SCHUMPETERIAN ENTREPRENEURSHIP REVISITED: HISTORICAL SPECIFICITY AND THE PHASES OF CAPITALIST DEVELOPMENT

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I. INTRODUCTION

Schumpeter's theory of entrepreneurship and innovation has been repeatedly interpreted in terms of a conceptual dualism, shifting from an early model of personal entrepreneurship in newly founded enterprises to a late model of research and development in large enterprises, responding to changes in the productive organization of capitalism. Due to theoretical inconsistencies, Schumpeter thus seemingly altered his argument on the role of entrepreneurship in economic development (Freeman et al. 1982, pp. 41–42). In countering these allegations, it has been put forward that Schumpeter's instrumental methodology would allow for settling historical experiences and theoretical reasoning on different analytical levels. Accordingly, the substantial validity of the Schumpeterian approach would remain independent from variable historical settings (Frank 1998, pp. 505–506). Adding to these methodological considerations, it has been suggested that the consistency of Schumpeter's argument could be reconstructed in terms of an explanation of capitalist development that resonates Weberian thought on rationalization and bureaucratization (Langlois 1998b, pp. 57–58).

The present paper augments these arguments in defense of the analytical consistency of Schumpeter's theory of entrepreneurship and innovation by addressing the matter of historical specificity as an expression of the institutional orientation of Schumpeterian thought. The underlying suggestion is that Schumpeter elaborated on the historical specificity of entrepreneurship by differentiating distinct phases of capitalist development. These phases of competitive and “trustified” capitalism reflect the historical variability of the institutional carriers of the entrepreneurial function. In referring to the embeddedness of entrepreneurship in a historically specific

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variety of institutional forms, Schumpeter's theory of entrepreneurship is evaluated as an institutional approach to capitalist development that focuses on the actual impact of capitalist institutions. In order to grasp the conceptual range of these considerations, the intellectual context of Schumpeterian thought needs to be taken into account, primarily with regard to the Marxist and historicist debates, which informed Schumpeter's vision of the dynamism of modern capitalism.

The paper proceeds as follows. In the first section, Schumpeter's notion of capitalism is discussed with respect to its intellectual roots in the German Historical School. At this point, the focus of exposition is on Max Weber and Werner Sombart, who contributed to the perception of capitalism as a historically specific object of inquiry. Schumpeter's original concept of capitalism is explored by pinpointing institutional variety as a condition for the realization of entrepreneurship. In the second section, Schumpeter's attempts to delineate historical patterns of capitalist development are brought to the fore. The concept of Kondratieff cycles is set in relation with the modeling of specific phases of capitalist development, basically distinguishing competitive and "trustified" capitalism. In the third section, the historical specificity of entrepreneurship is reconsidered, including personal entrepreneurship on competitive markets and organizationally dispersed entrepreneurship in large enterprises. This underlines the argument that the historical specificity of entrepreneurship represents a constitutive segment of Schumpeter's theory of economic development, thus reinforcing its analytical consistency.

II. SCHUMPETER'S CAPITALISM: AN INSTITUTIONAL APPROACH

Schumpeter's theorizing explores economic development in the institutional setting of modern capitalism, perceiving entrepreneurship as its endogenous developmental force, which is embedded in a variety of institutional forms that shape the pattern of capitalist evolution. In addressing distinct phases of capitalist development, namely competitive and "trustified" capitalism, the notion of the historical specificity of entrepreneurship should allow for distinguishing the carriers of the entrepreneurial function in accordance with historically specific institutional constellations.¹ Historical specificity then implies that economic phenomena, like all socio-cultural phenomena, are conditioned by historical time and geographical space, which also points to the need for historically specific theories (Hodgson 2001, pp. 21–22). Indeed, in the Schumpeterian framework, capital, credit, interest, and entrepreneurial profit as phenomena of economic development that needed to be analyzed by dynamic theory are all settled in the monetary sphere of modern capitalism, with business cycles as its developmental contours. In socialism, these phenomena would lose their developmental role or simply cease to exist. Thus, Schumpeter's theory of economic development provides above all a theory of capitalist evolution. This interpretation highlights the impact of historicist concerns with the evolution of modern

¹This is illustrated by Schumpeter's remark that the universalism of pure theory, as modelled in the Walrasian theory of value, could not grasp the specificity of capitalist economies; hence it would not provide a theory of capitalism (Schumpeter 1908, pp. 166–67). The latter was associated with a dynamic theory of economic development.

capitalism as an object of inquiry, then paralleling the contemporary influence of Marxist ideas. Understanding Schumpeterian positions thus requires the recognition of these conceptual influences (Ebner 2000, pp. 356–57).

The struggle with Marxian theory and its political implications characterized the intellectual efforts both of the Austrian School and the German Historical School at the end of the nineteenth century. While the former focused on the labor theory of value, the latter confronted the materialist laws of development. The Marxian characterization of capitalist evolution had been originally presented in the scheme of development stages that was put forward already in the *Manifest der kommunistischen Partei* of 1848. Marx then proceeded to define capitalism by institutional aspects like private property of the means of production and wage labor, historically emerging as a mode of production since the sixteenth century, although some Mediterranean cities, primarily in Northern Italy, were said to have hosted early forms of capitalist production even since the fourteenth century (Marx 1867/1962, pp. 743–44). However, Marx did not deal with entrepreneurship as a distinct economic function; the figure of the capitalist was portrayed simply as an agent of capital accumulation (Blaug 1986, pp. 169–70).

In the context of historicist debates, this perception of modern capitalism served as an inspiration for sorting out objects of inquiry, even if rebutted on theoretical grounds. From the perspective of the German Historical School, Schmoller excelled in criticizing the materialist philosophy of history. Rejecting the notion of capitalism due to the dismissal of capital as an essential characteristic of economic formations, he favored a perspective that would account for a comprehensive range of institutional aspects (Schmoller 1903, p. 144). The preferred notion of “machine age” should reflect the dynamism of technological change in shaping socio-cultural development (Schmoller 1901, p. 211). Yet the post-Schmollerian discourse subsequently highlighted an integration of theory and history beyond Schmoller’s inductivist methodology. Most prominently represented by Max Weber, Werner Sombart, and Arthur Spiethoff, this “Youngest” historical school also eliminated beliefs in a combined material and ethical progress, shared by both Schmollerian and Marxist perspectives, instead highlighting the individual “gestalt” of economic formations by recognizing their historical specificity (Betz 1988, p. 414). Concepts that dealt with a linear sequence of specific developmental stages were thus dismissed as mechanistic and deterministic (Schefold 1996, pp. 187–88). This implied a reconsideration of the evolution of modern capitalism in terms of rationalization and bureaucratization.

Max Weber excelled in that venture—an institutional analysis of modern capitalism. According to Weber, even economic life in ancient Rome had exhibited features of capitalism, as defined by “pure economic content,” which should apply when objects of property could be exchanged on markets by private agents to the end of acquisition (Weber 1909/1924, p. 15). This type of ancient capitalism differed from modern occidental capitalism in terms of a symbiotic association with the political forces and motives of the state apparatus, which obstructed the emergence of those institutions that promoted the dynamism of modern occidental capitalism (Weber 1921/1972, pp. 800–801). Indeed, Weber argued that modern occidental capitalism would exhibit the historically unique institutional feature of free labor in rational-capitalist organization (Weber 1920, pp. 7–8). The spirit of capitalism was accordingly described in terms of a rational and ethical control of the drive for acquisition,

as in Calvinism, which was said to have propelled a systematic pattern of commercial acquisition (Weber 1904–1905/1920, pp. 30–31). Regarding the developmental perspectives of modern capitalism, Weber suggested that an ongoing bureaucratization of socio-cultural life would lead to the establishment of an all-encompassing system of bureaucratic rule, paralleling an economic drive for industrial concentration (Weber 1918/1924, pp. 506–507).

Werner Sombart shared these concerns, and he presented the notion of “economic systems” as a means for conceptualizing the essential forms and features of economic formations, highlighting the components of economic spirit, order, and technology. The historical meaning of an economic formation should be grasped by understanding its objective spirit, denoting hegemonic value-systems. Historically, the evolution of economic systems was divided into early, high, and late phases. Only the middle phase would allow for a pure realization of the essential features of the economic system under consideration (Sombart 1929, pp. 15–16). Reflecting these considerations, Sombart defined capitalism as a market economy type of organization, based on private property and dominated by principles of commercial acquisition and economic rationalism (Sombart 1916a/1987, p. 819).

In analyzing the historical genesis of capitalism in Western Europe, Sombart then traced early capitalist patterns in Northern Italian cities since the 13th century, although early capitalism as a distinct epoch was said to have taken off only since the fifteenth century (Sombart 1916b/1987, pp. 8–9). Full capitalism was said to have lasted from the 1760s to World War I, exhibiting the capitalist institutions of private enterprise and entrepreneurship in their purest form, whereas late capitalism set in afterwards, characterized by a diminishing role of entrepreneurship, competition and discontinuous economic change. This tendency was associated with socio-cultural rationalization, including the spread of planning elements (Sombart 1927/1987, pp. XI–XII).

Entrepreneurial types in these phases of capitalist development were stylized in accordance with the types of professional expert, market-oriented business man and corporate financier, gradually evolving towards functional generalization, and societal democratization (Sombart 1927/1987, pp. 14–15).² Underlying these explorations in the historically specific character of entrepreneurship in distinct phases of capitalist development was the question whether rationalization would imply an inevitable transformation towards socialism. This matter informed also the assessment of long-run tendencies in the Schumpeterian scheme of economic development (Chaloupek 1995, pp. 127–28).

Schumpeter’s approach promoted an evolutionary perception of socio-cultural change and economic development, in particular by highlighting the introduction of novelty by means of leadership. In capitalism, the entrepreneurial carrying out of innovation drives a competitive restructuring of the economy. Schumpeter specified that position by defining capitalism in institutional terms, underlining its constitutive monetary features: “capitalism is that form of private property economy in which innovations are carried out by means of borrowed money, which in general, though

²However, Sombart also proposed that the industrial division of labor would allow for a variety of organizational forms, thus an increasing dominance of large-scale enterprises would be persistently accompanied by production activities of small enterprises (Sombart 1930, p. 199).

not by logical necessity, implies credit creation" (Schumpeter 1939, p. 223). Accordingly, Schumpeter associated the historical genesis of capitalism with the emergence of institutional mechanisms for credit creation, dating the advent of capitalism in Southern Europe at least to the twelfth century (Schumpeter 1939, p. 224). However, the more comprehensive institutional foundations of capitalism were evolving only since the fifteenth century, including business firms, stock and commodity speculation as well as financial organizations, and at last they came to dominate the economic systems of Western Europe in the eighteenth century. Its novel content derived from the relative importance of its components, which were already existent in preceding economic systems before their cumulative rise to institutional dominance (Schumpeter 1954, pp. 78–79).

Therefore, Sombart's idea of the advent of a distinct capitalist spirit of limitless acquisition was dismissed, as was Weber's concept of the rise of a specific type of rationality denoting that capitalist spirit (Schumpeter 1939, pp. 228–29).³ Attempts of finding a primary institutional impulse for the genesis of modern capitalism seemed to be ill-conceived, for the corresponding arguments would mistakenly suggest that the characteristics of modern capitalism would have revealed themselves already during its historical formation.

Schumpeter then claimed that the specific feature of rising capitalism would not lie in diffusing a novel spirit of commercial acquisition, but in sharpening the institutional aspects of existing elements of rationality. Money became a unit of account and thus served the practice of cost calculation, as illustrated by the advent of double entry bookkeeping, contributing to a "spirit of rationalist individualism." That type of rationality also promoted the mental attitude of modern science and the means of its exploitation, even affecting the cultural domain (Schumpeter 1942, pp. 123–24). Consequently, the institutional substance of capitalism would transcend the margins of the economic process, highlighting capitalism as the "civilization of inequality and of the family fortune" (Schumpeter 1949/1975, p. 419).

In this context, Schumpeter argued that pre-capitalist institutional patterns and social strata, which exhibit a dynamizing function in the development process, would support the institutional order of capitalism. However, while innovations repeatedly dissolve and renew industrial structures, a decomposition of these pre-capitalist elements is taking place, finally even affecting the proper domain of capitalist institutions (Schumpeter 1942, pp. 131–32). Thus, the economic success of capitalism undermines its institutional foundations. In particular, private property and family-orientation as major incentives for entrepreneurial activity would suffer from institutional depreciation. Consequently, Schumpeter claimed that capitalism derives its energy from extra-capitalist patterns of behavior, which it is bound to destroy (Schumpeter 1942, p. 162). Accordingly, entrepreneurial profits and the corresponding attributes of economic success were not viewed as ends in themselves but rather as means to achieve further ends, like the building a family-empire.⁴ Underlying

³Schumpeter's corresponding references to the Historical School mobilized Schmoller's comparative analysis of merchant guilds and modern cartels against Weber and Sombart, for that analysis was said to have excelled in realizing fundamental identities under differing cultural forms (Schumpeter 1939, pp. 228–29).

⁴Thus, according to Schumpeter, the profit incentive does not represent the ultimate cause for entrepreneurial activity (Santarelli and Pesciarelli 1990, p. 685).

motives beyond hedonistic choices and rational calculation involved an impulse for conquering and fighting as well as an artistic joy of creating (Schumpeter 1926a, pp. 138–39). All these motives resembled an aristocratic scheme, rooted in the atavistic sentiment of pre-capitalist habits and values (Schumpeter 1942, pp. 156–57).⁵

For that reason, Schumpeter's notion of capitalism underlines the symbiosis of pre-capitalist and capitalist components. Due to the corresponding emphasis on the institutional impurity of economic systems, Schumpeter rejected an exclusive use of categories like capitalism or socialism, as every society would contain elements that are the products of different social systems (Schumpeter 1943, pp. 114–15).⁶ Therefore, institutional variety and other properties that could mark the intrinsic qualities of economic systems were addressed as basic factors in the analysis of economic development (Schumpeter 1928a, p. 477).⁷ The delineation of specific development patterns in terms of business cycles and development phases would thus reflect historically specific institutional constellations.

III. FROM BUSINESS CYCLES TO THE PHASES OF CAPITALIST DEVELOPMENT

Schumpeter considered business cycles as essential features of capitalist development. An empirical point of departure for Schumpeter's early exposition of business cycles, which still referred to the analytical problems of crisis theory, highlighted the type of business cycle originally identified by Clément Juglar, covering a range of seven to nine years (Schumpeter 1915, pp. 1–2).⁸ This orientation prevailed in both editions of the *Theorie*, whereas Schumpeter argued later on, that different types of cycles needed to be distinguished. In *Business Cycles*, he came forward with the triple scheme of overlapping cyclical patterns, involving the Juglar, Kitchin, and Kondratieff types, differentiated according to the economic effect of innovations, especially regarding periods of gestation and their absorption in the economic

⁵These arguments were also applied to other aspects of economic development. Imperialism, for instance, was interpreted as a manifestation of atavistic motives like "expansion for the sake of expanding, struggle for the sake of struggling, win for the sake of winning, rule for the sake of ruling" (Schumpeter 1918–19, pp. 3–4). As Schumpeter noted, this resembled the pattern of entrepreneurial motives (Schumpeter 1918–19, p. 21). Schumpeter then suggested that industrial concentration and "trustification" were rooted in "nationalist, militarist, imperialist instincts of struggle" (Schumpeter 1920/1921, p. 313).

⁶The constitutive role of institutional variety was also prevalent in the conceptualization of differences in the institutional set-up of nation-states. Schumpeter claimed: "the spirit of a people or a time is never an architectural unity" (Schumpeter 1929b/1953, p. 214).

⁷According to Schumpeter, a general scheme for the analysis of economic systems would have to reflect these diverse elements, focusing on the competing down of economic agents, their related organizations, and the elimination of institutional forms (Schumpeter 1926b, pp. 49–50).

⁸Schumpeter's earliest treatise on the subject of economic development, namely the essay *Über das Wesen der Wirtschaftskrisen*, published in 1910, focused on the matter of economic crises by relating them to the dynamism of business cycles (Schumpeter 1910, pp. 271–72). This essay provided the title as well as the material for the 6th chapter of the first edition of the *Theorie* (Schumpeter 1912, pp. 414–15). In the second edition, however, this chapter was modified with the title *Der Zyklus der Konjunktur*, reflecting a change of emphasis in the presentation of the subject that had become obvious with the essay of 1915, in which Schumpeter shifted from crisis theory to business cycle theory.

system (Schumpeter 1939, pp. 169–70).⁹ Due to its historical dimensions, the long cycle of the Kondratieff type represented the focus of analytical interest. Covering about five decades, it grasped specific periods of capitalist development.¹⁰ Indeed, Schumpeter presented the Kondratieff cycle as the manifestation of a comprehensive economic and socio-cultural process. This perspective echoed historicist concerns with development cycles as an expression of processes that affect the economy as a whole, but it also referred to Marxist approaches to business cycles as a manifestation of the capitalist development pattern.¹¹ Thus, in Schumpeter's scheme of business cycles, the Kondratieff cycle was not linked to a particular innovation, but rather to the industrial process of a whole epoch (Schumpeter 1939, p. 168). Schumpeter's presentation of that argument invoked the example of the railroadization of a country, which could take a century for transforming economic and cultural patterns (Schumpeter 1935, p. 7).

Yet this perspective confronted the problem of historical periodization. The empirical material seemed to provide evidence for proceeding with a differentiation of Kondratieff cycles as "historical individuals," yet the corresponding delineation of three particular Kondratieff cycles should involve caution regarding sequencing and regularity. The first Kondratieff cycle, ranging from the 1780s to 1842, should mirror the impact of the industrial revolution in Western Europe. The second Kondratieff cycle, ranging from 1842 to 1897, should represent a "Bourgeois Age" that would highlight the industrial process of developed economies, with the rise of railroads as a decisive component. The third Kondratieff cycle from 1898 onwards reflected innovations in the industrial domains of electricity and automobiles, among others. Due to specific tendencies in economic and political terms, such as the rationalization of economic life, it was labeled the Neo-Mercantilist Kondratieff (Schumpeter 1939, p. 170).¹² This scheme met fierce criticism, especially regarding the matter of cyclical regularity and the clustering of innovations (Kuznets 1940, pp. 263–64). However, abstracting from the statistical framework, the historical delineation of specific phases of capitalist development maintained its relevance.

Indeed, Schumpeter's concern with development phases had evolved after the second edition of the *Theorie* was published in 1926. A common interest in long cycles and phases of capitalist development, shared by Marxist and historicist contributions, related to the question whether crisis-ridden capitalism would break down, or whether it would revitalize in an economic upswing. Schumpeter's approach to

⁹The related research program had been already presented in Schumpeter's essay, *The Analysis of Economic Change*, published in 1935 (Schumpeter 1935, pp. 2–3).

¹⁰This type was not debated in the first edition of Schumpeter's *Theorie*, for the relevant publications of the pioneers of the long cycle approach, like Tugan-Baranovsky, Aftalion and van Gelderen, became available only from 1913 onwards (Kleinknecht 1987, pp. 3–4).

¹¹In the seventh chapter of the first edition of *Theorie*, Schumpeter suggested with reference to Schmoller that socio-cultural development followed a cyclical pattern, to be discussed separately from the matter of business cycles (Schumpeter 1912, pp. 492–93). The underlying notion of a unity of social life has been identified as a feature of Schmoller's argument that contributed decisively to Schumpeterian positions (Shionoya 1997, p. 242).

¹²This periodization paralleled related attempts by Arthur Spiethoff, a prominent representative of the post-Schmollerian Historical School. In a seminal essay on economic crises and business cycles, the beginning of a "high capitalist epoch" was identified in the 1820s as a phase of consolidation of the nation-state, with particular cycles observable since 1820 in Great Britain and since 1840 in Germany (Spiethoff 1925, pp. 47–48).

capitalist development phases thus reflected ongoing discussions on the possibility of socialist transformation. In this context, Schumpeter's characterization of development phases highlighted distinct institutional patterns, involving a particular mechanism of competition and selection, while acknowledging methodological problems in specifying their historical duration.¹³

Schumpeter's basic arguments about the feasibility of socialism were originally formulated in an essay on the "possibilities of socialism," published in an atmosphere of political and social turmoil in 1920, following an intermezzo as a Member of the German Commission on Socialization as well as an Austrian Minister of Finance in a socialist dominated government. In this essay, institutional changes that altered the character of the market economy, and thereby seemed to prepare the ground for socialism, were not yet described as a specific phase of capitalist development, but as indicators of socialist transformation. Schumpeter argued that industrial concentration and the emergence of corporate trusts would lead to the economic dominance of bureaucratic organizations, accompanied by a rationalization of economic life, as indicated by the automatizing of technological progress. This would imply the replacement of personal entrepreneurship by administrative guidance with managed science dominating the sphere of invention, while the innovative application of inventions would be established as a business routine in large enterprises (Schumpeter 1920/21, pp. 318–19). Moreover, rationalization would cut loose the economic sphere from pre-capitalist and non-economic sentiments and ties, illustrated by the decreasing role of family values as a motive for the private accumulation of wealth (Schumpeter 1920/21, pp. 312–13).

In modifying this transformation scenario, which was reiterated in later publications, Schumpeter discussed the issue of distinct phases of capitalist development only briefly in the second edition of *Theorie*, published in 1926, again hinting at rationalization and "trustification." In order to mark this point, Schumpeter underlined that the competing down of agents and structures would reflect the nature of economic development. This had consequences for the dynamism of the economy as well as for the mechanism of social change, especially concerning the selection of the leading personnel. The competitive economy would fuel social mobility by supporting the rise and decline of individuals and groups, whereas "trustification" would imply that competitive selection became an internal process of complex organizations. This difference alone would suffice as a division line between epochs in the social history of capitalism (Schumpeter 1926a, pp. 101–102). Yet Schumpeter also argued that "trustification" and related efforts in regulation would alleviate the cyclical contours of the development process (Schumpeter 1926a, p. 341).

Thus, phenomena that had been perceived before as indicators of socialist transformation were now assessed in terms of specific phases of capitalist development. This position mirrored the contemporary impression that the crisis of capitalism had given way to radical changes within the confines of the capitalist institutional order, allowing for a new phase of capitalist development. Again, the intellectual context of Marxist and historicist debates had a decisive impact on these considerations.

¹³Regarding this problem, Friedrich Wieser's "principle of continuity" meant as a macroscopic position on the continuity of historical processes that would impede a periodization of economic epochs, was referenced (Schumpeter 1939, p. 227).

On the Marxist side, major influences were exercised by Hilferding's *Finanzkapital*, published in 1910, with its thesis of an emerging bank-based financial system that would herald the final stage of capitalist development by driving industrial "trustification" and a centralization of administrative power (Hilferding 1910, p. 507). The related concept of "organised capitalism," presented in 1915, reflected the experiences with administrative planning during World War I, while the German Social-Democratic Party even embraced that concept as a programmatic element during its Kiel party congress in 1927 (Green 1990, pp. 202–203). Schumpeter was well acquainted with these arguments, implicitly reaffirming their analytical orientation, although he rejected Hilferding's thesis of a rule of the financier over industry and politics (Schumpeter 1939, p. 405).¹⁴ On the historicist side, Sombart's argument excelled in relevance, as the long-awaited third volume of his magnum opus, *Der moderne Kapitalismus*, was also published in 1927, interpreting rationalization and "trustification" in terms of an emerging late capitalism. This perspective was actually acclaimed by Schumpeter, although his own approach to the phases of capitalist development differed from the implicit determinism in Sombart's scheme (Schumpeter 1927, pp. 349–50).¹⁵ Indeed, these debates played a most prominent role during Schumpeter's years at the University of Bonn from 1925 to 1932, covering a period in his academic life that was most intensely influenced by intellectual contacts with the German Historical School (Swedberg 1991, pp. 79–80).

Schumpeter then presented a detailed elaboration on capitalist development phases after the publication of the second edition of *Theorie* in a range of articles, including the essay on the "instability of capitalism," published in 1928 as a contribution to debates in the *Economic Journal* concerning external economies and increasing returns (Schumpeter 1928b). Apart from the theoretical context, this recognition of distinct phases of capitalist development may have mirrored the completion of Schumpeter's framework in dynamic theory that was achieved in *Theorie* as a point of departure for exploring the institutional substance of modern capitalism. Indeed, in elaborating on the idea of development phases, two German essays on the nature of entrepreneurship were put forward, adding more extensive arguments on the historical variability of entrepreneurial activity (Schumpeter 1928a, 1929a). Schumpeter dated components of early capitalism in Southern Europe to the twelfth century, with its institutional foundations established in the fifteenth century, whereas capitalist prevalence was observed from the late eighteenth century onwards, at least in the United Kingdom. The corresponding scheme of capitalist development phases in Western Europe and the United States then distinguished between "competitive" capitalism during the nineteenth century, and "trustified" capitalism in the twentieth century (Schumpeter 1928b, p. 362). Accordingly, competitive capitalism would

¹⁴It has been claimed that Hilferding's *Finanzkapital* was completed already in 1905. Hence, it should have provided material for Böhm-Bawerk's seminar at the University of Vienna, then influencing the young Schumpeter (Streissler 1994, p. 30).

¹⁵Positions of the Austrian School are also reflected in these debates, as exemplified by Wieser, who had a decisive impact on Schumpeter's perception of leadership as a prevalent phenomenon in social life (Schumpeter 1926a, p. XVIII). In particular, Wieser maintained that large enterprises evolved as a result of entrepreneurial leadership, yet promoting an impersonal command of capital (Wieser 1914, p. 352).

cover the first and second Kondratieff cycles, to be distinguished from the emergence of “trustified” capitalism during the third Kondratieff.

In a modified scheme presented in 1946, Schumpeter distinguished four phases in the development of capitalism, including capitalist elements in ancient economies, thus resounding Max Weber’s notion of politically constrained types of ancient capitalism. Accordingly, “early capitalism” in the ancient era, especially in the Greco-Roman world, was defined by the existence of capitalist institutions such as factories producing for markets and merchants directing trade. During the Middle Ages, further entrepreneurial opportunities were realized, while the advent of “mercantilist capitalism” since the 16th century coincided with occidental nation-building. The end of the 18th century marked the emergence of “intact capitalism,” based on rapid advances in technology and organization, exhibiting the pattern of a bourgeois *laissez-faire* economy that prevailed until the end of the nineteenth century. Then, the “modern phase” of capitalism set in, accompanied by increasing government intervention, bureaucratic rationalization, and intensified imperialist conflicts (Schumpeter 1946, pp. 801–802). In this scheme, intact capitalism covers the first and second Kondratieff cycles, whereas modern capitalism relates to the third Kondratieff.

This pattern of rationalization in capitalist evolution would promote its decline as a mechanism of economic change, for the fundamental cause of instability inherent to the capitalist system, namely the discontinuous introduction of innovations by entrepreneurial agents, could be expected to disappear (Schumpeter 1928b, p. 385). Envisioning the future course of economic life, even the possibility of an administrative planning of innovations was taken to the fore (Schumpeter 1939, p. 697). While this developmental tendency pointed to socialist transformation, Schumpeter outlined transition states such as “guided capitalism,” characterized as “capitalism in the oxygen tent,” which included nationalization programs and could thus lead to “state capitalism” with government ownership and management in industry, paralleled by regulated labor and capital markets (Schumpeter 1943, p. 125). Underlining the historical tendency of capitalist development, these hybrid settings still resembled variants of an evolving socialist system (Schumpeter 1946, p. 807). Again, the matter of entrepreneurship excelled in the corresponding argument that sustaining the developmental dynamism of capitalism would require a persisting variability of its institutional components, involving the institutional carriers of the entrepreneurial function. At this point, Schumpeter’s argumentation highlighted the historical specificity of entrepreneurship most explicitly as a crucial element of his approach to economic development.

IV. THE HISTORICAL SPECIFICITY OF SCHUMPETERIAN ENTREPRENEURSHIP

Schumpeter’s theory of economic development approached the entrepreneurial function of carrying out innovation as the internal driving force of evolutionary change, based on the idea that novelty places itself alongside established patterns and competes them down (Schumpeter 1939, p. 241). In Schumpeter’s well-known model, entrepreneurs carry out innovations by setting up a firm, credit-financed by capitalists

who represent a rational, risk-bearing element. Innovations in the form of new goods or new methods of production then generate an entrepreneurial profit (Schumpeter 1926a, p. 93). This basic scheme was augmented by institutional aspects, which should highlight specific types of economic behavior in their historical context.¹⁶ The corresponding aspect of historical specificity addressed the view, prominent with the Historical School, that economic phenomena, which belong to the socio-cultural domain, are conditioned by historical time and geographical space, thus requiring a differentiated theoretical perspective (Hodgson 2001, pp. 21–22). Accordingly, Schumpeter associated the historical specificity of entrepreneurship with the proposition that the universal nexus of novelty and leadership would manifest itself through diverse historically conditioned institutional carriers. Therefore, the universal scheme of introducing novelty into a habitual setting by means of leadership could be associated with a market economy in the same way as with a communist economy, pinpointing those agents who would hold the leadership position in their particular environment (Schumpeter 1910, p. 284). Intellectually, this position referred to Wieser's view of pioneering leaders and habitual masses as a universal phenomenon in socio-cultural evolution (Schumpeter 1928a, p. 482).¹⁷

In this context, Schumpeter refuted the claim of epochal changes in economic spirit as an explanation for the genesis of modern capitalism, as proposed most prominently by Sombart and Weber. A distinction of development phases would not imply a change of the nature of economic activity, but only a change of socio-economic data. Thus it was not commercial motivation that made the eleventh-century merchant different from his modern counterpart, but the particular set of data that posed specific problems to solve (Schumpeter 1928a, p. 478). Accounting for the diversity of historical manifestations of entrepreneurship, Schumpeter highlighted social origin and sociological type by pointing to feudal lords, aristocratic landowners, civil servants, farmers, workmen, artisans, and even members of the learned profession. Regarding the entrepreneurial function, institutional qualities like the setting up and organizing of enterprises were distinguished from mere leadership, all of them subject to historical specificity (Schumpeter 1947, pp. 153–54).

This relationship between specific phases of capitalist development and types of entrepreneurship in Schumpeterian terms may be summarized as follows, schematically depicted in Table 1, highlighting the institutional atmosphere of competitive and “trustified” capitalism, which is reflected in certain types of entrepreneurship, patterns of innovation and procedures of selection. In particular, Schumpeter characterized competitive capitalism in terms of a competitive behavior of heroic entrepreneurs, who would reorganize the productive organism in the direction of ever-increasing efficiency by the means of competing down unfit enterprises

¹⁶Human action as a sociological topic was driven out of the static approach in Schumpeter's *Wesen*, his monograph on static theory, only to be reintroduced in *Theorie*, in which the notion of entrepreneurship was explored in a dynamic framework (Osterhammel 1987, pp. 49–50).

¹⁷Schumpeterian entrepreneurship also has been set in relationship to the Weberian notion of charismatic leadership (Langlois 1998a, pp. 198–99). In particular, the Weberian distinction of charismatic, rational, and traditional types of rule seems to highlight the charismatic, non-traditional, and non-rational, sources of Schumpeterian entrepreneurship (Fauci and Rodenzo 1998, p. 36). Still, the systematic rationality in Weber's approach contrasts with the irrational elements in Schumpeterian entrepreneurship, which, in addition to Wieser's influence, seemed to be closer to Sombart's approach (Ebner 2003, pp. 117–18).

Table 1. Schumpeter's scheme of the varieties of entrepreneurship in the phases of capitalist development

	Competitive Capitalism	Trustified Capitalism
Style of Kondratieff cycle	<i>Bourgeois</i>	<i>Neomercantilist</i>
Type of enterprise	<i>Family enterprises</i>	<i>Corporations and trusts</i>
Type of entrepreneur	<i>Merchant</i>	<i>Corporate director</i>
Mode of innovation	<i>Individual impulse</i>	<i>Organizational routine</i>
Mode of behavior	<i>Intuitive creativity</i>	<i>Professional calculation</i>
Selection mechanism	<i>Market competition</i>	<i>Political compromise</i>
Type of income	<i>Entrepreneurial profit</i>	<i>Employee salary</i>

(Schumpeter 1928a, pp. 478–79). As this “liberal epoch” was dominated by family enterprises, the motivation of the corresponding entrepreneurial type of the “industrial bourgeois” was said to have exhibited a sense of duty as well as an unambiguous family-orientation (Schumpeter 1929a, p. 308). This entrepreneurial type, also denoted as a “merchant,” resembled a socially responsible businessman, patriarch, and master, caring for the enterprise in terms of a personal, as well as a family concern beyond commercial calculation (Schumpeter 1928a, pp. 484–85).

“Trustification” during neo-mercantilist capitalism would lead to the dominance of large enterprises, as rapid technological progress presupposed the large organizational unit (Schumpeter 1929a, p. 316). Industrial concentration was interpreted as an outcome of entrepreneurial activities, motivated by a drive for conquest and novelty. The related entrepreneurial type of the corporate “captain of industry” would act unintentionally as the “pioneer of the planned economy,” professionally authorized by the shareholders (Schumpeter 1928a, pp. 484–85). Visionary intuition that had coined the commercialization of technical inventions in the competitive period was replaced by the professional calculation of engineers and business statisticians, promoting the ongoing rationalization of innovation-driven economic change (Schumpeter 1929a, p. 317). Furthermore, in “trustified” capitalism, different types of entrepreneurs would be selected, for large organizations required leadership capabilities in coordination and cooperation. Selection procedures would become less competitive and performance-oriented, yet more politicized in such a sense that political compromises between interest groups would determine leadership positions. This process was said to contribute to a separation of the success of enterprise and entrepreneur, as the latter would be transformed into a salaried employee (Schumpeter 1929a, pp. 318–19).

At this point, it becomes obvious that the institutional foundations for Schumpeter's model of economic development, involving the monetary components of interest, capital, credit, and entrepreneurial profit, actually referred to the developmental phase of an “intact” competitive capitalism. Thus, the analytical status of the theoretical categories was differentiated from the historically variable empirical material. For instance, Schumpeter admitted that the identification of entrepreneurial agents could be difficult, as entrepreneurship would be carried out only temporarily and never in

isolation (Schumpeter 1939, p. 103). This argument was applied to the depersonalization of entrepreneurship in complex organizations during “trustified” capitalism, paralleling the obsolescence of the entrepreneurial function in relation with the establishment of in-house research and development laboratories in large enterprises and thus heralding a “democratization” of innovation (Schumpeter 1942, pp. 132–33). The underlying matter of socialist transformation informed Schumpeter’s thesis that even governments could carry out the entrepreneurial function in a certain historical situation, as illustrated by the example of agricultural policy in the United States, which was said to have repeatedly introduced technological novelty (Schumpeter 1951, p. 255).¹⁸

Recognizing that matter of historical specificity and development phases in the conceptual foundations of Schumpeterian entrepreneurship then allows for understanding shifts in Schumpeter’s theorizing on innovation. Current discussions on that subject identify the conceptual dualism of an early and a late Schumpeterian approach, shifting from a “Schumpeter I” model of personal entrepreneurship in newly founded enterprises with exogenous invention to a “Schumpeter II” model of organized research and development in large enterprises with an endogenous integration of invention and innovation. This alleged change of mind that seems to be reflected by conceptual differences between *Theorie der wirtschaftlichen Entwicklung* and *Capitalism, Socialism and Democracy* as most prominent publications, commonly has been interpreted as a reaction to empirically relevant changes in the productive organization of capitalism. Responding to these changes, Schumpeter seemingly altered his argument on the role of entrepreneurship, implying inconsistencies in his theoretical perspective (Freeman et al. 1982, pp. 41–42). In particular, it is argued that Schumpeter’s move to Harvard in 1932 allowed for experiences with corporate research and development in the United States, while personal entrepreneurship represented an outmoded European style of innovation. Neo-Schumpeterian contributions have used this alleged dualism as a point of departure for further research ventures (Nelson and Winter 1982, pp. 39–40).

In countering these allegations, it has been put forward that Schumpeter’s methodology would allow for settling historical experiences and theoretical reasoning on different analytical levels. Changes of the historical context would not interfere with the validity of the related theory of entrepreneurship, for the variability of the institutional carriers of entrepreneurship remains distinct from the hypotheses that are formulated in Schumpeter’s dynamic economic theory (Frank 1998, pp. 505–506). This argument links up with the observation that Schumpeter’s methodological instrumentalism is combined with an exposed role for economic sociology as a method of economic analysis, meant to grasp the impact of the institutional domain of economic development (Shionoya 1997, pp. 193–94).

In addition to these methodological considerations, actually proceeding from the perspective of economic sociology, it has been suggested that the consistency in Schumpeter’s reasoning relates to an analytical perspective that combines shifts in the characterization of the carriers of the entrepreneurial function with explanations of the development pattern of modern capitalism as a process of rationalization and

¹⁸This claim pointed to the feasibility of a socialist system in which economic leadership could be exercised through administrative command (Schumpeter 1912, p. 173).

bureaucratization in Weberian terms. Accounting for this process of societal rationalization would allow for perceiving changes in the articulation of entrepreneurship as an outcome of an institutional dynamism, which denotes a key concern in the Schumpeterian framework (Langlois 1998b, pp. 57–58).

These arguments in defense of the analytical consistency of the Schumpeterian notion of entrepreneurship are in agreement with Schumpeter's original line of reasoning. Yet they need to be augmented by addressing the matter of historical specificity as an expression of the institutional orientation of Schumpeterian thought, in this case pointing to the historical specificity of entrepreneurship in the context of distinct phases of capitalist development.¹⁹ Grasping the matter of rationalization requires accounting for the pattern of capitalist evolution in terms of development phases, for these phases resemble characteristic combinations of pre-capitalist and capitalist institutional elements as an embedding setting for entrepreneurial activities. This is in accordance with Schumpeter's characterization of institutional variety as an indispensable condition in the manifestation of entrepreneurial activity. Thus, shifts in the analytical focus of the Schumpeterian approach to innovation reflect the historical specificity of entrepreneurship in specific phases of capitalist development, highlighting a perspective that is perfectly consistent with the epistemological orientation of Schumpeter's theory of economic development.

V. CONCLUSION

Schumpeter explored the mechanism and contours of economic development in the institutional setting of capitalism. The corresponding notion of entrepreneurship allows for distinguishing the carriers of the entrepreneurial function in accordance with historically specific institutional patterns. A neglect of the underlying matter of historical specificity has been largely responsible for the ill-conceived claim that the late Schumpeter changed his mind on the role of entrepreneurship by emphasizing the impact of research and development departments in large enterprises. In confronting this claim, the historical specificity of entrepreneurship in specific phases of capitalist development needs to be taken into account as an integral component of Schumpeter's theory of economic development, rooted in analytical concerns with economic crises, business cycles, and the perspective of socialist transformation. Schumpeter's corresponding scheme of capitalist development phases distinguished between "competitive" capitalism during the nineteenth century, characterized by personal entrepreneurship on competitive markets, and "trustified" capitalism in the twentieth century, reflecting the dominance of large enterprises in an increasingly rationalized and bureaucratized setting. At this point, the intellectual context of historicist debates exercised decisive influences on Schumpeterian thought, with Max Weber and Werner Sombart as outstanding contributors.

However, apart from these arguments about the analytical status of Schumpeter's ideas in the history of economic thought, further critical issues remain unresolved.

¹⁹Even Schumpeter's final statements on business-cycle research contained a plea for historical studies on entrepreneurship (Schumpeter 1949a/1951, p. 314).

Capitalism has taken a different direction than imagined by Schumpeter, although capitalist welfare states may exhibit features that resemble his characterization of a mixed economy in socialist transformation. Yet Schumpeter underestimated the reproductive capacity of capitalism in regaining a variety of institutional forms that would include the carriers of the entrepreneurial function. Actually, current tendencies in the domain of industrial organization point to a move away from vertical organizational structures that may lead to a revival of market competition among small firms in an extended division of labor (Langlois 2003, pp. 377–78). However, institutional changes may even confirm the Schumpeterian argument that the capability for innovation is shaped by historically conditioned constellations of institutional variety in terms of an “embedded entrepreneurship” (Ebner 1999, pp. 148–49). Current developmental tendencies actually confirm the analytical relevance of the Schumpeterian theory of economic development with regard to its perception of capitalism as an evolutionary process of economic change. In this context, a further reconsideration of the institutional foundations of entrepreneurship may provide most promising insights both in the domains of theory and policy.

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