

Beyond the Business Cycle and Socialism: The late Schumpeter's Corporatist View

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Many economists, above all the great economists, those accorded a place in posterity, and even those scholars who have endeavored to pursue the highest degree of objectivity and scientificity in their methods and their use of formal instruments, have arrived often at an irrational vision of the economic processes, a vision in which true cognitive progress can be achieved only beyond the realms of economics, with the contribution of less exact, less scientific, even irrationalist, disciplines. This is true of great men of the likes of Vilfred Pareto and Alfred Marshall, but also of Frank Knight, Friedrich Hayek, and greater or lesser Italian economists including Angelo Messedaglia and Alberto de' Stefani¹. Schumpeter, far more than traditional historiography has claimed up to now, belongs to the (numerous) group of economists who at a professional level followed orthodox scientific methods, but whose deepest intellectual convictions at a personal level were decidedly heterodox, very like all the men and women who profess moral virtue, but live a life of vice.

The aim of this paper, which presents the preliminary results of our research conducted on documents in the archives of Harvard University, is to demonstrate that Schumpeter's endorsement of corporatism and economic rationalism was rooted in the distant past. Far from being the mere senile passion of a contrarian, it was his deepest conviction, one that characterized his intellectual path at least in the years after 1935. Light has been shed on Schumpeter's complexity and somewhat bizarre originality both in his life and in his works by his biographers. Heertje, in a brief profile in Palgrave did not fail to underline this aspect: «...*throughout his life Schumpeter was an enfant terrible, who was always ready to take extreme positions for the sake of argument, and often seized the chance to irritate people. However, he was also a giant on whose shoulders many later scholars contributing to economic science stood. As an economist he is no longer in the shadow of Keynes, but in the centre of the economic scene, both in theoretical and empirical sciences*»².

¹ Of course, I am aware that such an affirmation deserves deeper discussion, in the form of a dedicated paper. That economics is irrational at the level of facts and economic behavior is undisputed. A more complex issue is the concept of economics as a science (are there irrational sciences?) or the existence of irrational behaviors within economic science. For more on this see, R. E. Backhouse, *If Mathematics is Informal, Then Perhaps we should accept That Economics must be informal too*, «The Economic Journal», 1998 (108), 451, pp. 1848-1858. The authors cited above are considered concrete acknowledgement of the significant contribution afforded by irrational behavior to economic science at various levels.

² A. Heertje, *Schumpeter ad vocem*, in *The New Palgrave. A Dictionary of Economics* (edited) by J. Eatwell et al, Macmillan, London, 1987, vol. 4, p. 266.

Schumpeter himself was no doubt aware of his own singularity, a trait he confirmed repeatedly in his more intimate relationships. In particular, he underlined the very irrational nature of economics as a discipline: *«Now so far as there are any scientific reasons (as distinguished from political preferences) the only remedy for it is a greater place for economic history in the training and the intellectual furniture of our economists. I have been primarily a theorist all my life and feel quite uncomfortable in having to preach the historian's faith. Yet I arrived at the conclusion that theoretical equipment, if uncomplemented by a thorough grounding in the history of the economic process, is worse than no theory at all»*³.

Therefore, Schumpeter's preference was for the irrational aspects of economics. Paradoxically, his years in America, at the heart of the world's greatest scientific community, accentuated his distance from the group of economists and his rejection of mainstream economic theories: *«... I must allude to personal convictions with which I hate to bother you: I am not, like you, hale, strong and in fundamental - and hopeful - sympathy with modern mankind. On the contrary I feel ill in mind and body (and not only because of what happened in the war), always tired and downcast and am dragging myself through work which nevertheless is all I do not hate»*⁴.

For many years, Schumpeter was torn between two lives: one as a member of the most important economics department in the world, supporting the development of new economic theories, performing important institutional roles in the major scientific associations; the other as a scholar with a marked personal aversion to all this. Corporatist theory, mid-way between economics and economic history, between economics and scholastic philosophy, was a reflection of this dichotomy; indeed, it was the only theory Schumpeter considered capable of reconciling a lengthy career dedicated to the study of economics with a personal moral rebellion against its shortcomings as a science. Schumpeter was a great economist and above all a great moralist; corporatism was his sheet anchor, a doctrine to which he was introduced by a number of North American Catholic Jesuits. Although he never embraced corporatism fully, and never abandoned the studies, which were later to bring him fame, he began to perceive this approach as the only real, albeit unmentionable, solution to the economic problems of his day.

The writings that enable us to delineate Schumpeter's position consist of a number of works from the 1940s that are generally overlooked. Although, in strictly chronological terms, it is not an ideal starting point, we begin with Schumpeter's well-known speech delivered at the 1945

³ Schumpeter to Edna Lonagan, February 16th, 1942, J. A. Schumpeter, *Briefe/Letters. Ausgewählt und herausgegeben von Ulrich Hedtke und Richard Swedberg*, Tübingen, J.C.B. Mohr Paul Siebeck, 2000, p.339.

⁴ Schumpeter to Irving Fisher, February, 18th 1946 - Schumpeter, *Briefe/Letters*, cit., p.356.

Conference of the *Association Professionnelle des Industriels* in Montreal, entitled «*L'avenir de l'entreprise privée devant les tendances socialistes modernes*»⁵.

In what was a relatively short speech, Schumpeter nevertheless touched on many highly significant ideas. The first was the importance of private enterprise: «*except in times of war, those who live in poverty are the classes who have never known a system of private enterprise*». Despite the role of private enterprise, however, all had experienced depressions and their negative consequences: «*economic progress ... is interrupted periodically by depressions which cause unemployment...the material development of the working classes is closely linked to the success of private enterprise...*»⁶.

Among the countless motives that justify the onset of recessions, Schumpeter dwelled in particular on a cause beyond the realm of economics, one of a social nature, namely the antagonism between labor and capital, and the class struggle: «*the antagonism between capital and labor, and the class struggle must be very poor theories of industrial relations. Effectively, from a scientific point of view, they are none other than the result of flawed reasoning*»⁷.

In actual fact, Schumpeter was convinced that corporatism was a normal component of the economy and of society, in the same way as the class struggle: «*In normal society ... these antagonistic elements integrate with cooperative elements.....As soon as the members of any group, of a family, for example, lose sight of this framework of values and individual beliefs, and see only conflicts of interest among themselves, we witness social degeneration, that is a pathological phenomenon which in turn implies other pathological phenomena*»⁸. Schumpeter identified such loss of the propensity to cooperate as one of the determinants of economic depression, and in a wider sense, of social decomposition, but not only: «*an absence of faith in the ruling class and a lack of leadership...families, the workshops of society cannot function if no one accepts his duties, if no one can affirm himself as a leader and if each is intent on summing up his own immediate personal advantages and disadvantages in every moment*»⁹.

In a context in which the values of cooperation are lost, a context of widespread ideals and individual motivations, the main decision-making criteria becomes utilitarianism, a philosophy

⁵ Firstly published as, *L'Avenir de l'Enterprise Privée devant les Tendances Socialistes Modernes*, in «Comment Sauvegarder l'Entreprise Privée», Montreal, 1946. Published in English in M. G. Prime and D. R. Henderson, *Schumpeter on preserving private enterprise*, «History of Political Economy», 1975 (7), 3, 293-298. As much as I concern, I refer to the Italian version, J. A. Schumpeter, *Il futuro dell'impresa privata di fronte alle tendenze socialiste moderne*, in (a cura di), *L'imprenditore e la storia d'impresa*, Torino, Bollati Boringhieri, 1993, p. 91-96.

⁶ Schumpeter, *Il futuro dell'impresa privata ... cit.*, p. 91

⁷ Schumpeter, *Il futuro dell'impresa privata ... cit.*p. 92

⁸ Schumpeter, *Il futuro dell'impresa privata ... cit.*p. 93-94

⁹ Schumpeter, *Il futuro dell'impresa privata ... cit.*p. 94

Schumpeter considered the most stupid of economic ideologies: *«This is precisely where 'utilitarian' philosophy takes us. This system of ideas developed during the 18th century knows no regulating principle other than individual egotism ... this irreligious (and perfectly stupid) principle of rationalism expresses only too well the spirit of social irresponsibility that characterizes lay fervor and the lay state, ...and in a state of moral disorganization economic success can only aggravate the social and political situation that is the natural result of a century of economic liberalism¹⁰».*

We should remember that Schumpeter delivered his speech at a poignant moment in history, the end of the Second World War. Schumpeter perceived the war as the triumph of Western democracy, yet also the ominous rise of Soviet authoritarian power, and above all the total material and cultural destruction of European - and notably German – culture. We can understand the solutions Schumpeter proposes: *«Is the solution to this grave problem authoritarian statism, which no doubt can take more than one form, but the perfect example of which is Bolshevism? Certainly not. Will the solution come from democratic socialism? No. So where should we find it then? We will need to resort to corporatist organisation, in the sense advocated in the Quadragesimo Anno¹¹».*

Schumpeter's explicit reference to the theories expounded by Pope Pius XI in 1931 could not be clearer, yet surprisingly scholars of his thought frequently disregard it. Indeed the Montreal conference rarely receives a mention: *«It is not the task of the economist to sing the praises of the Pope's moral message. But he can use it as a source of economic doctrine. A doctrine that is not based on false theories. Nor is it based on alleged tendencies that do not exist. ... The corporative principle organizes, it does not regiment. It opposes any social system with centralising tendencies, any bureaucratic regimentation; effectively it is the only way to make regimentation impossible¹²».*

Schumpeter's idea of corporatism related to his profound moral aspirations, to the anti-bureaucratic vision underlying his theory of the entrepreneur, and more generally, to his theory of economic development: *«associative corporatism would remove the greatest obstacles which are opposed to peaceful cooperation between employers and workers [even] if we cannot deny that in order to succeed, it is first necessary to resolve the problem of organisation»....«But there is a much greater difficulty....in a society in the process of decomposition, centralist and authoritarian*

¹⁰ Schumpeter, *Il futuro dell'impresa privata ... cit.p. 94-95*

¹¹ Schumpeter, *Il futuro dell'impresa privata ... cit.p. 95*

¹² Schumpeter, *Il futuro dell'impresa privata ... cit.p.95*

statism tends to come about on its own....gradually replacing the mechanisms of laissez faire as they cease to function with the mechanisms of bureaucracy»¹³.

Leaving aside the main theme of the conference, namely the future of private enterprise, Schumpeter concluded his address with a moral appeal: «... *associative corporatism is not a mechanical thing. It cannot be imposed or created by legislative power. It tends not to materialize on its own. It can spring only from the actions of free men and from the faith that inspires them. To establish it and ensure its success, willpower, energy and a new sense of social responsibility are necessary. ... But its greatest problem, and at the same time its greatest glory, lies in the fact that, more than economic or social reform, it implies moral»¹⁴. Such a direct appeal drew severe criticism and ideological opposition, lofty tolerance and raised eyebrows from those who deemed such pleas beyond the scope of the discipline. The more recent recognition of the need to reconcile ethics and economics, and even more so the recent economic practices that do violence to the individual and foster the survival of the fittest, suggest that Schumpeter is the conscious heir of the moral tradition of the great economists. This makes him even more eminent among the thinkers of his day.*

A letter to Oscar Lange of 16 February 1942 confirms that Schumpeter's insight into economics was deeply influenced by the scholastic thought. It is remarkable that Schumpeter made explicit this inclination to a colleague of the likes of Lange, who appeared so distant from the theories of Thomas Aquinas and indeed from Schumpeter's own ideas: «*Good luck to your work on the treatise. I am looking forward to it with greatest expectations. In particular I wonder if you will be able to put the tensor calculus to economic use. I think I told you that I tried and failed. But then I tried very superficially and half-heartedly and cannot really say that I so much as established the attack».....«Nothing like theology for light literature. I quite share this taste of yours only my favorite reading in the field is St. Thomas Aquinas. Such things as his proof that the angels displaced themselves, though very quickly yet in a finite time, are a source of joy to me. I am so glad that you have resisted the temptation to serve in one of those shadow cabinets of which this country seems to be full. Frankly I should not have thought your talents and energies well invested»¹⁵.*

In a letter to John Donald Black, Chairman of the Committee on Research in the Social Sciences at Harvard, Schumpeter briefly outlines his research program for 1943-4: he appears to

¹³ Schumpeter, *Il futuro dell'impresa privata ... cit.*p.96

¹⁴ Schumpeter, *Il futuro dell'impresa privata ... cit.*p.96.

¹⁵ Carbon of unpublished letter to Oscar Lange, February 16th, 1942, Harvard University Archive, Papers of J.A. Schumpeter, HUG (FP) – 4.8, Box 2.

concentrate on research of a statistical and mathematical nature, relegating to the margins his work on the history of economic analysis. In particular, Schumpeter announces that he is working on a text entitled 'The *Analytic Apparatus of Economics*', due for completion within a year. From a presumably realistic declaration submitted in the process of a funding application, Schumpeter did not appear to be engaged in research on the foundations of economics, in particular corporatism¹⁶. His apparent, exclusive interest in the formal and mathematical aspects of economics is confirmed by his Presidential address to the American Economic Association held in 1948 and published under the title of «Science and Ideology» in the March 1949 issue of the American Economic Review.

Schumpeter did not deny that ideology played an important role even in the so-called exact sciences: «Few will deny that in the cases of logic, mathematics, and physics the influence of ideological bias does not extend beyond that choice of problems and approaches ... the majority of economist stand between these extremes: they are ready enough to admit its [of ideology] presence though, like Marx, they find it only in others and never in themselves; but they do not admit that is an inescapable curse and that vitiates economics to its core. It is precisely this intermediate position that raises our problem: ideologies are not simply lies; they are truthful statements about what a man thinks he sees»¹⁷.

Even the statistical sciences could be invalidated by the role of ideology: «even statistical inference loses the objectivity that should in good logic characterize it whenever relevant issues are at stake». And not even mathematical models could be deemed totally free from the influence of ideology: «model building ... this work consists in picking out certain facts rather than others, in pinning them down by labeling them, in accumulating further facts in order not only to supplement but in part also to replace those originally fastened up in formulating and improving the relations perceived - briefly in «factual» and «theoretical» research that go on in an endless chain of give and take, the facts suggesting new analytic instruments (theories) and these in turn carrying us toward the recognition of new facts»¹⁸. In other words, the influence of ideology was much stronger than is commonly thought, although it remained shrouded in a veil of mathematic or scientific formalization.

Schumpeter was aware that the position he supported, namely the impossibility of excluding ideology from the exact sciences and indeed the need to recognize and clearly identify the presence

¹⁶ Carbon of unpublished letter to the Chairman - Committee on Research in the Social Sciences, July 10th, 1944, Harvard University Archive, Papers of J.A. Schumpeter, HUG (FP) – 4.8, Box 1.

¹⁷ J. A. Schumpeter, *Science and Ideology*, «The American Economic Review», 1949 (39), 2, p. 348.

¹⁸ Schumpeter, *Science and Ideology* cit., p.350.

of ideology, was not only very complex, it also ran the risk of introducing uncertainty, the very factor that made economics a science unacceptable to the majority of economists: «*there is little comfort in postulating ... the existence of detached minds that are immune to ideological bias and ex hypothesis able to overcome it ... there is more comfort in the observation that no economic ideology lasts forever and that with a likelihood that approximates certainty we eventually grow out of each*»¹⁹. In this sense, Schumpeter's epistemological vision preceded and undermined the convictions of most of his peers, and spread uncertainty within a scientific community that only recently had begun to elaborate interpretative models, albeit with elementary tools that required further development: «*[a] prescientific cognitive act which is the source of our ideologies is also the prerequisite of our scientific work ... our stock of facts and tools grows and rejuvenates itself in the process. And so - though we proceed slowly because of our ideologies, we might not proceed at all without them*»²⁰. So ideological visions could not be eliminated. Science was consciously linked to ideology. Facts were linked to theory. Schumpeter's epistemology expresses at an interpretational level his profound vision of economics, yet it was a vision that he could not formalize within the framework of economics. As it emerges from his address of 1948, Schumpeter's epistemology is none other than his moral vision of the economy under another name. So *Science and Ideology* was a kind of spiritual testament, an explicit declaration of his conception of economics, the basis of his scientific teachings, in other words theoretical evidence of his cultural isolation, a demonstration of his extraordinary existential coherence.

In reality, if Schumpeter's intellectual pathway departed undoubtedly from his 'moral' conception of economics, at a theoretical level it arrived at his epistemological conception; nevertheless, the picture would not be complete without an analysis of his radical criticism of socialism. On 30 December 1949, not by chance, Schumpeter delivered an address to the American Economic Association at New York dedicated to socialism. According to Stolper, this is to be considered Schumpeter's last written work. Indeed Schumpeter saw only part of the text published subsequently, on the evening before his death. He was planning to complete it on 8 January before his departure for Chicago to give the Walgreen Foundation lectures²¹.

Schumpeter had a profound knowledge both of socialism from a historical perspective – pre and post Marxian - and of critical works on socialism. He was also familiar with the contemporary debate on its consequences and applications. In particular, in 1946 he had reviewed in the *Journal of*

¹⁹ Schumpeter, *Science and Ideology* cit., p.358.

²⁰ Schumpeter, *Science and Ideology* cit., p. 359.

²¹ J. A. Schumpeter, *The March into Socialism*, «*The American Economic Review*», 1950 (40), 2, 446-456. Notes and remarks, also published as a foreword to Schumpeter's address in the AER, were transcribed by Stolper, see: Harvard University Archive, Papers of J.A. Schumpeter, HUG (FP) – 4.50, Speeches, lectures and miscellaneous writings.

Political Economy a work considered the book of the moment, perhaps even the book of the century in terms of its critique of socialism, Hayek's *The Road to Serfdom*: «*a political book ... a courageous book ... a polite book*». Schumpeter expressed certain reservations over Hayek's interpretation of Nazism: «*an effective perhaps not quite convincing case is made concerning the socialist roots of Nazism*», the economic and historical foundations of which Hayek seemed to be unaware, in Schumpeter's view. Nevertheless, Schumpeter's appreciation of the Gladstonian Hayek was sincere and profound: «*nothing could be more effective than Hayek's exposure of socialist prevarications concerning personal liberty and especially freedom of criticism under their prospective rule ... this is a political book written by a man in opposition*». Furthermore, Schumpeter's deepest criticism of Hayek concerned the latter's analysis of the historical and social roots of socialism, an evaluation with which Schumpeter expressed his radical dissent: «*the book take surprisingly little account of the political structure of our time ... if he had gone into historical conditions from which the ideas arose which he dislikes so much, he could not have helped discovering that they are the products of the social system which he does like. The principles of individual initiative and self-reliance are the principles of a very limited class ... It is the people whose ideas count politically that have changed. This is why the old road has been abandoned ... Hayek is hard and perhaps with justice on those academics socialists who hope to combine the abolition of private property with the full retention of individual freedom, but he has much more in common with them than he seems to realize*»²². In other words, Schumpeter's criticism of socialism fits within an ideological vision that ran against the liberal opponents of socialism, whom Schumpeter considered among the most influential proponents of the very ideology they claimed to wish to fight.

Once we have understood that Schumpeter's stance towards socialism differs from traditional liberal criticism, we should add that the definition of socialism contained in his address to the American Economic Association totally rules out Schumpeter's acceptance of socialism in any form, not even in the event of a crisis in the entrepreneurial system: «*I do not advocate socialism. Nor have I any intention of discussing its desirability or undesirability....I speak of centralist socialism only because it holds a place of honor in the discussion*»²³. It is precisely Schumpeter's criticism of socialism which nurtures in him the need to consider forms of social organization other than socialism: «*for instance a reorganization of society on the lines of the encyclical Quadragesimo Anno though presumably possible only in Catholic societies or in societies where*

²² . A. Schumpeter, *Review: F. Hayek, The Road to Serfdom*, «The Journal of Political Economy», 1946 (54), 3, 269-270.

²³ J. A. Schumpeter, *The March into Socialism*, «The American Economic Review», 1950 (40), 2, p.447.

the position of the Catholic Church is sufficiently strong no doubt provides an alternative to socialism that avoid the «omnipotent state»²⁴.

So echoes of the Montreal conference returned, now in a more economic context, but the same tones were the same. Schumpeter had no need to repeat his analysis of the capitalist system and the relationship between the demise of capitalism and the rise of socialism. In his criticism of the capitalist entrepreneurial system, and in his prefiguration of the rise of capitalism, Schumpeter's tone was more that of a betrayed lover than of a disarmed prophet: *«The best method of satisfying ourselves how far this process of disintegration of capitalist society has gone is to observe the extent to which its implications are being taken for granted both by the business class itself and by the large number of economists who feel themselves to be opposed to (hundred per cent) socialism and are in the habit of denying the existence of any tendency toward it». ... «all I wish to emphasize is the fact that we have travelled far indeed from the principles of laissez-faire capitalism and the farther fact that it is possible so to develop and regulate capitalist institutions as to condition the working of private enterprise in a manner that differs but little from genuinely socialist planning».... «having discovered this possibility of a laborist capitalism they go on to conclude that this capitalism may survive indefinitely, at least under certain favorable conditions. This may be so but it does not amount to a denial of my thesis. Capitalism does not merely mean that the housewife may influence production by her choice between peas and beans; nor that the youngster may choose whether he wants to work in a factory or on a farm; nor that plant managers have some voice in deciding what and how to produce. It means a scheme of values, an attitude toward life, a civilization – the civilization of inequality and of the family fortune. This civilization is rapidly passing away, however. Let us rejoice or else lament the fact as much as every one of us; but do not let us shut our eyes to it»²⁵.*

According to Schumpeter, the business cycle had a series of permanent consequences on the behavior of individuals: *«a state of perennial inflationary pressure will have, qualitatively, all the effects of weakening the social framework of society and of strengthening subversive tendencies that every competent economist is in the habit of attributing to more spectacular inflations».* Schumpeter listed and discussed the measures for controlling inflation that were normally applied; he referred also to Keynesian policies and price control policies. Schumpeter's final response was that neither orthodox nor heterodox remedies solved the problem. His conclusion was coherent with his psychological and mental state; he was far better at leveling criticism than at making proposals.

²⁴ Schumpeter, *The March into Socialism* cit., p. 447.

²⁵ Schumpeter, *The March into Socialism* cit., p. 449-450.

Schumpeter's conclusions were more an acknowledgement than a prophecy. *«I do not pretend to prophesy; I merely recognize the facts and point out the tendencies which those facts indicate».....»whether the American genius for mass production on whose past performance all optimism for this way of life rests is up to the test, I dare not affirm, nor do I dare to affirm that the policies responsible for this situation might be reversed. Marx was wrong in his diagnosis of the manner in which capitalist society would break down; he was not wrong in the prediction that it would break down eventually. The stagnationists are wrong in their diagnosis of the reasons why the capitalist process should stagnate; they may still turn out to be right in the prognosis that it will stagnate – with sufficient help from the public sector²⁶». Although his reference to a corporatist economy is only fleeting, it is evident how in the eyes of Schumpeter very little remained to salvage, either in mainstream economic theories or economic policy choices.*

Schumpeter's interest in scholastic philosophy and in Catholic corporatism in particular, cannot readily be considered part of what Abraham Harris defines the 'scholastic revival'. In an article of February 1946 published in the *Journal of Political Economy*, Harris, the second African American to receive a PhD in Economics in the United States, traced a growing interest among American scholars of economics in scholastic theories; in reality Harris' attention focused on the theories and analysis of Heinrich Pesch; indeed Harris lamented the lack of familiarity in America with Pesch's thought. In his article, Harris does not seem to assign a particularly important role to Bernard W. Dempsey, who was mentioned only after more prominent authors of the likes of Pope Pius XI, Jacques Maritain, Hans Meyer, Wilhelm Schwer, Oswald von Nell-Breuning, John A. Ryan and Goetz Briefs²⁷. As we shall see, Schumpeter's interest in Catholic corporatism was linked to his then unknown relationship with Father Dempsey, a Jesuit and professor of economics at the Saint Louis University. Although neglected by historiography, Bernard W. Dempsey S.J. was a key figure in Schumpeter's relationship with corporatist thought and medieval scholastic philosophy. As is often the case in an age of globalization, familiarity with the literature is confined to disciplines. Dempsey's contribution was investigated in depth in Catholic circles yet received no treatment in two studies of Schumpeter's Catholic corporatism²⁸, and was unknown even to the most eminent biographer of the Austrian economist, Richard Svedberg. In reality, it would have been sufficient to

²⁶ Schumpeter, *The March into Socialism* cit., p. 455-456.

²⁷ A. L. Harris, *The Scholastic Revival: the Economics of Heinrich Pesch*, «The Journal of Political Economy», 1946 (54), 1, 38-59.

²⁸ See, M. G. P. e. D. R. Henderson, *Schumpeter on preserving private enterprise*, «History of Political Economy», 1975 (7), 3, 293-298; D. L. Cramer and. C. G. Leathers, *Schumpeter's corporatist views: links among his social theory, Quadragesimo Anno and moral reform*, «History of Political Economy», 1981 (13), 4, 745-771.

scan Schumpeter's history of economic analysis to appreciate both the scope of Dempsey's influence and Schumpeter's respect for him²⁹.

Bernard Dempsey was born in Milwaukee on 21 January 1903 and was a brilliant scholar despite the humble origins of his family and the premature death of his parents. His studies began at Marquette University; after a brief stint teaching history at Regis College in Denver, he returned in the late 1920s to St Louis University to further his studies of philosophy, which he completed at St. Mary's College in Kansas. In 1937, he entered Harvard Graduate School where in 1940 he received his PhD in Economics with Schumpeter as his doctoral advisor. With Leo Cyril Brown and Thomas Divine, he formed an elite group at Saint Louis University, where he was appointed Chairman of the Department of Economics. From 1936, the year of publication of the encyclical *Quadragesimo Anno*, he promoted the diffusion of Catholic Social Thought in the United States, in an effort to juxtapose modern economic science and medieval scholastic philosophy. It is important to underline that Dempsey was a pivotal figure, not only in broadening Schumpeter's knowledge of late scholastic philosophy, but above all by introducing his doctoral advisor at Harvard to the Catholic Association of which he was founder, and to the Quebecois Catholics, the organizers of the well-known conference at Montreal in 1945. For bibliographical purposes, note that between 1951-54 Father Dempsey was invited to direct Nirmola College in New Delhi. Sadly, he was forced to return prematurely to Marquette for health reasons. He died on 23 July 1969³⁰.

In 1943, what should be considered Dempsey's most significant work on medieval scholastic thought, his doctoral thesis completed under the guidance of Schumpeter was published in Washington by the Council of Public Affairs. The book, which contained a pithy introduction by Schumpeter, was reviewed widely and favorably in the *American Economic Review* of March 1944 by Joseph Solterer, who close ties with Schumpeter were well-known. The medieval economic historian Raymond de Roover, the author of fundamental contributions on the history of finance and the history of medieval economic thought, provided an extremely favorable account of Father Dempsey's work on interest and usury in the *Journal of Economic History* of 1944³¹. However, in 1949 on the occasion of the publication of the British edition of Dempsey's book,

²⁹ Father Dempsey appears three times and his work is quoted as «impossible to present a more satisfactory [account of rich doctrinal development], which the interested reader will find in Professor's Dempsey's book.», see . A. Schumpeter, *History of Economic Analysis, with a new introduction by Marl Perlman*, London, Routledge, 1994, p. 104.

³⁰ P. Roets, *Bernard Dempsey, S.J.*, «Review of Social Economy», 1991 (49), 4, 546-558, that is the first chapter of the book by P. Roets, *Economic Ideas of Bernard W. Dempsey*, Milwaukee, Marquette University Press, 1991.

³¹ R. De Roover, *Review: B.W. Dempsey, Interest and Usury*, «The Journal of Economic History», 1944 (4), 2, 209-211

Roger Hawtrey leveled a number of criticisms at Father Dempsey, accusing him of linking medieval economic theory to modern economic problems, and of drawing naïve conclusions³².

Father Bernard Dempsey had already received attention in 1936 with his edition of Oswald von Nell-Breuning's book on the reorganization of the social economy in the light of the pontifical encyclicals. In 1941, Dempsey had published a short essay entitled '*Corporate Democracy*'; a number of articles complete his scanty bibliography: '*Just Price in a Functional Economy*' of 1935 seems to be the most significant contribution to the scholastic revival mentioned by Harris. Alongside it, the article on the *Historical Emergence of Quantitative Theory* was based on the same environment, the late scholasticism of Luis Molina. Lastly, the article entitled '*Ability to Pay*' is worthy of note if only because it clarifies Dempsey's almost total disagreement with Harris' reading of Pesch's thought («accurate information concerning Pesch's economics is hard to find in English. Papers such as Harris, '*The Scholastic Revival: the Economics of Heinrich Pesch*' make it harder still»³³).

Father Emile Bouvier was a figure even less prominent in the historiography than Father Dempsey was; as we have already said, he was undoubtedly responsible for introducing Schumpeter to Quebec, for offering him the opportunity to present for the first time his interpretation of corporatism. In reality, apart from their shared acceptance of Catholic corporatism, Father Bouvier's thought was characterized by a number of important elements absent in Dempsey's thought, and of no interest to Schumpeter. Indeed, although studies have been conducted in this context, we are convinced that Father Bouvier belonged to an informal group that revolved around the first permanent organisation for social education, the *Ecole Sociale Populaire* (ESP) that in 1949 became the *Istitut Sociale Populaire*. The ESP, led by Jesuits, organized social weeks and from 1936-40 published a journal dedicated to the diffusion of corporatist ideas, *L'Ordre Nouveau*. Without going into the details of the intellectual and social debate in Quebec between 1940-50, we should note that Catholicism and corporatism in Quebec, unlike that of the Jesuits of the Saint Louis University, was characterized by a far from negligible French Canadian nationalist undercurrent. Just as Catholicism was the response to the Protestantism of the English conquerors, in the same way corporatism could have represented in the mind of Bouvier and his followers the alternative to the model of individualist economy championed by the English colonizers³⁴.

³² R. G. Hawtrey, *Review: B.W. Dempsey, Interest and Usury*, «The Economic Journal», 1949 (59), 234, 225-227.

³³ B. W. Dempsey, *Ability to pay*, «The Quarterly Journal of Economics», 1946 (60), 3, p. 363.

³⁴ A good picture of the intellectual environment in Franch-Canadian aerea during 40's and 50's could be found in S. H. Barnes, *Quebec Catholicism and Social Change*, «The Review of Politics», 1961 (23), 1, p. 52-76.

Schumpeter's correspondence highlights his close relationship with another Jesuit from Saint Louis, a colleague of Dempsey at Harvard between 1937-40, Leo Cyril Brown (1900-1978). Father Brown was perhaps the best-known economist of the group of Jesuits. He and his father worked for the Union Pacific Railway and were active union members. Brown entered Creighton University while working nights as a railroad clerk. He received his Bachelor's and Master's degrees from Saint Louis University, and was awarded his PhD in Economics from Harvard as Warheim Fellow. At the Regis College of Denver, he founded the University Labor School, and in 1944, he was appointed Director of the Institute of Social Sciences at Saint Louis University; in 1949, he became Professor of Economics, attaining national recognition as an outstanding mediator of labor disputes. His principal works concern labor and trade union issues, his main areas of scholarly interest³⁵.

On 19 September 1949, shortly before his death, Schumpeter wrote a rather interesting letter to father Brown; it is well worth citing in full. In relation to the Catholic Economic Association, Schumpeter wrote that he: *«perfectly realize your difficulty and of course know that there is no question of rivalry between the Catholic Economic Association and the American Economic Association»*. Brown's answer was correct in so far as it stated that the announcement of the Catholic Association meeting could not be inserted into the American Economic Association's special program since the former was an independent organization. *«But the same purpose can in my opinion be achieved in the following two ways: first, it is usual for some of the social sciences societies that hold their annual meetings at the same time and place to issue besides their own special programs, a joint program. I do not know that any particular act of affiliation is necessary for the CEA to have its program included into this. In addition, some associationsalthough their programs were not published in the joint program yet had the fact that they met in Cleveland last year mentioned on the cover of the joint programs of the others.....second, if you had a joint session with AEA, then the session would be automatically included in the program which would serve the same purpose still better. This would have to be arranged however, with this year's president, Professor H.S. Ellis of the University of California....I believe that his program is complete and that he may be unable to consider the insertion of such a session. In this case, there is perhaps some use in telling you that the president for 1950 is Professor F.H. Knight of Chicago»*.

«As regards the desirability of applying for affiliation, I do not see any particular objection to it. It may strengthen the CEA position and I consider it highly unlikely that anything the AEA might do could cause any embarrassment to the CEA. However some difficulty must be expected since

³⁵ G. W. Grünberg, *Brown, Leo Cyril ad vocem*, in *New Catholic Encyclopedia*, New York, Mc Graw Hill, 1978, vol. 17, p. 57

some people are sure to argue against it on the grounds, however unjustified, that the very title of the CEA carries an extra scientific connotation. I therefore suggest that Mr. Bell's letter should be simply acknowledged and the request be added that the fact of the CEA meeting in New York together with its headquarters should be announced on the cover of the joint program exactly as were last year the meetings of the associations mentioned above. I suggest that you should write to President Ellis expressing an interest in the main topic around which he proposes to organize his meeting.....if he answers as I think it is likely by now, I should in your place take the matter over with Professor Knight in New York in such a way that he can refuse if he wants to without causing offence. You see the drift of my argument: I think cooperation with the AEA in such a way as to make the meetings of the CEA more widely known to be desirable on balance; but I also think that in order to avoid friction the ground should be prepared with some care and that for the time being the inclusion of the CEA into the list of societies that meet in New York on the cover of the joint program would be a useful first step»³⁶.

We dwell on this letter for two reasons: it demonstrates the close ties between Schumpeter and Father Brown, and it also confirms Schumpeter's commitment to support the cause of the small association of Catholic economists, an undertaking borne out by a letter written by Emile Bouvier on 24 November 1945 shortly before the Montreal Conference, that not only congratulates Schumpeter but also provides evidence of a mutual understanding but a willingness to embark upon joint programs of work, one of which was a treatise on political economy grounded on corporatist principles.

Schumpeter's keen interest in such themes is confirmed by a letter of 21 February 1949 to Father Dempsey that documents the Austrian economist's awareness of different scientific attitudes to the historical role of Catholic culture in defining economic behavior. In particular, Schumpeter responds to a probable request from Dempsey for his opinion on a recent book published by Raymond Rover entitled '*Money and Banking in Bruges*', about which the Jesuit expressed certain reservations. Schumpeter employed a military metaphor in his reply to Father Dempsey: «*A strategic situation may be such that attack upon the enemy in itself is both possible and desirable but that at the same time the enemy is in a position to retreat easily and without much loss so that the attack may be tactically unadvisable. Such a situation seems to me to obtain in the present case and with the proviso made above, I should not advise attack . If you do write a review, I should advise you to give full credit to the scholarship displayed in handling the material of the Bruges*

³⁶ Carbon of unpublished letter to Leo C. Brown, September 19th, 1949 , Harvard University Archive, Papers of J.A. Schumpeter, HUG (FP) – 4.8, Box 1.

archive and for the rest confine myself to some such remark as that you were surprised to find that in interpreting the attitude of the church and her Doctors to usury the author displayed a certain narrowness that was indeed common thirty years ago but which one does not expect to find in a modern book»³⁷.

The success of the 1945 Montreal conference was immediately recorded, and reported by Bouvier to Schumpeter in a letter of 24 November 1945: «votre conférence a remporté un magnifique succès. Les échos du congrès se font entendre dans les journaux de la province de Québec et du Canada tout entier. Votre attitude si logique au point de vue économique a ouvert les yeux à un grand nombre d'hommes d'affaires encore imbus des principes du libéralisme économique». Nevertheless, it provided an occasion to underline the substance and deep significance of Schumpeter's visit to Montreal: «En vous entendant, l'autre soir, je suis convaincu plus que jamais que vous avez une véritable mission économique à remplir. Une spécialiste de votre taille pourrait orienter la pensée économique dans une via media entre le libéralisme e le socialisme, comme vous l'avez si bien démontré, lundi soir» Not only, it also provided an opportunity to begin a more profitable relationship, of which Bouvier immediately took advantage: «Me serait-il permis, à titre de suggestion, de vous demander de préparer un traité d'économie politique basé sur ces principes? Peut-être pourrions-nous faire un "joined product", comme vous l'avez si bien dit dans votre avant dernière lettre, où nous pourrions unir dans un même ouvrage la pensée d'un moraliste et d'un économiste comme vous»³⁸.

* * *

In conclusion, there is no doubt that during Schumpeter's time at Harvard, the focus of his interest shifted from technical economics (*Business Cycle*, 1939) towards economic systems (*Capitalism, Socialism and Democracy*, 1942). His definitive publication, *History of Economic Analysis*, was the work of a true economist, both in terms of its innovative scientific contribution, and of the breadth of Schumpeter's historical knowledge, unrivalled by his peers. In short, from 1935 until his death, Schumpeter's 'public' intellectual pathway was characterized by a superhuman effort to remain within the boundaries of economic science, despite his increasing rejection, at a personal level, of the direction taken by economics and economic policies – from the *General Theory* and Roosevelt's second term of office onwards. Such endeavors were motivated by Schumpeter's desire to avoid exclusion from the great debates, and by his progressive

³⁷ Carbon of unpublished letter to Reverend B.W. Dempsey, February 21st, 1949, Harvard University Archive, Papers of J.A. Schumpeter, HUG (FP) – 4.8, Box 1.

³⁸ Unpublished letter from Emile Bouvier, Montreal 24 novembre 1945, Harvard University Archive, Papers of J.A. Schumpeter, HUG (FP) – 4.8, Box 1.

marginalization from the activities of the Department of Economics at Harvard, to the extent that he contemplated abandoning Massachusetts.

It was during these years that Schumpeter came into contact with a group of American Jesuits - Divine, Brown and Dempsey – who, for reasons relating to their religious order rather than personal motivations, were studying technical economics. The aim of the Jesuit scholars was to develop and circulate, initially in the United States and then further afield, economic theories and economic policies that reconciled medieval scholastic thought with pontifical teachings from the *Rerum Novarum* to the *Quadragesimo Anno*, concepts conventionally known as Catholic corporatism. Schumpeter was clearly influenced, both by his relationship with the Jesuits and by this new intellectual pathway that officially began in 1937 when the three Jesuit fathers enrolled in the doctoral program in economics at the University of Harvard. Initially, Schumpeter played a participatory role, but at the Montreal conference in 1945, publicly and sensationally, he took the ideas and presented them as his own.

Nevertheless, it would be limiting to define Schumpeter's support of Catholic corporatism as superficial, temporary or in any way marginal. The author of *History of Economic Analysis*, throughout his intellectual career and certainly from 1945 onwards, conveyed deep corporatist convictions in numerous of his works, albeit from different angles and with different tones. Contributions such as *Science and Ideology*, *March into Socialism*, *English Economists and the State Managed-Economy*, *The Creative Response in Economic History*, represent something more than a momentary choice. The late Schumpeter's corporatism, namely the ideas expressed at the Montreal conference, notions that up to now scholars have deemed unworthy of attention, effectively represent the culmination of his intellectual development and should be seen in an entirely different light.

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