



Entrepreneurship as Capitalist Dialectics A Schumpeterian Vista

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Abstract

In trying to paintbrush background and scientific "environs" when Schumpeter's visionary "Theory of Economic Development" (1912) came out, classical and neoclassical thought as well as Marx' "Capital" had been exposed already for some time to scholarly scrutiny by the learned community. In neither classical-neoclassical nor Marxian visions, the entrepreneur explicitly figures. It is Schumpeter's truly seminal interpretation of the capitalist process, wherein the entrepreneur as such takes centre stage as the "pioneering" and driving force in a dialectic sense as, in fact, sort of a villain, as the "antithesis" to the market system. As indeed an element constantly striving to outmanoeuvre constraining competition, to "trick" given market conditions and, thereby, forever challenging the "system" itself; or more pointedly still: when and wherever possible to be, or to become, a monopolist. When relating this to modern entrepreneurship, its pivotal role in a regional and global or, more specifically so, in a structural as well as developmental context, Schumpeter's vision, nowadays, more than ever in times of dynamic change may serve as a guide for any entrepreneurially oriented policy formulation.

Keywords: Entrepreneurial dynamics; Innovative change; New combinations; The entrepreneur as systemic antithesis; Market disequilibrators

Introduction

Underlying hypotheses and observations, Schumpeter states in the early German edition of his seminal "Theory of Economic Development" (1912)¹, were not invented or merely fictitious, but taken and gleaned from economic reality in contrast to – then – prevailing equilibrium oriented and essentially "static" views of interpreting the market based capitalist process as "conditioned by given circumstances" (as he subtitled the very first chapter). Thus, the telling motto right on the title page of the first edition: "Hypotheses non fingo". (As such never appearing again in any later issues, including the English translation of 1934; ref. Annexes 1 and 2.) [1-15].

From hindsight one might be left wondering as to what, in fact, makes Schumpeter's early conceived vision of the leadership role of the entrepreneur in "economic life" still so very topical, if not to say outright indispensable for explaining the dynamics of the "capitalist" system. In recognizing role and importance of

entrepreneurially driven innovation with related forces of "creative destruction" as intrinsically market based phenomena, Schumpeterian notions indeed seem to have gained new momentum in today's economic debate for the very understanding of entrepreneurial by driven systems, including competitive entrepreneurial behaviour with emphasis also on related entrepreneurship education. All that against a bibliographical background of his "Theory" which – intermittently nearly forgotten, widely misread or misinterpreted – took fully 14 years until its second, in parts radically revised and modified edition in 1926. Schumpeter explicitly voices his irritation in the foreword to the second edition that readers of the earlier version obviously "mistook" the book as a kind of "history" of economic development in line with the – methodologically more descriptive – German "Historical Schools" to which, nonetheless, the very flow and partly rather verbose style of the original text undoubtedly shows a certain affinity. In restating and emphasizing the theoretical thrust of his argument, the somewhat

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lengthy subtitle was added from the second edition onwards (and retained also in the English translation) to bring home the very essence together with substantial revisions to the core second chapter on “The Fundamental Phenomenon of Economic Development”. In the context of such revisions Schumpeter, in our view, perpetrated two “sins”: Firstly, by trying to schematize, thereby narrowing down and kind of “sterilizing”, in the second chapter the very role of the entrepreneur to the meanwhile famous, again and again being referred to, “five cases” in “the carrying out of new combinations”; as such conveying a rather bloodless, sort of descriptive “listing” of implied entrepreneurial traits and “characteristics” lending itself to a rather limited, yet tempting interpretation as a sort of proxy for defining the “Schumpeterian entrepreneur”, quite in contrast to the full blooded picture so vividly painted in the original version refraining from such schematization. Secondly, by omitting the entire seventh chapter (from 1926 onward), wherein Schumpeter tried to put his vision and overall conceptualization in a systemic context by way of a “holistic” topping off in form of a socio-economic synopsis to the expositions in the preceding chapters. It seems a pity that, especially the English reader, remains deprived of a possibly still more comprehensive and deeper understanding of the very thrust of the Schumpeterian message even if, admittedly, this chapter (of nearly 90 pages in the German original) might appear less rigorously argued [16-25].

A “Theory” Against the Mainstream

In order to fully appreciate the very boldness of Schumpeter’s message, his “Theory” needs to be viewed in light of the prevailing mainstream of economic thought at time of its first publication. Classics and Neoclassic, notably of the Viennese marginal (“Grenznutzen”) tradition with Eugen v. Boehm-Bawerk and Friedrich v. Wieser as principal advisers to Schumpeter’s habitation at the Vienna University, clearly were dominating the discipline’s common body of knowledge; and so was Marx’ quite different, non-market based (“socialist”) interpretation of the economic process, all of which Schumpeter was well familiar with, while more specifically having been exposed, of course, to neoclassical thinking in the Viennese academic “style”. His habitation thesis as mentioned, submitted in 1908, indeed was devoted to a theoretical treatment and discussion of the “state of the art” at the time, including a rather shrewd reception and re-interpretation of Walrasian equilibrium as an exposition of “pure economics” on essentially static grounds. These scientific environs and ingredients are important to note as points of departure in Schumpeter’s own “Theory”, wherein his critical stand against the prevailing “mainstream” finds ample expression right in the first chapter by pointing at the intrinsically static, “circular flow”-type view of “economic life” and voicing his discontent over the obvious deficiency of such theorizing to

adequately capture and explain the underlying dynamics of the market based “capitalist” process. By contrast, he explicitly commends Marx as - with his (dialectic) methodology - being able to indeed grasp the intrinsically dynamic nature of “economic development.” To mention as of specific relevance in this very context is Eugen v. Boehm Bawerk’s profoundly neoclassical - and pointedly anti-Marxist - “The Positive Theory of Capital” as for Schumpeter yet another bone of contention and point of critical departure since, despite its erudite theoretical reasoning, again resting on essentially “static” grounds and, therefore, bound to miss the intrinsic nature of “capitalist” dynamics. (For an ingenious early re-interpretation of “The Positive Theory” with Boehm-Bawerk’s subtle theorizing on the “round aboutness” of capitalist accumulation by his contemporary Swedish economist Knut Wicksell see graphical illustration, Annex 4.). It is against such background and dissatisfaction with mainstream “circular flow” concepts as prevailing then, that Schumpeter’s own “Theory” evolved and took shape: as a theoretical - and in its endeavour similar to Boehm Bawerk’s preceding, albeit “static” - attempt to, for his part, provide a non-Marxian dynamic interpretation of capitalist “development” driven by its inherent systemic forces “from within”. We shall try in the following to pinpoint - against such background - what seems to emerge as a kind of “hidden agenda” behind Schumpeter’s vision rendering it such lasting a legacy for interpreting capitalist development and its dynamics.

Toward Entrepreneurially driven “Capitalism”

In taking a profoundly critical stand against mainstream “statics”, Schumpeter in his “Theory” endeavours to depict market based (long term) “economic development” as an ever changing - and as such never toward equilibrium tending - process of “economic life” generally. This, in fact, constitutes the all-pervading thrust of his argument; and indeed no one - apart from Marx in his systemic theorizing - has done so before in a similarly rigorous fashion which, no doubt, lends such seminal and lasting fascination to his “Theory”. The essence of capitalist dynamics, in Schumpeter’s view, thus boils down to a continuous pursuit of “carrying out ... new combinations” as an entrepreneurially driven process which proves “that economic life never is static; it lies in the very nature of development.” The question then arises: who is “carrying out”, what stands for the “new” and how are “new combinations” being carried through? Schumpeter’s straightforward answer to that is: the entrepreneur, being depicted and singled out in the very “Schumpeterian” meaning (or “in our sense” as he repeatedly emphasizes). In any given economic moment or situation, so his argument, there exist “numerous possibilities for new combinations”, yet only a small group has the drive and takes “leadership” to, in fact, carrying them through, while “most do not see them”. Thus, “... the carrying out of new



combinations is a special function ... of people who are much less numerous than all those who have the 'objective' possibility of doing it. Therefore, entrepreneurs are a special type, and their behaviour ... the motive power of a great number of significant phenomena." Hence it is, with Schumpeter, the entrepreneur - and only he - who "leads" the means of production into new channels ... drawing other producers ... after him", thereby rendering "a service, the full appreciation of which ... is not so easily understood by the public at large". From there it follows, "the most typical incorporation of future value creating potentials is a new enterprise ...", and the "specific type" as characteristic for "a special class of economically active individuals has taken on a name of its own, namely entrepreneur." The entrepreneur as the driving or "leading" force in economic life, be it as "business founder" or as "creative innovator" who through "anti-hedonist" activity and initiatives creates future values. "They (these values, J.H.P.) correlate with new combinations, new combinations translated in value terms ... the shadows of things to come ..." In carrying out new combinations, the entrepreneur, firstly, singles out from a "multitude of various moments ... the related right decision ... which is given to few people only with specific capabilities, and secondly, carries them through. These are the characteristics of our entrepreneur, of our man of action. They are inseparable and of equal importance. And the result is economic development, progress"; development or progress being triggered by "our type" of (Schumpeterian) entrepreneur.

Uncovering the Subtlety of implied "Dialectics"

The role of the Schumpeterian entrepreneur, as inseparably being geared to the very essence of "economic development", thus resembles a kind of "hidden" form of what might be called Schumpeterian "dialectics" for interpreting the dynamics of capitalist development from a (non-Marxist) systemic perspective. The market system itself, under "given circumstances", thereby constituting the thesis; the entrepreneur in the Schumpeterian sense as the driving (also the "creatively destructive") force being the antithesis to the system, ever striving to "out compete" given circumstances by way of new combinations and thus - temporarily at least - trying to be or to become a kind of "monopolist"; finally, the synthesis of such a scenario to be seen in prevailing market forces tending forever to catch up with, to "compete down" temporarily dominating entrepreneurial initiatives provoking, by force of such process, entrepreneurial creativity yet anew in trying to tackle or outmanoeuvre the system "from within" and, as such, quite distinct from Marxist "dialectics". The entrepreneur in such a scenario takes on the role of unsettling "disequilibrators", as an ever disturbing element to static or "circular flow" tendencies toward equilibrium in the very sense of "creative destruction"; as a maven of forever challenging the system "conditioned by given

circumstances", of constantly trying to trick competitive market constraints and forces through innovative "new combinations" providing thus the intrinsic drive for (Schumpeterian) "economic development". Different from Marx, different also from the classical-neoclassical and as such essentially "static" concepts, Schumpeter in his "Theory" boldly presents an alternative (non-Marxist) interpretation of the "capitalist" process with the entrepreneur taking center stage. It is this very boldness too, which in good measure seems to account for the lasting relevance, if not to say fascination of his "Theory" up till now (celebrating the well over 100 years anniversary since its first printing).

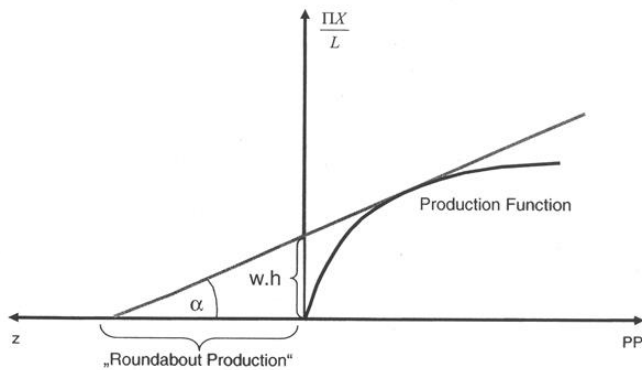
Legacy and Topical relevance in today's Perspective

By provocatively casting the entrepreneur - traditionally being considered the "epitome" of capitalism itself - as sort of villain or "antithesis" to the market system with its "mainstream" proclaimed tendencies toward (static) equilibrium, amply testifies to the originality of Schumpeter's own theorizing. Thereby depicting the specific role of the entrepreneur under systems-related aspects further implies that the very same ("capitalist") system essentially derives its inherent strength and dynamics from ever self-renewing entrepreneurial drive and initiatives; dynamics and strength, in the end, for sustained reproduction of the system as such out of its own forces, or "from within". Notwithstanding Schumpeter's later scepticism under changed economic conditions in the face of World War II whether entrepreneurially led capitalism indeed may "survive", we today can witness a sheer global revival of Schumpeter's early vision: be it in form of a new and growing awareness of the need for entrepreneurial initiatives, values and attitudes as crucial for sustainable development and more broadly based welfare; be it in recognizing the specific relevance of "entrepreneurship education", or the importance of diversified entrepreneurially based small and medium sized business structures; be it in the context of fostering business start-ups combined with venture capital financing and concomitant tendencies toward privatization worldwide (including related emphasis on economies "of scope" rather than just one-sidedly "of scale") - this all relates to the very notion of Schumpeterian "entrepreneurship" as being reflected in entrepreneurially driven initiatives, creativity and "leadership". Leadership that in any market based system stands for structural diversification, for sustained viability and capabilities of success and sheer systemic "survival" under competitive conditions. From a contemporary perspective, relevance and importance of Schumpeter's vision nowadays seems to be demonstrated vividly in the ongoing - and partly still painful - restructuring from formerly centrally planned to market oriented systems in Central and Eastern Europe. A transformation

whereby the final verdict over success or failure in large measure hinges on how effectively these economies are capable to build and rebuild their over decades ruthlessly weakened, if not outright ruined entrepreneurially based business structures as a prerequisite for economic dynamics and sustained development in an increasingly competitive environment with more and more diversified markets. More than ever, as it seems, can under today's regional as indeed worldwide challenges Schumpeter's erstwhile vision serve as a valuable guide, as a kind of compass with a view to policy formulation for entrepreneurially conducive framework conditions, or more bluntly still: for creating conditions wherein entrepreneurial initiatives, creativity and leadership in the very Schumpeterian meaning can thrive and adequately are being rewarded. To conclude on that note in Schumpeter's own words: "Look around - and you will see, things really are like that." Or in conformity with his early motto again: "Hypotheses non fingo."

Boehm-Bawerk's „Roundabout Production“*

<in WICKSELL's re-interpretation>**



$\frac{\Pi X}{L}$ Output : Employment (= Labour Productivity)

PP \emptyset Production Period

z „Roundabout Production“ $\left(= \frac{2}{i} \right)$

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