

JOSEPH SCHUMPETER AND CHRISTIAN ECONOMICS

Edward J Carter¹

1. Introduction

Joseph Schumpeter is a rarity as an economist. This is partly because of his interest in politics, his experience as a politician, and his involvement in business.² It is also attributable to his interest in socialism and sociology, something not common amongst economists. The result is seen in the considerable complexity and depth of his work, when compared to a more conventional neo-classical approach to economics. He wrote a good number of books and articles³, culminating in his most famous work, *Capitalism, Socialism and Democracy*, published in 1942, when he was teaching at Harvard University.⁴ Although a more popular publication, it is nevertheless scholarly, drawing upon the themes worked out in his various published works, the earliest of which date back to 1905⁵, while remaining self-contained as a sustained piece of argument. As such, it provides a good opportunity for the student of his work to analyse the central aspects of his thinking, and so to provide an exposition of the unique character of his theory of economics.

Capitalism, Socialism and Democracy consists of five parts. The first sets out

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² Joseph Schumpeter was the Finance Minister of Austria briefly in 1919, at a time when the old Austro-Hungarian Empire was disintegrating following the First World War, and had harboured political ambitions prior to this appointment. His business career included successes, but saw him declared bankrupt in 1924.

³ For a fairly complete list, see: M.I. Stevenson (compiler), *Joseph Alois Schumpeter - A Bibliography, 1905-1984* (Westport, Connecticut: Greenwood Press, 1985). Schumpeter wrote in both German and English, as well as very occasionally in French, and some of the Germanic publications have been translated into English only since 1984.

⁴ That referred to here is the Fifth Edition: J.A. Schumpeter, *Capitalism, Socialism and Democracy* (London: Routledge, 1992).

⁵ The two most important of these are: *The Theory of Economic Development - An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle (Translated into English by Redvers Opie)* (Cambridge, Massachusetts: Harvard University Press, 1936) (First published in German in 1911); and: *Business Cycles - A Theoretical, Historical, and Statistical Analysis of the Capitalist Process (2 Volumes)* (New York: McGraw-Hill, 1939). Also of note is the collected volume of his most influential essays, published after his death in January 1950: *Essays of J. A. Schumpeter (Edited by Richard V. Clemence)* (Cambridge, Massachusetts: Addison-Wesley Press, 1951); and the collection of ten biographical essays: *Ten Great Economists - From Marx to Keynes* (London: Allen & Unwin, 1952). Schumpeter's final and substantial work, which he had not quite finished at the time of his death, draws together many of the themes that had interested him: *History of Economic Analysis* (New York: Oxford University Press, 1954).

and examines the writings and thought of Karl Marx in broadly complimentary terms, providing an interpretation of Marxism that is then used as a springboard into the rest of the book. In the second part Schumpeter uses an examination of the phenomenon of capitalism as the means for the promotion of his own economic theories, and seeks to place the capitalist era within a broader historical context. Part three contains his theory of socialism, his defence of such a socialist society, and, once again, a reminder that the flow of history is of key importance. The fourth part of the book is concerned with Schumpeter's own theory of democracy, and ends with a tentative conclusion that socialism might be better at providing the conditions needed for a functioning democracy than is capitalism, while the fifth and final part turns from theory to a purely historical survey of various socialist parties.

2. The Key Schumpeterian Themes

Even an outline sketch, such as that given above, makes it clear that, for Schumpeter, history and economics must be taken in tandem, in strong contrast to the conventional, timeless neo-classical economic analysis. For Schumpeter, the progression of history must govern economic possibilities, rather than the relationship being the other way around. This is his key conclusion when he examines Marx:

Evolution was for him [Marx] the parent of socialism. He was much too strongly imbued with a sense of the inherent logic of things social to believe that revolution can replace any part of the work of evolution. The revolution comes in nevertheless. But it only comes in order to write the conclusion under a complete set of premises. The Marxian revolution therefore differs entirely, in nature and in function, from the revolutions both of the bourgeois radical and of the socialist conspirator. It is essentially revolution in the fullness of time.⁶

The references here to completeness, and the fullness of time, serve to establish Schumpeter's own distinctive interpretation of Marx, one which places emphasis upon the flow of history rather than the shock of revolution. Such an interpretation is best understood as giving prime significance to the role of *time*, rather than particular states of affairs within an economy. It is for this reason that Schumpeter must argue that 'the subject matter of economics is essentially a unique process in historic time.'⁷

This being an important element within the core of his approach to economics, Schumpeter acknowledges that a sound grasp of history, both the facts and the more general '*experience*'⁸, is of crucial importance for the economist. What is more, the scope of this historical account must be a broadly based one, taking in a view of society in general. Here Schumpeter once again follows approvingly his interpretation of Marx: 'We have seen how in the Marxian argument sociology and economics pervade each other. In intent, and to some degree also in actual practice, they are one. ...There cannot be any doubt about the access of vitality which comes to analysis thereby.'⁹

⁶ Schumpeter, *Capitalism, Socialism and Democracy*, p. 58.

⁷ Schumpeter, *History of Economic Analysis*, p. 12.

⁸ Schumpeter, *History of Economic Analysis*, p. 13.

⁹ Schumpeter, *Capitalism, Socialism and Democracy*, p. 45. This sociological

A picture involving both history and an all-encompassing view of society begins to emerge, and it is this complex set of ideas which forms the heart of Schumpeter's theory of economics. An interpreter of his work has, therefore, the primary task of placing the three elements of economic analysis, history, and social institutions and structures, in the correct relationship.

Schumpeter's theory of 'the process of creative destruction'¹⁰ is the principle means by which he imports a sense of dynamic movement, and hence history, into economics. As he states, 'capitalist reality is first and last a process of change'¹¹, and any point of static equilibrium within an economy must be understood as being a tiny subset within a bigger picture, a subset that, in practical terms, is either rare or non-existent.¹²

Schumpeter thus turns economic theory on its head. The usual neo-classical view that the economy is essentially in equilibrium, or moving towards equilibrium, is replaced with the proposal that the economy is plotting a path through time, and is 'a history of revolutions.'¹³ It is the new inventions and new developments, being the dominant features on the landscape of economic history, which form the concrete revolutionary steps, and examples, in any industry are easily to hand. Without these advances the economy is static, merely refining and adding to existing productive methods. As Schumpeter observes, 'add successively as many mail coaches as you please, you will never get a railway thereby.'¹⁴

3. A Theory of Enterprise and 'Energetic Egoism'

It is easy to see, therefore, why Schumpeter, eschewing the static model of the

dimension to the analysis is elsewhere expressed by Schumpeter as follows: 'The historical report cannot be purely economic but must inevitably reflect also 'institutional' facts that are not purely economic: therefore it affords the best method for understanding how economic and non-economic facts *are* related to one another and how the various social sciences *should* be related to one another.', *History of Economic Analysis*, p. 13. It can be seen that the interconnectedness of economic change with the totality of history is thus stressed by Schumpeter: 'Economic development is so far simply the object of economic history, which in turn is merely a part of universal history, only separated from the rest for purposes of exposition.', *The Theory of Economic Development*, p. 58.

¹⁰ This is the heading of chapter seven of *Capitalism, Socialism and Democracy*, (pp. 81-86).

¹¹ Schumpeter, *Capitalism, Socialism and Democracy*, p. 77 (footnote 5).

¹² Schumpeter considered the static model of the economy put forward by Léon Walras to be the best; see: Schumpeter, *Capitalism, Socialism and Democracy*, p. 77 (footnote 4). However, as Richard Arena notes, he considered 'the Walrasian system as a construct of limited validity that could be subsumed under his own more general conception of capitalist market economics.', R. Arena, 'Schumpeter on Walras', in R. Arena & C. Dangel-Hagnaner (eds) *The Contribution of Joseph Schumpeter to Economics - Economic Development and Institutional Change* (London: Routledge, 2002), pp. 40-65 (p. 63).

¹³ Schumpeter, *Capitalism, Socialism and Democracy*, p. 83.

¹⁴ Schumpeter, *Theory of Economic Development*, p. 64 (footnote 1).

economy, needs a proper theory of enterprise and of entrepreneurs.¹⁵ Enterprise, in the context of economics, is the name given to the means by which individuals and collective economic agents such as corporations take creative commercial steps forward. It is the application of enterprise that creates economic history.¹⁶

However, conventional neo-classical economics lacks any sense of the existence of revolutionary steps in the history of economics, and so is seriously deficient as regards an analysis of enterprise. The need for a theory of entrepreneurship is overlooked principally because the static model of perfect competition in conventional economics requires the assumption that there is perfect knowledge of the future, which is the same as stating that the future is not a substantive thing. The standard model also ignores the need to examine the means by which the factors of production - land, labour and capital - are combined so as to produce goods and services, and, separately, assumes that technology is a 'given'. All three of these assumptions remove the very basis for the existence of entrepreneurs, who fashion their role out of an ability to foresee future developments in the economy more accurately than others, and who have the skills needed to recognise valuable technological developments and to bring the factors of production together successfully, in innovative ways. Enterprise is therefore ignored, and 'scientific' timelessness retained, within neo-classical economics.¹⁷

¹⁵ He makes the point, stated in reverse, as follows: 'in a stationary economy, even if disturbed by action of external factors, both the entrepreneurial function and the entrepreneurial profit would be absent.', Schumpeter, *Business Cycles*, p. 105.

¹⁶ This was recognised by the classical economists. For example, John Maynard Keynes appealed to what he termed the 'animal spirits' and 'spontaneous optimism' within human nature, as the engine for enterprise, within a key element of his general theory: 'Even apart from the instability due to speculation, there is the instability due to the characteristic of human nature that a large proportion of our positive activities depend on spontaneous optimism rather than on a mathematical expectation, whether moral or hedonistic or economic. Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as a result of animal spirits - of a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities. Enterprise only pretends to itself to be mainly actuated by the statements in its own prospectus, however candid and sincere. Only a little more than an expedition to the South Pole, is it based on an exact calculation of benefits to come. Thus if the animal spirits are dimmed and the spontaneous optimism falters, leaving us to depend on nothing but a mathematical expectation, enterprise will fade and die.', J.M. Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan, 1936), pp. 161-162.

¹⁷ Harold Lydall comments on this as follows: 'Entrepreneurship is a subject that is never integrated into the body of neo-classical theory, since it is, of course, logically impossible to do so.', H. Lydall, *The Entrepreneurial Factor in Economic Growth* (London: Macmillan, 1992), p. 58. A survey of basic modern undergraduate economics textbooks reveals a variety of strategies in respect of a treatment of enterprise, which, in classical economics, was considered to be one of the four factors of production along with land, labour and capital. One approach is simply not to mention it: 'Labor, land, and capital are the three most important factors of production.', N.G. Mankiw, *Principles of Economics (Second Edition)* (Fort Worth:

In contrast, Schumpeter attaches weight to the process of, and motivation for, enterprise, and to the social class of 'entrepreneur'. The heart of economic development, in Schumpeter's view, lies in the genuine newness and discontinuity of whatever it is that is brought about by the entrepreneur, and not in shifting patterns of demand on the part of customers: 'These spontaneous and discontinuous changes in the channel of the circular flow and these disturbances of the centre of equilibrium appear in the sphere of industrial and commercial life, not in the sphere of the wants of the consumers of final products.'¹⁸ This is significant, because it moves the prime motivational spark within economic theory away from a hedonistic, or even utilitarian, starting point, and replaces it with a different kind of motive power. The utilitarian model is essentially static, lacking any true sense of time and history, and Schumpeter points to the fact that under the instrumental form of rationality associated with utilitarianism the entrepreneur is in fact irrational:

Experience teaches, however, that typical entrepreneurs retire from the arena only when and because their strength is spent and they feel no longer equal to their task. This does not seem to verify the picture of the economic man, balancing probable results against disutility of effort and reaching in due course a point of equilibrium beyond which he is not

Harcourt, 2001), p. 398. Another approach is to subsume enterprise, understood as a form of management, within labour: 'In this book we consider management as a specialised type of labour, thereby allowing the list of factors of production to be reduced to three - land, labour and capital.', P. Hardwick, J. Langmead & B. Khan, *An Introduction to Modern Economics (Fifth Edition)* (Harlow: Pearson, 1999), p. 34. A more serious, but still limited, engagement with the possibility of enterprise tends to allow a place for the uncertainty of the future, while remaining silent on the subject of revolutionary change: '*Enterprise* refers to the acceptance of the risks of production which arise through uncertainty. This is a somewhat narrower meaning than that given by the classical economists to the *entrepreneur* - the person or persons who decided what goods to produce and brought the factors of production together to produce them. ... What really distinguishes enterprise from other factors is that it has to carry all the *risks of production*. ... Briefly, they occur because production takes time.', J. Harvey, *Modern Economics - An Introduction for Business and Professional Students (Seventh Edition)* (London: Macmillan, 1998), pp. 72-73. Perhaps the most revealing category of comment, while outlining the elements of uncertainty and innovation within enterprise, holds back from the development of a proper theory, labelling entrepreneurship, for example, as something difficult to describe, and 'a rather mysterious input.', W.J. Baumol & A.S. Blinder, *Economics - Principles and Policy (Seventh Edition)* (Fort Worth, Texas: The Dryden Press, 1997), p. 351. Of note also is this summary comment of Vania Sena: 'Early contributions to the economics of innovation have been shaped by the work of Schumpeter who emphasised the importance of dynamic rather than static innovation; ... More recent developments of the economics of innovations have concentrated on other themes, like the impact of spillovers, the role of R&D cooperation and the role of patents in fostering innovations when these are cumulative.' V. Sena, 'The Return of the Prince of Denmark: A Survey on Recent Developments in the Economics of Innovation', *Economic Journal* 114 (2004) pp. F312-F332. All these different approaches seem to vindicate Lydall's observation.

¹⁸ Schumpeter, *Theory of Economic Development*, p. 65.

willing to go. Effort, in our case, does not seem to weigh at all in the sense of being felt as a reason to stop. And activity of the entrepreneurial type is obviously an obstacle to hedonist enjoyment of those kinds of commodity which are usually acquired by incomes beyond a certain size, because their “consumption” presupposes leisure. Hedonistically, therefore, the conduct which we usually observe in individuals of our type would be irrational.¹⁹

This emphasis on personal weight of character on the part of entrepreneurs, and on their possession of ‘super-normal qualities of intellect and will’²⁰, resulting in a high level of initiative, leads Schumpeter to suggest an alternative model of rationality, which he terms *energetic egoism*.²¹ This is to be understood as presupposing ‘aptitudes differing *in kind* and not only in degree from those of more rational economic behavior.’²² The motivations underlying this energetic rationality Schumpeter identifies and organises under three distinct headings.

The first he describes as being ‘the dream and the will to found a private kingdom, usually, though not necessarily, also a dynasty.’²³ Schumpeter envisages this as being a substitute for feudal lordship, available to any who have the ability to secure it, rather than being something which must be inherited. Although, he observes, such ‘lordship’ is essentially an illusion, it does give the sensation of power achieved. This aspect of energetic rationality is, therefore, somewhat associated with a purely hedonistic outlook, although, Schumpeter asserts, it is not identical with it. This assertion is not defended, but might find its basis in the long-term nature of a dynasty, more extended in scope than any hedonistic calculation could allow for. At root, it is the motivation of the achievement of a kind of immortality and, as such, the nature of the rationality involved is, strictly speaking, instrumental in nature. Given that Schumpeter’s energetic rationality is set up specifically in contrast to instrumental rationality, this first aspect of it is therefore presumably weak.

The second aspect is characterised by ‘the will to conquer: the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself.’²⁴ Schumpeter here touches upon something that differs in a certain way from the standard model of instrumental rationality, since the objective, or fruits of success, are removed from the picture. It still remains true, however, that the success of conquest or superiority over others is retained as a target. It is therefore possible to collapse this second element within Schumpeter’s energetic

¹⁹ Schumpeter, *Theory of Economic Development*, p. 92.

²⁰ Schumpeter, *Theory of Economic Development*, p. 82 (footnote 2 from previous page).

²¹ This terminology was introduced by Schumpeter at an early stage in his writing; see: J.A. Schumpeter, *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie* (Munich and Leipzig: Dunker und Humboldt, 1908), (see especially pp. 86-87). On his use of this form of words, see: E. Santarelli & E. Pesciarelli, ‘The emergence of a vision: The development of Schumpeter’s theory of entrepreneurship’, *History of Political Economy* 22(4) Winter, pp. 677-696 (especially pp. 684-687).

²² Schumpeter, *Theory of Economic Development*, p. 81 (footnote 2).

²³ Schumpeter, *Theory of Economic Development*, p. 93.

²⁴ Schumpeter, *Theory of Economic Development*, p. 93.

rationality back into a more conventional instrumental rationality. To prevent this happening, one would have to lay stress upon the *process* of conquest, the love of the fight itself, and it seems clear that Schumpeter does allow himself to be read in this way, not least because of the weight he attaches to strength of personal character and willpower.

Support for such an interpretation of Schumpeter can be had from an examination of his theory of democracy, the subject of Part Four of *Capitalism, Socialism and Democracy*. He argues there that the classical theory, with its doctrine of the 'common will' reflected through the democratic process, is flawed and unrealistic. Instead, he proposes a model under which democracy is a competitive struggle for the people's vote on the part of those who can be recognised as natural leaders. It is this struggle for power and office, akin to the process of conquest, that provides the rationale for political action. It is only after this that 'the social function is fulfilled, as it were, incidentally.'²⁵ Here, then, it would seem, we discover support for an important element within Schumpeter's energetic rationality, a motive force derived from the *process* of a successful *battling for superiority*.

The third aspect Schumpeter describes as being 'the joy of creating, of getting things done, or simply of exercising one's energy and ingenuity.'²⁶ Here, any sense of the objective as being valuable in itself has faded completely, and it is the *act* of creativity or ingenuity which provides its own motivation. In order to put some flesh onto the bare theoretical bones provided by Schumpeter on this point, it is necessary to explore in some detail his famous proposal in *Capitalism, Socialism and Democracy* that capitalism is sowing the seeds of its own destruction.²⁷ At the heart of this extended argument is found his assertion that capitalism itself has a tendency to snuff out the vital spark of creativity.

Various possibilities are put forward as the cause of this tendency. The first is that of satiety, such that the economic wants of humanity are so completely satisfied that there is no need for any further developments in the economy. Under this state of affairs, 'There would be nothing left for entrepreneurs to do. ... Other than economic pursuits would attract the brains and provide the adventure.'²⁸ This possibility Schumpeter accepts is remote, but he likens the effects of such satiety to that of the 'mechanization of progress'²⁹, which he asserts is much more likely, and already observable.

This mechanisation, or the promotion of routine, undermines the introduction of new things within the entrepreneurial function, which Schumpeter characterises as being difficult to exercise in the best of circumstances, for two reasons: 'first, because they lie outside of the routine tasks which everyone understands and, secondly, because the environment resists in many ways that vary, according to social

²⁵ Schumpeter, *Capitalism, Socialism and Democracy*, p. 282.

²⁶ Schumpeter, *Theory of Economic Development*, p. 93.

²⁷ This is the central thrust of Part Two of the book, which begins: 'Can capitalism survive? No. I do not think it can.', Schumpeter, *Capitalism, Socialism and Democracy*, p. 61.

²⁸ Schumpeter, *Capitalism, Socialism and Democracy*, p. 131.

²⁹ Schumpeter, *Capitalism, Socialism and Democracy*, p. 131.

conditions, from simple refusal either to finance or to buy a new thing, to physical attack on the man who tries to produce it.’³⁰

If, as Schumpeter argues, ‘innovation itself is being reduced to routine’³¹ because of the manner of progress in the capitalist economy, the essence of enterprise will be lost. Although this assertion is used by Schumpeter as the key element in his argument that economic stagnation will follow, of interest here is the evidence in his writing concerning the nature of enterprise itself. The emphasis is clearly placed on the unexpected and novel nature of the entrepreneur’s activities, since the enemy is named as ‘routine’, or, later in his argument, the managerial mindset.³² This aspect of his energetic rationality is, then, of central importance, being the cornerstone of his main argument, that capitalism is doomed.

As a proposed picture of human psychology, at least for some individuals, this understanding of rationality would seem to connect to the excitement of the so-called ‘eureka’ moment, when a new way of seeing something is suddenly grasped, seemingly out of nothing. The joy of creating is therefore different in kind to the satisfaction of a job done efficiently. It involves what is sometimes referred to as the ‘compulsion to create’, often experienced by artists and composers, as well as the ‘journey into the unknown’ that true creativity requires. This may require a spirit of playfulness, and may also involve an experience of alienation from ‘normal’ human society. All these aspects are present in Schumpeter’s theory, and provide a fruitful basis on which to build a model of economics.

The temptation is to conceive of Schumpeter’s energetic rationality in strongly personal terms, as a description of individual creativity and expression.³³ This would be a mistake, since his argument is cast in terms of social structures, and of the entrepreneurial class. The ultimate success of socialism, portrayed by Schumpeter as a kind of one-business society, can only come about through the destruction of the bourgeois class, and this is linked closely to the waning of enterprise:

Although entrepreneurs are not necessarily or even typically elements of that [the bourgeois] stratum from the outset, they nevertheless enter it in case of success. Thus, though entrepreneurs do not *per se* form a social class, the bourgeois class absorbs them and their families and connections, thereby recruiting and revitalizing itself currently while at the same time the families that sever their active relation to “business” drop out of it after a generation or two. ... Economically and sociologically, directly and indirectly, the bourgeoisie therefore depends on the entrepreneur and, as a class, lives and will die with him.³⁴

³⁰ Schumpeter, *Capitalism, Socialism and Democracy*, p. 132.

³¹ Schumpeter, *Capitalism, Socialism and Democracy*, p. 132.

³² Schumpeter, *Capitalism, Socialism and Democracy*, p. 156.

³³ This would align Schumpeter with other economists who propose a model under the heading of ‘expressive rationality’. For one example of this, see: S. Hargreaves Heap, ‘Expressive rationality: is self-worth just another kind of preference?’, in U. Maki (ed.), *The Economic World View - Studies in the Ontology of Economics* (Cambridge: Cambridge University Press, 2001), pp.98-113.

³⁴ Schumpeter, *Capitalism, Socialism and Democracy*, p. 134.

His casting of enterprise, and of energetic rationality, within a sociological frame of reference is underpinned by Schumpeter when it comes to his detailed description of the entrepreneurial function, a function which ‘does not essentially consist in either inventing anything or otherwise creating the conditions which the enterprise exploits. It consists in getting things done.’³⁵ Here, the difference between inventiveness and enterprise is marked out by Schumpeter. The former is something personal, detached, as it were, from society, while the latter must be understood as being primarily a function that can only be described within the context of society.

The key conclusion that can be drawn out of this distinction is one that sheds light on the source or locus of the entrepreneurial spirit. Economists have a fondness for so-called ‘external factors’, being those given and unchanging (at least in the short term) aspects of the economy. It would be easy to argue that enterprise is just one of those factors, contained within the cultural landscape. However, Schumpeter’s analysis would seem to be more adventurous, placing the entrepreneurial function within the fluctuations of the structures of society, and seeing it as being connected closely with the process of effecting new things in a social context rather than in the abstract. Enterprise thus represents, in Schumpeter’s analysis, the key example of an activity that connects, in a dynamic manner, the unfolding of history with the structures of society.³⁶

4. Money, Banking and Time

Alongside the entrepreneurial function, Schumpeter pays close attention to the banking system, and to the role of money in the economy.³⁷ Within a modern economy, money takes on the form of a promise, connecting the present and the future. Unlike any other commodity, it is not consumable in itself, but holds the *potential* to be exchanged for a consumable commodity. Money, and the banks that create it, should therefore be a key element within a theory of economics that

³⁵ Schumpeter, *Capitalism, Socialism and Democracy*, p. 132.

³⁶ This interpretation of Schumpeter, while not universal, is supported by Richard Arena and Paul-Marie Romani, when they argue that, while the entrepreneur can be considered to be an exogenous factor in Schumpeter’s analysis, and thus a potential weakness in the structure of his work, this is not an accurate reading: ‘If, instead, we consider entrepreneurship as the form of social leadership prevailing under capitalism, this critique loses its force. ... Once these [capitalist] dynamics are analysed within a methodological framework that combines economic theory with sociology and history ... they clearly reflect an endogenous process of change.’, R. Arena & P-M. Romani, ‘Schumpeter on Entrepreneurship’, in R. Arena & C. Dangel-Hagnaner (eds) *The Contribution of Joseph Schumpeter to Economics - Economic Development and Institutional Change* (London: Routledge, 2002), pp. 167-183 (p. 181). More Marxist in tone is the interpretation of Schumpeter’s theory of enterprise provided by Paul Sweezy, which sees the entrepreneur as acting as a tool of the social relations in which he or she is enmeshed; see: P.M. Sweezy, ‘Professor Schumpeter’s Theory of Innovation’, *Review of Economic Statistics*, 25, 1 (1943), pp. 93-96.

³⁷ Of particular note are the chapters entitled ‘Value and Money’ and ‘Money, Credit, and Cycles’ in *History of Economic Analysis*, which give an historical survey of the treatment of the subject of money within economics.

incorporates time.³⁸ However, conventional neo-classical economics understands money as being nothing more than an effective instrument of barter. The distinctive characteristic of money, under this view, is that it is a *convenient* medium of exchange. Above all, it should be easily divisible and transportable. The time-connected aspect of money is overlooked, and the scientific basis for economics thereby defended.³⁹

Schumpeter is firm in denying this approach: ‘Of course if one were to say that money is only a medium for facilitating the circulation of goods and that no important phenomena can be connected with it, this would be false.’⁴⁰ Instead, a richer picture emerges, based on the fact that money is necessary for enterprise. The essence of enterprise lies in the new actions and combinations undertaken, and does not depend upon the prior possession of wealth on the part of the entrepreneur, so it follows that Schumpeter can claim that ‘in principle no one other than the entrepreneur needs credit.’⁴¹ Indeed, even if an entrepreneur does employ his or her own wealth, this is still strictly speaking an employment of credit *within*, as it were, a single person’s different activities. Thus, for Schumpeter:

credit is essentially the creation of purchasing power for the purpose of transferring it to the entrepreneur, but not simply the transfer of existing

³⁸ For a presentation of the ‘historical’ approach to money taken by Sir John Hicks, see G. Fontana, ‘Hicks on monetary theory and history: money as *endogenous money*’, *Cambridge Journal of Economics*, 28 (2004), pp. 73-88. Fontana concludes: ‘Money is the flow of the means of payment used for the production and the circulation of commodities. Money is the stock of liquidity held to meet unforeseen and unforeseeable payments. The supreme challenge for economists is to introduce money in its entire complexity on the very ground floor of economic analysis; to abandon the idea of representing modern economics by timeless barter economy models.’ (p. 85). For just such an attempt, see: J. Sapir, ‘Seven Theses for a Realist Economics; Part I: Theses One to Four’, *Post-Autistic Economics Review*, 21 (2003), article 1, http://www.btinternet.com/~pae_news/review/issue21.htm. Of particular note is Thesis 3: Time and money are at the very heart of the interchange between the individual and collective levels.

³⁹ Typical of a standard treatment of this aspect of money in neo-classical economics, which marginalises the importance of time, is the following: ‘Finally, money serves as a standard of deferred payment or a unit of account over time. When you borrow, the amount to be repaid next year is measured in pounds sterling. Although convenient, this is not an essential function of money. ... the key feature of money is its use as a medium of exchange. For this it must act as a store of value as well. And it is usually, though not invariably, convenient to make money the unit of account and standard of deferred payment as well.’ Begg, Fischer & Dornbusch, *Economics*, p. 403. For an argument that this standard model must be inadequate because barter can coexist with money, see: A. Alchian, ‘Why Money?’, *Journal of Money, Credit and Banking*, 9, 1 (1977) pp. 133-140.

⁴⁰ Schumpeter, *The Theory of Economic Development*, p. 96.

⁴¹ Schumpeter, *The Theory of Economic Development*, p. 102. This bold claim is justified by Schumpeter by way of a dismissal of consumptive and productive credits as being, while an observable reality, not fundamental to the economic process; see: pp. 103-105.

purchasing power. The creation of purchasing power characterises, in principle, the method by which development is carried out in a system with private property and division of labour. ... It is only thus that economic development could arise from the mere circular flow in perfect equilibrium. And this function constitutes the keystone of the modern credit structure.⁴²

Together, then, with enterprise itself, which it serves, the existence of money and the banking system acts to make possible economic development, the continuing ‘creative destruction’, which, for Schumpeter, is the essence of economics itself.⁴³ Money must therefore be seen as a social institution, connecting the individual to society, while playing its part in the progression of history.

5. Schumpeter’s Vision of Society

It is easy, therefore, to see why, for Schumpeter, the standard economist’s vision of society as the summation of all the individuals’ choices and preferences will not do. His approach to this is seen most clearly in his treatment of the theory of democracy, where he sets out his view, that there is a ‘center, the common good, toward which, in the long run at least, *all* individual wills gravitate.’⁴⁴ This is the ‘soul of the people’, which is markedly different from the utilitarian and aggregative ‘will of the people’. The latter, according to Schumpeter, is meaningless without the former: ‘Both the existence and the dignity of this kind of *volonté générale* are gone as soon as the idea of the common good fails us.’⁴⁵

A picture emerges in which economic forces and social forces act as influences with a mutual shaping effect, thus resulting in the flow of history. This is

⁴² Schumpeter, *The Theory of Economic Development*, p. 107.

⁴³ Odile Lakomski summarises Schumpeter’s thought on this point as follows: ‘in modern capitalism the driving force of change cannot be reduced to the creative impulse of the entrepreneur. Rather, the latter must be understood in relation to the role played by credit and by the rules and institutions created by the banking system.’, O. Lakomski, ‘The long-term perspective - Schumpeter’s prediction of the end of capitalism’, in R. Arena & C. Dangel-Hagnaner (eds) *The Contribution of Joseph Schumpeter to Economics - Economic Development and Institutional Change* (London: Routledge, 2002), pp. 146-164 (p. 162).

⁴⁴ Schumpeter, *Capitalism, Socialism and Democracy*, p. 252.

⁴⁵ Schumpeter, *Capitalism, Socialism and Democracy*, p. 252. Schumpeter’s view on the part played by the Scholastic Doctors in the development of the ‘common good’ in economic theory is set out in Part 2 of Chapter 2 of *History of Economic Analysis* (pp. 73-142). There he notes ‘the ease with which the economics of the doctors absorbed all the phenomena of nascent capitalism’ (p. 94) and argues that: ‘This Public Good was conceived, in a distinctly utilitarian spirit, with reference to the satisfaction of the economic wants of individuals as discerned by the observer’s reason ... and is therefore, barring technique, exactly the same thing as the welfare concept of modern Welfare Economics’ (p. 97). Schumpeter seems to be suggesting here that Scholastic economic theory had a significant contributory role in the separation of economics from sociology and history, and thus the eventual de-moralisation of economics as a discipline. It is this movement which Schumpeter seeks to question and reverse.

the theme of Chapter Eleven of *Capitalism, Socialism and Democracy*, in which Schumpeter argues, with reference to past history, that the influence of capitalism on society has been profound, in respect of science, art, medicine and education, these merely serving as examples of a universal truth. He also suggests that this influence is pacifistic, claiming that ‘the more completely capitalist the structure and attitude of a nation, the more pacifist - and the more prone to count the costs of war - we observe it to be.’⁴⁶ If, in turn, these changes in society shape the expression of the entrepreneurial spirit, and thus the pattern of creative destruction that lies at the heart of economic development, a symbiosis is set up.

The apparent failure of Schumpeter’s prediction, that capitalism was doomed to destruction, raises a crucial and substantive issue. There is a strong sense in which his economic model is set within a framework of inevitability, as his conclusion to Chapter Eleven makes clear: ‘Things economic and social move by their own momentum and the ensuing situations compel individuals and groups to behave in certain ways whatever they may wish to do.’⁴⁷ This is why the study of economic history is so important to Schumpeter, as it provides a record of all that inevitably had to happen, and provides clues as to what is bound to happen in the future. The reason behind the historical basis of the predictive core of the entire argument of *Capitalism, Socialism and Democracy* is therefore easy to see, notable in that it differs so markedly from the approach taken by a more conventional, neo-classical brand of economist. However, his main prediction, that of the failure of capitalism and its replacement by socialism, has turned out to be incorrect.

It is possible that patience is required, and that Schumpeter’s prediction is yet to be fulfilled, but the suspicion arises that there exist flaws in his analysis. Although he takes great care to promote the possibility that a bureaucratic system of socialism which nevertheless allows for initiative and enterprise could emerge, this being part of the subject of Chapter Eighteen of *Capitalism, Socialism and Democracy*⁴⁸, his optimism on this score is not especially well founded in terms of his argument. The remoulding of the bourgeoisie into the leadership class within a bureaucracy seems to rest mainly upon the proposed use of non-economic rewards, akin to those enjoyed by public servants and those holding political office, who are ‘compensated not only by honors but also by official residences staffed at the public expense, allowances for “official” hospitality, the use of admiralty and other yachts, special provisions for service on international commissions or in the headquarters of an army and so on.’⁴⁹ While there is some scarcity value here, it remains true that much of the reward is at least quasi-financial, and in any case, even if the bureaucracy were to be staffed by the finest intellects, it is not at all clear that the economy would continue developing as dynamically as under capitalism. The experience of eastern Europe in the second half of the twentieth century, where inertia and corruption were dominant, indicates that Schumpeter’s conclusions were misplaced, or at least overly optimistic.

The other stresses inherent within capitalism which, for Schumpeter, were supposed to lead to its downfall, have not proved to be of great significance. These

⁴⁶ Schumpeter, *Capitalism, Socialism and Democracy*, pp. 128-129.

⁴⁷ Schumpeter, *Capitalism, Socialism and Democracy*, p. 129.

⁴⁸ See especially pp. 205-210.

⁴⁹ Schumpeter, *Capitalism, Socialism and Democracy*, pp. 209-210.

include the supposed tendency for big businesses to be deadened by a managerial leadership style, the mechanisation of progress in general terms, and the growing antagonism of the intellectual class. Instead, the decades following Schumpeter's death, particularly towards the end of the twentieth century, have seen, if anything, an intensification of the process of creative destruction that he described, within the context of capitalism. The birth and growth of corporations such as IBM and Microsoft, and the associated revolution in industries such as publishing, are every bit as impressive as the replacement of mail coaches with railways, noted by Schumpeter a century ago.

A clash between inevitability and creativity, between the flow of history down a predetermined path and the energetic rationality that has no predetermined objectives, can be identified in Schumpeter's work, therefore. He believed that the latter was to be subsumed within the former, but a rearrangement of his analysis would allow a more balanced picture to emerge. It would be possible to preserve the richness of the combination of sociology, economics and history presented by Schumpeter, while allowing for a more open-ended view of the unfolding of history. Enterprise, a sociological phenomenon as well as an economic phenomenon, as described so well in Schumpeter's theory, could be understood as the motive force lying behind economic history, and history in general. The challenge is then to describe the probable pattern of future development in terms that are uncertain and open, but yet constrained by the very sociological factors that impact upon the entrepreneurial function itself.

6. Schumpeter and Christian Economics

Christian moral reasoning can be undertaken in a variety of ways. Examples include biblical ethics, natural law ethics and ecclesial ethics. However, the unifying theme is an underlying link to 'Salvation History' and to the 'People of God'. At its most simple, therefore, Christian ethics must be informed by history and sociology, both of which are theological concerns in a way that pure science is not, since it lacks a normative dimension.

For 'Christian Economics' to be possible at all, this normative aspect must be present. Joseph Schumpeter's theory of economics takes seriously both history and sociology, neither of which are a concern of conventional neo-classical economics. His theory therefore incorporates free, moral agents, and brings an associated escape from the 'scientific' notions of timeless economic laws, a feature of the neo-classical method. This means that for Schumpeter economics is not permitted to have its own autonomy. The focus on enterprise, and the entrepreneur, together with the associated theory of money and banking, allows him to include both history and society in his analysis in a truly fundamental way, and brings with it the added richness of a highly plausible understanding of human rationality, an 'energetic rationality' that places the concept of personal projects and personal creativity in the spotlight, always with reference to the social dimension. A richer picture of the connections between the individual and the community is therefore also sketched out, being far more impressive than the strictly aggregative model normally employed by economists, a model implied by the scientific framework which they use.

There are, of course, major differences between Schumpeter's economics, and

a Christian approach, as seen notably in the contrast between egoism and altruism. However, it remains true that Schumpeter presented a carefully worked out version of a general theory of economics that incorporated fully both history and sociology. At the very least it would seem advisable for any who wish to do 'Christian Economics' to examine again Joseph Schumpeter's theory, and to see if the ways in which he brings history and sociology into his method can be harnessed and adapted. If this can be done, the way might be open to imagining a version of economics that fits within the wider context of Salvation History, and of the formation of God's People in his kingdom. In the end, this must be the task of anyone who wishes to do 'Christian Economics', rather than merely be a Christian who happens to be an economist.