

The Austrian Schumpeter 1905 to 1925

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Nicolo De Vecchi, *Entrepreneurs, Institutions and Economic Change: The economic thought of J.A. Schumpeter (1905—1925)*, translated by Anne J. Stone, Edward Elgar Publishing, Aldershot, 1995. Pp. vii, 192. ISBN 1 85898 209 X. Price: £45.00

This book is a translation from the Italian of *Schumpeter Viennese. Imprenditori, istituzioni e riproduzione del capitale* (revised), originally published in 1992. As the English subtitle conveys, Vecchi's intention is to acquaint us with the diverse range of themes that Schumpeter addressed in his writings that date from the time prior to his final departure from Austria to take up an appointment at Bonn University in 1925 (there had, of course, been other temporary sojourns abroad in the interim).

These Austrian writings were undertaken against the background of Schumpeter's university appointments and varied involvements in other intellectual and political activities. They include some of the most creative of his contributions to economic thought. The period covered his time as a member of Karl Kautsky's German Commission on Socialization and as Minister of Finance (*Staatssekretär für Finanzen*) in the second Karl Renner government of Austria (both during 1919), as well as his subsequent ill-fated Presidency of the Biedermann Bank in Vienna (1921-25). It is difficult to agree with Vecchi, though, that 'Schumpeter's Austrian period began and ended the creative part of his life' (p.xiii). There are some who find great creative talent in his later *Capitalism, Socialism, and Democracy* (1942) and in his monumental, posthumously published *History of Economic Analysis* (1954). Moreover, there is much evidence to suggest that it is these two books which brought Schumpeter his widest recognition and respect and for which he is most remembered. Granted, the themes of these works were tackled initially during the period in focus here, but the later treatments were much more extensive and successful.

Be this as it may, there were a number of vital contributions which date from the period in focus here and they are worthy of independent study and re-assessment. Vecchi approaches this task in the well-structured series of essays that comprise the three major Parts of his book. Potential readers should be aware, though, that his intentions are not purely exegetical. He adopts and applies some of Schumpeter's own principles in approaching the texts as an 'interpreter'. Vecchi tells us that as such, he 'can and must intervene actively: he must use "his reason"' in setting out his version of Schumpeter's thought. That is, he 'must be able to look beyond its obvious meaning' (pp.xivf). It must remain a moot point whether or not these comments excuse the most evident misrepresentations of Schumpeter's ideas that occur in the book. I make reference to these below.

Part I centres on the study of capitalism and economic change that Schumpeter presented in his *Theory of Economic Development*, with the author wisely distinguishing his references to the original 1912 German edition of the work from those to the English translation of the rather different version that appeared in 1934. This Part includes four integrated chapters that highlight the main themes and theses addressed by Schumpeter in that

earliest of the works for which he became widely known. Vecchi's interpretation of the work is not critically oriented. He neglects even its more profound limitations and rather overstates its achievements as Schumpeter's seminal endeavour to provide us with an understanding of the motion of the capitalist economy through time (cf. Oakley, 1990, which, incidentally is not cited by Vecchi). That there were very real achievements by Schumpeter in this early study of motion is beyond question. Vecchi's study reminds us of some of the most important of these, including the vital role of the entrepreneur in initiating change in a capitalist system, the core significance of innovations as the initiating substance of change, and the role of the financial sector in facilitating these initiatives.

Nonetheless, whatever their merits, the achievements need to be kept in critical perspective. For example, with respect to the above-cited contributions, Schumpeter's actual conceptions and treatments of the entrepreneur, innovations, capital, profit and the financial system were little more than metaphors for the real things. His model featured first-time innovating entrepreneurs conjured up from nowhere, innovations comprising 'new combinations' with no physical-technical embodiment in means of production, and compliant bankers ever ready to make speculative overdraft loans to unknown entrepreneurial aspirants without business experience or asset collateral. The finance capital advanced comprised exclusively bank credit and profit came only from monopoly positions held temporarily by entrepreneurs. All this constitutes, at best, unnecessary abstraction and, at worst, it is potentially misleading. Moreover, this critical perspective, it should be noticed, does not need to rely on the benefits of absolutist hindsight. It was Schumpeter's unswerving adherence to the Walrasian conception of the economy that led him into such unreal conceptions as those just cited. He chose to neglect most contemporary and antecedent treatments of capitalist motion in favour of trying to transform Walrasian statics into a dynamic system which claimed to grasp the essentials of the circular flow of economic life and of other dimensions of motion. This was an endeavour which led him to devise an analysis that grossly misrepresented the nature and complexity of such motion. It is readily demonstrated that all Schumpeter's pertinent arguments could have been made more apparent and cogent by beginning from the immanent dynamics of Marx's reproduction schema. And, what is more, that this could have been done without contracting any ideological infections ... (again cf. Oakley, 1990).

Vecchi notices little of this and while his interpretation quite appropriately elaborates on some of Schumpeter's excessively narrow perspectives, he is too much inclined to take them at face value as adequate foundations to build upon. He never really comes to grips with the debilitating limitations that Schumpeter inflicted on the proper development of his own profound insights by backing only the Walrasian horse.

There are, too, some quite inaccurate representations of Schumpeter's ideas which cannot be adequately defended as mere amplifying interpretations in Vecchi's sense. A few of the more obvious examples will have to suffice here. First, Vecchi claims that 'the fundamental purpose of Schumpeter's research' was to answer the question 'how does [the] capitalist economy reproduce itself by forming surplus value and why does it undergo a process of transformation at the same time?' (p.xiv). The only response to this claim that can be attempted here is to say that couching Schumpeter's purpose in Marxian terminology cannot make it so Schumpeter's use of the same terms as Marx, such as surplus value (*Mehrwert*), cannot do so, either, even allowing for Vecchi's efforts to make the differences apparent (p.23 n5). Vecchi's observation that 'a profound, unbridgeable political and ideological abyss divides Schumpeter and Marx' (p.115) can be extended to their treatments of economic concepts and theories. To say that 'the concept of the entrepreneur in Schumpeter's theory performs the same function as capitalist exploitation of the worker in Marx's theory' (p.16) does justice to neither author. And, to add that 'the concept of capital seems indeed to constitute one of the points of greatest agreement between Schumpeter and Marx', understates Marx's profound and far-reaching insights. Vecchi's further claim that in his development theory, 'Schumpeter

frequently challenges Marx's approach' (p.16, cf. p.115) is without any foundation either explicitly or implicitly during the period in focus. The treatment of Marx in *Epochen der Dogmen—und Methodengeschichte* of 1914 (English translation *Economic Doctrines and Method: An Historical Sketch*, published in 1954) is desultory at best.

Secondly, the idea is put that 'production is organized by entrepreneurs in capitalism. An entrepreneur decides the type and quantity of product, the amount and nature of investments. He either owns the means of production, or he manages others' property' (p.15). This use of the term entrepreneur in its broad everyday sense diverts the attention of readers away from the very specific definition that Schumpeter gave the concept. And, in terms of understanding his model on its own terms, this strict conception is vital. There is the mitigating possibility here that the term's inappropriately extended use comes about from the translator substituting one English word for what were separate and distinct ones in Italian. I cannot comment further on this possibility. Thirdly, consider the somewhat ambiguous assertion that the 'entrepreneurial mentality is not the prerogative of isolated individuals, but is a class mentality: the class of those who gain control over production' (p.19). My reading is that Schumpeter was very definite that entrepreneurs were always innovating individuals who would lose that transient status once they became the managers of production. They could, therefore, never constitute an entrepreneurial class in the usual sense. Vecchi senses the ambiguity here (p.116 n.1), but never really makes Schumpeter's confusing position on classes and incomes clear.

Unlike Part I, the chapters in the other two Parts of Vecchi's study really consist of separate essays on the themes they address. These two Parts are full of fresh insights and Vecchi has done much careful and extensive research in putting together the essays presented.

Part II gives us two essays under the heading of 'Money and the Tax State' that deal respectively with Schumpeter's work on the nature of a monetary economy and his ideas on the fiscal and financial aspects of administering a capitalist economy. The former essay centres around his relatively neglected writings on money that, as Vecchi shows, were logically related to Schumpeter's treatment of credit in the theory of economic development. Vecchi's essay is a welcome addition to the literature on this important aspect of Schumpeter's thought.

The second essay in Part II gives us some insight into the period of his ill-fated venture into politics. Vecchi combines an informative discussion of the extreme fiscal and monetary difficulties confronted by the Austrian economy with some of Schumpeter's critical responses to them. Schumpeter's focus was especially on the problem of balancing the sociopolitical aspect of outlays policy against the economics of taxation. As Vecchi makes clear, Schumpeter was no interventionist, but he knew the value of properly designed policy as a means of facilitating private enterprise.

Part III also gives us two separate essays, this time with the stated theme being 'Incomes and Society'. The first essay deals with Schumpeter's treatment of the origins and forms of capitalist incomes. Vecchi covers the tricky problems of relating these incomes to the so-called 'surplus value' of the economy, along with some insights concerning the effects of the competitive process on capitalist incomes and the controversial matter of identifying the source of interest income. The second essay of the Part deals with Schumpeter's early thought on the economic and political potential for socialising production under capitalism, and for the transition to socialism. This interest was fostered by the socialist predilections so apparent in the governments of Germany and Austria at the time, and to which Schumpeter himself had made some limited active contribution. These latter themes would be taken up much more fully in his *Capitalism, Socialism, and Democracy* (1942).

The Appendices that comprise the remainder of Vecchi's study cover a range of topics related to the material of the main text. They deal respectively with 'Vision and theory', 'The origin of institutions and the nature of the state', 'The entrepreneur', 'Interest and interest rate', 'Economic policy in postwar Austria', 'Power and economics', 'Schumpeter and

Austrian concepts of capital', and 'Capitalism and "rationalization of life": Lederer's influence on Schumpeter'.

Unfortunately, there remains an incongruity in Vecchi's approach to which attention should be drawn. Two of Schumpeter's earliest major works, *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie* (1908: no English translation available) and *Epochen der Dogmen—und Methodengeschichte* (1914) cited above, together with his article 'Zur Soziologie der Imperialismen' (1919: English translation, 'The sociology of imperialism', most recently published in 1991), do not receive separate treatment as writings of the period. The first was a celebration of the Paretian and Walrasian alternative to Austrian marginalist microeconomics. It is to be noted that although the ideas Schumpeter pursued in this first major work formed the positivist methodological and the substantive theoretical foundations for his approach to capitalist motion, Vecchi chooses to give the book only passing references. It was the results of this seminal inquiry that set the stage for the 1912 book on economic development and all of Schumpeter's subsequent writings on related themes. The second work on the history of some key themes in economics was the cornerstone of the later manuscript studies that Elizabeth Boody Schumpeter was eventually to turn into the *History of Economic Analysis*. No rationale is given for choosing to omit an appraisal of these works from the Austrian period. We can but speculate that they do not fit with the fact that the book's primary objective was to present 'Schumpeter's thinking on the essence and evolution of capitalist society ...' (p.xiii) rather than to give a complete coverage of the works of the period. These two books also do not form part of the extension that includes Schumpeter's sociological, (substantive) historical and political ideas towards which Vecchi expressly orients his inquiries.

Finally, the architectonics of the book under review warrant comment. Of the 165 pages of main text, 67 pages (more than 40 per cent) consist of Endnotes (36 pages of fine print) or the eight Appendices. The rationale given for the extensive Endnotes is that they enable interested readers to follow up related material not covered in the text (p.xi). However, there is much in the Endnotes that impinges directly on getting the best out of the reading of the text. The constant need to chase up these often lengthy and complex supplements can be frustrating, too. Their contents often do not constitute diversions at all, and to skip them as the author suggests we might, prevents the reader from appreciating the full value of the book's scholarship. No reason is given for the relegation of selected themes to the encyclopaedia like entries that comprise the Appendices. These are akin to miniature essays on their themes and each has its usefulness with respect to the sections of the main text to which it refers. As with some of the Endnotes, though, it is a matter of judgement whether the material therein may have better contributed to the book's arguments if it had been included as text. Nevertheless, some of these appended essays do have their own independent merits.

Vecchi's study is a worthwhile addition to the specialist literature on Schumpeter. However, the real value of the book is to be found much more in the essays of Parts II and III than in Part I.

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Reference

- Oakley, Allen (1990), *Schumpeter's Theory of Capitalist Motion: A Critical Exposition and Reassessment*, Edward Elgar Publishing, Aldershot.