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**JOSEPH ALOIZ SCHUMPETER'S SCIENTIFIC HERITAGE AND TODAY:  
A VIEW FROM THE PAST INTO THE FUTURE**

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## **IN THE EARLY JOSEPH ALOIS JULIUS SCHUMPETER'S FOOTSTEPS – RESEARCH HIGHLIGHTS<sup>1</sup>**

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).

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

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<sup>1</sup> Draft presented at NORDOM 2016, Lund University, Sweden, 2016-08-26.

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 working 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 hands<sup>2</sup>, 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

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<sup>2</sup> Scientific Management, Human Relation, Hierarchy of Needs, Theory X and Theory Y, to mention a few.

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 fall of the Austro-Hungarian Empire and the new mapping of Europe. It would be too easy to think that Schumpeter was inspired by his own country's recent 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 with 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 man. 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 corresponds 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. In 1934, after accepting a position as full professor at Harvard he decided to let the book translated 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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