, whereas the reasoning behind the praiseworthiness came from the ability to create the wealth (Veblen 1927, 291). The institutional structure that is in place arose over millennia, and the foundations in instinctual behavior are lost in the institutional realities.

The need for material consumption arises directly from the biological needs of continued existence. Such biological needs are beyond question, but it is also true that such needs are relatively minor and even many primitive economic systems meet these needs with ease. Veblen writes:

In all progressing communities an advance is presently made beyond this early stage of technological development. Industrial efficiency is presently carried to such a pitch as to afford something appreciably more than a bare livelihood to those engaged in the industrial process (Veblen 1953, 34-35).

Veblen argued that scarcity of means was not the reasoning behind competitive economic behavior. More importantly, Veblen argued that consumption was not the reasoning behind desired possession, but rather economic competitive behavior is the result of individuals attempting to advance their positioning in society by demonstrating their economic prowess. Veblen wrote that “The possession of wealth confers honor; it is an invidious distinction” (Veblen 1953, 35). It is this drive for invidious distinction that creates unlimited wants according to Veblen. Unlike mainstream economics which often argues that human beings have ‘unlimited wants’, Veblen did not believe that the desire for unlimited wants was an instinct. To Veblen the desire for unlimited wants was the result of institutional conditioning and part of the invidious nature instilled by Capitalism.

To Veblen the derivation of this honor is an institutional leftover from more primitive times. The division of labor is one of the oldest and most human of characteristics. In the most primitive of situations, the division of labor was broken down along gender lines and the woman would be responsible for the growing and gathering, whereas men would be responsible for the hunting. Veblen believed that this division became more pronounced as history progressed. The role of man as hunter was the role of a conqueror and one who took where he did not put forth effort. The demonstration of a man's ability was how successful he was in the hunt. The successful hunter would have bountiful amounts of meat and, more importantly,

would gain social acclaim (Veblen 1953, 28). To Veblen the social acclaim was the instinctual motivation for the hunter's actions and the instinct of workmanship was the societal reasoning this acclaim was based upon.

Veblen goes on to argue that continued changes within society created new situations that were to back up the acclaim given to individuals who were successful in production. Under the handicraft system, where ownership and control were still unified under a single person, possession of goods was still associated with the production of the goods by the possessor. Under this situation, there was still no conflict between possession and creation and the institutional situation was still in coordination with the instinctual underpinnings. The associated uses of the possessor were demonstrative of the individual's superior abilities. Veblen writes:

Conspicuous waste and conspicuous leisure are reputable because they are evidence of pecuniary strength; pecuniary strength is reputable or honorific because, in the last analysis, it argues success and superior force (Veblen 1953, 127).

It is important to see that under Veblen's framework the reasoning behind the value of these activities is the valuation of these activities as societal demonstrations of instincts that all members of society possessed. In other words, the conspicuous activities were valuable because the possession of the wealth used in such activities was a demonstration of the individual's superior abilities; in particular the ability to dominate. At one point private property was good because it supported society, but when that private property had become invidious it had become destructive to society and in this destructive nature the dichotomy of private property can be seen in its completeness.

According to Veblen, the continued relation between possession and production in the mind of individuals created the idea that individual possession was due to individual production. The two concepts became superimposed upon each other within the institutional framework of people's minds. Veblen argued that institutional use of the terms under the handicraft system had made ownership synonymous with production. Veblen writes:

The institutional animus of ownership, as it took shape under the discipline of early modern handicraft, awards the ownership of property to the workman who has produced it. By a dialectical conversion of the terms, this metaphysical dictum is made to fit the circumstances of later competitive business by construing acquisition of property to mean production of wealth; so that a business man is looked upon as the putative producer of whatever wealth he acquires. By force of this sophistication the acquisition of property by any person is held to be, not only expedient for the owner but meritorious as an action serving the common good (Veblen 1927, 290-291).

Veblen argues, in the citation above, that the situation of ownership became valuable in the institutional setting to which such activities originally arose. The valuation of ownership under Capitalism, according to this citation, is no longer based upon mutual shared instincts of differing members of society, but is rather indoctrinated to members by institutions. This indoctrination occurs to people with respect to their beliefs upon the value of ownership, as well as other economic activities.

Veblen observed another form of this indoctrination with respect to the training of individuals in the methods of production so individuals can operate within the industrial process to increased affect. This training occurs within

institutions and Veblen refers to these institutions by calling them 'bodies of habitual principles'. Veblen writes:

This body of habitual principles and preconceptions is at the same time the medium through which experience receives those elements of information and insight on which workmanship is able to draw in contriving ways and means and turning them to account for the uses of life. And the conventional verities count in this connexion almost wholly as obstructions to workmanlike efficiency (Veblen 1964, 51).

According to this citation, institutions, of which firms are one of many, pass on the methods of production so that the information and ideas created by earlier generations are not lost upon future ones. Veblen believed that it was through these institutions that future generations learn how things are done. The institution that does the training does it in a manner to further the goals of the institution, and as the above citation implies, business training serves to reproduce business ethics that may be pecuniary in focus.

The institutions, which Veblen looks at with regards to non-Capitalist systems, were looked at with the intention of exploring the instinctual reasoning for their foundations. Veblen believed that the value placed on possession/ownership came from the instinct of workmanship. According to Veblen, the causality of value ran from the instinct to the institution and in past systems there were no flaws in the causality. Under Capitalism it will be seen that problems arise with relation between the instinct and the institution.

B. What are the structural forces in a Capitalist system?

Non-Capitalistic systems operated under differing institutional structures according to Veblen and the institutional structure of each system is unique. The Capitalist system also has a unique institutional structure, but beyond this there are several cases in which the institutional structure of Capitalism has become dichotomized from the instinctual foundations of the valuations of the institutions. What this means can be clarified by referring to Pluta and Leathers. Instincts give purpose to the activities of people, but as Pluta and Leathers write, “Patterns of behavior in working out means of actions tend to become so institutionalized that the original purpose may be lost” (Pluta and Leathers 1978, 134). To Veblen, this dichotomy between the institutions and instincts is a major force of change within the Capitalist system. What this section will show is how Veblen saw that causality of value with respect to ownership had been reversed in the Capitalist system, and that reversal was moving the institution of ownership further away from its instinctual justifications.

Veblen's views on the organization of production within Capitalism separated production into two distinct areas, the technological side and the pecuniary side (Veblen 1927, 27). His production analysis revolved around how these two aspects interacted in the machine era and how the economy worked due to this interaction. The machine process forced several changes from previous eras, including mass standardization and the separation of pecuniary concerns from the production of output (Veblen 1927, 8). Mass standardization meant that the production process of any final output would involve the work of multiple firms

and, therefore, require close coordination between those firms (Veblen 1927, 18). The separation of pecuniary concerns meant that the financial considerations of owners would be separate and superior to the actual production of the final output. These two conditions, the need for inter-firm coordination and pecuniary separation, meant that production in the machine age would be different from production in earlier eras.

According to Veblen, the era of the machine process, with its mass standardization, represented a major step forward in the industrial creative capacities of mankind. Earlier eras relied on continued control by a single individual or a small group from the beginning to the end of the process. The machine era, with mass standardization, allowed for a greater division of labor and the potential for much higher efficiency. Yet, all these advancements were based upon greater experience and training not increased biological abilities by the workmen. Veblen believed these skills were learned and it was here where society played a major role. Veblen writes:

The scheme of technological insight and proficiency current in any given culture is manifestly a product of group life and is held as a common stock, and as manifestly the individual workman is helpless without access to it. It is none too broad to say that he is a workman only because and so far as he effectually shares in this common stock of technological equipment. He may be gifted in a special degree with workman like aptitudes, may by nature be stout or dexterous or keen sighted or quick-witted or sagacious or industrious beyond his fellows; but with all these gifts, so long as he has assimilated none of this common stock of workmanlike knowledge he remains simply an admirable parcel of human raw material; he is of no effect in industry (Veblen 1964, 138).

Veblen believed that the attitudes and behaviors of the individual that was trained had far greater impact upon individual actions than did instinctual proclivities. The training of individuals within the machine process and of individuals for the pursuit of pecuniary gain would mold the actions according to training. People trained in the pecuniary way would observe the world of production in a pecuniary manner and take actions in line with that training. Veblen argued that the separation of the pecuniary from the productive created an area of activity known as "business" activity. This activity was, in many ways, not directly involved with the actual creation of the output, but was involved in the coordination of the production process with respect to monetary concerns. The idea behind business/pecuniary activities was not to maximize output or even to maximize social benefit, but rather to maximize the benefits available to the individuals engaged in business activity. "Modern (civilized) institutions rest, in great part, on business principles" (Veblen 1927, 268).

Veblen argued that in this world of business activity, the production process becomes subsumed by the business activity. Production only occurs insofar as it advances the goal of increasing pecuniary value. Veblen writes:

Industry is carried on for the sake of business, and not conversely; and the progress and activity of industry are conditioned by the outlook of the market, which means the presumptive chance of business profits (Veblen 1927, 26-27).

According to Veblen's thinking, the firm becomes the tool of business not industry and, as such, the firm is not out to increase industrial efficiency, but rather to increase pecuniary gains. The reasoning behind the organization is to secure

pecuniary advancement and to promote the interests of businessmen. All activities done within the firm are directed towards this goal. The rewards system within the Capitalist economy no longer revolved around production as it did in previous systems.

To Veblen the productivity increases, which characterized the Capitalist order, were the result of the efforts of the engineers. Yet the Capitalist would only allow these productivity increases if they would increase the pecuniary gains for the Capitalist. The productive increase was the result of technological, not business advances. To this regard, Veblen saw that the business environment of the early era of industrialization was a unique situation from the era of full-blown Capitalism. During the early foundations of the order, the captains of industry combined the roles of financier and engineer. Veblen writes:

These captains of the early times are likely to be rated as inventors, at least in a loose sense of the word. But it is more to the point that they were designers and builders of factory, mill and mine equipment, of engines, processes, machines, and machine tools, as well as shop managers, at the same time that they took care, more or less effectually, of the financial end (Veblen 1933, 32).

As the machine era progressed, the role of the captain of industry changed and the engineering aspects diminished. In the Capitalism of Veblen's time, he believed that the captains of industry were financiers and businessmen, all equally uncaring about efficiency with respect to production. In addition, these captains of industry knew little about the technological side since business propositions were far more important to the running of big business under full Capitalism. Veblen writes:

Quite recently this settled scheme of business management has shown signs of giving way, and a new move in organization of business enterprise has come in sight, whereby the discretionary control of industrial production is shifting still farther over to the side of finance and still farther out of touch with the requirements of maximum production (Veblen 1933, 41).

This increasing importance of business principles in the production process, Veblen argued, would continue as Capitalism forced increasing firm size and captains of industry would truly be nothing more than captains of finance. Veblen argued that as the productive technologies changed, and ownership became more and more separated from the productive process, creation and ownership would become an increasingly separate phenomena. The creation of items would become less important and the pecuniary value of possession would become the motivating force of owners. Veblen writes:

The instinct of workmanship is accordingly contaminated with ideals of self-aggrandizement and the cannons of invidious emulation, so that even the serviceability of any given action or policy for the common good come to be rated in terms of the pecuniary gain which such conduct will bring to its author. Any pecuniary strategist --"captain of industry"-- who manages to engross appreciably more than an even share of the community's wealth is therefore likely to be rated as a benefactor of the community at large and an exemplar of the social virtues; whereas the man who works and does not manage to divert something more from the aggregate product to his own use than what one man's work may contribute to it is visited not only with dispraise for having fallen short of a decent measure of efficiency but also with moral reprobation for shiftlessness and wasted opportunities (Veblen 1964, 217).

In this citation, Veblen shows the separation of institutional valuation from the underlying instinctual reasoning in its completeness. Pecuniary gain and not workmanlike creation becomes the praiseworthy activity. Due to this change, the individual able to create profit by productive sabotage was praiseworthy, and this

was completely out of line with the instinct of workmanship as Veblen saw it. The monopolist, who gets rich by limiting production, is considered good because of the pecuniary gain he achieves, whereas the workman is considered less valuable because he has fewer pecuniary assets.

Veblen's issues with the integration process of Capitalism arise from the separation he sees between the current institutional situation and what he argues is the instinctual basis of the activity's valuation. To a large extent, the institution of private property under Capitalism had become past binding and ceremonial. Yet the original creation of the institution had to do with its instrumental usefulness in that it advanced the goals of society at the time of its creation (Dugger 1995).

Veblen believed that the wealthy business leader under mature Capitalism was considered a valuable member of society for no other reason than the possessions they owned. To Veblen, any individual who is in charge of firms and whose motivation is pecuniary gain is a business leader and he does not make distinctions. He did not give the entrepreneur a unique place in his way of thinking, rather he placed the entrepreneur on the same grounds as any other business person. His reasoning behind this decision was the use of the term entrepreneur in the current parlance of his day. Veblen writes:

In current economic theory the business man is spoken of under the name of 'entrepreneur' or 'undertaker,' and his function is held to be the coordinating of industrial processes with a view to economies of production and heightened serviceability (Veblen 1927, 41).

Veblen's concept of the entrepreneur is not an individual who tries to organize new methods of production or to simplify the productive process in order to make a return for himself, rather Veblen's entrepreneur is out to create pecuniary gain regardless of how it is done.

Businessmen operate as the coordinators of the production process. They are the people who work to order actions between firms and within firms. Veblen writes:

It is by business transactions that the balance of working relations between the several industrial units is maintained or restored, adjusted and readjusted, and it is on the same basis and by the same method that the affairs of each industrial unit are regulated. The relations in which any independent industrial concern stands to its employees, as well as to other concerns, are always reducible to pecuniary terms. It is at this point that the business man comes into the industrial process as a decisive factor (Veblen 1927, 18).

To Veblen, the businessman/entrepreneur serves as the balancing and organizing factor in the production process and may unbalance the process if it profits the businessman in charge. This activity is done to achieve pecuniary gain and this gain is not necessarily dependent upon increased production or social improvement. To Veblen, causing disturbances in the production process could just as easily gain pecuniary value but would not increase production. Since the businessman is a pecuniary animal this is a flaw of the Capitalist system.

Veblen's views about the social organization of the production process are based upon his observation that the production process has been broken up into two sections within Capitalism. These two sections are the pecuniary and the industrial. The pecuniary section is synonymous with what has come to be known as the

business interest, and it dominates the production process. The industrial section consists of the technological aspects of how things are actually created. To Veblen, firms arose in order to train future generations in the technological methods and to organize production in a standardized way. Veblen argued that under Capitalism these firms were controlled by business people and were devoted to pecuniary goals. The separation of the pecuniary from the productive had driven a wedge between the Capitalist productive institutions and their instinctual justifications. To Veblen, this wedge, with the resulting reversal of value causality, was a primary force in the evolutionary direction of the Capitalist system.

C. What is the future of Capitalism?

Veblen's view on the future of Capitalism is made very clear in *The Theory of Business Enterprise*. As has been pointed out above, Veblen had a complex vision of the foundations and reasoning behind social institutions. Institutions were created in order to fulfill some role society saw that was backed up by the instinctual feelings of the society's members. One of the major forces of motion within the Capitalist system was the dichotomy that existed between the institution of ownership and the instinctual justification that lay at its heart. In this section it will be shown that this dichotomy was a very important part of Veblen's vision for the future of Capitalism.

To Veblen, there are two independent forces that are in operation which shape the direction that Capitalism is headed in. The first force that will be analyzed results from the problems that arise under Capitalism due to the system

of ownership. The second force is the indoctrination instilled upon workers due to the machine process of Capitalism. This section begins with the problems of ownership.

Veblen's observations about the direction of Capitalism take into consideration the material aspects of the economic system. Veblen makes abundantly clear that one of the major failures of the Capitalist system is its inability to work in a stable manner and still achieve increasing efficiency. The cause of these downturns is directly associated with the phenomenon of ownership. As was shown earlier in this chapter, Veblen recognized a divergence between the industrial production under a Capitalist system and the pecuniary organization of the firms. To Veblen, the causes of the business cycle were pecuniary in nature. In Capitalism it was not too little production that was the problem, it was too much. The nature of the pursuit of pecuniary gain created incentives for businessmen to disrupt the production process and led to economic depression. The process of this cycle would lead to consolidation and monopoly as a way to combat this business cycle. Veblen saw large businesses as one of the natural outcomes of the Capitalist system.

Beyond simple expansion of business, Veblen also envisioned a distinct separation of the ownership of the firm from those who controlled it. As firms grew larger to combat the implications of business cycles, the need for more money would lead to larger amounts of owners and the separation of the management function from the ownership functions. Such a separation is not conducive to competition. Veblen writes:

From the considerations recited above it appears that the competitive management of industry becomes incompatible with continued prosperity so soon as the machine process has been developed to its fuller efficiency. Further technological advance must act to heighten the impracticability of competitive business. As it is sometimes expressed, the tendency to consolidation is irresistible. Modern circumstances do not permit the competitive management of property invested in industrial enterprise, much less its management in detail by the individual owners. In short, the exercise of free contract, and the other powers inhering in the natural right of ownership, are incompatible with the modern machine technology. Business discretion necessarily centers in other hands than those of the general body of owners (Veblen 1927, 266).

Veblen saw consolidation as the natural outcome of the machine process.

Within those larger firms the ownership was separated from the control of the firm. The system of ownership, which was present under Capitalism, was perpetuated by the concept of pecuniary gain rather than industrial production, according to Veblen. This increasing firm size meant that shares would only be symbolic ownership. The control of the firm would fall into the hands of a group of managers and out of the control of the owners. This group of managers would be dedicated to the business principles established under the competitive era of Capitalism and, in particular, their major goal would be the maximization of pecuniary gains. Yet as Leathers and Evans point out, “Instead of Maximizing production, the large industrial enterprise of the New Order avoids price competition” and “deliberately curtails output” (Leathers and Evans 1973, 422). So as Veblen envisioned it, the increasing firm size of Capitalism would lead to the use of sabotage rather than increased production as the primary method of achieving pecuniary gain.

This movement towards consolidation was a natural outcome of the machine process and would continue to increase as Capitalism moved forward according

to Veblen. The restriction of production was the result of pecuniary concerns and went against the instinct of workmanship, but there was a second current going on in the Capitalist system, according to Veblen. This second current was one that was changing the habits of thought of the majority of the population towards an increased level of rationality.

As the machine process of Capitalist production moved forward, the methods of production would force upon the population new ways of thinking. According to Veblen, the machine process forces the logic of analytic precision. Veblen calls this process 'the cultural incidence of the machine process.' Veblen writes:

The machine process is a severe and insistent disciplinarian in point of intelligence. It requires close and unremitting thought, but it is thought which runs in standard terms of quantitative precision (Veblen 1927, 308).

Veblen argued that this method of thinking was one in which individuals reasoned in terms of action and reaction. All other forms of reasoning were much less useful within this machine process. Concepts of right and wrong were swept aside within the thinking of individuals working under the machine process. Most importantly, Veblen argued, as the machine process grew this method of world view would become predominate.

The machine process would train individuals to see things with respect to cold ideas of actions and results, according to Veblen. This way of thinking would break down ideas held as important in previous eras. Veblen argued that the

machine process would make people be willing to question institutions that were hithertofore unquestionable. Veblen writes:

And the concomitant differentiation and specialization of occupations goes on, a still more unmitigated discipline falls upon ever widening classes of the population, resulting in an ever weakening sense of conviction, allegiance, or piety toward the received institutions (Veblen 1927, 324).

To Veblen, the organization of the machine process, which exists under the Capitalist system, inculcates workers into a new way of thinking which allows them to see through outdated concepts of preexisting institutions. The ideas created within the system also force people into the realization of the interdependence of individuals upon one another in the production process. Because of this realization, and because of the business cycles, Veblen believed that unions would become much more prevalent in the system (Veblen 1933, 44).

When these two currents are brought together, it is possible to see where Veblen saw the Capitalist system going. Veblen believed that as the machine process continued the influences which were recreating, the thinking of the working population would lead to the realization that the concept of ownership was outdated. One of the possible outcomes that Veblen suggested was that the working class would use unions to attack the source of inefficiency. Through the use of unions the workers would seek to eliminate the contradictions created with respect to the instinct of workmanship by eliminating the pecuniary aspects of the Capitalist system. In essence, the workers' unions would force the system to abandon the outdated concept of ownership and transform the economy into a new system of Socialism. Veblen writes:

When unionism takes an attitude of overt hostility to the natural-rights institutions of property and free contract, it ceases to be unionism simply and passes over into something else, which may be called socialism for want of a better term (Veblen 1927, 331).

The Socialist system that Veblen envisioned was one in which the instinct of workmanship reasserted itself as the primary motive in the production process. The pecuniary aspects of the productive system would no longer dominate the system. The engineer, as the consummate advancer of increasing productivity, would become the controlling factor in the productive process. To Veblen, this change would come about as the machine process increased rationality in the workers way of thinking.

It is important to note that even though Veblen offers this as one possible outcome, he does not suggest it is the inevitable outcome. As Edgell and Tilman write “at no time did Veblen endorse the view that socialism would inevitably replace capitalism, for to do so would have been very un-Darwinian” (Edgell and Tilman 1989, 1014). Veblen also suggests that many unions were simply pecuniary tools of their members (Gruchy 1981). In fact, he argues specifically that the A F of L, one of the leading organized unions of his time, was actually part of the vested interests and most likely ill suited to ever lead such a change (Veblen 1933).

To Veblen, as the machine process increased the rational thinking of workers, they would slowly come to an understanding about the outdated institutional aspects of the concept of ownership. Veblen believed that as this understanding was reached workers' would become increasingly unhappy with the system of Capitalism. One possible outcome that Veblen suggested was that

workers might organize their unions to push for the elimination of private property to increase productivity and the Capitalist system would end.

Chapter Overview

Veblen's ideas appear similar to topics under review currently within economic sociology. Veblen believed there were important changes that were going to occur in the methodology of economics, and these changes were going to reflect the changing society and the changing ideas of the time. To Veblen, the individual was the primary unit of society, but at the heart of the individual was the need for social acceptance. This socially influenced individual created the need for a more socially orientated economics and this form of economics would naturally arise as the machine process continued, according to Veblen. With respect to Capitalism, Veblen believed that the concept of ownership had changed significantly throughout history. The modern concept of ownership, with its separation from its instinctual justification, was a major issue forcing change in the Capitalist system. As the machine process progressed, it would change the thinking of the workers, according to Veblen, and the Capitalist system would be changed as the concept of ownership was recognized as obsolete.

Chapter 3: Joseph Schumpeter's Economic Sociology

Joseph Schumpeter has ideas that are unique and have been recognized by orthodox methodology (Frank 1998) and these ideas have had influence on public policy (Bauer 1997), but the concepts that have been embraced by orthodoxy are but a small part of what he had to say. To a major extent, many of Schumpeter's ideas seem to be heavily influenced by Weber, and it could be argued that Schumpeter was the inheritor of the Weberian tradition. Regardless of Schumpeter's association to orthodoxy or his relation to Weber, his contributions are extensive and important. With respect to methodology, he envisioned a much broader area for economics to explore and he believed that economic sociology was a vital component of that economics. He also explored issues on the nature of the individual and society. With respect to Capitalism, Schumpeter envisioned a theoretical economy for comparison to the Capitalist system. This theoretical economy was the one that is so often cited as "the economy" by orthodox theory. To Schumpeter, the system of Capitalism was a system of motion in which the entrepreneur played the most vital role. The role of the entrepreneur, as the motivator of change, not only made short-term changes to Capitalism but also would wind up changing the face of Capitalism itself.

Schumpeter's Methodology

Recently there has been growing interest in the topics of growth and the entrepreneur in Economics. With this in mind Schumpeter's work may hold

answers to some questions on these topics yet Schumpeter's methods, are very different from methods used by modern orthodox explorations. This section will concentrate on an exploration of Schumpeter's methods. Schumpeter believed that orthodoxy and the economic way of analysis had contributed much to human understanding, but he also believed that it could be improved. This section will clarify Schumpeter's comments on methodology with the goal of demonstrating that his observations upon Economic Sociology can serve to clarify issues currently discussed in the field.

A. What is to be gained by using sociological methods on economic topics?

The knowledge that Schumpeter had with regards to the history of economic thought would intricately affect his beliefs in both theory and method. This section will deal with how Schumpeter defined economics and then will show that he believed that the mixing of methods would not lead to great advances.

Orthodox economics often uses math to evaluate differing propositions in order to obtain the perception of firm conclusions. Early on his Schumpeter's career, Schumpeter had high hopes for the use of math in theory, but as he aged this position faded (Swedberg 91). In *History of economic Analysis*, Schumpeter argued that the idea of a science goes beyond the use of quantitative methods. He writes:

For our purpose, a wide definition suggests itself, to wit: a science is any kind of knowledge that has been the object of conscious efforts to improve it. Such efforts produce habits of mind – methods or 'techniques' – and command of facts unearthed by these techniques which are beyond the range of the mental habits and the factual knowledge of everyday life (Schumpeter 1954b, 7).

To Schumpeter, the groupings of methods and facts and the conscious efforts of economic practitioners are what create the science of economics. The form that

economics was to take as a science, which Schumpeter advanced by this definition, is by no means precise, rather this definition leaves the borders and the heart of the field in a constant state of flux. Schumpeter writes:

This applies particularly to economics, which is not a science in the sense in which acoustics is one, but is rather an agglomeration of ill-coordinated and overlapping fields of research in the same sense as is 'medicine.' Accordingly, we shall indeed discuss other people's definitions – primarily for the purpose of wondering at their inadequacies – but we shall not adopt one for ourselves. Below are the main 'fields' now recognized in teaching practice. But even this epideiktic definition must always leave open the possibility that, in the future, topics may be added to or dropped from any complete list that might be drawn as of today (Schumpeter 1954b, 10).

While Schumpeter argued that he would not define what economics was, he went to great lengths to continually define what he felt economics should not be. To Schumpeter, the unification of the social sciences into a single discipline would be extremely detrimental. His main point of assertion was that economics should remain separate as a social science, and that there are definite phenomena that could be labeled as "economic".

Schumpeter's understanding of history of thought lent him insight into the impact that other areas have had upon the creation of economics as a discipline. This insight also extended into his understanding of the multiple causations of economic activities. Schumpeter understood that many non-economic variables had relations to economic variables, and that to understand economics you had to get the understanding of the relations among variables correct. He writes:

Each productive activity is simultaneously a distributive activity, each distributive act is a link in the chain of the production process. We cannot grasp them as independent in principle of one another, - for what can be grasped as separate belongs to technology or sociology – and nothing in them is comprehensible apart from the

whole of the economic process. Of course we can – and occasionally must – pick out one element and regard the others as constant (Schumpeter 1998, 10).

His understanding of the relation between the differing variables did not lead him to the conclusion that the existence of multiple variables meant that all variables needed to be looked at by the economist as a whole. Schumpeter made a clear distinction between the differing factors, and believed that economic factors could be analyzed separately. Wherein technological and sociological factors both affected production and integration, it did not follow that economic activities were only understandable within a broader frame of reference. Boats could be produced using hand or machine power, but the economic phenomena of production could still be studied as a uniquely economic topic. Schumpeter would have argued that one does not have to study the method of boat building to understand that the objective is to fulfill some aspect of material existence in the life of humans. In this regard, there are similarities in what Schumpeter called economic topics and what Karl Polanyi called substantive economics.

Polanyi makes clear a distinction between economic mainstream theory and realistic observations about the economy. Polanyi defines this as a formalist substantive distinction. Polanyi writes:

The first meaning, the formal, springs from the logical character of the means-ends relationship, as in *economizing* or *economical*; from this meaning springs the scarcity definition of *economic*. The second, the substantive meaning, points to the elemental fact that human beings, like all other living things, cannot exist for any length of time without a physical environment that sustains them; this is the origin of the substantive definition of *economic*. The two meanings, the formal and the substantive, have nothing in common (Polanyi 1977, 19).

This definition can help to define more clearly the way Schumpeter looked at economic explorations. To Schumpeter, economic activities were embedded inside a social whole, but the exploration of those activities could be done while isolating them from their social context. Schumpeter believed that this isolation would lead to the creation of theoretical ideal types that were useful in understanding an economic phenomenon. To this extent, Schumpeter believed that formal economic explanations had their usefulness as tools of understanding but the issues, which were to be considered economic topics, came from a substantive view of the empirical world. To Schumpeter, the material concerns of existence and how they are fulfilled were economic topics, and these topics could be studied in a paradigm separate from other issues.

The object (production, distribution...) of study under Schumpeter's frame of reference could be separated from the social context in which it was set. Schumpeter argued that there was to every economic topic the social context in which the topic was located and the economic essence of the topic. The economic essence is what economics, as a science, should be striving to understand. Schumpeter gave an example of this within a discussion about economic ground rent. He writes:

For even in a communist community the return corresponding to it would exist, and though from another standpoint it may be said to be 'created by' work, the leadership of such a community must be clear that on control over the individual land element depends that element of return which in the market economy would form ground rent, and on control of all of the land would depend the whole social return on productivity (Schumpeter 1998, 17-18).

To Schumpeter, the goal of economics as a science was to explore economic topics and offer ideal types. Once a topic was considered to be economic, then exploration of that topic should be directed towards discovering its essence. He implied that explorations of the other related phenomena are outside the bounds of strictly economic exploration. Schumpeter made a good analogy to this. Schumpeter writes:

It is of course quite fair to say that the success of a player in a card game depends on luck, but only in a game of pure chance would this explanation of a concrete result be sufficient. Otherwise the influence of luck is confined to the distribution of the cards. Beyond that the result is to be explained by the player's actions; for each game such actions can be articulated in certain formal rules, and they alone decide which of the results that are generally possible within the given distribution of cards actually occurs. The relationship between dictates of power and economic law in economic life is the same as the relationship between the distribution of the cards and gambling technique in card-playing (Schumpeter 1998, 25).

This example helps to clarify what Schumpeter is driving at. In studying poker there are multiple influences simultaneously impacting upon the outcome. There is the role of luck, and the actions of the card players. It would be possible to say that the card game in this analogy represents the world, whereas the study of the actions of the card player would be equivalent of the study of economics. The probability distributions affect the behavior of the card player, but it is only an influence and it is an influence that can be theoretically held constant.

In the same sense, understanding the social structure, a form of production occurs within and will help the thinker to understand the economic phenomena, but it is not economics. The power structure in which economic activities occur affect the behavior of economic actors, but the study of the power structure is separate

from the study of the economic actor and his actions. Schumpeter argued that using economic methods to explore economic issues led to the essential truth about those issues, and those truths exist outside individual forms of society, technology or power. Just as it would be useless to use probability distributions as a strict explanation of the gambler's behavior, it would also be pointless to use sociological concepts as a strict explanation of economic behaviors. In Schumpeter's own words: "What is to be gained by mixing up the sociological and economic viewpoints" (Schumpeter 1998, 30).

B. What is the nature of the individual?

Even though Schumpeter clearly disfavors mixing up the sociological and economic viewpoints, he emphasizes sociological conditioning with respect to the behaviors individuals exhibit. The economic behavior of people is clearly socially conditioned in Schumpeter's ideas, and this social conditioning is an integral part of his models. His grasp upon the motives of the individual was different from mainstream economics, and there has been some interest in exploring his conceptual understanding of the individual (Raines and Leathers 2000; Jonsson 1994; Raines and Jung 92). If forced to describe Schumpeter's views upon the individual in a single sentence, they would have to be described as a form of "rules of thumb behavior". Though this statement may oversimplify Schumpeter's position, it is a fair description. This section will look at how Schumpeter believed the individual made normal economic decisions, and then how decisions were made in more extraordinary situations.

The individual, in Schumpeter's frame of reference, operates in a world of familiar activities and stimuli. When faced with a familiar situation, he or she will behave in a familiar manner. Individual behavior is not rational in the economically orthodox manner "since a very large proportion – perhaps the greater part – of all economic activities function on the basis of impulses or customs" (Schumpeter 1998, 8). The general activities of individuals take on the mundane behavior that is recognized as day-to-day life.

To Schumpeter, a sort of autopilot determines the direction of people's economic destinies and makes the individual's economic decisions. Underlying this autopilot is an immense value structure that reinforces meaning within the individual's life. This value structure creates these rules of thumb, and is referred to when the individual is faced with new situations. Schumpeter writes:

The individual is never equally conscious of all parts of this value system; rather at any moment the greater part of it lies beneath the threshold of consciousness. Also, when he makes decisions concerning his economic conduct he does not pay attention to all the facts given expression to in this value system, but only to certain indices ready at hand. He acts in the ordinary daily round according to general custom and experience, and in every use of a given good he starts from its value, which is given to him by experience (Schumpeter 1955, 39).

Schumpeter argued that it is only in situations where new circumstances arise that the individual is forced to evaluate the options open at any given time and place. If the same situation is faced multiple times, the decision becomes routine, is no longer contemplated, and becomes a habit of action. These habits, or rules of thumb, are, in general, the basis for the normal economic activities of the individual, but these rules are formed during the situations that are new to the individual.

The everyday actions of the individual are outcomes of the extraordinary, unusual events in which decisions are determined by the value structure of the person. “The assumption that conduct is prompt and rational is in all cases a fiction. But it proves to be sufficiently near reality, if things have time to hammer logic into men” (Schumpeter 1955, 80). So normal economic decisions and activities, to Schumpeter, are simply extensions of the habitual behavior of people. Now this discussion must turn to what influences Schumpeter believed motivated the decision making of individuals during new situations.

One of the interesting observations to be made about Schumpeter’s work is that his models of human behavior lend weight to the idea that economic activity operates under a state of extreme institutional inertia. To Schumpeter, the habits of behavior that create the normal world of economic events do not change without some effort. These habits form the societal institutions and allow for a much simpler existence in every day life. It is only when faced with an unusual experience that the individual is forced to think. All past experiences and observations influence the decisions made at these times. Schumpeter writes:

And so it is with most of the decisions of daily life that lie within the little field which the individual citizen’s mind encompasses with a full sense of its reality. Roughly, it consists of the things that directly concern himself, his family, his business dealings, his hobbies his friends and enemies, his township or ward, his class, church, trade union or any other social group of which he is an active member – the things under his personal observation, the things which are familiar to him independently of what his newspaper tells him, which he can directly influence or manage and for which he develops the kind of responsibility that is induced by a direct relation to the favorable or unfavorable effects of a course of action (Schumpeter 1962, 258-259).

As the above quotation demonstrates, Schumpeter believed that the majority of the decisions made by individuals are made about local situations in which the participant has a fair amount of knowledge and experience. Schumpeter also argued that the average individual, when faced with a completely unfamiliar situation, is not equipped to cope with it in a rational manner. Schumpeter argued that since personal experience and observations play a key role in the individual's value system, when a person has no past history or information about the new situation, they are unable to make rational decisions. Schumpeter writes:

The rationalist attitude may go to work with information and technique so inadequate that actions – and especially a general surgical propensity – from a purely intellectual standpoint, inferior to the actions and anti-surgical propensities associated with attitudes that at the time most people felt inclined to attribute to a low I.Q (Schumpeter 1962, 122).

Ignorance and misinformation played a much bigger role in Schumpeter's model than it does in orthodox theory. Individuals understand what they want, but they may not be informed about all of the information impacting upon the decision. In some cases, the individual may be making decisions that he or she does not have the rational capability to make. Although the individual may wish to act in his or her own best interest, this may not always be what is achieved. Schumpeter claimed that individuals who are able to deal with these completely unfamiliar situations have a unique ability that is uncommon. This ability is what is at the heart of Schumpeter's concept of the entrepreneur, which will be discussed later in this chapter.

The individual's value system, in Schumpeter's schemata, is much more complex than the standard materialistic value system of economic orthodoxy.

Schumpeter believed that individuals were selfish (Schumpeter 1962), but he also felt that individual motivations were rooted in social conditioning as well. Schumpeter's individual demonstrates selfishness, altruism, and a sense of duty, and these goals are mixed together. Schumpeter writes:

We had better recognize from the start that exclusive reliance on a purely altruistic sense of duty is as unrealistic as would be a wholesale denial of its importance and its possibilities. Even if full allowance be made for the various elements that are cognate to sense of duty, such as the satisfaction derived from working and directing, some system of rewards at least in the form of social recognition and prestige would presumably prove advantageous (Schumpeter 1962, 207).

This complexity of the value structure underlying the individual's decisions when new circumstances arise creates a much more complex individual than what is normal in mainstream economic analysis. Schumpeter argued that the basis of economic activities by individuals was their individual value structures, and these value structures were not purely materialistic. Schumpeter's individual was definitely not *Homoeconomicus*, even the entrepreneur had many more influences upon their decision making than simple materialistic concerns. The value structure of the Schumpeterian individual is based upon the inputs to experience emanating from his or her surroundings. Schumpeter writes:

And our analysis of the value system, the geology, as it were, of this mountain of experience, has also shown us that actually these quantities and these values of goods are explicable, given the wants and the horizons of the people, as rational consequences of the given conditions in the surrounding world (Schumpeter 1955, 40).

Schumpeter felt that the influences on the individuals, including social influences, created the value structure used in making the economic decisions. The individual navigates the economic world by choosing a course of action to meet

their aims within this value network, yet the value structure itself was based on the environment and social conditioning.

Overall, Schumpeter's individual is far more complex than most of the individuals who are described in orthodox economics. The day-to-day economic decision making of individuals is based upon habits and impulses, and it is only under unusual circumstances that individuals are forced to contemplate their economic activities. When these unusual circumstances arise, most individuals do not have the capabilities to cope, and in part the role of the Schumpeterian entrepreneur comes from this lack of ability. When faced with a new situation, all individuals will attempt to decide their actions based upon a value system that forms the foundations for their motivations. The individual attempts to make decisions in a manner to bring outcomes into line with values. The lack of information and an irrational value structure may result in outcomes that appear distinctly non-rational.

C. What is the ultimate relationship between economic orthodoxy and economic sociology?

After reading Schumpeter's opinions about the mixing of sociological and economic methods, it would seem to be that there was little or no role for economic sociology in Schumpeter's system, but this is not the case. Schumpeter's understanding of the history of economic thought, and his belief in a socialized individual, led him to realize that all knowledge is linked to a system in the real world which is much more complex than any single theory could explain. This section of the chapter will analyze Schumpeter's views about the reality of society,

and then will show that Schumpeter believed the role economic sociology was to serve was as a tool for economics in interpreting this reality.

Schumpeter understood that society was an integrated whole and was not an agglomeration of a myriad of parts. He also understood that any division of that whole into separate scientific fields was an arbitrary action. Schumpeter writes:

The social process is really one indivisible whole. Out of its great stream the classifying hand of the investigator artificially extracts economic facts. The designation of a fact as economic already involves an abstraction, the first of many forced upon us by the technical conditions of mentally copying reality. A fact is never exclusively or purely economic; other – and often more important – aspects always exist. Nevertheless, we speak of economic facts in science just as in ordinary life, and with the same right; with the same right, too, with which we may write a history of literature even though the literature of a people is inseparably connected with all the other elements of its existence (Schumpeter 1955, 3).

Any division of the social science into subsections would entail some arbitrary aspects, yet the division also leads to specialization and productive advancements in all of the areas. As was discussed above, Schumpeter believed that such a division was good and was suspicious of any attempt to weaken the separation. The methods and success of the economic science were based on such a division, and Schumpeter argued that the separation of the orthodox position would continue to work.

One of the interesting aspects Schumpeter offers is a comment that associates orthodox economics with a policy stance. In *economic Doctrine and Method*, Schumpeter argues that part of the reason for differing schools of thought is differing beliefs in policy advice. Prior to defining the orthodox position, Schumpeter discusses the rise of popularity in the classical school and a resultant

drop in the quality of its scholarship. Schumpeter goes on to define orthodox economics as follows:

For this reason classical economics even in England and much more so in Germany quickly decayed and a flood of hostility burst upon the unfortunate imitators, while the circle of 'orthodox' became smaller and smaller. The term 'orthodox' was, and still is, employed for all those who above all clung to the programme of economic policy which was considered as having logically emanated from the classical economy.

Schumpeter goes on to write:

The attack was caused in the first place by the change in ideas concerning economic policy and later through methodological principles produced by the opponents (Schumpeter 1954a, 79).

There is the implication in this position that paradigm plays a role in defining method. The goals of practitioners do impact upon their work and such influences shape what are seen as schools. To Schumpeter, part of what defined the classical method was the paradigm of what classical economists were trying to achieve. Orthodox economics had as an important element the continuation of this paradigm

As was quoted in a previous section, according to Schumpeter, economics, as a science is a fluid concept, and the areas it covers change over time. In *History of Economic Analysis*, he clarifies what he considered to be the main fields of economics in his time. He lists the following six fields: economic history, statistics, theory, political economy, applied fields, and economic sociology (Schumpeter 1954b, 12).

To Schumpeter, each of these fields are considered fundamental fields of economics and are all essential areas of study, but he places differing emphasis and

has differing theoretical roles for each field. The first three fields Schumpeter believes are the backbone of the discipline, and he believed that between the three fields economists would be able to usefully explore the essence of economic topics. He writes “the reader will have observed that our three fundamental fields, economic history, statistics and statistical methods, and economic theory, while essentially complimenting each other, do not do so perfectly” (Schumpeter 1954b, 20). Although these fields work well in the exploration of essences, they need the input from other areas in order to do so, and that is why they do not compliment each other perfectly, according to Schumpeter. Essentially, when Schumpeter is discussing these three fields, he is discussing the areas that are currently seen as the mainstream fields of orthodoxy. Economic history is not currently seen as a mainstream field but it is, in essence, where the numbers come from that are used in econometric models. More importantly, Schumpeter suggests that the study of the history of economic thought may serve to make understanding theory easier, give inspiration to new ideas, teach about how the human mind works and to serve to learn where mistakes were made in the past (Schumpeter 1954b, 4-6). So even though Schumpeter may never have argued that this was orthodoxy, functionally the two ideas are similar.

Schumpeter considers economic sociology in a completely differing light. To Schumpeter, orthodoxy was the way in which the essential economic truths were to be uncovered. One used historical examples in statistical situations to test theories in order to achieve a better understanding of economic principles. Economic sociology played a much differing role. Schumpeter writes:

To use a felicitous phrase: economic analysis deals with the questions how people behave at any time and what the economic effects are they produce by so behaving, economic sociology deals with how they came to behave as they do (Schumpeter 1954b, 21).

In this system, if history, statistics, and theory are the backbone then economic sociology is the sensory organ. It is the place where essential components are observed from other sciences and are incorporated to strengthen economics, yet this offers a seeming contradiction. On the one hand, Schumpeter has animosity towards anything that would threaten the separation between the social sciences, but on the other hand, he advocates, as essential, economic sociology as one of the "fundamental fields" of economics. Since economic sociology will be dealing with issues impacting upon sociological topics and methods how are these two ideas compatible?

The answer to that question comes from Schumpeter's understanding that society is a single indivisible whole. Each individual economic activity is only part of a chain of social activities. The economic method is to separate out the economic activities and attempt to study them in isolation by holding the non-economic activities constant. In order to do this, some understanding of those social activities is necessary.

To use the card player analogy; in order to analyze the activities of the card player, some understanding of the probability distribution is needed. To compare the activities of two card players and to analyze the results of the players' decisions with respect to their achieving any goal, one must place the two players in statistically similar situations. In order to do this, the researcher would need to know something about distributions in order to create such situations. So if a person

were interested in pursuing an understanding of card playing that scientist would need to know something about the behavior of the card players. Beyond this the scientist would also need to know about other related topics including the rules of the game and the probability distributions relative to the situations. Yet even though an understanding of other factors is important the science would be the study of the card player not the study of the related distribution.

In the case of economics, it is not the distribution of cards that is needed to be known, but rather it is a need to understand how differing social situations are similar or different. In this analogy the rules of the game could be compared with the power structures in a society and the probabilities could be compared with an understanding of historical processes. The economist wishing to understand economic actions would need to have an understanding of each of these influences but the study of economics is the study of the economic variables not the study of power structures or history.

A sociological framework is essential in any work dealing with economic issues. To Schumpeter the economic method entails isolating the social factors, yet this activity of isolation is impossible without some understanding of what those sociological factors are. The implication being that economics must at least have some understanding of sociological matters. Just as the person describing the card player's behavior would need to know something about probabilities, "Similarly, it goes without saying that we cannot afford, subject to same restrictions, to neglect developments in sociology" (Schumpeter 1954, 25).

In Schumpeter's system, economic sociology plays the role of intermediary between economics and sociology. It is the method of allowing the information attained by sociologists to be brought into economics without threatening the separation of the sciences. The relation of economic activities, as simply one activity in a chain of several social activities, means that non-economic activities will impact upon the economic activity. Yet Schumpeter argues that just because social activities impact upon economic activities it does not mean that cross-field cooperation is inherently wonderful. In actuality, Schumpeter gives hints that part of the reason he sees the need for economic sociology was so that there could be input into economics, but such input would be a conversation between two differing sciences, and would make unifying the topics more difficult. Schumpeter writes:

The closeness of some of these relations has been recognized by our setting up the 'fundamental field' of economic sociology in which neither economists nor sociologists can get far without treading on one another's toes.

Schumpeter continues about economic sociology:

As an eminent economist once observed, cross-fertilization might easily result in cross-sterilization. This does not affect what has been said about the necessity of following up, at least in fragmentary fashion, the developments of the 'neighboring fields' (Schumpeter 1954b, 26-27). (Schumpeter does not name the scientist).

The position of economic sociology in Schumpeter's framework is one of compromise. He understood that the conditions of the real world would not allow the existence of economics without some reference to the sociological frame that economic activities took place within. Yet, even understanding these conditions, Schumpeter still believed that the separation of the social sciences was highly

beneficial due to specialization. Schumpeter viewed, with suspicion, anything threatening the separation of the sciences, and this suspicion also flowed into his views upon economic sociology. Ultimately, Schumpeter viewed the relationship between economic orthodoxy and economic sociology as essential but somewhat dangerous. Economic sociology was to serve as the field that would inform economic orthodoxy of the sociological information that was vital for them to understand to advance their search for economic truths.

Schumpeter's Economic Sociology of Capitalism

Schumpeter's views about the interaction between society and the individual are complex and to Schumpeter the individual and society were highly involved with the mutual creation and influence upon each other. Schumpeter understood that society was an institutionalized whole, and that economic activity was situated within that whole. Schumpeter's views about the individual were that each person had a complex interplay between individual goals resulting from a personal value structure and a habitual motivation for activities resulting from the desire for stability. This interplay is at the heart of Schumpeter's work and influenced his theories upon economic systems and the direction of Capitalism. This section will look at how this view upon the individual shaped Schumpeter's views about Capitalism.

A. What important insights can be learned by studying non-Capitalist economic systems?

Unlike Veblen, Schumpeter spends little time discussing economic systems from historical eras. Most of Schumpeter's work is directed towards describing the

economic system of Capitalism and the discussions Schumpeter makes with respect to non-Capitalistic systems are done within a context of pure theory. What is interesting about this theoretical system is that it is the system that is so readily described by orthodoxy.

To Schumpeter this theoretical system helps by offering a tool that would serve as a measuring device to compare Capitalism against. In order to understand Schumpeter's observations upon the Capitalist system this theoretical system of economy needs to be looked at. The system Schumpeter uses is the circular flow of economic activity with some differences as compared to the circular flow often described in the mainstream. This section will begin by looking at this theoretical system.

Schumpeter begins his description of this theoretical system by looking at the reasoning behind economic activity. All of the production process is created in order to achieve the end goal of satisfaction of wants, according to Schumpeter. All economic value within any good is derived from the value placed upon the satisfaction of wants that the good would enable. Even the ownership of land and machines are only valued due to the satisfaction of wants they enable. Schumpeter writes:

It is clear that these other goods also owe their importance merely to the fact that they likewise serve to satisfy wants. They contribute to the satisfaction of wants because they contribute to the realization of consumption goods. Therefore they receive their value from the latter; the value of the consumption goods, as it were, radiates back to them. It is "imputed" to them, and on the basis of this imputed value they receive their place in each economic scheme (Schumpeter 1955, 24).

In this manner, Schumpeter is very utilitarian in his analysis of reasoning behind economic activities. To this end Schumpeter states that economic activity may have any motive but meaning behind the action is the satisfaction of wants (Schumpeter 1955, 10). Where the motivations come from may be socially created and to Schumpeter the motivations of the individual may be complex but the principle cause for economic activity was wants satisfaction. The individual may not take rational actions and the outcomes may not achieve satisfaction but in principle when an individual makes a choice he or she does so with the intention of fulfilling a want. This Schumpeterian individual is not a lightning calculator of pleasure and pain but he or she is motivated to try and satisfy wants by economic activity. These wants are not simply selfish wants but may also include the desire for generosity or other non-hedonistic/materialistic goals.

From this basis Schumpeter goes on to order the rankings of goods in a system as to the level in which a good satisfies wants. The lowest order of goods are the goods used in the direct satisfaction of wants and are goods for direct consumption. Goods not directly involved with wants satisfaction are middle order goods. The highest order goods are goods from which all other goods come from. To Schumpeter there are only two high order goods land and labor and all other goods are either mid level goods or low order goods. Schumpeter believed that land and labor were the only high order goods and he also argued that capital was only a mid level good. He writes:

Now the imputation process must go back to the ultimate elements of production, the services of labor and land. It cannot halt at any produced means of production, for the same argument may be repeated for each of them. Hence, no product can so far show a

surplus value over the value of the services of labor and land contained in it. Just as we previously resolved produced means of production into labor and land, so we see now that they are only transitory items in the valuation process (Schumpeter 1955, 30).

Capital in Schumpeter's model is not a primary factor of production; it is simply a middle order good. Only land and labor are of the highest order, according to Schumpeter. In this theoretical model, he even goes so far as to argue that capital goods are simply consumption goods that were held from one production cycle into the next (Schumpeter 1998, 8). By doing this, Schumpeter lowers the importance of capital in his theoretical system dramatically.

Schumpeter goes even further beyond this and argues not only is capital not a factor of production but that it does not receive a return to its use. Schumpeter writes:

It follows, again, that everywhere, even in a trading economy, produced means of production are nothing but transitory items. Nowhere do we find a stock of them fulfilling any functions, as it were, in their own right. No claim on the national dividend is made by them beyond wages and rent for the services of labor and land contained in them. No element of net income attaches finally to them (Schumpeter 1955, 44).

Capital is not a factor of production and it receives no payment as the result of its productivity in the Schumpeterian system. Schumpeter is aware of the logical consequences of this observation, not the least of which is the actual interest rate in such a system would be zero, but in this theoretical system which he describes, he is setting up a model to compare the Capitalist system against. Schumpeter does spend a fair amount of time describing the importance of credit in the system as a tool to enable the activities of the entrepreneur but the credit creation in the system

is only productive in that it advances the abilities of entrepreneurial activities. Credit in and of itself contributes nothing to the productivity of the system unless it is used to enable the capitalist.

To Schumpeter there are three high order goods, land, labor and entrepreneurial activity, and these are the only three sources of value added in Schumpeter's economic system. Each one of these factors contributes to the productivity of the system, and each contribution can be readily identifiable. To Schumpeter the economic essence of these phenomena are separate from the issue of who receives the product. Schumpeter writes:

But the question whether its categories – wages, rent, interest, etc. – are 'economic' or 'historico—legal' is settled in favor of the latter alternative only in a very superficial sense, namely in the sense that they exist only in a market economy as categories of private law and only in this sort of economy does private law protect the private connection of rent, wages, interest, etc. precisely to the advantage of the persons who have control over the relevant means of production in this form of legal order. Nothing is learned here about the broader question of the essence of this income sector and we can still clearly demonstrate that it is to be explained on the basis of a principle that is valid for other forms of organization too – even if with other concrete consequences and in another guise... Therefore theory habitually refers to the 'productive activities' of productive factors and not to the productive activities of the possessors of these factors (Schumpeter 1998, 17).

Schumpeter understood that any economic action was embedded within a web of social and technical influences, but he refused to let these influences distract him from exploring what the essence of the economic activities were. His interest with respect to integration lay in discovering what value was added by the differing factors of production. Issues of power, even though impacting on integration, were unimportant with respect to the essence of value added. Schumpeter did not deny

the issue of social power; he merely felt it unenlightening with respect to the essence of value added. An example here may serve to enlighten. Suppose that a group of people with social power succeed in limiting the production of certain goods, capital for example, and thereby raise the marginal product of that good. (Assuming the neoclassical explanation is true) This action does not change the economic fact that the new value of the good is derived from the economic phenomena where a decreased supply raises the marginal product thereby raising the groups' income. Social power only impacts upon integration by working within the economic phenomenon, it does not change the essence of that phenomenon (Schumpeter 1998).

The value added from the differing factors is the essence, who receives that value added may be different from the possessors of the factors. Schumpeter argues that separating the product from the possessor of the factor is exploitation, and it is irrelevant what factor is being discussed. While discussing a socialist system, in which all production is distributed among the workers without regards to entrepreneurial contribution, Schumpeter writes:

If we so define the ambiguous expression 'exploitation' that exploitation occurs when a necessary agent of production, or the possessor of it as the case may be, receives less than its product in the economic sense, then we can say that this extra payment to workers is only possible by exploiting the leaders. If we confine the expression to the case in which some personal service is deprived of its product – in order to exclude the concept of exploitation from being applied to land, where, considering the non-existence of landlords in the communist society, it would be out of place – then we can still say that exploitation of the leaders occurs, to be sure, without wishing to pass any moral judgment (Schumpeter 1955, 146-147).

To Schumpeter the discovery of the economic essence with respect to the contribution of value added was the economic issue. Issues of social power were important in discovering the essence, but were unique topics outside economic exploration.

As has been already suggested, Schumpeter does not look to an empirical alternative economic system; rather he suggests that orthodox theory itself is the alternative economic system different from Capitalism. So when describing this theoretical model, the first thing Schumpeter did was to allow that all the theories of equilibrium brought about by previous schools were correct and accurate in terms of their essence. To Schumpeter the natural state of the economy was the result of the institutional inertia arising from the general, habitual behavior of the individual, as was discussed above. Schumpeter writes:

We can imagine that, year in and year out, every recurring employment of permanent sources of productive power endeavors to reach the same consumer. The result of the process is in any case the same as if this happened. Hence it follows that somewhere in the economic system a demand is, so to say, ready awaiting every supply, and nowhere in the system are there commodities without compliments, that is other commodities in the possession of people who will exchange them under empirically determined conditions for the former goods. It follows, again from the fact that all goods find a market, that the circular flow of economic life is closed, in other words that the sellers of all commodities appear again as buyers in sufficient measure to acquire those goods which will maintain their consumption and their productive equipment in the next economic period at the level so far attained, and vice versa (Schumpeter 1955, 8).

Schumpeter's theoretical model of a non-Capitalist economy is a closed circle in which tradition and habit create a static equilibrium where change is unobserved. This model is precisely the model, with the replacement of habits over

rationality, which economic orthodox theory suggests, and to Schumpeter this is an alternate economic form differing from Capitalism. The continued functioning of this system was based upon the higher order goods of land and labor, plus the methods created from long years of historical routine. The production process, just like distribution and consumption, is the result of habit.

The alternative non-capitalist system described in Schumpeter's work is the system of theory as laid down by orthodoxy. In this system, integration and production are the result of habits established by the participants. Equilibrium is the norm and the implications of such a system are described. This system is a unique description of alternative systems when compared to Veblen, but it is without a doubt Schumpeter's starting point to which he refers in his description of Capitalist motion.

B. What are the structural forces in a Capitalist system?

Schumpeter's description of Capitalism is not the economic system that is described by orthodoxy, but rather is a disequilibria system of economic change. To Schumpeter, Capitalism is defined by change. If the Capitalist system does resort back to equilibrium, then the interest rate would indeed be zero, but in the Schumpeterian system non-equilibrium is the norm. This section will describe the important components creating the disequilibria as Schumpeter described them.

Schumpeter explained the existence of interest rates in the Capitalist system as the result of activities that pushed the system out of equilibrium, and if the system were truly in equilibrium, interest rates would be zero. After first removing capital as one of the factors of production, Schumpeter then goes about setting up a

replacement for this factor, entrepreneurship. Schumpeter believed that interest is not a payment to the productive capabilities of capital, but rather was a form of bribe paid to capitalists out of entrepreneurial profits. “Thus without development, with the qualifications mentioned, there would be no interest; it is a part of the great waves which development causes in the sea of economic values” (Schumpeter 1955, 174).

Even though Schumpeter tried to separate his own moral position out of his commentary about economic issues, the reader of his work still gets the impression that he believed that the Capitalist system did a decent job with respect to integration, and that unequal distribution was usually the result of superior entrepreneurial abilities. It was the entrepreneurial role that would often create extreme wealth for a fortunate few, but it was not luck but ability that led to this wealth. Secondly, this wealth was not bad but actually would help contribute to even more innovation and wealth. Schumpeter writes:

The means required in order to start enterprise are typically provided by borrowing other people’s savings, the presence of which in small puddles is easy to explain or the deposits of which banks create for the use of the would-be entrepreneur. Nevertheless, the latter does save as a rule: the function of his saving is to raise him above the necessity of submitting to daily drudgery for the sake of his daily bread and to give him breathing space in order to look around, to develop his plans and to secure cooperation (Schumpeter 1962, 16).

By removing capital as the productive aspect causing growth and arguing that entrepreneurship adds the extra value, Schumpeter emphatically breaks with economic orthodoxy, but this break allows him to explain much more clearly the essence of value added. Social power does change the integration, but it does not

alter the fundamental essence of value added by the differing factors. Unequal distribution, in Schumpeter's model, is not the result of expropriation, but rather it is the result of superior abilities of the entrepreneur and serves the greater purpose of allowing the entrepreneur to take even better and more productive actions.

All of Schumpeter's writings are influenced by his understanding of the history of economic thought and the orthodox system arising out of that history. Schumpeter uses this system as a starting point in discussing his ideas concerning production. Even though habit plays a major part in his production process, Schumpeter does not assume that all activities in the production process will run in a normal way without some form of organization. In fact, Schumpeter argued that all production requires the directed efforts of human endeavor. Schumpeter wrote:

What distinguishes directing and directed labor appears at first sight to be very fundamental. There are two main characteristics. In the first place directing labor stands in the hierarchy of the productive organism. This direction and supervision of the "executing" labor appears to lift the directing labor out of the class of other labor. While the executing labor is simply on a par with the uses of land and from the economic standpoint has absolutely the same function as these, the directing labor is clearly in a governing position in contrast to both the executing labor and the uses of land (Schumpeter 1955, 19-20).

Directing labor is simply the term that Schumpeter uses to describe the human effort going into the organization of the production process as compared to the effort going on inside the production process. Notice how it was not said that directing labor was synonymous with management, it is not. First, all labor is to some extent self-directing, and the human worker is often his own manager. Yet, more importantly, directing labor used to set up historically tested methods is very different from directing labor that is organizing production where new methods are

being attempted. Schumpeter distinguishes between these two forms of directing labor by calling the first management and the second entrepreneurship.

To Schumpeter, the general organization of production does not require extraordinary ability, but can simply be run by using standard methods and practices. Most firms run by using some sort of traditional methods that have been learned and engrained into the managers over time. The majority of the circular flow works itself out in this manner. Schumpeter, however, makes a distinction between this and what he refers to as enterprise. He writes:

The carrying out of new combinations we call 'enterprise'; the individuals whose function it is to carry them out we call 'entrepreneurs.' These concepts are at once broader and narrower than the usual. Broader, because in the first place we call entrepreneurs not only those 'independent' businessmen in an exchange economy who are usually so designated, but all who actually fulfill the function by which we define the concept, even if they are, as is becoming the rule, 'dependent' employees of a company, like managers, members of boards of directors, and so forth, or even if their actual power to perform the entrepreneurial function has any other foundations, such as the control of majority shares. As it is the carrying out of new combinations that constitutes the entrepreneur, it is not necessary that he should be permanently connected with an individual firm; many 'financiers,' 'promoters,' and so forth are not, and still they may be entrepreneurs in our sense. On the other hand, our concept is narrower than the traditional one in that it does not include all heads of firms or managers or industrialists who merely operate an established business, but only those who actually perform the function (Schumpeter 1955, 74-75).

So, it can be seen that in the Schumpeterian system the production process is mostly set by routine and habit. All of the activities involved with production require directed labor to be achieved, but directed labor takes on two forms. Form one is simply routine supervision where labor is not working outside common experience, but is rather working under normal circumstances. The second form of

directed labor is entrepreneurship where the person directing the labor is endeavoring to create a new combination in the production process, and this new combination is outside normal circumstances. To Schumpeter, this entrepreneurship is what pushes the Capitalist system out of equilibrium.

To Schumpeter, rules of thumb play the biggest role in economic activities, and these rules of thumb create the circular flow of the economic system. The general economic system discussed above is the outcome of individuals following these mentally simplifying ways of action. The model Schumpeter creates is designed to show how that system changes and what role the individual plays in that change. To Schumpeter, the actions of the entrepreneur are the catalysts causing change in the Capitalist system.

As has already been stated, the Schumpeterian entrepreneur is the individual responsible for instituting new combinations into the production process, but to Schumpeter this role is far more important than is readily apparent. Schumpeter believed that society does not like change, and individuals within society are not well equipped to deal with change. As we saw in the discussion about Schumpeter's views upon the individual, most people are not equipped to deal rationally outside their daily routines. When new circumstances arise, the majority of people cannot cope. Entrepreneurs are individuals that demonstrate a unique ability to deal with these unusual situations and, as such, serve an essential role in the economic process. "And from this it follows also for economic life that every step outside the boundary of routine has difficulties and involves a new element.

It is this element that constitutes the phenomenon of leadership” (Schumpeter 1955, 84).

To Schumpeter, this entrepreneurial role and this element of leadership is a defining element of Capitalism. Capitalism is a system of constant change where a stationary system cannot occur. Schumpeter writes.

Capitalism, then, is by nature a form or method of economic change and not only never is but never can be stationary. And this evolutionary character of the capitalist process is not merely due to the fact that economic life goes on in a social and natural environment which changes and by its change alters the data of economic action; this fact is important and these changes (wars, revolutions and so on) often condition industrial change, but they are not its prime movers. Nor is this evolutionary character due to a quasi-automatic increase in population and capital or to the vagaries of monetary systems of which exactly the same thing holds true. The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that the capitalist enterprise creates (Schumpeter 1962, 82-83).

Capitalism, in Schumpeter's model, is defined by its entrepreneurial activities. The system is one in which change becomes increasingly important and the basis of economic activity. The role of the entrepreneur is a critical part of Schumpeter's schemata. The entrepreneur is responsible for creating the social change that disrupts the economic stability of the circular flow in order to create profitable new productive combinations. This change creates the entrepreneurial profits that are then partly given as interest to the capitalist in return for the use of their economic assets. Returns to the capital owners are the result of this entrepreneurial activity.

To Schumpeter, Capitalism is, by definition, a system of economic change and the primary motivators of that change are entrepreneurs. The individuals who define the Capitalist system are not the capital holders, but the entrepreneurs who are responsible for creating the profits that are partly given to the capitalists as interest. This system of motion is very different from the system as described by orthodoxy, and this orthodox system is actually the system to which Schumpeter refers to as a base model of comparison.

C. What is the future of Capitalism?

Schumpeter believed that the direction of Capitalism was shaped by the activities of the entrepreneurs. Entrepreneurial activity served as the catalyst of change within Capitalism, but it also changed the behavior of the system itself. To Schumpeter, entrepreneurial activity included within itself the seeds of its own destruction. This section will explore how Schumpeter envisioned the future of Capitalism.

As Capitalism expands, Schumpeter believed that the role of economic innovation would take on larger and larger precedence, and the process itself would change the society in which Capitalism dominates. The actions of entrepreneurs would allow room in the system for more entrepreneurs. Schumpeter writes:

Exclusively because the appearance of one or a few entrepreneurs facilitates the appearance of others, and these the appearance of more, in ever-increasing numbers (Schumpeter 1955, 228 Italics in the original).

Schumpeter argued that as change continues it becomes easier and easier for individuals to institute change, and the entrepreneurial activities of individuals no longer would have to be done by particular people with high levels of leadership.

Schumpeter believed that eventually the role of the entrepreneur would become less distinct. To some extent, with the increasing success of entrepreneurial activity, much of the entrepreneurial role would be incorporated into the institutional structures of big business. The entrepreneur's own success would result in the decline of his prestige, and, Schumpeter believed, that corporations would institutionalize the role of the entrepreneur within their structures. Schumpeter writes:

The perfectly bureaucratized giant industrial unit not only ousts the small or medium-sized firm and "expropriates" its owners, but in the end it also ousts the entrepreneur and expropriates the bourgeoisie as a class which in the process stands to lose not only its income but also what is infinitely more important, its functions (Schumpeter 1962, 134).

Schumpeter argued that Capitalism would move in such a direction that major corporations would standardize and subsume the role of both the owner and the entrepreneur. The ownership of firms would be separated from the management and, more importantly, the role of innovation would become part of the corporate structure. Schumpeter envisioned major corporations becoming more and more predominate as Capitalism progressed.

To Schumpeter, the role of the entrepreneur in the economic system of Capitalism was the critical defining role. The capitalists, and the interest they receive from the entrepreneur, are inseparable from entrepreneurial actions. As the role of the entrepreneur declines, so too does the Capitalist system. Schumpeter writes:

Economically and sociologically, directly and indirectly, the bourgeoisie therefore depends on the entrepreneur and, as a class, lives and will die with him, through a more or less prolonged

transitional stage – eventually a stage in which it may feel equally unable to die and to live – is quite likely to occur, as in fact it did occur in the case of feudal civilization (Schumpeter 1962, 134).

The movement of Capitalism to capture the activities of the entrepreneur and the bourgeoisie would be the beginning of a process that would change the system of Capitalism itself. Schumpeter believed that the enlargements of corporations would change the form of the economy, and it would also change the way people envisioned the institutions of Capitalism.

In essence, Schumpeter argued that the Capitalist system would begin to attack its own institutional framework. Schumpeter writes:

Thus the capitalist process pushes into the background all those institutions, the institutions of property and free contracting in particular, that expressed the needs and ways of the truly "private" economic activity. The capitalist process, by substituting a mere parcel of shares for the walls of and the machines in a factory, takes the life out of the idea of property (Schumpeter 1962, 141-142).

The process of increasing the size of the corporations, according to this citation, begins to break the mental connections within people's minds between the object and the ownership of the object. To Schumpeter, this is a major change, but Capitalism does more than this.

Schumpeter also believed that the Capitalist process forces a form of rationality into the thinking of people. Entrepreneurial activities acclimatize people to change, and this acclimation begins to raise the level of rationality in society. As change increases the process of change, change itself becomes an overwhelming drive and begins to be seen as valuable in and of itself (Bell 1971). The system of Capitalism is based upon the rational question of how to do things better. As a system, it was responsible for the destruction of institutions that existed prior to its

foundations, and the rational attitude it fosters winds up attacking even the institutions essential to its own existence. Schumpeter writes:

We have finally seen that capitalism creates a critical frame of mind which, after having destroyed the moral authority of so many other institutions, in the end turns against its own; the bourgeois finds to his amazement that the rationalist attitude does not stop at the credentials of kings and popes but goes on to attack private property and the whole scheme of bourgeois values (Schumpeter 1962, 143).

Schumpeter believed that the tendencies within Capitalism are to change the behavior and actions of its participants and move them towards a more rational framework of action. Schumpeter argued that entrepreneurial activity served as a key motivator in this change.

A logical question to follow from this is, in what way did Schumpeter envision the system changing? This form of speculation was beyond the scope of his inquiry. Schumpeter merely pointed out trends, as he saw them, in the Capitalist system. When talking about a possible future socialism, he makes a very concise statement:

I do not advocate socialism. Nor have I any intention of discussing its desirability or undesirability, whatever this may mean. More important is it, however, to make it quite clear that I do not "prophesy" or predict it. Any prediction is extra scientific prophecy that attempts to do more than to diagnose observable tendencies and to state what results would be, if these tendencies should work themselves out according to their logic (Schumpeter 1962, 416).

To Schumpeter, his discussions about the tendencies within a Capitalist system were observations of a scientific nature. What Schumpeter was trying to make clear in the above quotation is that it is not the predictions he was interested in, but rather the observations of trends. His goal was not to predict the outcome of

this social evolution; rather he felt he was trying to point out observations of the world as he saw it. To Schumpeter, this scientific observation and explanation of the world should be the goal of economics.

In Schumpeter's writings, the entrepreneur is the defining character of the Capitalist system, and his role holds the seeds of its own destruction. The more change entrepreneurs create, the easier the system is to be changed. As the institutions are changed, the entrepreneurial function is institutionalized into the corporation and the importance of the entrepreneurial role declines, and this decline changes the nature of the system. Schumpeter did not try to envision some form of a post-Capitalist system because this was not his interest. Rather, Schumpeter pointed out the direction in which he thought Capitalism was headed.

Chapter Overview

Joseph Schumpeter operates in a manner very different from the manner that is common in current orthodoxy. Though a defender of economic theory, he had a much broader vision for the areas of inquiry that were to be made by economists. He was a firm believer in the separation of the social sciences, but he also believed that economics had to have an ongoing conversation between itself and the other social sciences. Schumpeter felt that economic sociology should take on this role. To Schumpeter, the individual was a socialized creature and in order to understand the economic essence of topics, it was important for economic sociology to give inputs into how individuals behaved socially. This socially created individual served as the center for Schumpeter's vision of the Capitalist system. The individual operated, in most cases, out of habit, and it was only in unusual situations where

individuals needed to make choices. The Schumpeterian entrepreneur served in the role to ease the system when economic change happened. As the entrepreneur changed the system, it created more room in the system for further change, and the role of the entrepreneur as a unique entity became less pronounced. Schumpeter believed that the actions of the entrepreneur and of the Capitalist system were changing the thinking of society, making individuals more rational. This increase in rationality could change the direction and flavor of Capitalism.

Chapter 4: A Comparison of Views on Economic Methodology

With respect to methodology, each author had a unique vision of the role economics was to play in observing the world. Schumpeter respected classical style and saw a role for isolated economic analysis, whereas Veblen viewed classical style as tautological and believed that methodology was bound to change. However, this simplistic view with respect to superficial observations about their individual opinions glosses over important similarities both had with respect to their shared vision of a broader form of economics. Such a view also completely neglects an almost identical conception both held of the individual. This chapter begins by observing both authors' positions on the division of the social sciences, it then explores their views on the individual, and it concludes with a discussion about their mutual belief in a broader form of economics. Included within each section will be a subsection analyzing and comparing the ideas of each author in order to show the relevance of their thinking to the modern dialog.

A. A comparison of views on what is to be gained by using sociological methods on economic topics.

Veblen and Schumpeter had a difference of opinion on how close the relationship should be between the differing social sciences. The reader of Veblen

Often gets the feeling that Veblen was in favor of a much more unified form of social sciences, whereas Schumpeter believed that the social sciences benefited from a stronger separation. This apparent disagreement by the two authors results not from differing views about the nature of scientific inquiry, but rather from differing beliefs about the usefulness of separating out economic topics.

As was discussed in a previous chapter, Veblen believed that the form of inquiry used by individuals was influenced by the production process used by the individual's society. According to Veblen, inquiries into the nature of the universe are the result of the social conditioning of the individual's instinct known as curiosity. In modern society, the machine process is changing the form of questioning into an evolutionary framework, whereas previous forms were results of differing methods of production. To Veblen, the industrial form of production and matter-of-fact form of inquiry were linked, and the machine process was instilling this form of inquiry into society. Veblen believed that this matter-of-fact form of scientific method was a high achievement for society. Veblen writes:

A Civilization, which is dominated by this matter-of-fact insight, must prevail against any cultural scheme that lacks this element. This Characteristic of western civilization comes to a head in modern science, and finds its highest material expression in the technology of the machine era (Veblen 1961, 2).

Veblen believed that the process of scientific inquiry would change as society changed, but that the matter-of-fact form of analysis would always represent the core of true scientific inquiry. Veblen also believed that the continued use of the scientific method and the changes it would cause to Capitalism could eventually transform Capitalism into Socialism.

Schumpeter's views about the scientific approach have many similarities to Veblen's ideas. Schumpeter argued that the scientific approach had been advanced remarkably within economics by the separation of the social sciences into smaller units. As was seen in the chapter on Schumpeter, he felt that any division of the social sciences would allow specialization and lead to improvements, but he also recognized that such a separation was inherently arbitrary. To Schumpeter, a science was any grouping of ideas that had experienced a dedicated effort to improve their understanding. This effort would lead to the discovery of what Schumpeter called the "essence" of certain topics, and that essence existed outside of moral judgment or social conditions. Schumpeter writes:

This implies that any arguments of a scientific character produced by 'special pleaders' – whether they are paid or not for producing them – are for us just as good or bad as those of 'detached philosophers,' if the latter species does indeed exist. Remember: occasionally, it may be an interesting question to ask *why* a man says what he says; but whatever the answer, it does not tell us anything about whether what he says is true or false (Schumpeter 1954b, 11).

To Schumpeter, the idea behind science was to get closer to the universal truth that he believed existed. Schumpeter believed that we could extract the "economic essence" of a given topic if we separated that topic from the rest of the social sciences, and to him that was the only reason to make such a separation.

Beyond the functionality of science in Schumpeter's schemata, there was also a belief in the interrelatedness of scientific approach and the method of production in any given economic system. This belief in the fundamental importance of economic aspects towards the creation of the individual outlook is similar to the position held by Veblen. Schumpeter, like Veblen before him, argues

that the methods of production play roles in shaping how individuals view the world. Schumpeter writes in *Imperialism and Social Classes* that the common person's views about morality can be influenced by the system of production. "Moral progress is here directly linked with the 'conditions of production'" (Schumpeter 1951, 27). In this quotation Schumpeter is discussing how the attitudes resulting from the industrial revolution had turned the English population in favor of a much more pacifistic world outlook. The methods of production had changed moral beliefs away from an acceptance of economic imperialism as justifiable. Due to the industrial nature of the economy, old outlooks created under a more business-oriented regime simply couldn't hold power. The industrial aspects of England's economy led the average worker to believe that imperialism in favor of business interest was wrong and this change in belief forced political and social change.

To Schumpeter, Capitalism, as a system of production, fostered the scientific method and encouraged its reasoning because of their mutual goals. The scientific method serves as a motor to the Capitalist system in that it fosters the shocking economic growth that is a defining characteristic of Capitalism. Yet, the rational frame of mind was also a powerful tool used in the destruction the pre-industrial order, and it brought about the necessary social changes that were required for the industrial revolution. Finally, Schumpeter also believed that the rational frame of mind, which was fostered by the scientific approach, could eventually lead to the destruction of the Capitalist order.

The reader can see the similarities in thinking between Veblen and Schumpeter about the scientific method. Though they disagreed about how firm the

division of the social sciences should be, they both saw science as an essential part of Capitalism, and they both believed that the scientific method was the result of a frame of mind that was enhanced by the Capitalist form of production. Both authors believed that science was integral to Capitalism, and that the rational attitude of the scientific method could erode the Capitalist system in the end.

When comparing the views of these two authors with respect to the nature and importance of scientific inquiry, they are very similar, but when it comes to the usefulness of sociological methods on economic topics there is much greater tension. Schumpeter, as was seen in his chapter, thought that the mixing of methodologies held few benefits and was conceivably dangerous. Veblen believed the incorporation of the study of society and culture together with economic studies would advance the understanding of economics. After analyzing their works it seems apparent that with respect to the usefulness of incorporating sociological methods, Veblen and Schumpeter disagree with the potential benefits such unification would bring.

The debate over the use of sociological methods still rages in modern circles. Economics, after a long period of interest in solely price considerations, is now branching out into areas once considered solely the domain of sociology. The resurgence of interest in economic sociology by the sociologist is pushing sociology into exploring areas previously thought of as uniquely economic. Economists are exploring social issues with a rational/individualistic model where material motivations take a primary role. This economic imperialism is concerning many within other areas and is often devoid of any sociological methodology.

Sociologists are exploring issues of economics within a context uniquely social in flavor and, for the most part, mainstream economists are unaware of their existence (Ferguson 2000). The next sub-sections will first look at how the current study can help us better understand the positions held by Veblen and Schumpeter. Then the sub-sections will show how an understanding of the positions of Veblen and Schumpeter could advance the modern discussion about the rightful position of sociological methods on economic topics.

Insights from the modern dialog.

Two major insights from the modern dialog can serve to clarify the positions of Veblen and Schumpeter with respect to both each other, and with respect to their views upon the usefulness of sociological methods in economic explorations. The first insight is based upon the nature of economic inquiry. In particular, it is the observation that by nature economic inquiry is an exercise in criticism. The second insight comes from the observation that scientific explorations are based upon the freezing of some variables in some instances, and the allowing of those same variables to move within others. Each of these insights will be looked at in turn.

The vision both Veblen and Schumpeter held upon science was remarkably similar, but it still needs to be discussed as to why they had differing opinions about the usefulness of sociological methods on economic topics. It is a contention of this work that the main reason for the difference between the two authors was that they had differing reasoning behind their explorations. Neither author limited himself in the topics looked at, and both would often cross into areas more sociological

than economic. The difference between the two was a difference in opinion as to the extent of how useful sociological methods would prove.

Schumpeter would often look into multiple areas, and as Jonsson states: “Schumpeter did not see any research topics and methods as taboo” (Jonsson 1994, 303). To Schumpeter, the usefulness of sociological methods were simply not as important as the gains which were to be gained from specialization by keeping economics firmly separated as a distinct social science. As was shown above, Schumpeter was not interested in making observations about the future of the system or about the moral and ethical outcomes of Capitalism. Schumpeter was interested in describing the economic system simply for expository purposes and a clear field border allowed a greater amount of specialization and clearer descriptions. Even though Schumpeter does make comments and has moral positions, he felt that evaluating the system on moral grounds was not central to the purpose. Such a moral observation could confuse issues when the goal was expository description. Such a vision of economics as an expository science meant that the evaluation of economic activities as to their social benefits was not the main goal of economics. Since this was not the main goal, Schumpeter believed that the use of sociological methods were not going to be very beneficial.

Veblen came to explore the system from a differing direction. To Veblen, the understanding of economic behavior by necessity revolved around the understanding of the instinctual foundations of the institutions that shape that behavior. Or as Wesley Mitchell describes it:

The bulk of our economic theorists have been interested in discussing the working of economic institutions as they now prevail

Mitchell goes on saying:

Veblen, on the other hand, is interested primarily in the way in which institutions have gotten into their present shape; what are our prevalent institutions, or rather what institutions give their special character to society as now organized; and how did these institutions come to have their present form (Mitchell 1949, 227).

The above quotation clarifies what Veblen was doing. In looking at the roots of the current institutions, Veblen was exploring economic phenomena from a very differing focus than is common, and from a very differing focus than was Schumpeter. Veblen was interested in explaining why things came to be as they were, rather than simply describing what was currently seen.

Despite his protestations to the contrary, it seems that Veblen, throughout his works, is attempting to comment about the usefulness of economic activities. Veblen breaks down the forms of institutions into two types, those that are serviceable and disserviceable (Gruchy 1972). To describe the serviceability of an institution by necessity calls into question the placing of that institution in a social whole. It is from this perspective that Veblen explored economics, and this understanding of the economy in this framework would naturally lead to a more open outlook as to the impact of other disciplines on the nature of economic inquiry.

Current thinking with respect to economic sociology has offered insights into ways in which this differing emphasis between Veblen and Schumpeter can be understood. Allen M Sievers offers an observation about the nature of economics, as he sees it, that helps to clarify the differences between Schumpeter and Veblen with respect to their views upon the usefulness of sociological methods.

Sievers writes that “any and all economics – is an exercise in criticism” (Sievers 1991, P. 55).

This elaboration helps to clarify a difference between Veblen and Schumpeter with respect to the mixing of economic and sociological methods. Veblen envisioned a much broader role for the use of sociological methods because he was more interested in exploring the morality of economic activities. Schumpeter saw less of a role because he believed the clear division of the sciences was of more use than was the exploration of moral conditions. To Veblen, the criticism of the system meant that the usefulness of sociological methods was self-evident, but to Schumpeter criticism of the system was less important.

It is from the observation by Sievers that some of the differences between Schumpeter and Veblen can be explained. Schumpeter was critical of the use of sociological methods because he was not overly interested in the criticism of Capitalism, merely its explanation. Veblen was much more fond of the use of sociological methods due to his desire to criticize the Capitalist system and its disserviceable institutions.

In the same vein of explanation, the differences between Veblen and Schumpeter can also be understood by resorting to a reference of the nature of scientific exploration itself. As Schumpeter pointed out, the borders of any given field are arbitrary and Veblen would most likely agree with this observation. Whereas Schumpeter argued that the borders of economics were useful in the exploration of the field, Veblen argued that the positioning of the border created

extraordinary problems. The modern debate offers us insight into an explanation into the differing emphasis between the two authors.

The general agreement between the two authors with respect to the arbitrariness of discipline borders means that there is not an overriding conflict in their schemata about the universal truth of economic observations. Rather, the disagreement between the authors occurs at a level that is based upon which variables are the most important to study. Such a disagreement is still common among learned people in all disciplines.

The modern debate offers many insights into the exploration of this disagreement, and it also offers possible resolutions. Smelser and Sweedberg write:

One of the most promising modes of relating the fields of economics and sociology remains that which might be termed “complementary articulation.” Of necessity, any line of disciplined inquiry focuses on certain operative variables and determinates, and “freezes” others into parametric assumptions. Often the territory thus frozen is that very territory that is problematic from the standpoint of some other line of social science inquiry. It is this dialog about the precise role of operative variables and the conceptual status of parameters that holds out the best promise for communication and theoretical development in both economics and sociology (Smelser and Sweedberg 1994, 20).

In very simple terms, the argument of the proper role for method is a turf war between economics and sociology. Simply recognizing this aspect of the conflict allows a large step forward in comprehending the differences between Schumpeter and Veblen. Schumpeter and Veblen disagreed over the value of exploring economic phenomena outside of their position in a social setting. Schumpeter believed there was value in exploring an ideal type where economic variables were studied in isolation, whereas Veblen believed such a study was

useful, but only limitedly so. Veblen believed that the essence could be looked at, but it should also be looked at as a part of the sociological whole (Gruchy 1967, 55).

These two insights from the modern debate allow the student of Veblen and Schumpeter to appreciate the nuances that are involved in their disagreement, without falling into the intellectual quagmire that such a disagreement can lead to. Intellectual dilettantism resulting from turf wars have led to innumerable lost opportunities to advance the understanding of economic phenomena. The modern debate over the role of sociological methods must be aware of the dangers involved in exploring which variables should be looked at. Not the least of these dangers is a possible turf war or methodstreight.

Insights for the modern dialog.

Whereas the student of Veblen and Schumpeter can learn balance from the modern dialog, the ideas of Veblen and Schumpeter lend a level of importance to the modern debate. One of the main questions raised in the opening chapter of this study was why should economic sociology ask questions about topics so similar to economic orthodoxy? This section will show that the works of Veblen and Schumpeter offer insight as to why the use of a sociological framework on these questions is important.

In many ways, the most important insight that can be gained from the comparison of Veblen and Schumpeter is the recognition by economic Sociologists that Veblen's work offers immense contributions to the field. With respect to the use of sociological methods, the understanding and recognition of Veblen and OIE offers an alternative to the rationalist approach of the mainstream economist.

This rational approach is one of the main components of mainstream theory and it rejects the “fundamental sociality of human existence” (Stanfield 79, 889). One of the biggest problems modern economic sociology is facing is the fear of economic imperialism. Milan Zafirovski sums up this fear well. He writes:

The division of economics and sociology from each other continues today. Some recent trends such as the extension of the economic principle or rational choice theory to all social life have only exacerbated this condition because of the perceived theoretical imperialism of such efforts. Most sociologists experience these attempts as economic imperialism triggering defensive reactions on their part and thus furthering alienating their discipline from economics (Zafirovski, 1999, 583).

The fear that is expressed in this citation is in no way unfounded, and confronting it has proven to be a large task. Institutional economists have been arguing against this paradigm for over a century, and it is still considered to be at the heart of economics. It is, in the most literal sense of the phrase, the economic methodology.

Economic institutionalists share the frustrations expressed by economic sociology with respect to this world view, and more importantly, Veblen offers a strong voice to counter such a paradigm. Economic Sociologists have a desire to understand economic phenomena, and it is natural that such a field would wish to find ties to economics. Yet attempts to create a dialog between economic sociology and orthodoxy have resulted in little response.

Zafirovski and Levine recognize the problems with a rationalist mindset in understanding even market behavior. They write:

Departing from the rigid rationalist axiom of utilitarian economics, even some staunch conservative authors would concede

that since market behavior is influenced not only by rational but also non-rational or irrational factors – “Misunderstanding, love, hate, custom, habit, and magnanimity” – an analysis of the market should include all of these (Zafirovski and Levine 1997, 271).

Zafirovski and Levine have recognized the limitations of a rationalist paradigm in the above quotation, something that has been missed in most mainstream economic theories. Economic sociologists are looking in the wrong place to find the ties they desire among economists. Instead of attempting to form a bridge between economic sociology and orthodoxy, a better place to start is with the institutionalists and, in particular, with a better understanding of Veblen.

In this last respect, it is puzzling to the student of both Schumpeter and Veblen as to why Schumpeter garners so much more recognition in the field. While it is true Schumpeter spends time discussing economic sociology and much of his work is within the venue of the field, Veblen seems to be a much better example of an economist who was also an economic Sociologist. Swedberg offers a clue as to why so much more attention is paid to Schumpeter by economic sociologists. Swedberg, himself, uses Schumpeter's *History of Economic Analysis* as an exhaustive history of economic sociology and gives credit to the author for a work well done. Yet as Swedberg points out, Schumpeter died before adding a section to this history on the contributions made by the OIE, including Veblen (Swedberg 1991, 253). Such an addition would be useful to the field.

With respect to the usefulness of sociological methods on economic topics, modern economic sociology has much to gain from incorporating a broader understanding of the ideas of Veblen. The fears against economic imperialism are

not unfounded as is demonstrated by the experience of Veblen's legacy, Institutional economics. Economic sociology has recognized Schumpeter, in part, because of his own recognition of the field, whereas Veblen has been less credited. Yet Veblen and not Schumpeter seemed to be much more in favor of allowing a broader use of the sociological methods in economic explorations. It is this broader understanding of Veblen's position on the use of these methods which the modern student of economic sociology should recognize.

B. A comparison of their visions with respect to the nature of the individual.

For two authors who are considered to be so distant from each other within economics, it is remarkable the similarities they both maintain with respect to their views about the nature of the individual. The reader of these authors' works is shocked by the balanced view each of them offers in regards to the influence of individual agency and socialization. This section will compare the views of Schumpeter and Veblen with respect to the individual and make clear the similarities and differences. This section will then go on to look at some lessons that modern economic sociologists could take from the comparison of the works of Veblen and Schumpeter.

To Veblen, the nature of the individual incorporates two distinct sides, instincts and institutions. As was described in the chapter on Veblen, the individual has at his core a set of instinctual behaviors that are part of the physiological condition of the human body. In modern parlance, we could argue that these are the genetic predispositions that are handed down from generation to generation.

Veblen never truly defines what he means by the term instinct, but the reader is left with the impression that there are major connections between what he calls instincts and what others may call emotions (Gruchy for example lists several instincts that seem to be related to emotional states. Gruchy 1967). Even though Veblen sees the instinctual nature of man as part of the individual, he maintains a much more important view for the aspects of socialization and, in particular, institutions. He writes:

But after all has been said it remains true that the margin within which the instinctive nature of the race can be effectively adapted to changing circumstances is relatively narrow – narrow as contrasted with the range of variation in institutions – and the limits of such adaptation are somewhat rigid (Veblen 1964, 36).

To Veblen, there are instincts that influence the behavior of man, but it is institutions that have served as the driving force of human advancement. His discussions upon instincts are limited, but these discussions do demonstrate that institutions can mold how instincts make themselves visible. For example, in modern society private property has been so changed in form that it no longer has a connection to the instinct of workmanship that originally gave it justification. Currently the arrow of causation runs in a reverse direction, rather than private property being good because it is a demonstration of workmanship, now private property is good because society instills to individuals that such is the case.

The ability of society to create this reversal of causality is achieved because at the core of the individual is the instinctive need for social recognition, according to Veblen. As was seen in the chapter on Veblen, it takes a unique individual, one he calls a dreamer, to move beyond this need for social acceptance. These unique

individuals are often responsible for advancing human understanding greatly due to their activities. The dreamer, in this way of thinking, is often the scientist or the engineer, and their discoveries can change the shape of the system. This is not the only way in which the institutional structure is changed but, according to Veblen, it is one way.

Schumpeter's description of the nature of the individual is distinctly different from Veblen's with respect to terminology, but not with respect to its essence. Like Veblen, the nature of the individual has a balance of forces that come into play. Among these forces are a sense of individual irrationality, emotion, tradition, and socialization.

As was discussed in the chapter on Schumpeter, the majority of all economic activities, according to Schumpeter, occur because of tradition or impulse. Schumpeter envisioned an economy where the majority of activities being performed were happening because of the habitual nature of man. The circular flow of the economy is based upon the routine of individuals acting in ways that are habitual and emotionally comforting. The thought process proposed by orthodoxy plays little role in this vision of the economy. Schumpeter's view of the average individual was of a person lacking the capabilities to deal with masses of information and continually optimizing decisions in a rational manner, rather they worked in a world of familiarity where routine simplified life to a manageable level.

To Schumpeter, individuals in a new situation will behave according to a value structure that was created by the experiences of their lives and beliefs.

The value structure is the result of past experiences and, as time progresses, it becomes bigger. Schumpeter writes:

The value system once established and the combinations once given are always the starting point for every new economic period and have so to speak a presumption in their favor (Schumpeter 1955, 40).

Such a value structure as the basis for individual decision-making has large implications with respect to behavioral and economic inertia within a system. It implies rigidity to economic systems and suggests that the transitions between equilibriums (if they are ever achieved) may take much longer than is implied within orthodoxy. Schumpeter does argue that given time the habits of individuals work out in such a manner as to reflect a rational organization, but the rationality of the individual and of the system is not a given.

Schumpeter argued that in any Capitalist system there were also a few individuals who were different than the norm, and that these individuals played a key role. The majority of individuals fear change and oppose those who encourage change. To Schumpeter, it took a special kind of individual to move beyond the habitual inertia of ordinary economic activity and institute change. Condemnation and resistance would often meet change, since the majority of individuals fear it.

Schumpeter writes:

The manifestation of condemnation may at once bring noticeable consequences in its train. It may even come to social ostracism and finally to physical prevention or to direct attack. . . . Surmounting this opposition is always a special kind of task which does not exist in the customary course of life, a task which also requires a special kind of conduct (Schumpeter 1955, 87).

The individuals that can move beyond this resistance are unique, and Schumpeter labels them as entrepreneurs when their sphere of activities is economic. To Schumpeter, these individuals serve a major purpose in the system of Capitalism and, as was discussed in the chapter on Schumpeter, they are one of the major motivators of change.

Veblen and Schumpeter use very different terminology when describing the nature of the individual, but the similarities of ideas far outweigh the differences in terminology. The objective reader can see that Veblen's concept of the institution and its socialization aspects have parallels in Schumpeter's description of the habitual behavior of man (For institutions being like habitual behavior see Waller 1988; Weed 1981; Edgell 1975). As was shown in the above discussions on the entrepreneur and dreamer, each author recognizes the unique characteristics of some individuals and the ability of these individuals to reshape the form of society. Neither author would argue that socialization nor individual agency dominates the nature of the individual, but rather both are important. The similarities of ideas within the two authors are truly remarkable.

Schumpeter and Veblen have differing levels of emphasis in their writings with respect to the importance of individual agency and socialization. Schumpeter spends extensively more time in his work describing the case where the individual agent is changing the shape of society, and this agent becomes the critical catalyst of change in the Capitalist system. Veblen spends extensively more time describing the Capitalist system using a more sociological approach preferring to concentrate upon the institutional make-up or what Schumpeter would call habitual behavior.

Veblen recognizes the importance of individual agency with his description of the dreamer, whereas Schumpeter recognizes the socialization of humanity with his description of habitual activity. While it is important to note that the difference in motivation between Veblen's dreamer and Schumpeter's entrepreneur is large the fact that both see that individuals can, and do, change society is a large area of similarity. The difference between Schumpeter and Veblen is not a difference of opinion on the nature of man, but rather a difference in emphasis. One would be hard pressed to argue that this is a fundamental difference in a conceptual framework of the nature of humanity, and to argue such would be a severe misrepresentation of the position of both authors. Schumpeter very much emphasized the importance of individuals in changing the shape of society, but nowhere did he argue that this is the only method of change. Veblen clearly looked toward the evolution of institutions as a motor of social change, but he also definitely saw important contributions made by individuals. Difference in focus cannot be argued to be differences in vision, and in this case there is only a difference in focus.

Insights from the modern dialog.

One hundred years of thinking on any topic will hopefully advance the understanding of a topic and create new ideas that need addressing when doing a historical piece. With respect to the issue of the individual, new areas of thought have arisen since the death of Schumpeter, and these ideas hold import when it comes to the debate over individual agency.

A basic description of methodological individualism and methodological holism will help to make clear the issues under consideration. Under methodological individualism, all studies begin with the individual as the central component, whereas under holism, society is the primary unit. Malcom Rutherford gives a good description of the two concepts. He writes:

The major distinction between reductive methodological individualism and holism, then, is to be found in the primacy given to the individual in the former as opposed to the primacy given to the social or institutional in the latter (Rutherford 1989, 161).

The debate between these differing views can often become heated. Yet recently, a middle path has begun to be explored. Rutherford goes on to argue:

It is more than possible to argue *both* that only individual actions create and alter institutions *and* that institutions shape the goals and aims of individual actors. One does not have to decide which came first, individuals or institutions, or which has ultimacy or primacy, one can simply accept that institutions and individuals have evolved together in continual interaction (Rutherford 1989, 162).

This middle road offers a way out of continuing arguments over the nature of the individual. In a sense, if one were to look objectively at the two concepts, the areas of conflict arise from an almost chicken and egg scenario. Work on this middle road seems to offer a much better use of the social science effort.

Economic sociology has begun to look into this middle road and has been doing research under the name of network analysis along this line. Network analysis is a hybrid of methodological individualism and holism. Powell and Smith-Doerr describe network analysis as follows:

In contrast to deterministic cultural (oversocialized) accounts, networks afforded room for human agency, and in contrast to individualist atomized (undersocialized) approaches, networks emphasized structure and constraint. Indeed networks offered a middle ground, a third way (Powell and Smith-Doerr 1994, 368).

This form of viewing the basis of society incorporates the useful aspects of both methodological individualism and holism. It is by separating out the basis of groups into the subgroups and personal interaction of individuals in human terms that the order of society is more realistically described. Network analysis basically argues that the individual operates on local levels where the community is a creation of realistic interaction between people on a personal basis. For example, the individual is not the creation of a large impersonal society, but is rather an interactive member of a local group, which helps to create the individual, but the individual also helps to create the group as well.

There is the argument that this is a methodologically collective stance, but looked at from an objective level, this is an untenable position. The individual has control, to a marginal extent, as to what groups to be involved in and the direction of those groups. There is also the argument that this is a methodologically individualistic stance, yet once again this is an untenable position. The individual is part of the groups that he belongs to, but he is also the creation of these groups. The participation in the group will affect the actions of the member, and as such it is not the individual making up the group but a bi-directional phenomena. Powell and Smith-Doerr summarize the position clearly. They state:

These disparate lines of research share the assumption that location in an overall pattern of relationships shapes the behavior of individual units. The analytical thrust behind these research

programs focuses on the relations among units rather than sorting the units into categories based on attributes (Powell and Smith-Doerr 1994, 391).

This form of analysis is an interesting idea that conceivably has much to offer both economics and sociology. Individuals being involved in networks of relations that affect their behavior certainly has analytic relevance to disperse topics. Recognizing this form of analytic structure holds out interesting implications with respect to analysis of firm structures as Powell and Smith-Doerr point out:

Much progress in explaining the behavior of organizations has been made by recognizing that most of the relevant action in organization fields or communities takes place within dense webs of network ties that link organizations and their members (Powell and Smith-Doerr 1994, 369).

This idea of network analysis seems to be an excellent compromise between individualism and holism, and should help to advance the sciences. The student of Veblen and Schumpeter, when reading about network analysis, should be aware of the benefits of this form of method. Yet, as the student of Veblen and Schumpeter could most likely tell you, such a form of analysis is not new. Merely the name and modern explanation are truly new. As will be argued in the next sub-section, the ideas behind network analysis are similar to the ideas about the individual emerging from both Veblen and Schumpeter.

Insights for the modern dialog.

Often times the belief that you have come up with a new idea is not an act of conceit perpetuated by most people due to arrogance, but usually such conceits are done out of ignorance. With respect to the concept of network analysis, the idea

coined in such frank terms can be found nowhere in the works of either Veblen or Schumpeter, but the nascent ideas incorporated under the banner of network analysis are clearly present in the writings of both. This section will first point out the error in attempting to associate orthodox economics with all economics, and second it will show that the works of Veblen and Schumpeter have a direct connection to network analysis and argue that a case could be made that their works are historical antecedents to the sub field.

Once again, as was discussed in the first section of this chapter, it seems to be a natural desire of individuals working in the area of economic sociology to want to make a connection to work being done in economics. Yet, attempts to make such connections have been made many times throughout the twentieth century. The differing methodologies of the two sciences clearly create a major impediment to cross-field conversations. Davern and Eitzen write:

Economists tend to be concerned with theoretically oriented mathematical models of rational individual maximization (“clean models”). Sociologists, on the other hand, tend to be theoretically disjointed and empirically driven (“dirty hands”). These divergent approaches of economists and sociologists prevented the intellectual exchange of research across disciplinary boundaries for much of the twentieth century (Davern and Eitzen 1995, 79).

These attempts by economic Sociologists to expand the dialog between the two sciences are noble in intent. The idea of cross fertilization seems to work well in sciences across the spectrum, but such attempts to open the lines of communication have currently failed with regards to economic orthodoxy. This failure has little to do with the efforts of economic sociologists, but rather with the lack of reciprocation by orthodox economists. Davern and Eitzen write:

Past attempts at a synthesis between economics and sociology have been made. For example in the early 1950's at Harvard economists James Duesenberry, Carl Kaysen and James Tobin Got together with sociologists Talcott Parsons, Neil Smelser and Francis X. Sutton. This effort however, was short lived and was not as productive as it could have been. Another attempt was made at Carnegie Tech by Herber Simon, but his behavioral economics did not succeed in changing the mindset of main stream economics (Davern and Eitzen 1995, 80).

Perhaps such reciprocation is beyond the bounds of people who see the market as the only form of integration, but an open dialog requires just such a bilateral exchange. Orthodox economists have consistently failed to accept the invitation offered for an open and honest discussion about topics of mutual interest, in particular, the topic of the nature of the individual.

Yet, such a dialog already has antecedents in an area of economics that is often ignored by many, institutionalism. If economic sociology is looking for a direct link into economics, they should perhaps consider looking at a form of economics that has consistently been seeking answers to the question economic Sociologists are interested in. The rationalist approach to individual agency is the mainstream vision of economics, but it is not the sole position.

This comparison of the works of Veblen with Schumpeter has demonstrated that a mutual vision of the individual existed between the two authors. This mutual vision offers a starting point to open a broader dialog between economic Sociologists and the inheritors of the Veblenian traditions, institutionalists. Such a dialog may be contentious and it will face obstacles, as will any such dialog, but at least there will be a response from the side of the economist. Such a conversation could begin by doing a broader piece of research comparing the sub field of network

analysis to the ideas of individual agency of both Veblen and Schumpeter. Such a work has great potential to help both groups, but unfortunately would be too broad to do here.

C. A comparison of views on the ultimate relation between economics and sociology.

The preceding discussion about the authors' visions with respect to the use of sociological methods belies a more important question about a mutual belief in a broader form of economics. As was discussed previously, Schumpeter saw greater benefits from the firm separation of the social sciences, whereas Veblen believed that a more unified social science would be useful. To explore their individual views about this separation again would be redundant, rather this section will compare Veblen and Schumpeter with respect to how they both envisioned a form of economics that was far more encompassing than the modern incarnation of the science.

Earlier in this chapter it was shown that Veblen believed that how a society looks to answer questions about existence is shaped by how that society produces for its material needs. From this, Veblen argued that natural rights theories were the product of the handicraft era, and the evolutionary theories that were gaining in precedence were the product of the machine age. Veblen believed that economics, as a science, was going to be forced to change as time went by or be left behind.

Veblen believed that the early classical period of economic writing appealed to the common man, not just the educated economist (Veblen 1961). The works of Smith had appeal to the common person because they could associate with the

methods used in his discussion, and the appeal of the ideas made the works popular. The changing form of productive methods, which had been brought about by the machine process, meant that the economic method would be forced to change direction in order to reflect this development. Veblen writes:

The later method of apprehending and assimilating facts and handling them for the purposes of knowledge may be better or worse, more or less worthy or adequate, than the earlier; it may be of greater or less ceremonial or aesthetic effect; we may be moved to regret the incursion of underbred habits of thought into the scholar's domain. But all that is beside the present point. Under the stress of modern technological exigencies, men's everyday habits of thought are falling into lines that in the sciences constitute the evolutionary method; and knowledge which proceeds on a higher, more archaic plane is becoming alien and meaningless to them. The social and political sciences must follow the drift, for they are already caught in it (Veblen 1961, 81).

Veblen understood the necessity of doing work that could be understood by individuals who make up the majority of society. His envisioning of evolutionary economics was an attempt to demonstrate a possible direction in which economics should go in order to close the breach that was occurring between economics and social understanding. To Veblen, the direction of economics in the future required a more fluid concept of economics in which the discussions of economic change took precedence. This new form would require the exploration of the vectors of change, and such vectors are often social in nature. Veblen envisioned economics changing to incorporate the area of economic sociology, if for no other reason than to secure its own survival. Veblen also believed that such a change would be beneficial for the science.

Schumpeter's envisioning of economics was more limited than was Veblen's, but it was still much broader than what is currently considered orthodoxy. Schumpeter envisioned a form of economics in which there were multiple fields. Of the six fields Schumpeter listed, current orthodoxy only practices two on a regular basis, theory and econometrics. It seems likely that perhaps even Schumpeter saw this direction of orthodoxy within his lifespan, and it was part of the reasoning for the changing focus of his work at the end of his life.

Schumpeter believed that economics was impossible to do in a manner which orthodoxy currently operates. To Schumpeter, the world was a contiguous whole, and the ability of economics to explore its issues required input from other sciences. Schumpeter argued that input had to come from philosophy, psychology, sociology, and elsewhere (Schumpeter 1954b). Without such input, he felt that economic theory would become sterile and useless, and this is where he saw orthodoxy heading.

A comparison of the visions of Schumpeter and Veblen with respect to their outlook about the shape of economics demonstrates that both shared a view in which economics had a much broader scope. Veblen believed that the reasoning behind this differing form was a change in the way society thought, and that if economics was to maintain any significance, its methods would have to change. Such a change was necessary and inevitable according to Veblen. Schumpeter did not share the idea of inevitability, but did believe that it was within economics' own best interest to expand its areas of exploration. He believed economic sociology was a fundamental field of economics where information could be received from

bordering sciences. He also argued that the neglect of these fields would result in the diminishing of the usefulness of economics.

A comparison of views between Schumpeter and Veblen about the ultimate relation of economics to economic sociology shows that both authors envisioned a much broader outlook for the exploration of economic ideas than is present in current orthodoxy. As was shown in the first section of this chapter, Veblen and Schumpeter disagreed about the benefits of breaking down specialization within the social sciences. Yet, the usefulness of economic sociology came from the fact that it was a field that could cross specialized borders in order to advance economic exploration, and both authors would be able to agree upon the benefits of this activity. The difference between Veblen and Schumpeter on the extent of how far interdisciplinary cooperation should go is significant, but, when compared to the difference both authors saw about the range of what economics should be versus what it currently is, the contention between the two authors is negligible.

Insights from the modern dialog.

The relationship between orthodoxy and economic sociology is an issue that has been looked at for an extended period of time (at least since the writings of parsons in the 1930's) (Diggins 1978). On one side, there are individuals who have argued that the role of economic sociology was to compliment the role of orthodoxy, and such a role meant that economic sociology was only to look at issues that orthodoxy considered non-economic. On the other side, there is a group who believe that economic sociology has something to say about economic topics in general.

Included in the first group, and partially responsible for some of the neglect of Veblen, is Talcott Parsons (Diggins 1978). Parsons found little of use in the works of Veblen, and it has been argued that this dismissal of Veblen has been a loss to sociology (Tilman and Simich 1984). Parsons argued that economics could not be empiricist if it wished to maintain a position uniquely separate from sociology (Parsons 1935a). Parsons believed that economics was supposed to delve into the issues of theory. Economics was to create theories rather than look to the real world, and those theories were, by their very nature, abstract (Parsons 1935b). From these observations comes Parsons' system of economy and society where economics was to deal with abstract themes, and was to be supplemented by other areas which deal with non-economic variables (Parsons and Smelser 1956). economic sociology was to be included in this supplemental role

The second group includes such authors as Mark Granovetter and they have argued that such a position is too limiting and that sociologists may have something to say that economists should pay attention to (Granovetter in Swedberg 1990) This new group confronts orthodoxy's assumptions, and calls them into question. Such a confrontational attitude calls into question what is the proper role for ES and the rest of this section will explore some of the issues which arise due to this change.

Current interest in economic sociology is resurgence rather than a new phenomenon. Current economic sociology, which has been called new economic sociology (Granovetter in Swedberg 1990), has very different ideas than did the older incarnation of the field. Economic sociology in this new form raises questions as to the proper organization and division of space between the two sciences. In this

new incarnation sociological practitioners are very willing to make comments on both sociological and economic topics. This willingness calls into question where the dividing line between the two disciplines is drawn. This social science division was drawn in part by Talcott Parsons with his 'economy and society' stance (Swedberg 1991). Yet, now such a division is being called into question. Olav Velthuis writes:

If New Economic Sociology rejects Parsons' Analytical factor view or the Robbins Parsons division of labor, what alternative do they present in order to differentiate (economic) sociology from (institutional) economics (Velthuis 1999, 643)?

It is difficult for individuals (including the current author) acculturated into the belief that the social science division is a normal and universal idea to question whether or not the current incarnation may be flawed. Yet, this is the exact question that is being asked by new economic sociology. Schumpeter's ideas about the individual fearing change hold true for the scientist just as they do for the average worker.

By questioning the usefulness of the organizational structure that has divided economics and sociology, economic sociology is questioning its own history since Parsons was a major advocate in favor of the current division. Parsons is also one of the individuals directly responsible for the original rise in popularity of economic sociology. "But whereas the institutional economists can build on the work of Old Institutional Economists like Thorstein Veblen and Clarence Ayres, new economic sociology sharply distinguishes itself from its intellectual ancestors, and in

particular from the economic sociology of Talcott Parsons” (Velthuis 1999, 643). Such a separation is difficult for any group.

The reasoning that such a separation must occur is that there has been a fundamental shift in the main beliefs being held within economic sociology. The new lines of exploration have led economic sociology to the idea that institutions are essential components of economic exploration. Velthuis writes:

New economic sociology and the return of old institutional economics have a mutual interest in economic institutions. Both agree that the fundamental core of neoclassical economics needs to be replaced not just supplemented (Velthuis 1999, 640).

This open criticism of neoclassical economics goes very much against Parsons who argued, “neoclassical theory was far superior” (Swedberg 91, 265). By arguing that neoclassical economics is flawed critically and must be replaced, new economic sociology has moved beyond Parsons, and they have moved beyond the ‘economy and society’ division Parsons supported. As was discussed in the introductory chapter, Parsons argued that sociology was to fill in the areas left unexplored by economics. Old economic sociology was based around this idea of complimenting rather than supplanting economic orthodoxy.

Some in new economic sociology have come to the understanding that the fate of institutional economics and economic sociology are intertwined. This understanding is an important insight for all people involved with exploring similar issues. As Velthuis puts it:

It has been argued that the division of labor between economics and sociology that parsons agued for, led to the demise of both economic sociology and institutional economics. Since both disciplines share the same fate, it should not come as a surprise that

none of Parsons' objections against institutional economics are shared by New Economic Sociologists (Velthuis 1999, 641).

Whereas it is very debatable as to whether institutionalism ever "died", it is true that the two fields are much stronger together than apart. It is this understanding of the strength each group gets from the work of the other which is an important insight to be derived from the modern dialog. How to work with this insight and how such an insight can be helped by reference to the works of Veblen and Schumpeter will be discussed in the next sub-section.

Insights for the modern dialog.

While it is true that moving away from a comfortable position is often a difficult step, the alternative in this case is the perpetuation of the orthodox economic outlook on scientific inquiry. This move away from Parsons on the part of new economic sociology demonstrates intellectual courage and honesty. This sub-section will show some important insights on how to view the relationship between economics and sociology that can be gained from a comparison of Veblen and Schumpeter. In particular, it will argue that closer relations between institutionalism and economic sociology will result in much fuzzier scientific borders, but that embracing closer relations may also serve to help economic sociology extensively. This section will also show that institutionalists have recognized and accepted the need for a unified social science for a while.

As was described above, Veblen believed in a much larger role for interdisciplinary work. Schumpeter also believed in a broader role for interdisciplinary cooperation, but he came to this conclusion only later in his career

(Swedberg 1995, 525). As Richard Swedberg points out, Schumpeter began his career being much more imperialistic in his views on economic theory, but he changed those views as his career progressed (Swedberg 1991, 74). Economic sociology should remember this and realize that methodological positions can change. The current author is aware of this softening of positions by Schumpeter, and has taken it into account when discussing Schumpeter's methodology.

Yet, even though Schumpeter at one point was imperialistic with respect to economics, it is also important to recognize that Schumpeter, like Parsons, is also understood as an important antecedent to new economic sociology. The author of this work has recognized the reluctance of both economic sociologists and institutionalists to open up a broader dialog. As was argued above, part of the reasoning for this reluctance is a natural fear of change. Velthuis also argues that another problem is that both groups hold their individual antecedents in high regard. He writes:

The point is that the very authors Parsons contrasts with the Institutional tradition are mentioned by Swedberg as the main representatives of the intellectual tradition of new economic sociology. In other words, a partial explanation for the difficulties in establishing closer connections with the Old Institutional school might be that the respective intellectual traditions, which both hold in high esteem, are difficult to reconcile (Velthuis 1999, 642).

Respect for intellectual antecedents should not be a roadblock to greater communication, rather it should be a catalyst. The fact that economic institutionalists understand and credit their respective forerunners should offer hope to economic sociologists that there are economists out there who share similar values. Whereas it is true that reconciling the works of Parsons and Veblen may be

an impossible task, an examination of the works of Veblen may offer insights into some areas where Parsons may fail. Impossible tasks often only seem impossible until an attempt is made, as is partially demonstrated by the current comparison. This study should serve as a reminder that Schumpeter, too, was critical of Veblen, but the current work shows that individuals who are critical of each other may often have many ideas in common.

This work would not be so presumptuous as to suggest that economic sociologists should disregard Parsons. Rather, an insight to be gained from this comparison of Veblen and Schumpeter is that perhaps adding Veblen to the economic sociological lexicon may be advantageous. There are flaws in the thinking of all great minds, and this is why broader study of other thinkers makes up for the deficiencies of individual thinkers.

Any closer relations between economic sociology and institutionalism will require that both groups open themselves up to new ideas and, more importantly, new thinkers. It is unlikely that orthodoxy will even begin to contemplate the importance of the ideas that are being discussed within both groups, but if the two groups themselves cannot get beyond their personal animosities resulting from past conflicts any bilateral communications are doomed. The recognition by both Veblen and Schumpeter of the need to broaden economic exploration may serve as a major insight to modern economic sociologists.

The outcome of closer communications between the two groups is truly an unknown, but closer communications are essential. Whether the ultimate relation is one of unity or a fuzzier dividing line is still undeterminable, and the current study

offers no insights as to a final answer. Yet, such a question needs to be more fully addressed by economic sociology. Velthuis states:

Social Science, the argument seems to be, is necessarily messy. In this respect, it is important to note that institutional economics, more explicitly than new economic sociology, subscribe to the ideal of a unified social science (Velthuis 1999, 643).

Whether the ultimate relation is unity or not, the question needs to be considered by economic sociologists. The consideration of this question should be an essential insight that is drawn from this comparison.

Chapter Overview

This chapter reviewed the thinking of Veblen and Schumpeter with respect to their individual visions about the scope of methodology in the scientific process. In particular, this chapter compared the visions of Veblen and Schumpeter on the use of sociological methods, the nature of the individual, and the ultimate relationship between economic sociology and orthodoxy. This chapter also compared these visions to the current issues in economic sociology and made clear some possible insights for current practitioners.

The first section of this chapter began with looking at Veblen and Schumpeter's differing visions with the usefulness of sociological methods on economic topics. This chapter showed that there was a difference in their opinions about the value of mixing sociological methods into economic exploration, but for the most part it was a difference of extremes. Schumpeter held great trepidation about mixing of methods because he believed that more was to be gained from the

specialization resulting from separation. Veblen believed that such a separation inhibited the understanding of the institutional character of economic activity.

Yet, with respect to their positions about the nature of the individual, there is great agreement between the two authors. They both hold a very balanced view about the importance of individuality and socialization. They both accept that society shapes the individual, and that the individual helps to mold society. In this respect, both authors' work foreshadow current work in network analysis.

The final section of this chapter showed that both Veblen and Schumpeter envisioned a form of economics far broader than its current incarnation. Veblen believed that such a broader form was inevitable if economics was to remain relevant. Schumpeter argued that such a broader form was not inevitable, but would prove to be important. Current work in economic sociology is calling into question how useful neoclassical theory is. It is also beginning to recognize the importance of institutional economics. Whereas a link probably will never form between orthodoxy and economic sociology, there is already much common ground between institutionalism and ES. Expansion of this link may prove useful.

Chapter 5: A Comparison of Views on Capitalism

When referencing L. A. O'Donnell's work comparing Veblen and Schumpeter, it was argued that the two authors saw Capitalism from contentiously differing angles, whereas Schumpeter held the system in fairly high regard, Veblen often disparaged it (O'Donnell 1973). This study has been written, in part, to confirm this view or to show where this view needs to be modified for historical accuracy. This section will observe Veblen and Schumpeter's differing positions on Capitalism and offer a more detailed comparison than the comparison offered by O'Donnell. To begin with, this section will compare their explorations of non-Capitalist systems, then it will explore their views upon Capitalism itself, and finally it will look at their views about the future of Capitalism. Throughout this chapter lessons for and from this analysis will be emphasized with respect to how they impact on modern economic sociology.

A. A comparison of their views on what can be learned by studying non-Capitalist systems.

A comparison of Veblen and Schumpeter with respect to their explorations of non-Capitalist systems may, at first glance, appear useless, since Veblen spent extensive time exploring such systems, but Schumpeter has little such analysis in his work. Yet, such a comparison is not useless because it brings to light specific information about Schumpeter's ideas that, when examined, expose extensive similarities between the two authors. This section will first analyze Veblen's

explorations of non-Capitalist systems with the intent of revealing the reasoning behind Veblen's explorations. This section will then go on to look at Schumpeter's views about a specific non-Capitalist system and show that there is a remarkable similarity in the thinking of Veblen and Schumpeter.

Veblen spends a great deal of time looking at issues of non-Capitalist systems in his works, and the question must be asked as to why that is the case. As Joseph Dorfman points out, many originally thought that *The Theory of the Leisure Class* was solely a satirical commentary on the aristocratic classes (Dorfman 1940). It would also be easy to minimize the importance of *The Instinct of Workmanship* due to its discussions about the racial aspects of instinctual behavior, but both this minimization and the oversimplified view of *The Theory of the Leisure Class* are faulty. By saying this, there is no implication that Veblen was not satirizing in *The Theory of the Leisure Class*, but rather that *The Theory of the Leisure Class* and *The Instinct of Workmanship* show a trend within Veblen's work to explore issues of the history of economic behavior. His interest in these books goes beyond simple satirical expounding in order to explain the origins of the Capitalist system, and in essence, these books are an attempt to create a countering story to the story that was being told by the neoclassical school. This story by Veblen introduced a differing method of explaining the foundation of the Capitalist system, and in this story socialization and institutions were the movers rather than individual rationality. Veblen tried to convey a picture of the individual that was universal in origin and, more importantly, social in creation. This individual that Veblen was describing had at its heart a non-rational core of behavior, and that core could be molded and

shaped by institutional constructs. To Veblen, the study of economics needed to be the study of this form of individual and his works on Capitalism flow from this view of the individual. Veblen writes:

A Genetic inquiry into institutions will address itself to the growth of habits and conventions, as conditioned by the material environment and by the innate and persistent propensities of human nature; and for these propensities, as they take effect in the give and take of cultural growth, no better designation than the time-worn “instincts” is available (Veblen 1964, 12-13).

Veblen describes his vision of the historical foundations of private property in *Theory of the Leisure Class* and *Instinct of Workmanship*. Veblen argued that private property was originally justified under the auspices of a general agreement based upon the mutually recognized instinct of workmanship. Veblen argued that at the foundation of the institution private property fell into line as supporting the instinct of workmanship. At the foundation of the institution of private property, owner and creator were synonymous, but under Capitalism ownership was no longer based on creation. To Veblen, this dichotomy, which arises from the separation of the instinctual foundation and the institutional reasoning, is a major problem with Capitalism. Veblen writes:

Under this system of business principles, in one way and another, the sense of workmanship is contaminated in all its ramifications by preconceptions of pecuniary merit and invidious distinction. But what is here immediately in question is its deflection into the channel of gainful business, together with the more obvious consequences that follow directly from the substitution of differential gain in the place of material serviceability as the end to which the instinctive propensity of workmanship so comes to drive men’s ideals and efforts under the discipline of the pecuniary culture (Veblen 1964, 218).

To Veblen, the exploration of the origins of institutions plays a major role in his research because they form a foundation from which he can build his vision of the Capitalist system. Instincts and institutions play a major part in the Capitalist system, but they are universal throughout all economic systems in Veblen's work. The current institutional and societal structures, which exist under Capitalism, are not founded on the rational behavior of individuals, but are rather the result of millennia of evolutionary change ending in their current form. The average individual operates in an instinctual/tropismatic manner that is partially influenced by the institutional training he or she receives. By exploring non-Capitalist systems, Veblen was able to illuminate the flaws he saw in the Capitalist system.

Schumpeter spends little time exploring non-Capitalist systems. For his work in describing the Capitalist system, Schumpeter uses a Walrasian general equilibrium system as theoretical system for basis of comparison (Kelm 1997), but he, in no way, sees this system as anything but a theoretical tool (Jonsson 1994; Foster 2000). (It has been argued that this Walrasian model is not essential in the formation of Schumpeter's theory. McFarling 2000,). In this theoretical construct, Schumpeter described an economic system of a circular flow such as the system often described in introductory theory classes. Schumpeter uses this circular system of activity as a base to explore the reality of Capitalism, and this system is, in essence, the theoretical yardstick that Schumpeter describes when discussing methodology. The circular system is nothing more than a theoretical abstract useful in its analytical power so that Schumpeter's scientific explorations could be clear.

Yet, in reading about this system it is seen that Schumpeter envisioned this system as non-Capitalist

Schumpeter's use of this general equilibrium description of production could be misconstrued as his description of the way Capitalism works, yet Schumpeter himself makes it explicitly clear that this is not the case and that the system is a methodological simplification used for scientific expediency (Schumpeter 1955). As was argued in the chapter on Schumpeter, the system was, in essence, the economic system as explained by orthodoxy with habitual behavior replacing rationality. Schumpeter argued that static (what Veblen would call tautological) methods of exploration, which were laid out in this classical/circular system, were not useful as an actual description of Capitalism. He argued that economic theory had to be able to describe and predict the forces of economic change, and he argued that static theory failed to be able to do this. He writes:

But "static" analysis is not only unable to predict the consequences of discontinuous changes in the traditional way of doing things; it can neither explain the occurrence of such productive revolutions nor the phenomena that accompany them. It can only investigate the new equilibrium position after the changes have occurred (Schumpeter 1955, 62-63).

To Schumpeter, such a circular flow model, which is integral in the neoclassical analysis, was useful only in its ability to serve as a model of comparison. Beyond this, the tool itself was not accurate in its own internal description of the origin of its foundations. (i.e. the system was founded upon habitual behavior rather than rational optimizing choice.) Schumpeter did grant that the outcomes created in the real world were reflected in the system as described by orthodoxy, but it was not the result of rational decisions but institutional adjusting.

To Schumpeter, the theoretical system created by orthodoxy reflected the real world because the real world system, when left alone, would force economic actions into a rational manner. It was not that people behaved rationally, but rather that given enough time a semblance of activity imitating rationality would eventually work itself out. In the end, Schumpeter did defend the classical description of economic activity, but not because he viewed it as accurate and correct, but rather because he believed it was useful as a tool in his description of reality.

Comparing the views of Schumpeter and Veblen with respect to their explorations of non-Capitalist systems is somewhat complex because of the mismatch of effort put into the explorations by the differing authors. The balance of this section will endeavor to describe how Schumpeter's theoretical non-Capitalist system in no way diverges from Veblen's description of the evolutionary development of the institutional structures of the Capitalist world.

As has been explored herein, Schumpeter did offer a Walrasian general equilibrium model as a tool of comparison in his exploration of Capitalism, but in Schumpeter's description he replaces rational actions with habitual behavior. It is this habitual root in the behavior of Schumpeter's individual which allows the convergence of the Schumpeterian and Veblenian views. To Schumpeter, the world of circular flow activity would only represent a rational level of development if given time to work itself out, and during such a time the activities of the system would often be chaotic as a trial and error type of behavior occurred. This trial and error method, and this chaos, occurred due to both small and large changes.

Describing how this change occurs is a fundamental job of the economist, according to Schumpeter.

Veblen's explorations of the foundations of the institutional structure are of a completely differing focus, but not of a differing frame of understanding. To Veblen, the economy, as seen under Capitalism, was the result of an ever-changing system in which the institutions of the economy evolve over time into the institutions currently seen. Veblen would not have been comfortable with the use of a Walrasian system as a tool of comparison, but this would not have proven to be an overwhelming obstacle in creating an overall agreement upon the origin of the institutions of Capitalism.

To Schumpeter, the theoretical system he uses as a yardstick was relatively similar to the system as described by orthodoxy, but its foundational structure clearly was different from orthodoxy. The origin of the system, which Schumpeter describes, comes from an evolutionary development path in which the economic system slowly changes and institutions metamorphose under new circumstances. This evolutionary view is similar to the evolutionary view that was held by Veblen, but, to Schumpeter, the question of where the system historically came from was far less important. Schumpeter used the description as laid down in a general equilibrium model, as a tool to describe the real world, and he knew that the assumptions given by orthodoxy were not accurate descriptions of the real world. Veblen argued that the system put forth by orthodoxy was not a reflection of the real world, nor did it accurately describe how the institutions of Capitalism arose.

With respect to the system described by the neoclassical school, both Schumpeter and Veblen show that it is an inaccurate description of Capitalism and an inaccurate description of the origins of Capitalism. Schumpeter demonstrates its errors by showing specifically how the Capitalistic system diverges. Veblen concentrates on showing its flaws with respect to the origins of the institutions that the neoclassicals took for granted. For both authors, the issue of a non-Capitalist system is an important part of their work, but for Schumpeter such a system is used as a tool to explore Capitalism, whereas for Veblen the exploration of non-Capitalist systems is used to discredit the neoclassical model.

Insights from the modern dialog.

Economic sociology is at a crossroads due to the changing shape of the world we currently live in. With the end of the cold war, there is an apparent vacuum with respect to a universal vision of world organization and this vacuum is looking for paradigm to fill it. Some have recognized these circumstances. “World civilization is usually conceived as an economy these days” (Hart 2000, 1017). This perception, true or false, means that the schemata that is able to most appropriately explain the economy in terms that are meaningful will gain in prestige and recognition.

The Capitalist system is advancing into the world on a triumphant march after its victory in the cold war, yet issues with this system have still never been fully addressed by economic orthodoxy. The assumptions of orthodoxy are coming further into question as Capitalism is instituted in both developing nations and industrial nations that previously were centrally planned. As Keith Hart

summarizes, “The fundamental issue is whether or not capitalist economy could claim to rest on universal human principles” (Hart 2000, 1018).

The simplifying assumptions of orthodoxy have allowed the discipline to make mathematical models of extraordinary complexity and have lent credibility due to perceived assuredness. The biggest assumption made is the assumption of individual rationality and unlimited material desire being the natural condition of the individual. From these assumptions, the idealization of the Capitalist system arise and the policy proscriptions of mainstream economics flow.

Since neoclassical theory is considered the mainstream of economics, many of the current policy proscriptions are based upon neoclassical theory’s simplifying assumptions. These assumptions, such as overriding rationality and perpetual scarcity based on unlimited wants, are the source of some of Veblen’s biggest issues with the neoclassical model (Gruchy 1972). Schumpeter, too, has issues with the use of the simplifying assumptions as a basis for policy, especially with respect to development. To Schumpeter, development occurred from a more sociologically conditioned starting point. To Schumpeter, technology is partially responsible for causing development, but such development will only occur and be successful if it is also rooted in organizational structure (Foster 2000). So, to Schumpeter, how the change is instituted into a society plays as fundamental a role as the technology and the financial conditions.

The Washington consensus, as instituted by the IMF and the World Bank, works under the assumptions of the neoclassical theory, and it often fails to consider these other considerations as were raised by Veblen and Schumpeter. Under this

consensus, the issues of the culture history and society are swept away as unimportant and useless. James Ferguson writes:

But I have spent some time observing the language and practice of “development,” and I have to report that most neoclassical economists of development that I encounter seem to know remarkably little about the social, cultural, or historical circumstances of the countries for which they are prescribing remedies (Ferguson 2000, 995).

Many mainstream economists who use neoclassical theory have disregarded attempts by people such as Veblen to demonstrate the flaws of the neoclassical assumptions. The insularity of economic orthodoxy has led to the failure of the science to address major important issues. Ferguson continues:

Having turned the cultural and institutional assumptions of their own society into universalistic theoretical axioms, contemporary economists appear to have lost all purchase on (and often, it seems, all interest in) the different cultural and institutional arrangements (Ferguson 2000, 995).

As economic sociology comes to realize the mistakes of orthodoxy, it should become more self-evident that the issues of interest to economic sociology are not side notes to the study of market phenomena. The orthodox position of the centrality of markets to all aspects of human economy hopefully will diminish, and explorations of the issues of power and the social embeddedness of markets will begin to take more precedence. As was discussed in the introductory chapter, economic sociology envisions the market as a social space and studies it as such. The next sub-section will argue that the comparison of these two authors should offer the insight that economic sociology should devote less time to the study of the markets.

Insights for the modern dialog.

Economic sociology has recognized the failure of orthodoxy to move beyond a culturally based vision of the economy, but the field has yet to emphasize the real world implications of this failure by orthodoxy. The massive economic suffering of millions in the formerly communist world is, at least in part, to be blamed upon the overly optimistic prescription of “Shock Therapy” (Stanfield 1999). The economic suffering of developing nations around the world can often be linked to the policy proscriptions of the Washington consensus. Over emphasis on the idea of the market is a failure of the mainstream, and economic sociology should not repeat the same mistake. Economic sociology, by studying the works and opinions of Veblen, can truly begin to see why emphasis on market studies alone cannot fix orthodoxy.

Orthodoxy continually reverts back to the market in order to solve any issue that is facing the Capitalist system. In part, this reliance on the market is due to the fact that orthodoxy defines economics as the study of scarcity, and markets are a simplistic method to deal with what they see as the central component of all human existence. Unfortunately, if the only tool used is a hammer, all issues begin to look like nails and many other economic concerns face humanity outside of scarcity.

Economic sociology need look no further than Schumpeter to see that it is not scarcity that is the fundamental issue of most economic actions. As was pointed out in the chapter on Schumpeter, the economic system, if left to approach equilibrium, would result in a system where satisfaction of the desires of all would be achieved. The habitual behavior of individuals implies that unlimited wants are not the standard. Without the assumption of unlimited wants, scarcity as the

defining element of economics is a fallacious root. This is a major insight that economic sociology can take away from this study.

Economic sociology can also look toward Veblen for insights as well. Veblen, too, offers an argument against the orthodox position on scarcity by showing that the Capitalist mindset assuming scarcity is, in fact, a cultural phenomenon. To Veblen, the desire for unlimited material goods was not a natural outcropping of the human personality, but it was a condition trained upon the individual by society. Martin Suto describes it in the following citation:

Veblen, however, who denied capitalism any historical legitimacy save that of the most recent incarnation of barbarism, saw it as an irrational orgy of waste and futility, carried out under the timeless barbaric auspices of force and fraud (Suto 1979, 440).

To Veblen, this condition of false scarcity as a myth perpetuated by neoclassical theory was a foolish outcome of a theoretical system of dubious value. Unlimited wants were not a natural desire of the individual, and the perpetuation of this myth was silly, at best, and downright dangerous, at worst. (Silly because the myth did not help in understanding the way the economy works, and dangerous because it would lead to the perpetuation of what Gruchy calls disserviceable actions which could undermine the life process Gruchy 1972). economic sociologists can gain a lot by looking to Veblen and institutionalism with respect to this issue.

Economic sociology can draw two major insights from this current study comparing Veblen and Schumpeter. The first is that concentrating overly hard on the study of markets is an intellectual dead end, since markets deal primarily with

scarcity and scarcity is only a tiny part of human economy. Second, both Veblen and Schumpeter argue that unlimited human wants are not a natural condition, and each give differing justifications in favor of scarcity being the exception not the rule. Economic sociology needs to see these insights in order to begin changing the focus of economic discussion because, as Robert Heilbroner points out, the ideological belief structure which helps to perpetuate the positions of the neoclassical theory have been, and will be hard to weed out (Heilbroner 1993).

B. A comparison of views on the structural forces of Capitalism.

With respect to Capitalism, Veblen and Schumpeter had very differing and very similar views when compared to each other. The reader of Veblen's work comes away with a picture of Veblen's objections to the system, whereas the reader of Schumpeter's work comes away with a picture of Schumpeter's applause of the system. This superficial statement about the opinions of the two authors with regards to Capitalism disregards a mountain of similarities the authors had with respect to their individual observations upon Capitalism. In particular, both Schumpeter and Veblen saw that Capitalism did two things. First, the production process used under the Capitalist system led to the instilling of differing thinking, and it could lead to greater levels of rationality. Second, Capitalism forced a separation of business interests from technological efficiency. This section emphasizes these similarities while pointing out the differing moral conclusions each held with respect to their observations. This section will then go on to demonstrate that these mutual observations about the Capitalist system are useful insights to economic sociology.

Veblen envisioned Capitalism as simply one form of the economic system that has occurred due to evolutionary changes. His explorations of Capitalism revolved around pointing out flaws within the system that he believed were important. There were three main contentions addressed in the chapter on Veblen with respect to the Capitalist system. Those contentions were based upon the dichotomy of private property, the issue of efficiency, and the separation of pecuniary from industrial. All three of these issues are highly interrelated and will each be briefly revisited again. All three of these contentions are closely related to the instinct of workmanship in Veblen's thinking. To Veblen, the dichotomy of private property arose from the fact that, in Capitalism, ownership was no longer a reflection of production. Efficiency of production played a major role in Veblen's thinking because he believed production was the reason for the economy to exist in the first place. To Veblen, the reasoning behind the machine age was to increase efficiency, hence to stand in the way of such activity held negative implications. Finally, Veblen saw that in Capitalism there was a separation between the owners of the capital and the efficiency of the system. The owners of capital were interested in maximizing their personal wealth, and this could often come at the expense of efficiency. A simpler way to say this is that there was a separation of the pecuniary from the industrial.

To Veblen, these three contentions form the heart of his criticism of the Capitalist system, and he argued that it was because of these flaws (and increased rationality instilled by the machine process) that Capitalism might be forced to change. As was described in the chapter on Veblen, the machine process forced the

enlargement of firms. Such a situation would result in firms holding more monopoly power and would force a greater separation between pecuniary gain and productive advancement. In this system, the business leaders were in control and because of the system of private property, their ownership rights allowed them the final decisions about the activities of the firm. Veblen writes:

The adjustments of industry take place through the mediation of pecuniary transactions, and these transactions take place at the hands of the businessmen and are carried on by them for business ends, not for industrial ends in the narrower meaning of the phrase (Veblen 1927, 27).

To Veblen, this power of the businessman was often in direct conflict with the advancement of efficiency. It seems clear in the writings of Veblen that efficiency took precedence in Veblen's system of values over other considerations. He believed that the pecuniary concerns of business activities would often block the advancement of efficiency, and he implied such was a bad thing. The results of such pecuniary concerns were often quite devastating, and could lead to financial crisis and monopoly. Veblen writes:

A businesslike control of the rate and volume of output is indispensable for keeping up a profitable market, and a profitable market is the first and unremitting condition of prosperity in any community whose industry is owned and managed by businessmen. And the ways and means of this necessary control of the output of industry are always and necessarily something in the nature of sabotage (Veblen 1933, 8).

Such a system of business interests was responsible for the negative aspects of the Capitalist order. The machine process had the potential to increase efficiency dramatically, but the pecuniary control of Capitalism served as a major retardation to this advancement. A few vested interests had the ability to control the system

through the use of the credit system. The advancement of credit, according to Veblen, was the way in which the banking system and the absentee owners were able to control the production process for personal gain. Veblen saw an association between the use of credit and other aspects of the changing order of Capitalism during his time. He writes:

As has already been indicated in earlier passages, this turn of things that so brought on a new order of competition and put the old-fashioned competitive system in abeyance, turns in the main on three peculiar features of the nineteenth century: (a) by a fuller development of the mechanistic technology industry was becoming excessively productive -- beyond the current needs of business; (b) because of this fact and because the territorial expansion of the supply of industrial products had overtaken the demand; (c) there was a large and increasing use of credit which in great part took the form of investment in corporation securities (Veblen 1923, 78-79).

To Veblen, this use of credit was important in the changing of the system into the large firms that came to dominate. Veblen saw that this credit became a constraining device on the system resulting in greater pecuniary control.

In the Capitalist system, according to Veblen, business interest would take precedence, yet the machine process underlying such a system would also force a higher level of rationality upon the workers within the system. According to Veblen, the machine process would force workers into thinking rationally in terms of cause and effect. Veblen writes:

The discipline of the machine process enforces a standardization of conduct and of knowledge in terms of quantitative precision, and inculcates a habit of apprehending and explaining facts in terms of material cause and effect. It involves a valuation of facts, things, relations, and even personal capacity, in terms of force. Its metaphysical materialism and its point of view is that of causal sequence. Such a habit of mind induces to industrial efficiency, and the wide prevalence of such a habit is indispensable to a high degree

of industrial efficiency under modern conditions (Veblen 1927, 66-67).

Veblen argued that the machine process would change the way society thinks. Things like family, clan allegiance, and even nationality would be deteriorated under the new way of thinking. Veblen's reader gets the distinct feeling that this rise in the rationality of individual workers is a good thing, and that it would be a positive force that could change the economic system so that economic institutions were back in line with instinctual foundations.

Schumpeter's description of the Capitalist system contained the same two identical trends, the separation of industry and the increasing rationality caused by the machine process. Yet to Schumpeter, the implications of such increased rationality were harmful and the precedence of business interests over technological efficiency could be beneficial.

Schumpeter's theoretical model of the economy described a static state of economic analysis, and into this model Schumpeter introduced the entrepreneur who comes in and rocks the boat. To Schumpeter, entrepreneurial activity was a precisely defined role within the economic system, and it was responsible for the changes occurring within the economy. The role of the entrepreneur was to change the economy in order to increase the economic efficiency of the system and, thereby, profit. To Schumpeter, Capitalism's emphasis on the improvement of economic efficiency would force entrepreneurs to make changes that were economically beneficial rather than simply technologically superior. Schumpeter writes:

The technological ideal, which takes no account of economic conditions, is modified. Economic logic prevails over the technological. And in consequence we see all around us in real life faulty ropes instead of steel hawsers, defective draught animals instead of show breeds, the most primitive hand labor instead of machines, a clumsy money economy instead of a cheque circulation, and so forth. The economic best and the technologically perfect need not, yet very often do, diverge, not only because of ignorance and indolence but because methods, which are technologically inferior, may still best fit the given economic conditions (Schumpeter 1955, 14-15).

To Schumpeter, one role of the entrepreneur is to decide what is economically efficient and to order production in a manner that is in line with this outlook. As the citation above shows, he understood that business aspects of production may force decreased technological efficiency, but he also believed that in some cases this was a better option for society. Schumpeter leaves his reader with the impression that he understood the importance of technological efficiency within the production process, but that he also understood that it was not the only or even the most important factor. Because of this belief, Schumpeter concluded that in certain cases when business interests caused the failure of adopting technologically efficient production, it could actually be better for society.

Schumpeter's understanding of the business/industry separation led him to differing conclusions about the usefulness of the separation of business from industry as appears under Capitalism, but his description of the separation is remarkably similar to the description made by Veblen. Schumpeter understood that the withholding of production from the market in order to raise price was a common practice under Capitalism, but he saw that there were distinct advantages available to the system as a whole resulting from this situation. At one point, Schumpeter

compares this excess capacity to brakes on a car, because of the presence of the brakes it allows the car to go faster because of the security of knowing they are there (Schumpeter 1978). Schumpeter also writes:

A system – any system, economic or other, -- that at *every* given point of time fully utilizes its possibilities to the best advantage may yet in the long run be inferior to a system that does so at *no* given point of time, because the latter's failure to do so may be a condition for the level or speed of performance (Schumpeter 1978, 23).

Schumpeter saw the same static inefficiencies within the Capitalist system as did Veblen, but whereas Veblen often viewed these inefficiencies as playing on the invidious aspects of individual desires, Schumpeter viewed them from a more dynamic position and, as a result, made differing conclusions about their value. Veblen's discussions on sabotage often played out to a description of the predatory nature underlying the business desire for market power, and as such saw these actions in a very dim light. To Veblen, efficiency was meant in terms of technical efficiency (Knoedler 1997) but Schumpeter was looking more towards a cost efficiency. Schumpeter, like Veblen before him, recognized growing firm size as a characteristic of Capitalism, but he also saw monopoly restraint as an alternative method of dealing with economic downturns. Schumpeter writes:

“Restrains of trade” of the cartel type as well as those which merely consist in tacit understandings about price competition may be effective remedies under conditions of depression. As far as they are, they may in the end produce not only steadier but also greater expansion of total output than could be secured by an entirely uncontrolled onward rush that cannot fail to be studded with catastrophes (Schumpeter 1978, 31).

Schumpeter's writing suggests that he saw advantages from pecuniary control that resulted in greater security and more sensible economic development.

Schumpeter did not suggest that such pecuniary institutions were all inherently beneficent, but he did argue that in some cases they may serve an important function.

The role of credit plays a major part in Schumpeter's vision of Capitalism, just as it did in Veblen's. Both authors recognized that the getting of credit was an essential part of running a business, and both recognized the severe problems associated with the credit system. (See the earlier discussion in the chapter on Schumpeter.) Yet, Schumpeter also saw the major advantage that a credit system allowed in the process of innovation. Credit, according to Schumpeter, enabled entrepreneurs to gain access for his material needs and his needs of production while in the process of changing the economic system. Schumpeter writes:

Granting credit in this sense operates as an order on the economic system to accommodate itself to the purposes of the entrepreneur, as an order on the goods, which he needs: it means entrusting him with productive forces (Schumpeter 1955, 107).

Schumpeter recognized the pecuniary penalties of the use of credit, but also recognized the benefit such a system had in a dynamic world. To Schumpeter, credit, like most of the pecuniary institutions of Capitalism, was a two edged sword.

In the system of Capitalism, Schumpeter recognized the trend of increasing rationality being created by the constantly changing circumstances that arose due to entrepreneurial activities. The industrial activities of individuals involved in the productive process would shape the minds of participants into a more rational attitude. Just like Veblen, Schumpeter believed that the method of production would form the habits of thoughts of the society using that method. To Schumpeter, a rational bent of mind was inherently a part of any economic activity, not solely

Capitalism. Yet, with the rise in importance of economic activities under Capitalism, rational behavior became more prevalent. “So in this sense, capitalism – and not merely economic activity in general – has after all been a propelling force of the rationalization of human behavior” (Schumpeter 1962, 125).

To Schumpeter, this rise in rationality was clearly beneficial to the economy and was a blessing that allowed the remarkable growth demonstrated under Capitalism. The rational frame of mind helped to justify Capitalism, and was the result of the industrial system. While discussing the disruption associated with industrialization, Schumpeter writes that people were:

Removed from the Old World, engaged in building a new one for themselves – a specialized, mechanized world. Thus they were all inevitably democratized, individualized, and rationalized (Schumpeter 1951a, 88-89).

Such rationalization was the result of the industrialization and the rise of Capitalism. Schumpeter recognized the importance of such change and, like Veblen, the rationalization resulting under Capitalism played an important role in the direction Capitalism would take, which is what will be discussed in the next section.

At this point, it is important to make clear a similarity in the ideas of the two authors with respect to a unique instrument of change that is described in both their works. Veblen’s concept of the engineer and Schumpeter’s concept of the entrepreneur are NOT exclusive of each other and, in fact, if closely examined they are similar. A comparison of Veblen’s discussion about the early captains of industry with Schumpeter’s discussion upon the entrepreneur’s role shows that the two author’s concepts are very close.

As was discussed in the chapter on Veblen, the role of the engineer was that of primary improver of efficiency and motion in the Capitalist system. To Veblen, it was the engineering/technical aspect of the Capitalist system that created the amazing increases of efficiency that characterized Capitalism. In *Engineers and the Price_System*, Veblen argued that this engineering component was combined with businesslike abilities in early captains of industry (Veblen 1933). Yet to Veblen, the fundamental components of the situation were the engineering aspects, not the businesslike abilities.

As was discussed in the chapter on Schumpeter, the entrepreneur was envisioned by Schumpeter as the motivating source of social change, and he brought about the innovations needed in the economic system to bring the system into a semblance of rationality. To Schumpeter, the entrepreneur was the defining character of Capitalism, and business leaders were secondary players. To Schumpeter, the clarifying difference between a manager and an entrepreneur was the implementation of new combinations within the production process. Schumpeter writes:

But whatever the type, everyone is an entrepreneur only when he actually “carries out new combinations,” and loses that character as soon as he has built up his business, when he settles down to running it as other people run their business (Schumpeter 1955, 78).

To Schumpeter, the defining activity of the entrepreneur is implementing new methods and innovations into the economic process. This activity is precisely the activity that Veblen attributes to the engineer and, as we see in the above citation, without this activity the entrepreneur simply becomes a manager in the

view of Schumpeter. So, in Schumpeter, the defining player in the Capitalist system is the entrepreneur, but the defining activity of an entrepreneur is that activity which Veblen calls engineering. Both authors view this engineering activity as a fundamental component of Capitalism.

Veblen and Schumpeter have similar visions of the operation of Capitalism as a functional economic system. They both recognized the separation of business concerns from industrial issues, they both saw similar reasoning behind the use of credit and the causation of business cycles, and they both saw the trend of increased rationality within the Capitalist system. Also of import is that they both have within their works a clear description of the importance of incorporating technological change into the economy. Veblen argues that the engineer/technician is most responsible for this activity, but Schumpeter attributes this activity to the entrepreneur. Yet even though they attribute the action to differing agents, they both view the action in a similar light and importance.

With respect to how Veblen and Schumpeter both described and envisioned Capitalism, there is much similarity; but with respect to how beneficial they saw the differing topics there is much disagreement. Veblen saw the pecuniary control as almost completely harmful, whereas Schumpeter saw some positive aspects. Veblen envisioned credit and monopolistic sabotage as completely useless, but Schumpeter saw uses for both institutions. Veblen's view on rationality was that it was a good thing and that it would deteriorate outmoded institutions. Schumpeter agreed that rationality had served well in the Capitalist system but, as will be seen in

the next section, he felt that rationality left unchecked could lead to the decline of Capitalism, and that it would eventually result in undesirable consequences.

Insights from the modern dialog.

Capitalism is here to stay and, as the old saying goes, love it or leave it. Unfortunately, in the modern global system, the option to leave it is unrealistic, so the problems of the Capitalist system are expanding into areas previously untouched. The great cost to individuals around the world is measured in terms of lost culture, lost ways of lives and the deterioration of social bonds. (Friedman 2000). The perceived benefits arrive due to the productive capacities the Capitalist system promises to bring to the lives of the new members. As Birgite Berger argues:

With contemporary social pressures pushing ever-larger numbers of people into capitalism's wealth creating system, its viability depends on the continued vitality and expansion of its productive powers (Berger 1991, 2).

How those expansive production capabilities evolve and impact people is an important question that needs to be addressed. As was discussed in the section about non-Capitalist systems within this chapter, the mainstream position arguing that the economy can spontaneously grow a Capitalist system if left alone have been shown faulty with the failure of the shock therapy experiment. Economic sociologists, in some cases, have recognized this opportunity and some have begun to discuss the issues of how economic systems can have a Capitalist structure grafted onto them. The motivating institution, which takes center stage in this form of change, is the institution of the entrepreneur.

Schumpeter's emphasis on the entrepreneur as a central component to the Capitalist process is an incredible insight. Economic sociologists who are following in his legacy have appropriately been analyzing the role of the entrepreneur and such analysis has offered excellent insights for discussion. In particular, the understanding of the entrepreneur in economic sociology is very different from the understanding in orthodoxy.

Today, as in the past, we can roughly distinguish between two camps, each with its own subdivisions and vanguards: Economists, who on the whole are inclined to see entrepreneurship as a variable dependent upon economic factors and largely independent of culture, and scholars from other disciplines, who tend to see entrepreneurship as a variable deeply embedded in culture, both produced by and productive of it at the same time (Berger 1991, 3).

This idea of culture as an important underpinning of entrepreneurship is arguably one of the most vital insights within modern economic sociology. Moving beyond a simplistic notion of economic activity as a universal form of behavior that comes naturally to all individuals is an appropriate step if a greater understanding of economic activities is to be obtained. Since one of the largest players in Capitalism is the entrepreneur, then this understanding gives economic sociology an insight unavailable in orthodoxy.

This insight needs to be explored by economic sociologists and the information that arrives from this exploration needs to be disseminated. Understanding the insight is one thing, whereas exploring the insight is something completely opposite. As Berger points out:

Because mainstream economists with their clearly defined analytical models currently dominate the discussion and are influential in shaping present-day economic policies, the analysis of

entrepreneurship in cultural terms has remained elusive (Berger 1991, 4).

The continued control of the dialog by mainstream economists must be overcome if advancement in this area is to be achieved. Getting beyond this obstacle will be a large task, but some lessons about the importance of the entrepreneur taken from the present study may help to achieve just such a goal.

Insights for the modern dialog.

An exploration into the causes of economic development is a goal of many social scientists. How to achieve development should, therefore, be discussed in open dialogs attempting to bring in minds from across the spectrum. As this study suggests, both Veblen and Schumpeter would agree with such a stance, but more importantly, their own personal insights as to the nature of Capitalism could serve to enlighten the modern dialog. This sub-section will look first at how Schumpeter's concept of the entrepreneur can help economic sociologists understand the entrepreneur better and, second, it will argue that the incorporation of Veblen's social analysis into the dialog may result in new venues of discussion.

The failure of economic plans to help in development is often the result of the ignorance of individuals on how to institute the necessary changes into a system.

Berger writes:

Social scientists other than economists have generally recognized that while an industrial system can be superimposed on nonindustrial cultures, the system will remain alien and thus not take root. It will not flourish unless concomitant, perhaps even prior, changes have occurred in the institutional structures of a given society as well as in the consciousness of its individuals (Berger 1991, 14).

Schumpeter's concept of the entrepreneur is an individual who begins to integrate new ideas and methods into the productive system. Although he never extensively discusses the role of the entrepreneur with regards to the industrialization of a system, his entrepreneur description really offers insight into the way this development needs to be explored. According to Schumpeter, the entrepreneur stands on the threshold between two worlds. First, he understands the advantages of the new method or idea and, second, he is able to institute that method into the productive process by operating within the current cultural backdrop. The description of this process with respect to an industrialized system is unsurpassed, and it would take little imagination to extend this analysis into a description of activities where development has succeeded.

As was argued previously in this section, the major component within both the works of Veblen and Schumpeter that define the important players within Capitalism is the process by which the introduction of new methods of production are achieved. Veblen's early captain of industry has many of the exact same traits as Schumpeter's entrepreneur. These captains of industry were able to institute new methods by being aware of both the technological and social sides required to run a business. Modern economic sociology could gain by going back and reviewing Veblen's discussions about these individuals; they could also improve their own works by reviewing Veblen's understanding of sabotage in the act of production. Not all activities done by individuals within a business environment are going to wind up benefiting society in general. The individual businessman may often advance his own self-interest at the expense of society. The delaying of new

methods, the diminishing of output and several other issues which Veblen goes on about extensively may serve as a reminder to the individual who is enamored with the idea of the entrepreneur.

If economic sociology is to move beyond the scarcity dominated view of the world that permeates neoclassical theory, it must look to alternative explanations for firm behavior under Capitalism. By studying both Veblen and Schumpeter, it becomes clear that in a theory that moves beyond scarcity there are two possible ways to earn profit. The first way, which Schumpeter emphasized, is to create scarcity by changing the playing field. When innovating, the entrepreneur is creating a new form of object and inducing a level of scarcity into the system. This entrepreneur can then obtain wealth from this scarcity but, as time passes, this form of created scarcity diminishes and so do the profits. The second way, which Veblen emphasized, is to create scarcity by sabotaging the productive order. By limiting the level of production (monopoly) or by using the power of wealth individuals can create scarcity. This scarcity then leads to the ability to maintain profits by the individuals who were able to create the scarcity. Unlike the Schumpeterian profits these Veblenian profits can be maintained on a much longer basis.

This insight on profits, from the current study, is probably the most powerful observation resulting from this work. Economic sociology stands to gain extensively from expanding upon this position. A post scarcity school of thought would go a long way in serving the community in offering better policy proscriptions. Economic sociology would be able to enter into this school by looking towards both the works of Schumpeter and Veblen.

C. A comparison of views on the future of Capitalism.

Schumpeter and Veblen both saw a limited lifespan for the Capitalist system, and they both argued that motivation for economic change would be the increased rationality engendered by the Capitalist production methods. There were disagreements about the activities that engender this increased rationality, and there was a disagreement about whether the resultant change in the system is good, but both authors envisioned a similar process. This section will begin with the Veblenian vision of a productive based worldview, and finish with the Schumpeterian vision of a provisioning based rationality.

Veblen argued that the system of providing for one's material needs was the biggest influence upon the method of question answering that a society used. The agricultural form of production, the handicraft form of production, and the machine process all created differing worldviews. As was discussed in the Chapter on Veblen, the machine process forces individuals to think in terms of cause and effect. Such a system of thinking diminishes concepts of right and wrong and eventually leads to the recognition of the detrimental affects of the system of private property. As this rationality increases, the system eventually changes and the pecuniary aspects of Capitalism are overturned.

To Veblen, it was the industrial process that was the major cause of the increased rationality, and the pecuniary aspect of the Capitalist system was a leftover institution from a bygone era. Veblen argued that such was often the case in many other societies outside Capitalism. The worker who was deeply involved with the creation of the material necessities would often have differing views on the

questions of reality from individuals removed from such activities. The view of the individual is set by his experiences in the world. Some people's views are conditioned by experiences in the industrial process, while social institutions condition others. Veblen writes:

But it does not rest immediately on men's dealings with the refractory phenomena of brute creation, nor is it guided, undisguised and directly, by the habitual material (industrial) occupations. The fabric of institutions intervenes between the material exigencies of life and the speculative scheme of things (Veblen 1961, 44).

The individual's method of looking at the world is the result of his or her experiences in life. Veblen argued that the conditions of Capitalism created a dual method of world observation in which the vested interests continued to stick to a worldview pecuniary in nature, but the majority of people would be indoctrinated with a view of cause and effect. This secondary view would be created and expanded by the industrial process under Capitalism.

With the rise of increasing rationality, indoctrinated by the machine process, the pecuniary worldview would meet greater resistance until the pecuniary control of the Capitalist system itself was threatened, and might be destroyed. Veblen offers a theoretical explanation of how the process of change might go in *Engineers and the Price System*. In the end, such a change in the economic order might lead to increased efficiency, and would bring the system of production back into line with the instinct of workmanship. To Veblen, this change would be a good thing, but he did not believe such a collapse was inevitable.

To Schumpeter, the natural state of the individual is not rational and the role of the entrepreneur is to make up, in a systemic way, for this failure.

Schumpeter saw that the system of Capitalism relies on the entrepreneur to ensure the changing of the system in order to reach rational outcomes. In occupying this role, the entrepreneur enables greater change in the system and such change results in more room for other entrepreneurial activities. As was discussed in the chapter on Schumpeter, such a process continues in Capitalism, and the leadership role of the entrepreneur itself is eventually captured by the system, and is no longer embodied by unique individuals. As was also discussed previously, the process itself forces greater rationality upon the participants in the Capitalist system.

There is a difference between Schumpeter and Veblen with respect to the underlying process that inculcates greater rationality to the individual within the Capitalist process. Veblen argued that it was the activity of the machine process in Capitalism that creates greater rationality in the masses, whereas Schumpeter argues that all material provisioning processes are grounded in rationality. This form of rationality does not change with a changing of productive methods. Schumpeter writes:

I have no hesitation in saying that all logic is derived from the pattern of the economic decision or, to use a pet phrase of mine, that the economic pattern is the matrix of logic. This seems plausible for the following reason. Suppose that some “primitive” man uses the at most elementary of all machines, already appreciated by our gorilla cousins, a stick, and that this stick breaks in his hand. If he tries to remedy the damage by reciting a magic formula – he might for instance murmur Supply and Demand or Planning and Control in the expectation that if he repeats this exactly nine time the two fragments will unite again – then he is within the precincts of pre-rational thought. If he gropes for the best way to join the fragments or to procure another stick he is being rational in our sense (Schumpeter 1962, 122-123).

The difference between Schumpeter's and Veblen's positions on this issue may seem minute, but they are important to recognize. Veblen was arguing that the specific industrial process occurring under Capitalism was the cause of increased rationality, whereas Schumpeter believed that all productive processes inherently instilled rationality. The increase in the importance of production under Capitalism was the contributing factor resulting in increased rationality, according to Schumpeter. It will be left to the reader to draw conclusions about the significance of this difference, but it is arguable that the difference with respect to this point is insignificant to the outcome of where Capitalism is going.

As was discussed in the chapter on Schumpeter, the increasing rationality of the population could eventually lead to a changing in the fundamental institutions of Capitalism. The rational mindset, encouraged by the entrepreneurs and often funded by the Capitalists, would eventually turn upon the institution of private property and the Capitalist system itself would be threatened. Schumpeter viewed this increasing rationality, and the institutions it threatened, in a much differing manner than did Veblen. Schumpeter believed that the rational mind was not devoid of irrational tendencies, and the use of rational tools to justify the destruction of morally good institutions could be one result of such increased rationality. Schumpeter writes:

Capitalist rationality does not do away with sub- or super-rational impulses. It merely makes them get out of hand by removing the restraint of sacred or semi-sacred tradition (Schumpeter 1962, 144).

To Schumpeter, increased rationality, and the destruction created by it, could be more harmful than the pecuniary institutions of the Capitalist order. Such is his reasoning behind the negative view he held for the collapse of the Capitalist system.

Both Veblen and Schumpeter saw that increased rationality resulting from Capitalism could lead to the destruction of private property as an institution. Veblen believed that such increased rationality resulted from a productive process unique to Capitalism, whereas Schumpeter believed that all production instilled rationality, but the increased importance of production under Capitalism led to increased rationality. Veblen envisioned the destruction of private property as a good thing that would allow the realignment of the productive process with the instinct of workmanship. Schumpeter saw the destruction that was the result of increased rationality as possibly bad due to the underlying super rational motives justifying it.

Insights from the modern dialog.

Most of the greatest economists have endeavored to offer theories as to the future direction of the economic system. Malthus discusses the trend of the system to enforce a subsistence level of living. J. S. Mill discusses how a steady state form of economics could be beneficial to mankind. Marx's work on system transformation can go without any comment at all, and, of course, both Veblen and Schumpeter offer visions of the direction of the economic system as has been described herein. Current orthodox economic theory does not concentrate extensively on trying to describe trends in economics, nor does it usually attempt to predict the system's future. Literature in economic sociology also does not attempt

to make such predictions. Why is there such a lack of predictions in current literature? This section will offer some observations upon this question.

To begin with, the recent trend in economics has been to offer theories about the universal condition of economic phenomena. The student of orthodoxy realizes that the theories that are being offered are attempting to create generalizations about what some wish to consider universal observation. The student of growth theories is offered explanations of growth that assumes a constant form of culture and society wherein new technological innovations are “exogenous” to the system. The student of international economics is offered a system in which the willingness to trade is represented by an offer curve that is solely derived from perceived static desires of an unchanging society. These theories fail to explain the interaction of each of these phenomena within culture and society. According to Schumpeter, organization plays a pivotal role in how technologies will be incorporated into development. (Foster 2000). yet orthodoxy often ignores these issues.

People inside and outside the field often criticize this cultural naiveté on the part of economists. Culture is not some sort of universal constant to be taken as a given and glibly ignored, nor should it be. “Culture is not a looming, static thing that causes or creates. It is itself always open to negotiation and individual agency” (Billig 2000, 783). Yet such a view of culture would disallow the idea of a “universal” economics, and orthodoxy, therefore, chooses to ignore issues of culture in order to create clean models.

The models, which are derived using this sterile vision of culture, are very theoretically technical. These models allow a vision of a universe which is much

more simplistic and easy to understand when explained by the person using them. How can someone using math be incorrect in his analysis because such logic is precise? So with this illusion of precision, the economist is able to capture the mind, and more importantly the ear, of individuals in positions to make policy. By capturing these people, they are able to institute policies that are derived from these models and gain the prestige from these activities. The models do not have to be accurate representations of the world because they are affective tools of policy control, and it is for this reason that orthodoxy has stopped attempting to look at trends with respect to the direction of the system. Looking for such trends would require a differing, sloppier view of culture, and would clutter up perfectly useful models.

Why economic sociology is not looking for trends is less clear, part of the reasoning is that the field is just now beginning to gain in popularity and is still trying to figure out what its research agenda is. There are extensive areas of coverage that can be addressed before an analysis on trends needs to be looked at. Many of these areas arrive from the failings of orthodoxy. This study would not argue that addressing these issues is a poor use of time, but it would suggest that studying Veblen with regards to the failures of orthodoxy could teach a major lesson. The next sub-section of this paper will illuminate this lesson.

Insights for the modern dialog.

The perception, by some, that Veblen never offered a unified system of analysis comes from the belief that the economy should be looked at as a commercial phenomenon. Rather, a more proper view of Veblen is not that he did

not offer a system but rather he rejected a commercial view of the economy. (Ayres 1964). As this study has shown and other authors have pointed out, Veblen did have a system, but to understand this system you must look to Veblen across a broad section of his work (Tilman 1973). However, this study should also serve to demonstrate the need for economic sociology to offer a unified and, more importantly, a clearly enunciated vision of how the economic system works. Without clearly stating a vision of how the economy works, the opposition will continue to maintain its stranglehold over legitimacy. This vision by economic sociology does not have to be formalistic in nature, but it does have to offer an alternative way of observing the economy that will be persuasive to policy makers. This final section will argue that such a vision will observe important trends that are occurring in the economy, and will attempt to project those trends into the future.

Both Veblen and Schumpeter look to find trends that could explain the direction of the system. It was most likely the case that neither author set out to predict the future, but such predictions were the natural outcome of their explorations. Even though some authors would like to believe that some of Veblen's predictions have materialized, it is probably more realistic to argue that most of his predictions have not (Leathers and Evans 1974). Yet, the fulfillment of predictions is unimportant to the overall process of trying to observe systemic trends. Veblen and Schumpeter were both evolutionary in their outlooks on the economy, and both would have argued that there was no guaranteed direction to the route of history.

This lack of a sense of teleology in both of their works separates them dramatically from Marx. Both authors were versed in Marx, and both had great respect for Marx's work (Veblen 1961; Schumpeter 1949). Schumpeter found in Marx's work descriptions of the trend towards big business, the increasing rationality instilled by Capitalism, and that Capitalism was a system of constant change (Schumpeter 1949). Schumpeter also found allusions to creative destruction (Schumpeter 1949). Veblen, too, finds great value in Marx when his system is looked at in whole (Veblen 1961), but he argues that the discoveries of Darwin distort every feature of Marxism (Veblen 1961). Yet, even in this respect, both Veblen and Schumpeter diverged from a belief in a Hegelian framework (Veblen 1961; Schumpeter 1949). In this aspect, Veblen and Schumpeter were much more evolutionary than Hegelian. (The word evolutionary is used because there is a difference in the type of evolutionary stance that was used by Veblen and Schumpeter; whereas Veblen was very influenced by Darwinian evolution, Schumpeter's evolution is not Darwinian Hodgson 1997).

The trend analysis in the works of Veblen and Schumpeter was not based on a belief in the material causation of history, but was based upon the recognition of the multiple social factors that influence change within the system (Veblen 1961; Schumpeter 1949). Cultural change is integral in economic change, but as Veblen clarifies, instead of it being a material struggle, it is a multifaceted social struggle and the workers could be influenced to action equally by economic conditions or other conditions such as patriotism or nationalism (Hodgson 1998). Both authors attempt to create a clear understanding that the cultural forces of the system play a

major role in the defining of value, and Marx did not address this issue. As John Diggins argues, “the ultimate problem is not production but consumption, not how goods come to be made but how they take on meaning” (Diggins 1977, 360).

With this in mind, it becomes possible to see both authors as post-Marxian in orientation. Laclau and Mouffe define post-Marxism in the following citation. They write that post-Marxism should be “properly understood: as the process of reappropriation of an intellectual tradition, as well as the process of going beyond it” (Laclau and Mouffe 2001, ix).

Veblen and Schumpeter were both looking to systemic analysis in hopes of understanding Capitalism better, and their individual familiarity with Marx gave them the tools necessary to start. They both understood Marx, but went beyond the Hegelian perspective within Marxian analysis. Each of them was attempting to redefine how economic systems were to be looked at, and the influence of Marx can be felt in their writings. Each also went beyond the limitations of Marx in order to bring in analysis about how non-material factors play major roles in the system.

This post-Marxian form of analysis offers many of the positive aspects of Marxist approaches without the teleological shortcomings. History is not prewritten, and is not based on a universal struggle over material matters. Such a material based view of reality is as flawed as the view from orthodoxy, but the use of the conflicting ideals as a basis for trend analysis is incredibly powerful. Such a post-Marxian form of analysis may serve to help clarify the economic Sociological vision, and such a form is completely in accordance with the belief structure of the field. The ultimate accuracy of the predictions is less important to the field than is

the process of trend analysis itself. Predictions will be made, and ultimately many will be false, but the process is what will prove important.

Chapter Overview:

The objective of this chapter was to demonstrate both the similarities and differences in the thinking of Veblen and Schumpeter with respect to differing concepts that are receiving attention within modern economic sociology. It revealed that there was a definite difference in emphasis placed upon observing non-Capitalistic systems, but that the differing emphasis did not represent a differing view in the fundamental nature of Capitalism. By observing the views of Schumpeter and Veblen with respect to the non-Capitalist system, it was shown that both authors believed that scarcity was not the major economic problem. This chapter also showed that both Veblen and Schumpeter viewed engineering/entrepreneurial activities as a fundamental component within the Capitalist system. Entrepreneurs and businesspeople are both attempting to create scarcity within the Capitalist system in the hopes that by creating scarcity they can earn a profit. This chapter also outlined that both authors viewed the rationality resulting from the Capitalist system could result in severe changes to the system, but they differed on their views about the beneficence of such a change. This chapter finally points out that their individual observations about the rationality instilling properties of Capitalism serve as an excellent example of post-Marxian trend analysis.

Chapter 6: Study Conclusions

This final section will bring together, in an abbreviated space, the important information that has been revealed throughout this work. By way of preview, this section will look at each of the six questions of the work and emphasize the important discoveries made by this study.

Methodology

A. What is to be gained by using sociological methods on economic topics?

The crossover area of Economic Sociology is an area of possible conflict between Economics and Sociology and as such the question of methodology could become contentious. In the overall view it would be difficult to universally state that one form of methodology is superior to another. Yet in academic circles where individual reputations and careers hang in the balance the question of methodology will often become important to the future of research. Out of these personal reasons detached scientific debates may become imbued with contentious, territorial arguments. This section will briefly summarize the positions of Veblen and Schumpeter with respect to their opinions upon the usefulness of sociological methods on economic topics. This section will then point out, once again, why the two authors maintained differing opinions. Finally this section will look at two major lessons that can be taken from the current study. First open dialog over methodology can discuss methodology without resorting to arguments over excluding methods. Second Economic Sociology may have better luck in trying to

open a debate about economics by approaching Institutionalists rather than mainstream economists.

Veblen and Schumpeter differed on how close sociology and economics should be. Both authors maintained a similar belief about the origins of nature of inquiry. Yet, even though both authors argued similar positions about the relationship between production methods and rationality, they differed in their beliefs about how useful sociological methods would be in the exploration of economic topics. Schumpeter had a much more limited view on the usefulness of sociological methods, whereas the reader of Veblen gets the feeling that he was in favor of a more unified form of social science.

Both Veblen and Schumpeter argued that the methods of production used under Capitalism influenced the ways in which people think. Schumpeter argued that economic production, in general, instills a rational form of thinking. To Schumpeter, the act of providing for material needs required the rational thinking of the participant. To Schumpeter, this rational form of thinking was instilled within all forms of production, not just Capitalism; but Capitalism did increase rationality because under Capitalism economic actions took on a much broader role. Veblen argued that the machine process was responsible for creating a matter-of-fact form of analysis in those who were acculturated by it. This 'cultural incidence of the machine process' was part of what was going on under Capitalism. As the machine process grew, this matter-of-fact thinking would continue to gain in importance. To both Veblen and Schumpeter, the production system under Capitalism was instilling

a more rational mindset to society. As this rational mindset advanced, the scientific inquiries of the society would also advance.

Yet, this agreement on the increasing rationality as instilled by Capitalism did not extend to an agreement on the usefulness of mixing economic and sociological methods. Schumpeter believed that a sharp dividing line between the two sciences was very useful in that it allowed specialization of research and led to a better description of economic actions. To Schumpeter, the usefulness of this sharp division came from his belief that economics was, by nature, an expository endeavor. Veblen was much more in favor of a broader mixing of methods. Veblen was more interested in evaluating the social usefulness of economic actions and, as such, he spent more time analyzing those actions within their social settings. The differences in belief between these two authors were the result of their differing views upon the primary role of economics. Schumpeter's belief, in a more expository form of economics, led him to the conclusion that sociological methods would not be extremely useful. Veblen's emphasis on exploring the social usefulness of economic actions led him to the understanding that a mixing of methods could hold many benefits.

If economic sociology is to continue and be able to define its role, it must encounter questions as to the usefulness of sociological methods on economic topics. This means debates about the areas to be included in the field will inevitably arise and so will debates about the proper methods to be used. Historical arguments over methods have often resulted in the balkanization of studies and the retardation

of progress. Economic sociology should be aware of this, and make efforts to avert these problems before they get out of hand.

Social scientists hold differing opinions about the nature of economic inquiry. Some, like Schumpeter, believe economics should be expository in nature, and should be directed at trying to describe economic actions. Others, like Veblen, are interested in using economics as a tool to explore the usefulness of economic actions, and they believe that criticism is of great importance. This criticism will entail observations about the economic actions within their social conditions in order to evaluate those actions as to their social usefulness. This second vision of economic analysis needs to use more sociological methods than will the first. It is this difference of vision that can lead to debates and conflict over methodology.

Methodological criticism is, by nature, criticism of other practitioners, and this form of criticism can lead to the balkanization of the field. When a scientist criticizes the system, it is much easier for other practitioners to maintain an objective position in the debate. Yet, when the criticism is directed at the methods that are chosen by the practitioner, dispassion quickly evaporates.

This is a lesson that should be derived from this study: criticism of works should be directed at the arguments contained in the work rather than general criticisms based upon the methods used by the practitioner. If economic sociology is to be successful, it must allow for multiple voices within its area of study. This means there must be recognition that there are multiple variables of study that are of differing interest to differing practitioners. The fear of a rationalist take over of ES is a justified fear, but this fear cannot be used as a basis for the wholesale denial of a

rationalist methodology. All methodologies must be allowed consideration if balkanization is to be avoided. This means practitioners must move beyond personal beliefs in the best form of methodology, and allow room for differing views. It also means practitioners will have to familiarize themselves with other methodologies which currently may be unfamiliar to them. The recognition of the need for methodological debate and proper ways to deal with such debates will be covered later in this conclusion in the discussion on the benefits of ES challenging orthodoxy.

The second implication about the use of sociological methods that can be drawn from this study is that if economic sociology is looking to open a discussion about economic topics, it should look towards the inheritors of the Veblenian tradition rather than the mainstream. The rational/materialist mindset is pervasive in mainstream economics and, as this study has shown, Veblen moved away from such a position. An open debate about the sociological foundations of economic phenomena calls into question the primary assumption that underlies mainstream theory, and any such debate would require that economists who believe in mainstream theory be willing to question the universality of their theories, and thus question their own work. The ongoing attempts by the intellectual inheritors of the Veblenian tradition to raise these questions have continually been ignored and dismissed. Changes have been occurring in the mainstream, but a fundamental rethinking of the rational/materialist mindset in the near future seems overly optimistic.

Rather than attempt to open up such a debate with mainstream, a better option for economic sociology would be to begin inquiries into the activities of institutionalists. Although institutionalist economics is not the glamorous star of the economics world, the practitioners of it are economists. The studies being done by institutionalists are concentrating on important economic variables, and they use methods that emphasize areas that would compliment work in economic sociology. More importantly, institutionalists are willing to consider alternative methodologies since their personal commitment to the rationalist/materialist mindset is non-existent. The experience of the institutionalist over the past 100 years offers lessons to economic sociology with respect to how much success they will achieve in attempting to institute a debate with the mainstream.

Even if such a dialog between economic sociology and current institutionalism seems to be unachievable in the eyes of economic sociologists, this should not stop them from looking to Veblen as a source of insight. The works of Veblen are filled with striking examples of how economic sociology should be done. The insights that were raised by Veblen are significant enough that his works must be incorporated into the lexicon of economic sociologist forerunners. If Schumpeter is to be considered part of the important contributors to the foundation of this field, then examination of Veblen reveals that his works are more in line with an example of how to do economic sociology.

B. What is the nature of the individual?

The social sciences are often called 'soft' sciences due to the inability to conduct controlled experiments because of the presence of humans within the area

of study. It is for just this reason that the nature of the individual becomes such an important area of discussion within the social sciences. Sociologists, economists, anthropologists, psychologists and all other scientists looking to social phenomena are faced with the question, what is the nature of the individual? This section will begin by summarizing Veblen and Schumpeter's position with regards to the individual. This section will then argue that it can be concluded from this study that their individual positions on the nature of the individual are very similar. This section will end by arguing that this similar vision can serve as a starting point for a mutual research program that will serve to bring institutionalists and economic sociology closer together.

To Veblen, the nature of the individual includes a mixture of both social influences and biological preconditions. Veblen discusses how institutions play essential roles in the shaping of the individual. Passions and instincts are at the heart of the individual's behavior, according to Veblen, and institutions channel these instincts and allow the individual ways to cope with the world around them. To Veblen, instincts and institutions both were important in describing the nature of the individual. In this way of thinking, both the individual and the society to which he was a part were each recreating each other. The individual could have impacts upon creating the society, but he was also, in large part, the creation of that society. To Veblen, the study of the economy was the study of how institutions change over time, and how they stay in line with the values derived from instincts.

Schumpeter's view on the individual revolves around a form of individual that is very habitual in nature. Schumpeter argued that the average individual

operated mostly within a realm of habitual behavior and his actions were based on the experiences that had formed his worldview. New circumstances were often handled irrationally through impulse, and it was only through time that a system, which resembled rational action, would eventually come into being. When faced with a new circumstance, the individual will attempt to make decisions based upon a value structure that was created by the influences of the world around him. This value structure was mostly the result of the acculturation received by the individual, and it was from this value structure that the individual determined the usefulness of any given economic action.

A comparison of these views leads to the conclusion that both Veblen and Schumpeter held remarkably similar opinions with regards to the nature of the individual. The best way to show this similarity is by comparing the constituent parts. A similarity of description occurs between Veblen's institution and Schumpeter's habitual action. To Veblen, habitual action becomes an institution when it has been ordered and formalized within a society. Veblen's idea of instinct has some similarities in the concept of a value structure, as laid out by Schumpeter. However, these two concepts are not as similar as the relation between institutions and habits. Veblen's instincts are biological in origin, whereas Schumpeter's value structures are conditioned by society and have no link to a biological predisposition. Yet even though Schumpeter's value structures are not biological, it is the case that both this value structure concept and Veblen's instinct concept both serve as the teleological impetus underlying an individual's understanding of actions as being good.

Schumpeter and Veblen envisioned the individual and society as being involved in a process whereby they are both changing each other. Both authors had a position in their thinking that held a role for unique individuals, and both recognized evolutionary change. Veblen concentrated on exploring this evolutionary change, and Schumpeter concentrated on looking at instances where individuals could discontinuously change the system. Yet, even with this differing emphasis, it is clear that their positions upon the individual are very similar.

Economic sociology seems to have a relatively similar view of the individual as the one described by Schumpeter and Veblen. The expanding area of network analysis is attempting to offer an alternative description of the nature of the individual as compared to methodological individualism and methodological holism. This middle ground, offered by networks, seems to hold out an opportunity for new explorations in both economics and sociology. The continued exploration of networks holds great potential, but it should be noted that the Schumpeterian and Veblenian views on the individual have much in common with this sub-field.

Practitioners within economic sociology have noticed that the mainstream of economics is very much rooted in a materialistic view of the individual. The “clean” models of the mainstream rely upon the materialistic view of the individual, and a discussion about the nature of the individual has failed to appear because of the lack of interest on the part of the mainstream economist. This has served to frustrate many economic sociologists who would like to see a cross fertilization of ideas between the two sciences. Economic sociologists believe that the research

they are currently conducting on the nature of the individual should impact upon the research occurring within economics.

Such attempts at synthesis have occurred before, but have failed as well. The works of Parsons were, in part, an attempt to open such a dialog, but ultimately were unsuccessful. Other attempts by economic sociologists have been made, but they, too, have only resulted in failure. Communication on the nature of the individual seems to be consistently lacking from the economic mainstream. If such has constantly been the result of attempts by economic sociology, perhaps a new tactic should be considered.

It is the contention of this study that perhaps changing whom the conversation is occurring with could start a broader dialog on the nature of the individual. The institutionalist school is very interested in exploring the nature of the individual. Such an exploration of the individual has been occurring for a very long period of time within the school, and a merging of research between institutionalism and economic sociology would most likely prove much more fruitful than another attempt at opening a dialog with the mainstream. This dialog would not happen without strife and argument, but at least a dialog would be occurring. The dynamics of this dialog alone would be interesting to observe from both the institutionalist and the economic Sociological viewpoints.

Even if such a dialog proves to be impossible, it still needs to be accepted by economic sociology that the description of the nature of the individual, as described by Veblen, has insights to offer modern practitioners. The role of the individual within the social sciences is essential, and the more information on this role the

more likely a better description of the individual will be made. Schumpeter's description has influenced the works of modern economic sociologists, and is currently important. This study has demonstrated striking similarities between Schumpeter and Veblen with respect to the nature of the individual. If economic sociology continues to believe in the appropriateness of the description laid down by Schumpeter, then a reanalysis of Veblen is in order. This study offers such a reanalysis, and it gives the economic sociologist the information needed to explore Veblen's description of the individual.

C. What is the ultimate relationship between economic orthodoxy and economic sociology?

Economic sociology is currently trying to define its relationship with the economic mainstream, and such a defining process will bring about questions as to how the relationship existed in the past. Economic sociology under Parsons was viewed as a supplement to where orthodox economics left off. The current resurgence in economic sociology is interested in not just offering answers to economic questions disregarded by the mainstream, but rather it is offering unique insights in direct conflict with orthodox conclusions. Such a new form of economic sociology will probably face increasing resistance from orthodox economics, and this history of thought offers insights into how such a broader view has clear historical advocates. To begin with, this section will quickly summarize the positions of Veblen and Schumpeter with respect to their differing visions of what economics should look like. This section will then argue that both Schumpeter and Veblen called for a much broader form of economic inquiry than currently is

occurring within the mainstream, and it will show that both believed that a myopic form of economics was of little use. Finally, this section argues why the confrontational position of new economic sociology is a good thing, and that institutional economics and economic sociology have linked destinies.

Veblen and Schumpeter had differing opinions over the usefulness of sociological methods on economic topics, but this difference of opinions should not overshadow the fact that they both envisioned a form of economics far broader than the current mainstream incarnation. Veblen believed that neoclassical theory was taxonomical in nature and out of touch with the real world. Schumpeter envisioned the need for economics to keep up a dialog with other social sciences and included economic sociology as one of the six essential economic fields. Both felt that economics needed to change and become different if it was to be of use.

Veblen believed that the economics of neoclassical theory was the product of the form of thinking indoctrinated by the handicraft era. The continuing influence of the 'cultural incidence of the machine process' would change the methods of thinking of the majority of society into a more matter-of fact form. Veblen believed that an evolutionary form of economics was inevitable as the machine process continued, and he argued that if economic analysis did not change, it would become more and more out of touch with the views of the common man. This prediction by Veblen about economics becoming out of touch seems to be true to any student of modern theory, but his predictions about a change to an evolutionary economics seems less correct.

Schumpeter envisioned multiple areas of economics as were listed in his chapter. Current orthodoxy really seems to be interested in exploring issues of theory and econometrics with the absence of much work being done in history, economic sociology or political economy. Even at the end of his own life, Schumpeter was aware of the impending myopia beginning to occur in economics. To Schumpeter, if economics was to be of value, the area of its coverage was going to have to expand.

Veblen and Schumpeter clearly envisioned an economics that was to explore issues of social relevance and economic importance. The 'clean' models of modern mainstream ignore the important aspects of the human equation that both authors spent extensive time reviewing. This study argues that there is a unity of vision within the works of both authors, suggesting that economics must be viewed in a much broader context than is currently considered in the mainstream. Economic sociology should really rise up and take notice of this implication.

New economic sociology has begun to realize just how important this broader view is. New economic sociology has been willing to stand up and challenge the orthodox position of mainstream economics. Such a challenge is necessary if economic sociology is to make contributions of significance in the study of economic phenomena. Orthodox economics has created a system of thought in which the economy is envisioned as a mathematical process where all things that are not economic are considered assumptions. These assumptions are believed to be true and, therefore, the model predictions are equally assumed to be true, but questioning the assumptions is of very low priority. Economic sociology

has argued that the assumptions, which are used by the mainstream, are false and, therefore, so are the conclusions. This confrontation is where new economic explorations must begin. The testing of assumptions will lead to more realistic observations and in this economic sociology has a great deal to offer.

Economic sociology cannot continue to allow the mainstream to create models of the economy that clearly have little basis in reality. Assumptions do matter and economic sociology must point out the flaws within the assumptions of orthodoxy. Part of the continuing issue with just such a confrontational approach is that such an approach goes against one of the main original thinkers within economic sociology, Parsons. As this study has pointed out, Parsons helped to plot the original separation of space between economics and sociology, and it was in his vision that economic sociology was to serve as a supplement to, rather than a replacement for orthodoxy. This study has demonstrated both Veblen and Schumpeter would view such a separation as untenable given the present situation occurring in the mainstream. Economic sociology has recognized the current failures in the mainstream, and is offering alternative approaches and, as such, is doing a service to the social science community. This study lends historical weight to the continued path that new economic sociology is taking.

Finally, it is coming to the attention of some in economic sociology that the success of economic sociology in the past was tied to the success of institutional economics. In part, the decline in popularity of institutional economics was the result of criticism directed at it from individuals in economic sociology (including Parsons and Schumpeter). Such criticism made it easier for mainstream economics

to dismiss the objections raised by writers such as Veblen, and settle into the mathematical routine that characterizes the mainstream today. The work done by Veblen is often considered social in nature, and when sociologists argued that what Veblen was doing was flawed, then dismissal by economists became that much easier. If Veblen's arguments against mainstream assumptions were flawed, then the mainstream assumptions must be correct, or so the thinking went. This justification of assumptions allowed the creation of elegant clean models and the ability to forget about economic sociology. With the mainstreams ability to create a nice soft comfortable routine, the observations coming from economic sociology could easily be ignored and economic sociology declined in popularity.

Yet, this study has shown that the work done by Veblen was, in many ways, similar to the work done by Schumpeter. Although some of the arguments of Veblen may have been flawed, outright dismissal of Veblen would mean that much of Schumpeter's work would have to be dismissed as well. Schumpeter and Veblen both have much to offer the study of economic sociology and economics. It is true that the fates of institutional economics and economic sociology are intertwined and, in part, this is because the works of Veblen and Schumpeter have many parallels. Economic sociology and institutional economics are interested in similar topics, have similar methods, and it may be shown eventually that they have similar goals. This study has demonstrated that they also have similar founding thinkers.

The Economic Sociology of Capitalism

A. What important insights can be learned from studying non-Capitalist economic systems?

With respect to analysis on non-Capitalist systems, Schumpeter and Veblen offer very differing observations as to the important types of systems that should be studied. Veblen looked to historical examples, whereas Schumpeter offered theoretical models. This work does not offer an opinion as to whether either is a better form, but rather looks to the analysis in their respective works as a window into similarities on their thinking. This section begins by quickly reviewing and comparing Veblen and Schumpeter's positions. This section then goes on to conclude that in both their works scarcity was not the primary economic problem and their discussions about non-Capitalist systems offers the best look into this view. This section then ends by drawing two implications for economic sociology. First, both Veblen and Schumpeter show that scarcity is not the central problem of human economy. The second conclusion flows from the first. The study of the market should draw less attention as a unique phenomenon in economic sociology and more emphasis should be placed on the study of all forms of social integration of material production.

Veblen and Schumpeter look at two very differing issues with respect to analysis on non-Capitalist systems. Schumpeter never explores anthropological studies of non-Capitalist systems in his work, rather Schumpeter uses a Walrasian theoretical system as his example of a non-Capitalist system. Veblen spends a great deal of time looking at anthropological/empirical examples of non-Capitalist

economic systems. The reasoning behind this differing focus was their differing views on what each wished to achieve.

Schumpeter begins his work in *The Theory of Economic Development* by describing a theoretical circular flow system as is put forth in a Walrasian general equilibrium model. In this system, a habitual form of action that Schumpeter believed was a more realistic vision of human behavior replaces the rationality of individual action, which is assumed by mainstream economists. This non-Capitalist system that Schumpeter develops is used only as a system of comparison. Schumpeter argues that such a system is not a description of Capitalism and could never truly occur. Schumpeter uses this description as a measuring stick to evaluate the Capitalist system he is interested in. Most importantly, it is arguable that the majority of Schumpeter's work is done in a way that shows this system is a faulty description of Capitalism.

Veblen spends a large amount of his time exploring empirical examples of non-Capitalist systems. Veblen explores the historical origins of the foundations of institutions of the Capitalist system with the intention of discovering the instinctual reasoning behind the foundation of these institutions. One of Veblen's main focuses was in showing the disserviceability of some modern institutions. In order to do this, the teleological directions offered by the instinctual motivations of individual actions had to be made clear. For example, Veblen wanted to make clear that the instincts that underlay the foundation of private property was the instinct of workmanship. Once the teleological direction of the institution's foundation was demonstrated, then the dichotomy of that institution under Capitalism was easier to

point out. To Veblen, the exploration of non-Capitalist systems was useful in that it enabled him to evaluate the serviceability of those institutions in the Capitalist system.

Schumpeter and Veblen had very differing objectives with respect to their reasoning behind exploring non-Capitalist economic systems. To Schumpeter, such exploration was only a starting point that was to serve as a tool of comparison, and the majority of his work was directed at showing where the real Capitalist system diverged from the theoretical model. Veblen would not have seen such a model as useful, since his goal was to explore the serviceability of the institutions of the Capitalist system. To Veblen, the origins of the institutions lay in the systems preceding Capitalism, and exploring those roots could be the only way to discover their instinctual reasons. Veblen's explorations offered a countering story to the story of economic behavior as described by orthodoxy. This story states that individual activity is socially conditioned and not spontaneous. Schumpeter would not have disagreed with this story, but he also would not have wanted to make the same form of explorations. Yet, even though both authors have differing goals, they both are using their explorations of non-Capitalist systems in a way that shows the flaws of the neoclassical model.

It is safe to say that the mainstream often views the study of economics as the study of scarcity, but by observing the works of Veblen and Schumpeter with respect to non-Capitalist analysis, such a view is harder to hold. The standard introductory definition of economics usually argues that 'economics is the study of the allocation of scarce resources to unlimited wants.' This study has shown that

both Veblen and Schumpeter disagree with the assumption that individuals, by nature, have unlimited wants with respect to material goods. Veblen demonstrates the social conditions of other societies diverge dramatically from the perceived universal material desires assumed by orthodoxy. Schumpeter does not look to other societies to demonstrate the flaws in this materialistic assumption, but he does argue that man is habitual in nature. The habits of the individual are social in creation and material greed is no more natural than material satisfaction. This study has also suggested that perhaps the equilibrium state, which Schumpeter alludes to, would be one in which satisfaction of material desires would be complete.

The argument of unlimited human wants cannot hold when compared against the study of empirical non-Capitalist societies. Economic sociology is recognizing that such a materialistic view is ethnocentric in nature, and the works of Veblen serve as another study to show this ethnocentric bias. It is to Veblen rather than Schumpeter that economic sociologists should turn to look for work which attempts to use other societies as comparisons about the nature of material desires. Schumpeter does not argue that humanity has unlimited wants, but he also doesn't offer evidence to demonstrate that people may not be materialistic in nature. Veblen and Schumpeter both see beyond scarcity as the primary economic issue, but only Veblen offers empirical proof demonstrating this point.

This study has argued that Veblen and Schumpeter are post scarcity in their analysis of Capitalism, and economic sociology should look at such a lesson closely. If scarcity is not the primary economic problem, then a reanalysis of the areas of

economic study should most likely be in order. Areas dealing with power, social networks, decision-making and acculturation seem to be good places to start.

Both Veblen and Schumpeter moved beyond studying markets in their works because markets are instruments primarily dealing with scarcity. Veblen concentrates highly on the issues of power, and Schumpeter looks to issues of innovation. Neither of these areas of focus deal extensively with markets, rather markets are ancillary to their works. Markets may have need of study, but as the primary focus of economic research they are of minimal importance when scarcity is shown to be mostly a cultural phenomena. Economic sociology is better equipped to deal with such a change since it is less tied to the fundamental belief in scarcity.

If the study of markets is to be undertaken in economic sociology, it should be done in the manner in which Veblen and Schumpeter did it. The study of the market should be enclosed in the ways markets and societies interact. Schumpeter believed that the role of the entrepreneur was to upset the market and to advance society by disturbing the equilibrium that is so central to the belief in the usefulness of markets. Veblen believed that markets often were non-existent and, rather, that power played a much bigger role in integration than did markets. These ideas and ways of analyzing the economy place the role of the market on a much lower rung than is currently the situation within orthodoxy. Economic sociology should learn this lesson from this study.

B. What are the structural forces in a Capitalist system?

The Capitalist order we live in affects every life around the world and, as such, the insights about such a system and how the system works are important to

individuals who are trying to change the system. Veblen and Schumpeter see two major themes in common occurring within Capitalism. First, there are issues resulting from the business aspects of Capitalism that often impact upon the productive side of the order. Second, Capitalism instills greater rationality on society as the system progresses. This section will begin by reviewing the differing positions of Veblen and Schumpeter. This section will then draw the conclusion that even though Veblen and Schumpeter saw the Capitalist system with differing favor, they both envisioned similar trends within the system. Several conclusions from this study are derived from the observations of these themes. This section will end by offering three implications. First, economic change occurs within a social context and successful change only occurs when the social context is ready for such change. Second, individuals who are attempting to create change must be able to institute the change within the social setting. Finally, not all change being attempted will result in the advancement of society, and the Veblenian view of sabotage needs more recognition.

Veblen and Schumpeter share two common themes in their individual observations on Capitalism; production under Capitalism instills greater rationality on society and Capitalism separates ownership from control. To Veblen, the system of Capitalism had two differing aspects, the productive side and the pecuniary aspects. Veblen believed that the productive aspects were beneficial but that the pecuniary aspects were very negative. Schumpeter observed similar trends, but he did not see the pecuniary aspects of the system in such a dim light.

To Veblen, the pecuniary aspects of the Capitalist system were the part of the system that was flawed. Veblen argued that the reasoning behind economic activity was to fulfill the material needs of society. The control and subservience of the production aspects of the system to the business aspects of the system often did not advance the efficiency of production. Veblen believed that business activities were pecuniary in nature and served the predatory instincts rather than the serviceable instincts. Business leaders would often use sabotage in order increase pecuniary values, and this sabotage was in direct conflict with industrial efficiency. To Veblen, the ability of firms to grow due to the large power created by incorporation allowed fewer and fewer people to control the economic system, and it allowed them greater ability to sabotage the process. At the same time, the productive aspects of the system, the machine process, was changing the thinking of the people involved in producing goods. This 'cultural incidence of the machine process' was leading to an increased level of rationality in terms of cause and affect thinking within the majority of the population. This increased rationality would lead to a questioning of outmoded institutions, and this was a good outcome. Within this productive side, the incorporation of new activities and new technologies is constantly leading to the potential improvement of the system. Veblen envisioned that the main force behind this improvement is embodied in the technicians and engineers.

Schumpeter also sees the same similar trends. Schumpeter argues that underlying condition of Capitalism is a state of continual change. Capitalism is never and, by its nature, can never be stationary. To Schumpeter, this constant

change is a good thing, but it is also from this consistent change that Schumpeter sees the beneficial aspects of business activities. Technological change is constant and pervasive, yet not all technological change is going to lead to the advancement of society. Schumpeter argued that in some cases, when firms impede the implementation of technological change, they may be better serving society. Schumpeter also envisioned that increasing firm size and firm consolidation could serve the purpose of staving off some economic downturns. To Schumpeter, the increasing size of firms resulting from incorporation was inevitable and could, in some ways, help society. Schumpeter believed that economic activity led to a rational way of thinking. To Schumpeter, all activity that was economic in nature led to this increased rationality, but because of the increased importance of economic activity under Capitalism, the system was leading to an increased level of rationality in society. This increased rationality had both positive and negative impacts. The positive impacts came from the increasing technology and productive methods that would result, but the negative impacts would come from this rational attitude turning upon the institutions of the Capitalist system. Schumpeter believed that these institutions were beneficial and people who had personal problems with the institutions would use a rationalist mindset to attack the institutions not based upon rational goals but out of 'sub rational' motivations. With respect to technological change, Schumpeter also saw the importance of the incorporation of this change into the system, but Schumpeter argued that the key player in this was the entrepreneur.

Veblen and Schumpeter both saw similar trends occurring within Capitalism. They both saw increasing firm size and its resultant separation of ownership from control. They both saw an increasing of rationality in society as a result of the production process occurring under Capitalism. Finally, they both saw the importance of technological change within Capitalism. Yet, even though they saw these same trends, they viewed them from differing perspectives. Veblen saw that business activities often were detrimental, but Schumpeter saw them as sometimes better serving the needs of society. Veblen argued that increasing rationality would lead to greater questioning of outdated institutions, but Schumpeter believed that perhaps these institutions were useful. Finally, they both saw the importance of incorporating change into the system. Veblen credited the engineer as the primary instiller of change, but Schumpeter credited the entrepreneur.

Veblen and Schumpeter both operated under the understanding that business interests play a major role in the Capitalist system, but they disagree on the level of harm such control exerts. Veblen sees it as completely harmful, but Schumpeter argues that there are some positive results. In this case, it is most likely Schumpeter has a more realistic view of the situation. The role of the business aspects in the Capitalist system often can serve as a check on technological improvements that are not necessarily the best for society. This is not to say that sabotage is always in the best interest of society (in many cases it is not, as will be soon seen), but it is true that technological efficiency is not always the ultimate goal. Change in society must be looked at from the view of how that change will impact upon the society, and business aspects are one consideration within a society. The introduction of

new methods of production may often have serious consequences to social cohesion, and such change must occur within a social context. As Schumpeter points out, sometimes ropes may be more advantageous for society than cable, and when business interests serve to make this the case, society can benefit.

One implication that can be drawn from this work is that change, when instated, must be instituted within a social context in order to increase the chances of success. Veblen and Schumpeter both see the instituting of new productive techniques as one of the primary characteristics of Capitalism. Veblen looks to the engineer and Schumpeter the entrepreneur. This study has shown that the main component within both of these concepts is similar within the two authors' works. With respect to the cultural aspects underlying the success of instituting change, Schumpeter's work on the entrepreneur surpasses the work Veblen did on captains of industry. Veblen recognized the importance of technology in improving the economy, but he failed to make a strong correlation between the instituting of new procedures and the cultural understanding needed in order to succeed in getting the change done. In this area, economic sociology should spend more time studying Schumpeter over Veblen.

Both authors recognized the importance increasing rationality played in Capitalism. Schumpeter argued that as change occurred, the level of rationality within the system would rise. Entrepreneurial activity created room for more entrepreneurial activity and, as change continued, rationality would increase. It was the role of the entrepreneur to incorporate change within the system and, in order to succeed, he would have to understand the culture of where such a change was

being instituted. The more economic activities individuals were involved in, the more rational they would become. Veblen argued that the machine process forced individuals into thinking about cause and effect. This form of thinking would inculcate upon individuals a more rational outlook on life. This increasing rationality, as seen by both authors, is important when it comes time to analyze where they both saw Capitalism heading.

More importantly, economic sociology should understand the importance of rationality on the ability to institute change. Cultures without long histories of Capitalism often have very different levels of understanding with respect to how Capitalism works. Attempting grand changes in a system without such a history requires differing methods than trying to change systems with such a history. Readers of the study should come away with an understanding of just how important this cultural component of change is. An individual who would be a successful innovator in one culture may be unsuccessful in another. Economic sociology should learn from Veblen and Schumpeter, and look to discover the cultural components important in instituting change.

Economic sociology can also look to Veblen and Schumpeter in order to see how to find trends within Capitalism that shape its direction. The issue of rationality in these authors' works offers insights into a trend that both clearly believed was important. The current incarnation of Capitalism may not be exactly the same as the ones that were described by Veblen and Schumpeter, but the characteristics of how individuals deal with change are still relevant. Schumpeter's description of how entrepreneurial activities make it easier for more entrepreneurs

seems to be playing out in modern industrial society. Veblen's description of the machine process inculcating greater cause and effect reasoning seems to still be valid. The recognition of these characteristics and their impact upon the future of Capitalism is yet another implication which should be taken from this study.

One last implication should be noted in this section and that is Veblen's pessimism about the obstruction of change by business leaders should not be dismissed. Schumpeter is incredibly optimistic about positive forces of the entrepreneur, yet he does not give a well-balanced view to possible dangers involved within Capitalism. Schumpeter argued that entrepreneurial activities would often be up to the task of disciplining Capitalism and dealing with market power through creative destruction. In this case, it is probably Veblen that is closer to a realistic observation on the world. In a post scarcity world, there are two ways for firms to make profit, innovate or dominate. Innovation is dangerous, risky and expensive as compared to using market power and exclusion. Creative destruction may work in some cases, but often it can and has failed. Monopolies exist for long periods of time despite profit incentives. Oligopolies and market control in modern Capitalism is the norm and must be recognized. Economic sociology should take this conclusion from this work and study Veblen with respect to this aspect of Capitalism.

C. What is the future of Capitalism?

The future of Capitalism is indeterminate, but attempting to predict the future is an important task within the social sciences. Both Veblen and Schumpeter attempt to make just such predictions, and in so doing they were merely extending

their observations of the system to their logical conclusions. This section will begin by reviewing their positions on the possible future of Capitalism. This section will then conclude that the two authors both offered possible scenarios for systemic change, but neither argued these scenarios were inevitable. This section will end with two implications that arise from this study. First, the accuracy of any prediction is less important than the process of predicting itself. Second, the process of making observations about the trends within Capitalism should be part of creating an enunciated systemic view of how Capitalism works.

Veblen argued that the system of production used by a society would indoctrinate the participants in production with a specific way of thinking. Past forms of production had differing ways of thinking. The machine process used under Capitalism would create a matter of fact thinking within its adherents. To Veblen, the pecuniary form of thinking was not tenable under this matter-of-fact form of thinking and as more individuals in society are influenced by the 'cultural incidence of the machine process' the pecuniary way of thinking would run into more and more resistance. Veblen argued that this increasing resistance might lead to the organization of unions pushing for the elimination of the pecuniary institutions interfering with increased efficiency. These groups could be led by the prime movers of efficiency, the engineers. Veblen did not see this scenario as inevitable, nor did he believe unions would necessarily be organized along these lines. The evolutionary system of Veblen's thought would not allow such a prediction as inevitable and Veblen, in many places, argued that unions could also form as simply pecuniary tools of workers.

Schumpeter also saw increasing rationality being instilled within Capitalism as a force that could result in systemic change. To Schumpeter, all forms of economic activity were, by their very nature, rational in origin. Capitalism instilled a greater level of rationality, not because it contained a new form of production, but because under Capitalism economic activities gained in importance. To Schumpeter, the rational mindset was a mindset that called into question all things. Under Capitalism, the issuance of shares in replacement for direct control with respect to ownership would sever the direct relationship in the eyes of the population. This severing would lead to a deterioration in individuals understanding of the meaning behind private property. To Schumpeter, the rationalist mindset coupled with this weakening in the institution of private property would lead to a questioning of the usefulness of private property itself. Such questioning of private property could conceivably lead to a transformation of the economic system. Yet, even though Schumpeter could envision such an outcome, he did not necessarily consider it good or inevitable.

Both Veblen and Schumpeter saw trends occurring which might change the system of Capitalism. They both argued that the fundamental trend within Capitalism that could lead to this change was the increasing level of rationality that was being instilled by the productive processes of Capitalism. Yet, even though they both offered possible scenarios for systemic change, neither considered such scenarios as inevitable. Both Veblen and Schumpeter were evolutionary, and such a belief system cannot hold any future as an inevitable. Yet, they both offered these

scenarios in order to make clear trends they observed in Capitalism, and they believed such scenarios could make these trends more clear.

Veblen and Schumpeter made predictions about the eventual decline of the Capitalist system, and currently these predictions seem to be false. Such an observation about the failure of their predictions belittles the importance the predictions themselves played within the writings of these authors. The predictions of these authors were not the centerpiece of their works, they were the logical outcome. Veblen and Schumpeter were looking at a system in which change was the relevant topic of observation, and in order to describe Capitalism they had to describe the engines of change. To both authors, increasing rationality was the main engine of change, and they both saw that this increasing rationality could force change on the system as a whole. Whereas their predictions may have proven false (or at least limitedly false), their predictions were not their objectives.

Orthodox economics is based around the idea that the universal condition of man is scarcity, and that this is the condition throughout history. To the mainstream, static models are the norm since they are based on universal constants. More importantly, this form of inquiry is not looking for trends that shape the direction of the system because the system is a constant that rarely changes. Both Veblen and Schumpeter clearly believed differently. Within their writings, it is possible to find where both argue that social phenomena alter the economy and economic phenomena alter the society. These dirty models of culture do not rely on static descriptions of economic systems, and because of this they result in much better descriptions of Capitalism.

To Veblen and Schumpeter, the study of Capitalism is the study of how the economy changes. The trend analysis, which they use, is not directed at the study of how Capitalism will disintegrate, but is rather a tool used to describe the motion of the system. The future is indeterminate, but the present is based upon change. Capitalism is a system of change, and in order to study the system looking at the vectors of change is important. The next logical step that both Veblen and Schumpeter took after determining those vectors was to attempt to predict where those vectors would lead. The process of attempting to predict was attached to the process of determining those vectors and, as such, was very important. The accuracy of the predictions themselves was less important than the process.

Economic models have enabled economists to have great influence over modern policy debates. The clarity of explanation offered by mainstream models lends them a weight when used as descriptive tools. If this stranglehold over policy is to be challenged, new models with similar clarity must be offered. These new models should be based on observing how the system of Capitalism is changing and, as such, the works of Veblen and Schumpeter offer great insight to the economic sociologist. A new system of description based on dynamic considerations rather than faulty observations about static economies would be a great contribution from economic sociology.

This system of description should come from observations about the Capitalist system. Veblen and Schumpeter began their descriptions in just such a way, and the results have been shown within this study. These observations, due to the nature of Capitalism, will be observations on trends. The logical outcome of

observing these trends is to predict where the trends will lead. Whereas the mainstream economist always sees change leading back to equilibrium, the scientist studying trends within the real world will observe trends leading toward systemic change. Economic sociology should learn from Veblen and Schumpeter about the usefulness of such analysis and begin to look towards the future of Capitalism as well.

Final Thoughts

This work has been designed for two reasons, first, it was initiated to allow current participants in economic sociology a chance to look into the works of two individuals who preceded them, regarding the topics they are investigating, and second, to mend a large hole that has existed until now because there has been no extensive work comparing the thoughts of Veblen and Schumpeter. Throughout this work it has been shown that the thoughts of Veblen and Schumpeter could offer insight to modern economic sociologists, but in so doing it has been shown that the thoughts of Veblen and Schumpeter have striking similarities to each other.

The future of economic sociology lies in working on areas of thought that have, until recently, been shown little interest. The economic mainstream does maintain incredible amounts of influence over policy advice, but there have been multiple failures when this advice has been put into action. The reasoning behind these failures results from a lack of understanding of culture's impact upon economic activities. Economic mainstream theory has relegated the role of culture to the status of assumption and has placed the understanding of its own cultures into this assumption. This position is ethnocentric and will continue to lead to policy

prescription failures. It is only through a better understanding of the role of cultural and social interaction with economic activities that better policies will be offered. Veblen and Schumpeter offer a great vision of the importance of social and cultural change upon the economic system. Economic sociology is much more suited to incorporating this vision into its current work

The future of economic sociology is based in the extension of models of the type offered by Veblen and Schumpeter. By exploring issues of social and cultural change, and how they impact upon economic activities, a more realistic vision of economies as unique will emerge. This vision should be based upon observations of reality as well as theoretical manipulation of these observations. Veblen serves as an individual willing to look into the importance of realistic observations. Schumpeter serves as an individual who tries to take observations and use them to explain economic systems as systems based in change rather than stagnation. Both Veblen and Schumpeter were economic sociologists and both offer much to current practitioners.

This form of economic sociology based upon an understanding of the interaction of society, culture and the economy will lead to many discussions involving contentious moral issues. Differing cultures have differing concepts of right and wrong, and bringing culture into the picture will, by way of necessity, bring in issues of morality. It is likely that continued work in economic sociology along these lines will result in future conflicts over issues that are moral in nature, and this work should offer one final insight that could help current and future practitioners of economic sociology. Differences in moral judgments about

outcomes do not represent differences in insight or vision, and such differences in moral judgments should be explored and elucidated so that confusion is minimized.

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