II INTERNATIONAL SCHUMPETER’S FORUM OF ECONOMICS

"Joseph Aloiz Schumpeter’s Scientific Heritage and Today: A View from the Past into the Future"

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The materials of the conference are based on the results of Joseph Schumpeter’s research in content of his scientific achievements. Theoretical heritage of scientist and its formation and evolution, modernization mechanisms of the national economy are considered. Also there is a analysis of market transformation, of factors that make economic security of business mare strengthened, of trends that are shaping new parameters of international economic relations, of regional economy and industry markets. Social entrepreneurship is exuded like innovative mechanism of social changes and increasing quality of life.

Authors express their own opinion that is concerning on the solving of actual problems. Most of them are from leading educational institutions of Ukraine, Russia, Norway, Poland, Austria.

It’s for all who conducts economic research: scientists, practitioners, school teachers, postgraduates, students.

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PART I

THEORETICAL HERITAGE OF JOSEPH SCHUMPETER:
PECULIARITIES OF FORMING AND EVOLUTIONAL CHARACTER

IN THE FOOTSTEPS OF THE EARLY JOSEPH ALOIS JULIUS SCHUMPETER

Jan-Urban Sandal
Founder, owner and director of Fil. Dr. Jan-U. Sandal Institute

The early Joseph Alois Julius Schumpeter gave the world an extraordinary theory of economic growth in his book Theorie der Wirtschaftlichen Entwicklung, published in Leipzig in 1912. Entrepreneurial profit — the result of successful entrepreneurship - is not a motivating factor Schumpeter argues, but to found a private kingdom, the will to conquer and the joy to create are. Where did the early Schumpeter get those ideas? Is it possible to trace down some clues from his early experiences of life and family background as explanatory factors?

Introduction

Year 2012 marks one hundred years of the first publishing of Joseph Alois Julius Schumpeter’s Theorie der Wirtschaftlichen Entwicklung (English title; The Theory of Economic Development). The book has played a very important role, not only in philosophy and in the science of economics, but also in Schumpeter’s own life; he never stopped working on the topics on which the theory was constructed. Studying Schumpeter’s theories is also relevant from an economic-historical perspective, and his theories are very up to date especially in the world situation of today characterized by global financial crisis and mass unemployment.

In 2012, I started a research program: In the footsteps of Joseph Alois Julius Schumpeter. 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. The activities also included the beginning of a global teaching program primary based on Schumpeter’s theories, writing and publishing papers, articles and books based on the research program findings. The first research trip was to Trest, Jihlava and Chernovtsy in October 2012, followed by a research period at Harvard University Archives, Massachusetts, in February 2013, and finally a visit to Bonn (Bonn University and Bonn University Archives and Library), and Vienna (Vienna University and Vienna University Archives) in May 2013. The research program will go on for another two years.

The preliminary results of the research program are articles: “Schumpeter’s Method published” in Levende Historie no 6/2012, Oslo, “The Hunt goes on – in the world’s Libraries” Bok og Bibliotek, no

2 Fil. Dr. Jan-U. Sandal Institute funds the research program which has a budget of app. 1 mill $ US.
In this article two main topics of Schumpeter’s 1912 theory will be analyzed; entrepreneurial profit and motivation of the entrepreneur. Entrepreneurial profit is the result of successful entrepreneurship, or the “carrying out of innovation”, but it is not a stimuli for the “act and the will” (Schumpeter, 1912). On the other hand, three main motivating factors can be tracked down in his writings - but from where did Schumpeter get those ideas? The motivating factors are extremely important; why should the free modern man - the entrepreneur, undertake the risk and the strenuous work of carrying out the new combinations for any other reasons than to gain the entrepreneurial profit?

References in this article are, besides traditional writings, based mainly on site visits and in-depth interviews with key persons on site. The article consists of on analysis of following factors and parts; introduction, entrepreneurial profit, motivation of the entrepreneur, a private kingdom, the family background, Theresianum, top level of the social class pyramid, social class belonging, the will to conquer, the joy of creating and conclusion.

Entrepreneurial profit is the proof of success

Entrepreneurial profit is the result of successful entrepreneurship (Schumpeter, 1912). When the entrepreneur undertakes the carrying out of new combinations - new combinations of land and labor (the first and second input factors in the production function) - an entrepreneurial profit will occur under special circumstances. The market forces channel the entrepreneurial profit to the entrepreneur. Most fortunes are created by entrepreneurial activities, Schumpeter claims, not by labor or savings, and there is no connection between the effort the entrepreneur puts into the process of change and the economic outcome, contrary the connection between labor and salary. It is not possible to estimate the exact amount of entrepreneurial profit; it might be extremely large or close to nothing. However, the fact that entrepreneurial profit exists is the only proof that an economic change and shift in the production system has taken place.

Nevertheless, why is the entrepreneur not motivated only by making an entrepreneurial profit? The clue according to Schumpeter’s theory is that this kind of profit is not made of capital, it’s very existence depends of the will and the act of the entrepreneur (Schumpeter 1912). Capital only represents means that are being transferred to entrepreneurs to be used in the carrying out of the new combinations. Except for interest on productive loans, friction, “remuneration” of the entrepreneur for undertaking the process and semi interests there is no payback on the use of capital in the process of the new combinations what so ever. It takes a specialist’s creativity to put out the new combinations, an activity which never previously have taken place, it is not possibly to copy anyone or anything, it must be a genuine creative process.

Motivation of the Entrepreneur

Joseph Schumpeter points out three major motivating factors stimulating the entrepreneur when undertaking the entrepreneurial activity.

“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 does not take into account hedonistic enjoyment as motives for entrepreneurial activities. Whatever a person can buy for consumption from the profit made as a successful result of the entrepreneurial process falls into a completely different basket of explanations. Schumpeter stresses the fact that the hedonistically conduct that usually is observed in individuals of this type is irrational. Both

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hedonistic consumption, which on a higher level usually indicates leisure time, and any other psychological understanding are unnecessary explanations as motivating forces of the entrepreneur. To found a private kingdom, the will to conquer and the joy of creating are the only motivating factors in Schumpeter’s 1912 theory.

**A private kingdom**

The first factor of motivation; to found a private kingdom, not necessarily also a dynasty, is the most important one in Schumpeter’s theory of motivation. Why is that so and from where did Schumpeter have that idea? A closer look into the early Joseph Alois Schumpeter’s life and family background might reveal some explanations.

The highest social class position in the human world has traditionally always been the monarchy or its equaling. Possessing the throne of a kingdom and if possible secure the takeover by upcoming new generations (which is the meaning of the dynasty) is the uppermost social class option. No one can buy that position; it is not for sale. It is only achievable through conquest or heritage.

Why would the modern man in the role of the entrepreneur pay any attention to a medieval social position at all? One hundred years ago, at the time when Schumpeter was elaborating his theory, life offered ordinarily people a wide range of social class options and a “good life” if they were successful in business life. Joseph Schumpeter’s social class position in life from the moment of his birth was quite comparable with European well off rural business families at that time. Let us therefore take a closer look at Schumpeter’s family background and life experiences in his early life.

**The family background**

Joseph Alois Schumpeter was born on 8 February 1883 in Triesch (now Trest in the Czech Republic). His mother, Johanna Schumpeter (born Grüner) came from a famous medical family in the neighboring city Jihlava, and his father, Josef Alois Karel Schumpeter was the 12th generation after Vaclav Schumpeter from Mildov, who was for the first time in history mentioned when he settled in Trest in 1523. The Schumpeter family through generations had been successful businesspeople, undertaking production and trade with textiles, iron and salt. They contributed to the industrialization of the town and both his grandfather and grand grandfather had been mayors in Trest. They all had good reputation of caring for their workers and they were even offered noble appointments, but they turned them down every time. The Schumpeter family owned two big mansion houses in the city and one large factory complex and they gave precious gifts to the church.

It seems that Joseph Alois Schumpeter’s background from the time of his birth was pretty much in line with the kind of successful entrepreneur motivation and the dream of the entrepreneur which constitutes his theory. As he was the first and only son of Johanna and Josef Alois Karel, he would, under normal circumstances, have inherited the family fortune, the company, factory, mansion houses and his family traditions both private and probably also in society. The “kingdom” and most probably also the “dynasty” were there right in front of him already in his early life. He was obviously in himself not the creator of this situation and he could only fill the position, not as an entrepreneur, of course, but in the role as the “inheritor”. However, to inherit wealth and social class position do not bring about any change in the production function or in society. To inherit wealth, even though the fortune might have been a result of entrepreneurial profit from earlier generations, only represents the static dimension in the economy.

Anyhow, as we know, his social background from birth was drastically changed by an incident on 14 January 1887, which led to great consequences for his future life. His father died under special circumstances as result of a hunting accident. Soon after his mother and Joseph moved to Graz and later she married the recently retired lieutenant – field marshal Sigismund von Kéler and the family settled in Vienna. They moved to a flat on Doblfogasse 3, an excellent address in Vienna situated only a few blocks from Theresianum, the famous preparatory school for the aristocracy. Van Kelér had himself been a student at Theresianum and through his contacts, Joseph Alois promptly was admitted as student. Even

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6 The move to this address was very important for another reason as well; the housemaster’s daughter Anna Reisinger lived with her family in an apartment in the same building, and later on Schumpeter fell in love with her and they married. However, the marriage ended very tragically; both Anne and their son died when she was giving birth.
though we do not know much about his life and activities as a student at Theresianum, his life experience through this period must have played a very important part in his present and future philosophy, political and moral thinking.

**Theresianum**

Empress Maria Theresia, transforming her father’s residence “Favorita” to an academy, established Theresianum in 1746 and it was the elite school for the aristocracy in the Austrian-Hungarian Empire for generations. The academy offered three different courses, all leading to the same goal: service to the state, addressing administrative, military and diplomatic skills. In 1849 the academy was opened to the “sons of the bourgeoisie.” One can say that Theresianum was the Austrian-Hungarian answer to Eton and at these kind of schools students usually learn more from informal teaching than from the formal knowledge given to them to please any kind of utilitarian purposes. It’s main function was to teach the students how to govern the empire, which consisted of a large number of nations and cultures, without letting one’s own feelings interfere with the professional ruling. At the same time, students were divided into different strata at Theresianum. First, there were the Hungarian students with their own teachers and curriculum, living apart from the rest of the students. Then there were students from the other parts of the empire and they were all boarding students and, finally, day students living at home with their families in Vienna.

In September 1893, when Joseph Alois Schumpeter was ten years old, he enrolled at Theresianum as a day student (externer Schüler) and stayed eight years until his graduation in 1901. Being a day student was obviously less prestigious than being a boarder but the formal education was the same. Sons of nobility living in Vienna did not attend Theresianum. As his parents lived in Vienna, it was not possible to be a boarder. He went to school from 9 am to 2 pm. Probably paid von Kéler a small fee that was suitable for day students at that time.

The school taught classical issues like Greek and Latin, fencing and riding and Schumpeter studied French, Italian and English. Presumably, Joseph Schumpeter had a good time at Teresianum and soon learned to speak fluently all the languages he was taught. Being a day student also meant that he could keep a certain distance to the aristocratic world more easily than if he had lived at the school.

During the week much time was spent in private, outside the school; this was typical for all day students. Joseph spent time at home and had a very close relation to his mother who had a tremendously important impact on his life also a long time after her death.

**Top level of the social class pyramid**

At Theresianum Joseph Schumpeter was very close to the top level of the social class pyramid. Nevertheless, at the same time he must have felt that he did not really belong to it. As a bourgeois, he was at the right place: influenced and inspired by the upper strata and given the opportunity to stretch out to become something more, and possibly better, than what he might have felt he was by birth. Even though he was taught manners and skills, which were far above the expected level of personal conduct of his own social class, he did not belong to the upper social strata. In fact, he was one in the audience watching the nobility acting on their own stage, never to take a part in that game himself. He never did later in life either.

On the other hand, a woman might climb the social ladder, but only by marriage, as social class belonging is not possible to purchase, which we already have stressed. That is exactly what his mother did when she married von Kéler. She improved her social class standard through marriage. This could be one important reason why Joseph Schumpeter so strongly admired his mother, namely the fact that she through marriage managed to rise from the country bourgeoisie class to the social nobility. A social class journey he himself could never achieve.

**Social class belonging**

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7 Interview with Miss Helene Pflüger, responsible for Alttheresianisten at Theresianum and Professor Dr. Franz Gschwandtner, library director at Theresianum, Vienna, 2013-05-10/11.
8 Theresianische Akademie Wien: The Theresianum: traditional and forward-looking. Own printing, Vienna.
Each year at Theresianum, class group photos of the boarding students were taken, not of the day students, of course, and the photos were on display at strategic places in the school building. Many of the sons of the nobilities had to leave Theresianum for obvious reasons, for shorter or longer periods, all depending on their family situation, political, economic and social situations in their home countries. Many boarding students came and went through the years, as their stay was not continuous. Neither did all boarding students spend eight years at Theresianum, which was the proper time for fulfilling the education. These are the main reasons why not all boarding students appear at the photos even if they were enrolled at the actual time when the photos were taken.

On the other hand, this was not the case with the day students and it is not possible to find any photo of the early Joseph Schumpeter during his years at Theresianum. Like all day students from this time, no one did represent the school on the class photos.

Another fact is that the academy’s yearbooks never listed day students. Theresianum has a matrix listing all boarding students from 1746 to 1913. Joseph Alois Schumpeter’s name is not visible in that matrix.

The matrix is very important as a proof of social class belonging. It is, one can say, the “book of blood”, the names of those sons who are going to inherit the empire, it is a list of noble families and their history and future in the empire. The listing shows the success of each student what his future position in the empire was and what he had become.

Being a student at Theresianum without having the name listed in that matrix is a clear indication that the person did not belong to the nobility.

The will to conquer

So close, but still so far away. Eight years as a student at Theresianum in his early years, Joseph Alois Schumpeter must have experienced and realized certain facts about life and society, momentums that we maybe can trace in his theory of motivation of the entrepreneur in the activities leading to extraordinary achievements. Schumpeter stresses, in the second motivating factor: “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”.

What do the fruits of success based on conquest traditionally mean? Is it not achieve rise in social class, to win the kingdom, to become a king, or at least become a noble man? Schumpeter leaves this perspective out of his motivation theory. Instead; it is only the success itself that remains as the value of the conquest for the modern man. There is no potential to reach the highest social class position through successful conquest for the entrepreneur. The fight is transferred to the market and the meaning is to win over ones competitors and the forces of the market.

The battle has nothing to do with medieval knights, their conquest and their fruits, even though the whole idea might come from the realities of the empire and Schumpeter’s own experiences at Theresianum.

The joy of creating

The act and the will is what takes an entrepreneur to succeed on the market (Schumpeter 1912). The ability to create is a special personal characteristic, embedded in humans who are capable of carrying out new combinations. Creativity and strength do not exist in the same amount in every individual, and not all humans are willing to undertake the strenuous work of being a successful entrepreneur. But Schumpeter stresses the fact that the entrepreneur is motivated by the joy of creating, of getting things done, or simply of exercising one’s energy and ingenuity. Profit can never replace this motivating factor, because the entrepreneur cannot foresee the creating of a future fortune. Without activity the entrepreneur will never gain a profit, it is like performing an art - the result will show. There is nothing special or extraordinarily with this factor of motivation. It might be summarized as: be happy in your work.

Conclusion

10 Miss Helene Pflüger, responsible for Alttheresianisten at Theresianium and I looked through all class group photos from 1893 to 1901, 2013-05-10.
The early Joseph Alois Julius Schumpeter gave the World an extraordinarily theory of economic growth in his book Theorie der Wirtschaftlichen Entwicklung, published in Leipzig in 1912. Entrepreneurial profit – the result of successful entrepreneurship is not a motivating factor Schumpeter argued, but to found a private kingdom, the will to conquer and the joy to create are. In this article, we have made an analysis where the early Schumpeter got those ideas. It is possible to trace some clues from his early experiences of life and family background as explanator factors.

It seems that Joseph Alois Schumpeter’s own family background from the time of his birth was pretty much in line with the kind of successful entrepreneur motivation and the dream of the entrepreneur which constitutes his theory. To inherit wealth, even though the fortune might have been a result of entrepreneurial profit from earlier generations only represents the static dimension in the economy. One must create fortune oneself in order to be recognized as entrepreneur.

Schumpeter’s experiences from Theresianum must have been crucial for development of his theory of motivation. He was so close to the top level of the social class pyramid, and still so far away. Even how hard he was working and pressing himself he would never achieve the same as did his mother, ascend from the countryside bourgeoisie class to the nobility. In business, it became possible, and he integrated the kingdom and the will to conquer as motivating factors in this theory of economic development.

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