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IN THE EARLY JOSEPH ALOIS JULIUS SCHUMPETER'S FOOTSTEPS – SOME RESEARCH HIGHLIGHTS

In 2012, I started a research program: In the footsteps of Joseph Alois Julius Schumpeter. The same year marked the 100 years anniversary of the first publishing of Joseph Alois Julius Schumpeter's Theorie der wirtschaftlichen Entwicklung (English title; The Theory of Economic Development). The program included many activities; visiting main sites where the famous economist used to live and work, in-depth interviews with key persons on site, research in relevant archives, collecting and spreading information about Schumpeter's science globally through academic institutions, libraries, organizations, forums and summits. This article focuses on the research highlights based on the four-year global research period and my previous research (Sandal, 2003).

Keywords: J.A. Schumpeter, motivation theory, non-Marxian states, seventh chapter, entrepreneurial profit.

The scientific study and interest of the Entrepreneur goes a long way back in time. The same is true when it comes to the practical approach to innovation and entrepreneurship. Joseph A. Schumpeter is one of the most famous economist in the 20th century, and his work on economic development through entrepreneurship is one of the most famous and important theories from the 20th century. Many extraordinary bibliographies, economic analyzes and critics, articles and student papers have been published throughout the years. The aim of this scientific project and this article on Schumpeters life and work are no attempts to copy or magnitude any of that.

Today the global economy is characterized by rapidly growing unemployment, low interest rates, uncertainty, both among, and to a large extent, investors, governments and politicians alike, trafficking, growing corruption, and a number of other characteristics that are identified with a slowdown in the world economy. For a long time global production has been running in accordance with a static production function, to use Schumpeter's terminology, where production on a global scale outnumbers demand. Still many people live their lives for less than a dollar a day, and there are many unsolved problems globally, but at the same time new economic production regions, like China, has during the last decade contributed to abolish at least half the world poverty through static production.

However, the gap between supply and demand in the global economy cannot be solved by producing more of the same, which is the result of static production. To close the gap, new products and services must appear on the market to lift the demand. This is the reason why innovation is so important for the global economy. The new combinations in the production function will

contribute to the creation of new products, more economic and efficient products, and services, which in turn will be introduced on the market. That is exactly the role of the entrepreneur, to make the new combinations, and put the new products or services into use on the market.

Nevertheless, why is the interest of the study of innovation and the entrepreneur constantly growing all over the world in our time? Of course, there might be many reasons behind this development, but one obvious explanation is the need and wish for politicians and governments to find rapid, and solid solutions to the pressing economic situation and use those instruments as political weapons. One can hardly find any political programs or governmental plans not mentioning words like innovation and, or entrepreneurship as main basis for economic development and political activities. The same is true when it comes to larger companies and businesses, not to mention governmental based educational plans and regular schoolbooks, at least in the western world of today.

It has shown, both in politics, governmental planning and in business life, that a quick fix based on Schumpeter's theories is not an easy task.

Joseph Alois Julius Schumpeter was born in house no 52 on February 8, 1883 in Triesch in the Austrian-Hungarian Empire (now in the Czech Republic); he was baptized into the Roman Catholic faith some days later (on February 18), and was named Joseph Aloisius Julius. His mother, Johanna Schumpeter (born Grüner), came from a famous doctor family in the neighboring town Jihlava (earlier Iglau) and his father, Josef Alois Karel Schumpeter, was the twelfth generation after Valcav Schumpeter from Mildov (born 1478) who for the first time in history is mentioned when he in 1523 moved to the city of Triesch.

His social background from birth was drastically changed by an incident on January 14, 1887, which led to great consequences for his future life and gave tremendous and unforeseeable consequences for the early Joseph Schumpeter's life. His father had taken part in a hunting party outside the city and was killed by accident during the hunt. The tragedy led to the fact that his young mother, who was 25 years old when she became a widow, after a short time married the much older and recently retired field marshal lieutenant Sigismund von Kéler. They moved to Graz and after a period, the couple settled in Vienna and in that way the early Schumpeter became a student at Theresianum and gained a social class belonging, education and opportunities different from what would have been the case if his life had been prolonged in Triesch.

After finishing a five-year education in Vienna, Schumpeter received the Doctor of Law on 16 February 1906. At that time, no thesis was required to gain the doctoral degree. He traveled to Germany, France, England and other countries and practiced law at an Italian law firm at the *International Mixed Court of Egypt* in Cairo, where he also wrote his thesis (Habilitationsschrift): *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie*. His writing took place during his time off work. The thesis attracted great interest and Schumpeter became qualified to lecture at all university levels.

Schumpeter was called to a position as associate professor (*ausserordentlicher Professor*) at Chernowitz University (now Yuriy Fedkovych Chernivtsi National University in the Ukraine Republic) and started his work autumn of 1909. At that time, Chernowitz was the capital of the Bukowina dukedom and an outpost in the Empire. By the time he entered the post, Schumpeter was the youngest professor in economy ever in the country.

Schumpeter's two years as professor at Chernowitz was obviously a good period in his life. He gave his public lectures, had an extensive social life, which he later in memories entertained his fellow colleagues and friends with, but above all it was during this period he wrote his most significant work: *Theorie der wirtschaftlichen Entwicklung*. Like his thesis, *Theorie* was made outside the employment, on spare time, and unsalaried.

Joseph Schumpeter argued that the creative period in a person's life is the first three decades. In Schumpeter's case, this does well. In his life the cause was primarily the private economic circumstances that lay as obstacle for independent scientific activity and barrier to personal liberty as creative creation both requires and presupposes. In business as in science, the entrepreneur and the scientist must be free and independent because both processes takes place outside the production

function, no money or order giving can direct the direction of either activity.

In *Theorie* (Schumpeter, 1912), innovation occurs when a new combination of the first and second input factors in the production factor is made. Innovation implies that a greater physical product has occurred. At the same time, innovation means that one is able to do something that was not possible previously or at least not as economically as after the introduction of the innovation. The economic result of the introduction of the innovation in the market is entrepreneurial profit. Entrepreneurial profit is not the only benefit for the entrepreneur, and Schumpeter stressed that the profit is not a motivation for the entrepreneur for undertaking all the risk and hazard; it is simply the proof that the innovation was a success. In other words, the entrepreneurial profit left out; there has not been any successful achievements. Entrepreneurial profit is a theoretical and calculated surplus over cost summing up the margins between price totals. The entrepreneur is the sole owner of the entrepreneurial profit. Furthermore, Schumpeter points to static versus dynamic production functions, whereas in the static, no change will ever occur as result of innovation, only change characterized as small-steps, or machine and product improvements will take place. In the dynamic production function, entrepreneurs introduce innovations, which have the capacity of altering the whole production mode and shift the competition to a much higher and different technological level. This phenomena is what Schumpeter calls development and it is carried out by entrepreneurs only, no government or groups of people like committees, boards of directors and so on are able to take the role of the single entrepreneur.

The successful entrepreneur's achievement is to make a change in the production function, the introduction of an innovation. That intervention takes place in the production function, but the entrepreneur himself is not a part of the production function. The entrepreneur is operating outside of the production function. In the case where the entrepreneur takes active part in the production himself, like a working hands, a manager etc. he will have to calculate wages for himself in line with the market price for such labor at the same point of time and deduct the amount from the total entrepreneurial profit. As an entrepreneur, he is not undertaking any other duties than being responsible for the result of the process.

One important question arises from the theory: why should any free man undertake the risk, hazard and strenuous work if it was not only for making a profit for himself. Schumpeter answers this question by presenting a complete motivation theory,

showing the driving forces behind the entrepreneur's mindset. In the science of motivation and management, one can divide the theories in two main categories, management and motivation of the work force, which is the input factor, and management and motivation of oneself, that will be the entrepreneur, outside of the production function. The twentieth century has given us an overflow of theories on how to manage and motivate the working hands¹, but very little about the motivation and development skills of the single entrepreneur. Schumpeter's Theorie is an exception. Schumpeter underlines three motivation factors:

"First of all, there is the dream and the will to found a private kingdom, usually though not necessarily, also a dynasty. The modern world really does not know any such positions, but what may be attained by industrial or commercial success is still the nearest approach to medieval lordship possible to the modern man (...) Then there is the will to conquer: the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of the success but of success itself (...) Finally, there is the joy of creating, of getting things done, or simply of exercising one's energy and ingenuity (Schumpeter, 2008, p. 93)".

The motivation theory was developed and presented only a few years before the collapse of the Austro-Hungarian Empire and the new map of Europe. It would be too easy to think that Schumpeter was inspired of his own country's near history when he formed his first argument. At the same time, he had spent his youth at the Theresianum, very close to the top of the aristocracy and management of the Empire, obviously the influence from this early period in his early life must have taken a great part of inspiration and functioned as a role model in the construction of the motivation theory. His mother had re-married after the death of Schumpeter's father, and her new husband, the retired field marshal Sigismund von K ler, a real aristocrat and military man might also have inspired Schumpeter in his assumption about the motivation of the entrepreneur.

However, there is a much deeper approach to the first factor of the motivation theory. Isn't it true that every healthy boy on the planet in his very first living years dreams about nothing else than becoming a king? He will be obsessed of the thought and dream until the surroundings sanction him and force him into another more accepted and realistic, corresponding to the boy's social class belonging, down to earth thoughts and dreams. In kindergartens in socialist nations, children's dreams

are more pragmatic like becoming a police officer, bus driver or even the garbage run. Socialist-Marxian mindsets do not allow the individual to be something more or anything else than the average. In his Theorie, Schumpeter shows that the entrepreneur is something more and something else than the socialist average. The entrepreneur is a unique individual with unique dreams and aspirations, and is motivated by strong individual goals like reaching the top of society, which in modern understanding is not the kingdom, but the market positioning.

The motivation theory of Schumpeter correspond to his definition that the entrepreneur cannot be anything else but a single individual, not a group of people, a board of directors, a committee or the government. No state, be it Marxian or non-Marxian, accepts any individual on any top-position above the state or on the same level as the state. As the state cannot take the position of the entrepreneur to carry out the new combinations, according to Schumpeter, the individual entrepreneur automatically, when successful, will place himself on top of the regime, a position that is uttermost dangerous for the individual and most unwanted by the regime. Regimes must feel and believe they are in control of development, they are not; successful entrepreneurs are. This is the main reason why Schumpeter's Theorie is not accepted or used as a political handbook on many topics like unemployment, economic development, peace, human rights etc.

In the first edition of Theorie of 1912, Schumpeter presented the theory in seven chapters. The seventh chapter was the Economy as a whole. He wanted to show how the micro development inflicted on the whole economy. In 1926, he decided to publish edition number two of the book with minor changes, however without the seventh chapter. Due to different circumstances, he wanted to leave the last chapter out of the book.

On the same address in Vienna, Doblhofgasse 3, where Joseph lived as a teenager also the family Reisinger lived. Reisinger was janitor of the property, and the couple had a daughter, Anna ("Annie") Josefina Reisinger. Joseph got early up a keen eye for Anna, something her parents did not mind. Already in her teens, Anna was in love with the 20-year older Joseph, and when she was at 17, they met regularly, first in secret and later with her parents' consent. Youth infatuation still ended, and it would be years before they resumed close relations with each other. Anyhow, one day in May 1925, Joseph proposed to Anna, and on 5 November, the same year the wedding took place in a Lutheran church in Vienna. Joseph would accede as professor in Bonn, which meant that they could afford to marry. They moved into the Koblenzer Strasse 39,

¹ Scientific Management, Human Relation, Hierarchy of Needs, Theory X and Theory Y, to mention a few.

one magnificent property on the shores of the Rhine. After a short time, Anna was pregnant and Joseph rejoiced to become a father. However, the joy was short-lived. His mother, whom he was very attached to, and which had been a strong role model and a very important person in Joseph's life, died on June 22, 1926. Immediately following his mother's death, Anna should give birth to their firstborn, but she and the baby died unexpectedly in childbirth on August 3, the same year.

Schumpeter could not drop his mind at Annie's death, which led to his increasingly withdrawal to the work. At the same time he had to answer for his old debt, a substantial amount of money that should be repaid after Biedermann Bank failed, and Schumpeter's debt had increased.

The unhappy circumstances; deaths in the family, the social situation, lack of concentration, the financial situation and especially involuntary grandeur of the scientific activities led to the fact that Schumpeter, and with him the heavy point for

innovation science, moved to Harvard University in 1932.

In 1934, after accepting a position as full professor at Harvard he decided to let the book translate into English (Schumpeter, 1934/2008). However, it was the second edition from 1926 that was translated, without the seventh chapter. The English version, in various reprints has been the basis for translation to other languages. The readership of the world have been familiarized with the *Theorie*, but without the seventh chapter. What are the consequences? The seventh chapter, or the lost chapter as it also have been named, is a very important chapter for the understanding of how the economy develop. Probably most scholars are unfamiliar with the science that is included in the seventh chapter, unless they have had access to the first German edition of 1912, and can read and understand German. It was not until 2002 that the seventh chapter was translated into English (Backhaus, Peukert, 2002).

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