(Review) Entrepreneurs, Institutions and Economic Change: The Economic Thought of J. A. Schumpeter (1905-1925)

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Comments

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Here is a reminder that the most interesting economist of the twentieth century may have been Joseph Schumpeter. Translated from an Italian work published in 1992, De Vecchi’s book presents an interpretation of Schumpeter’s thinking on the essence of capitalism from 1905-1925. This work can serve as a sophisticated useful introduction to Schumpeter for students; but, it will also provide new information and insight to all but the most well-read Schumpeterian experts.

There are eight chapters. They deal with Schumpeter’s theory of economic change; the role of the entrepreneur; the banking and credit system; business cycles and the process of creative destruction; monetary theory and policy; fiscal policy; income distribution; and the possibility of a transition to socialism. There are also eight appendixes. These are really extensive footnotes to the main text. They cover Schumpeter on vision; Schumpeter’s functionalist approach to the study of institutions; further issues concerning entrepreneurs; the interest rate; postwar Austrian economic policy and Schumpeter’s goal of “restoring Vienna’s cultural status and economic importance on the international scene” (158); class power and income
distribution, and the political power of German bankers; Schumpeter's disagreement with Bohm-Bawerk's theory of capital; and Emil Lederer's influence on Schumpeter concerning the transition to socialism.

The book is heavily footnoted; indeed, at times the footnotes threaten to swamp the main text, with some footnotes referring to other footnotes, and (for non-German readers) dead end references to obscure works which are only available in German. Yet the diligent footnotes reader will find the efforts rewarding; this is a pregnant work. I myself was struck by three salient issues:

1. Of all the economists of his and previous generations who can be interpreted as trying to refute Marx, Schumpeter seems to have been the one most influenced by Marx himself, apparently even naming his own theory of entrepreneurial gross profits a theory of surplus value.

2. Schumpeter's ideas on credit and monetary policy were keenly influenced by Keynes's early writings, especially Keynes's *A Tract on Monetary Reform*. There were many similarities between the young Schumpeter and Keynes on monetary theory and policy. In agreement with Keynes, Schumpeter divided what was essentially the demand for money into a transaction demand (for commodities), a precautionary demand (for hoards), and a speculative demand (for financial assets). For Schumpeter, as with Keynes, changes in the various types of monetary demands would affect velocity,
thus severely limiting the usefulness of any simple quantity theory of money.

3. At an early age, Schumpeter accepted the Marxist position that "factory organization in capitalist economy tends towards large-scale firms and concentrated production decisions" (120). According to Schumpeter, these large firms then needed to be regulated, and this helped pave the way for socialism. Against Schumpeter's tight train of reasoning, one can better appreciate the theoretical and practical importance of Hayek's (and others) attacks against the Marxist theory of the necessity of the concentration of production; see, for example, Hayek's *The Road to Serfdom*.

    No doubt other readers will be struck by different insights proffered by this stimulating book.

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