

### Schumpeter Revival? How Neoliberals Revised the Image of the Entrepreneur

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Plehwe, Dieter

**Book Part — Published Version**

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# 5

## Schumpeter Revival? How Neoliberals Revised the Image of the Entrepreneur

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*Dieter Plehwe*

Connecting neoliberalism and entrepreneurship has become a scholarly commonplace. Expanding on Michel Foucault, Wendy Brown has elaborated on the replacement of political man by economic man: a universalized notion of entrepreneurship dedicated to the self-maximization of one's human capital.<sup>1</sup> While acknowledging the neoliberal traditions of German ordoliberalism and Austrian economics, Brown's analysis is limited to the Chicago School, with a focus on Gary Becker. William Davies, in turn, bases his thesis on the divergent arguments of Mont Pèlerin Society (MPS) member Ronald Coase and the critic of the MPS, Joseph Schumpeter. Both Coase and Schumpeter justified imperfect competition and replaced institutional with psychological formats for competition.<sup>2</sup>

Although Davies links Coase and Schumpeter to the contextual changes in competition policies that have been employed since the late 1970s, he remains silent on the paradox of the Schumpeter revival. After all, Schumpeter foresaw the *end* of capitalism due to the inevitable decline of entrepreneurship in managerial capitalism. Davies reports on Schumpeter's pessimism regarding the sociological decline of the class of true entrepreneurs. Yet he follows by giving precedence to Schumpeter's

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1 Wendy Brown, *Undoing the Demos: Neoliberalism's Stealth Revolution* (New York: Zone Books, 2015), 17f.

2 William Davies, *The Limits of Neoliberalism: Authority, Sovereignty and the Logic of Competition* (Thousand Oaks: SAGE Publications, 2014), 54.

visionary mindset in his chapter on “competitive psychologies” beyond the economic sphere.<sup>3</sup>

Schumpeter’s essentialist concept of small groups of entrepreneurial elites has been resurrected well beyond the confines of business leadership. Allegedly “Schumpeterian” explanations of the driving forces of economic development have been universalized by management gurus and consultants to advance competitiveness strategies of nations and regions. The small-elite concept has been extended to political and cultural leadership responsible for human development at large.<sup>4</sup>

If the ubiquity of entrepreneurship discourse is impossible to miss, scholarly explanations of its origins have been more elusive. Neither Brown nor Davies deal with the shift of attention by neoliberals to questions of institutional and political context since the 1970s, which contributed decisively to overcoming essentialist versions of entrepreneurship. Nor do they trace important conversations among neoliberals on the topic of entrepreneurship that took place from the late 1940s onward, which is necessary to shed light on the neoliberal effort to revive entrepreneurship. Schumpeter played a central but variegated and changing role in these conversations. He was the nemesis for those who tried to prevent the seemingly inevitable decline of entrepreneurship and also acted as the expert economist in need of correction against whom to pitch an alternative neoliberal theory of entrepreneurship.<sup>5</sup> Ultimately, Schumpeter was enlisted as the crown witness for capitalism’s revival in direct opposition to his own theory of decline.

The failure to untangle the process of reviving and revising Schumpeter means that diverse and even contradictory entrepreneurship theories are now presented under the common banner of neoliberalism,<sup>6</sup> although “[t]here is not much left of Schumpeter’s entrepreneur in the post-Schumpeterian entrepreneurial theories. Only

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3 Ibid., 51–4.

4 Ibid., 113.

5 Max Hartwell, *A History of the Mont Pèlerin Society* (Indianapolis: Liberty Fund, 1995), 102. Johannes Großmann, *Die Internationale der Konservativen. Transnationale Elitenzirkel und private Außenpolitik in Westeuropa seit 1945* (Berlin: De Gruyter Oldenbourg, 2014), 409–16.

6 Matthew Egleton-Pierce, *Neoliberalism: The Key Concepts* (London: Routledge, 2016), 56f. For an instructive effort to distinguish expansive entrepreneurship concepts across a) actor groups, b) social and institutional contexts, and c) management levels and functions (innovation systems) see Richard Sturn, *Varianten des Unternehmertums in der Österreichischen Schule* (Graz: GSC Discussion Paper No. 18, 2017).

the conception that the entrepreneur need not be the owner has survived.”<sup>7</sup> Critics of neoliberalism are thereby unwittingly complicit in covering up important dimensions of the intellectual history of entrepreneurship and they miss the crux of the matter.

The purpose of the entrepreneurship revival was not only to postulate allegedly universal characteristics of economic humankind. It also morphed into an effort to induce a far-reaching conceptual change in the understanding of both private and public management. Lost in what amounts to a whitewashing of the history of entrepreneurship theory are the ambiguities of Schumpeter’s own daimonic understanding of the entrepreneur.<sup>8</sup> The successful integration of Schumpeter in the neoliberal narrative of entrepreneurial management indicates a steadily increasing neoliberal self-confidence. Schumpeter was first defeated symbolically to create room for neoliberal perspectives before the prestige of his name was integrated in a reinvigorated neoliberal perspective on economics, politics, and society.

This chapter explains the apparent Schumpeter paradox by tracing the postwar evolution of the entrepreneurship revival in neoliberal discussions. Alongside Schumpeter, another Austrian émigré economist, Ludwig von Mises, is central to the story. I show how Austrian economists like Mises and his British-born student at NYU, Israel Kirzner, alongside German economists like Günter Schmolders and Herbert Giersch, as well as a slate of other neoliberal scholars, rebutted, revived, and revised Schumpeter’s theory of the entrepreneur from the 1950s to the 1980s. Apart from what must be considered a pseudo-Schumpeter revival and the important shift of attention to internal causes of economic development, innovation, and growth by the Kiel School of neoliberal economic geographers,<sup>9</sup> for example, students of Mises like Kirzner helped resurrect a functional and contextual entrepreneurship theory, which needs far greater attention in the effort to explain the rise of the entrepreneurial self. Beyond intellectual history,

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7 Peter Swoboda, “Schumpeter’s Entrepreneur in Modern Economic Theory,” in *Lectures on Schumpeterian Economics: Schumpeter Centenary Memorial Lectures Graz 1983*, ed. Christian Seidl (Berlin: Springer, 1984), 17–28, 24.

8 Robert Fredona and Sophus A. Reinert, “The Harvard Research Center in Entrepreneurial History and the Daimonic Entrepreneur,” *History of Political Economy* 49, no. 2 (2017): 268–314.

9 Dieter Plehwe and Quinn Slobodian, “Landscapes of Unrest,” *Modern Intellectual History* (August 2017): 1–31; Swoboda, “Schumpeter’s Entrepreneur,” 24.

a diverse group of neoliberal authors and businessmen—many of them MPS members—contributed decisively to moving entrepreneurship from the wings of economic theory and economic policy-making onto center stage.

## Entrepreneurship's Underdog: Ludwig von Mises

The central figure in the neoliberal discourse of entrepreneurship is not Schumpeter but Ludwig von Mises. As opposed to Schumpeter, who has become synonymous with entrepreneurship, Mises has little if any place in the mainstream intellectual history of the topic. This may be because his signature book *Human Action*,<sup>10</sup> published in 1949, “was already considered a closed chapter in the history of thought”<sup>11</sup> when it first appeared, according to his followers. His monetary and business cycle theory had been buried by John Maynard Keynes. He was seen to have lost the socialist calculation debate to the followers of Leon Walras, and his price theory was replaced by the competing Austrian tradition of Friedrich von Wieser. Mises's failure to win a permanent professional position in either Vienna or the United States left him ostracized in the academic world. Compared to Schumpeter, employed at Harvard since 1932, Mises was an outsider in the US educational field with only an adjunct position at New York University alongside paid consulting work for the Foundation of Economic Education and the National Association of Manufacturers.

Despite his professional marginality, Mises's theories had a formative influence on the revival of the Austrian School in the US and in Latin America after the 1970s.<sup>12</sup> Part of what made him marginal in the 1940s—and attractive to Austrian revivalists later—was the grandiosity of his scholarly goals. His large and heterodox claim was to have clarified not only economic activities, but human action in general. His

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10 Ludwig von Mises, *Human Action. The Scholarly Edition* (Auburn: Ludwig von Mises Institute 1998) [German: *Nationalökonomie: Theorie des Handelns und Wirtschaften* (Genf: Union, 1940)].

11 Jeffrey M. Herbener, Hans-Hermann Hoppe, and Josef T. Salerno, “Introduction to the Scholarly Edition,” in Mises, *Human Action*, v.

12 Floyd A. Harper, Henry Hazlitt, Leonard Read, Gustavo R. Velasco, and F. A. Hayek, eds, *Toward Liberty: Essays in Honor of Ludwig von Mises* (Menlo Park: Institute for Humane Studies, 1971).

central book, *Human Action*, if professionally ignored, has enjoyed popular success, having been translated into eight languages with over 500,000 copies sold.

A comparison between Mises and Schumpeter on the topic of entrepreneurship is instructive. Schumpeter pointed to the decline of a particular class of entrepreneurs. This reflected a change in the structure of global capitalism, and especially American capitalism, in the 1930s and 1940s. Partly as a result of the advance of socialist planning and the ideological conflict between socialism and capitalism, there was a growing consensus around large-scale, macroeconomic management and planning. Expanding bureaucracies in both the public and the private sector undermined the previous role of individual entrepreneurship and family firms, which Schumpeter had originally led to expect society to become more entrepreneurial.<sup>13</sup> At the microeconomic level, the modernization theme was mirrored by the new theory of the firm in the discipline of management and economics. Replacing the individualism of entrepreneurship, scholars pointed to the largescale organizational dimension and complex management requirements of the multi-divisional business organization, or what Alfred Chandler in 1962 called the “M form.”<sup>14</sup> In line with a view to the distribution of responsibility, the secret of economic progress lay not in individualism and entrepreneurship but in management coordination and the cooperation of employees.

The rise of giant corporations and bureaucratic management led Schumpeter to predict the end of capitalism.<sup>15</sup> According to him, individual entrepreneurs who were capable of relevant innovations and pushing through new combinations in the marketplace in the face of resistance (due to the inevitable destruction of previously existing market relations) were the true cause of macroeconomic progress. The successful entrepreneur would thereby also yield considerable profit (temporary monopoly), enabling, eventually, the

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13 Joseph Alois Schumpeter, *Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle*, trans. Redvers Opie (London: Routledge, 1984 [based on original material published by Harvard University Press, 1934]), 127f.

14 Alfred D. Chandler, *Strategy and Structure: Chapters in the History of the American Industrial Enterprise* (Cambridge, MA: MIT Press, 1962), 42.

15 Joseph Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper & Brothers, 1942), chapter XII.

building of lasting (family capital) empires. Too easily forgotten is Schumpeter's reserved attitude about the role of entrepreneurs in society at large. While considered agents of change, they were neither considered initiators of economic progress per se nor heroes of the Ayn Rand variety.<sup>16</sup>

If Schumpeter came to see entrepreneurs as a doomed class, Mises saw entrepreneurship as a general feature of human behavior due to the need to make choices under conditions of unavoidable uncertainty. For Mises, the entrepreneur was literally everyone. In *Human Action*, Mises defined the entrepreneur as "acting man in regard to the changes occurring in the data of the market."<sup>17</sup> At the center of his entrepreneurial function is the anticipation of the future demand of the consumer. Unlike Schumpeter's focus on innovation and change, for Mises the entrepreneur needs nothing but market relations to perform his or her role in the economy and society. The performance earns profit for the entrepreneur, which is nothing but the acknowledgment of the capacity for making the price function work. This is why Mises reacted with hostility when profits were considered expressions of malfunctioning markets to be overcome by equilibrium. He saw the defense of profit (and loss) opportunity as central to a free economy and society.<sup>18</sup>

Mises's theory was marginal, if not totally foreign, to the Marshallian-Keynesian academic mainstream of the neoclassical synthesis in the postwar United States. Yet beyond a rather significant afterlife with a popular readership, Mises's theory also offered later neoliberals a source for their theory of a general economic system that stood in stark contrast to neoclassical equilibrium theory, Marxist historical materialism, and other historicist approaches in economics like that of Schumpeter. Notwithstanding its limited reception in the discipline of economics proper, and the widespread belief in his lack of importance within Mont Pèlerin circles, the work of von Mises ended up contributing to one of the most important and lasting neoliberal projects of the 1960s and 1970s: the revival of the concept of entrepreneurship.

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16 Fredona and Reinert, "The Harvard Research Center," 289.

17 Mises, *Human Action*, 255.

18 Ibid.



## Building on Mises: Kirzner Confronts Schumpeter

The topic of entrepreneurship arrived rather slowly at the meetings of the Mont Pèlerin Society.<sup>19</sup> It was not discussed explicitly until the Vichy general meeting in 1967, when Israel Kirzner drew on Mises and Hayek in his important paper on “Methodological Individualism, Market Equilibrium and the Market Process” in a session on “The Teaching of Economics at the Present.” Kirzner drew a distinction between “Anglo-American price theory” interested in conditions of equilibrium and “Austrian price theory” interested in the market process. Kirzner suggested that, in contrast to the purely calculating and economizing role of the individual in the Anglo-American equilibrium world, there was an additional entrepreneurial element in the Austrian world of market processes due to the fact that individuals operate under conditions characterized by a lack of knowledge necessary to calculate and economize. “It is the entrepreneur,” he wrote, “who is the prime mover in the market process.”<sup>20</sup>

It is notable that entrepreneurship entered the business school curriculum precisely at the time when some of the key exponents of the new entrepreneurship literature, and Kirzner in particular, started talking about teaching economics. The first entrepreneurship courses in the United States were offered at Stanford and New York Universities in the second half of the 1960s. The first entrepreneurship MBA program in the United States was offered in the early 1970s at the University of Southern California. A decade later, several hundred undergraduate schools and universities featured entrepreneurship courses if not programs in the United States alone.<sup>21</sup> (Fifty years later, Marroquin University in Guatemala would name its own entrepreneurship center after Kirzner himself).

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19 For earlier work of Mont Pèlerin members Otto von Habsburg, president of the Centre Européenne de Documentation et d'Information, and Arvid Fredborg, head of the Institut d'Etudes Politiques Vaduz in Liechtenstein in the 1960s, including efforts to establish a “Free Enterprise University” and an organization in defense of free entrepreneurship see Johannes Großmann, *Die Internationale*, 412.

20 Israel Kirzner, “Methodological Individualism, Market Equilibrium, and Market Process,” *Il Politico* 32, no. 1 (1967), 788.

21 G. T. Solomon and L. W. Fernald, Jr., “Trends in Small Business Management and Entrepreneurship Education in the United States,” *Entrepreneurship Theory and Practice* 15 (1991), 25–39. Compare the “Entrepreneurship Education Chronology” offered by Saint Louis University, at sltu.edu.

Following the Vichy meeting, Kirzner also gave a paper on “Entrepreneurship and the Market Approach to Development” at the regional meeting of the MPS in Caracas, Venezuela, in 1969. In this paper, Kirzner tackled Schumpeter’s concept of innovation entrepreneurship. According to him, Schumpeter’s failure to recognize the entrepreneur as a decision-maker, and his exclusive emphasis on disruptive innovation, left market-correcting policies to planners. Kirzner’s own concept considered entrepreneurship decisive to explain the equilibrating adjustments over time, replacing static equilibrium by intertemporal equilibrium. Kirzner distinguished two entrepreneurship issues: a) the discovery of the best way of action, and b) actually carrying out activities no matter if best or second or third best. According to him, the focus of the existing entrepreneurship discussion was on the first—calculative—dimension whereas he conceived of the need to recognize the second dimension as the real entrepreneurial function.<sup>22</sup> Kirzner felt that the difference mattered because Schumpeter and all the other *abstract* calculation experts failed to recognize the most important *concrete* dimension of development, namely taking advantage of opportunities presented by the market process.<sup>23</sup>

Kirzner’s observations about real-life entrepreneurs were foreshadowed by neoliberal interventions in the debate over international development. Since the end of the 1950s, development economist and MPS member Peter Bauer had used a sociological perspective akin to Schumpeter to decry the notion of a lack of entrepreneurs in developing countries—a view also shared by important Mont Pèlerin members like Wilhelm Röpke.<sup>24</sup> Ignoring progressive critics who emphasized a shortage of (domestic) capital rather than a lack of entrepreneurs, Bauer’s emphasis on the market process and entrepreneurship in the South sought to advance a universal neoliberal economic perspective in the field of development economics.

While Kirzner attacked the eminent economist Schumpeter, he was also eager to stress how close Schumpeter’s emphasis on “dynamic

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22 Israel Kirzner, “Entrepreneurship and the Market Approach to Development,” in *Toward Liberty: Essays in Honor of Ludwig von Mises*, ed. Floyd A. Harper et al. (Menlo Park: Institute for Humane Studies, 1971), 201.

23 *Ibid.*, 203.

24 Dieter Plehwe, “The Origins of the Neoliberal Economic Development Discourse,” in *The Road from Mont Pèlerin*, ed. Philip Mirowski and Dieter Plehwe (Cambridge, MA: Harvard University Press, 2009), 249.

disequilibrium”<sup>25</sup> and innovation were to his own concept of “alertness” and to the independence of entrepreneurship from the factors of production.<sup>26</sup> According to Schumpeter, only the owners of capital were bearing risk, which set his reasoning apart from the contributions on uncertainty of Frank Knight at the University of Chicago, for example. Yet unlike Schumpeter, Kirzner emphasized the market process in which the entrepreneur takes a role, rather than the innovative contribution of the entrepreneur himself. He did so for a reason: Schumpeter’s wartime observations regarding the decline of heroic, innovative entrepreneurship and, correspondingly, family firms, led him to expect the rise of a version of elite socialism that was difficult to counter in the age of monopoly capital, large organizations, and managerialism. The central weakness of Schumpeter’s sociology of entrepreneurship, however, was a tendency to naturalize entrepreneurial talent and quality (the substantive capacity of the class of innovative individuals and the macroeconomic relevance of innovations, respectively). This was no longer needed if the entrepreneur merely reacts to market opportunities rather than having to create them. Kirzner’s shift of attention to the simple individual quality of “alertness” and the primacy of market processes which present opportunities redirected the argument to the general system of thought of Ludwig von Mises.

No macroeconomic dimension of innovation was required to meet his threshold of abundant entrepreneurship, and the market process trumped market structure in what became a contingency theory of more or less restricted entrepreneurship. Following this shift, Mont Pèlerin members increasingly directed their attention to the wide range of *restrictions on entrepreneurship*. Instead of the traditional focus on the monopoly power of firms as an impediment to the market, the subtle move towards market practice enabled the shift of attention to state-related policy issues like taxation and regulation, and trade-union-related collective action, as the primary targets of critique.

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25 Harald Hagemann, “Capitalist Development, Innovations, Business Cycles and Unemployment: Joseph Alois Schumpeter and Emil Hans Lederer,” *Journal of Evolutionary Economics* 25, no. 1 (January 2015): 117.

26 Israel Kirzner, *Competition and Entrepreneurship* (Chicago: University of Chicago Press 1973), 80.

## Günter Schmölders and the Image of the Entrepreneur

The topic of entrepreneurship arrived at the Mont Pèlerin Society in earnest in 1970 when the German economist Günter Schmölders opened the conference on the “image of the entrepreneur” which took place from August 30 to September 5 (on Schmölders and his early contribution to behavioral economics, see Graf in this volume). The content of the Munich MPS conference papers was not a purely academic matter.<sup>27</sup> The focus on the entrepreneur was also part of a strategic agenda-setting effort on the part of neoliberal intellectual circles in close interaction and collaboration with corporate leaders from industry and banking. West Germany’s leading technology company, Siemens, provided office space and logistics. A wide range of medium and large German enterprises provided funding. Schmölders used the Aktionsgemeinschaft Soziale Marktwirtschaft (Action Group for a Social Market Economy) and the Arbeitsgemeinschaft Selbständiger Unternehmer (Association of Independent Entrepreneurs) to obtain funding. The former is a think tank financed by corporate members, which had been originally founded in 1953 to support Ludwig Erhard’s neoliberal version of a social market economy.<sup>28</sup> The latter is a business association of family firms, which had contributed heavily to think tanks.<sup>29</sup> The support from big corporations and family firms suggested cross-sectoral interest in the entrepreneurship theme in Germany. Instead of an opposition between big-firm management and family-firm entrepreneurship, there was an emerging consensus on the need for a common approach to entrepreneurship and entrepreneurial management.<sup>30</sup> The conference served to showcase the value and the use of entrepreneurship research and education in Germany and internationally. Unsurprisingly, many if not all contributions to the conference defended entrepreneurs against critics and aimed at advancing entrepreneurship from a normative perspective.<sup>31</sup>

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27 The papers were published as Günter Schmölders, ed., *Der Unternehmer im Ansehen der Welt* (Bergisch Gladbach: Gustav Lübbe Verlag, 1971).

28 Ralf Ptak, “Neoliberalism in Germany: Revisiting the Ordoliberal Foundations of the Social Market Economy,” in *The Road from Mont Pèlerin*, ed. Mirowski and Plehwe, 98–138.

29 Hartwig Pautz, “Revisiting the Think-tank Phenomenon,” *Public Policy and Administration* 26 (2011): 419–35.

30 *Unternehmer und Bildung. Festschrift zum 60. Geburtstag von Ludwig Vaubel* (Cologne: Westdeutscher Verlag, 1968).

31 Only B. R. Shenoy from India told his audience that corporate tax evasion was a real problem and not just a fantasy of socialist propaganda. His chapter arguably comes

In his opening address, Schmölders made three points to undergird the new focus on entrepreneurs. First, postwar capitalism had been hugely successful, but its very success obscured the foundations of the market system, which were considered old-fashioned or even reactionary by much of the public. This required a new effort to examine the functioning of the system, with entrepreneurs as one of the critical aspects. Second, this effort could help to atone for the longstanding sin of omission, namely the missing focus on entrepreneurs and entrepreneurship in economics. Much like Kirzner, Schmölders argued that attention needed to shift from abstractions like capital or economic laws to the real actors. Third, the public opinion of entrepreneurs was as important as the role of the entrepreneur in the functioning of the economy. Only the deep knowledge of “opinions on facts” allowed responsible politicians and their advisors to develop an understanding of preference formation processes in economic and economic policy questions.<sup>32</sup>

Schmölders thus set the double task of pursuing both research on entrepreneurs as critical agents and research on opinions of entrepreneurship in general. The lineup for the conference followed the dual purpose spelled out by the MPS president. A first group of speakers addressed the relevance and image of the entrepreneur in different countries, and a second group examined particular groups in society and how to improve the image of entrepreneurs. Schmölders himself covered Germany, Lawrence Fertig the United States, Francois Bilger France, Ralph Horwitz the UK, Chiaki Nishiyama Japan, B. R. Shenoy India (complemented by Peter Bauer on developing countries). James Buchanan and G. M. Wattles discussed education in the United States. The roster of speakers on the second theme included Gilbert Tixier on the perspective of French tax collectors, Götz Briefs on trade unions, Jean-Pierre Hamilius on intellectuals, and Erich Streissler on the left. Last but not least, we find Franz Böhm, Milton Friedman and Christian Gandil discussing how to improve the image of the entrepreneur. The

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closest to Schumpeter's interest in business history. Shenoy offered insight into the historical impact of the caste system and the institutional restrictions on entrepreneurship for members of castes that did not belong to the designated commercial class (Vaishya). B. R. Shenoy, “Das Bild vom Unternehmer in Indien,” in *Der Unternehmer im Ansehen der Welt*, ed. Schmölders, 156–71.

32 Günter Schmölders, “Eröffnungsansprache zur Tagung der Mont Pèlerin Society am 31. August 1970 in München,” in *ibid.*, 7–11.

1970 meeting thus placed entrepreneurship firmly on the agenda of the neoliberal intellectual movement both as subject of analytical research and as object of popular promotion efforts.

The unfolding revival agenda at this point in time can be best summarized as an exercise in defensive optimism. Speakers at the 1970 MPS conference observed a decline of owner-entrepreneurs along the lines expected by Schumpeter. Contrasting the concerns and fears voiced in conservative and neoliberal circles during the 1950s and 1960s,<sup>33</sup> the speakers in Munich highlighted surprising sources of optimism with regard to the future of the market economy. Authors pointed to considerable entrepreneurship in large corporations and to the changing behavior of average citizens. Fertig observed that 12 percent of Americans owned shares, for example, and reported a strong increase in the volume of investment funds. The former read like a preview of the “intrapreneurship” and innovation system discourse to be further discussed below, and the latter pointed to the impending expansion of scope of the entrepreneurship discussion.

While the familiar neoliberal mood of tragedy is quite present, the contributors were also eager to point out bright spots. Schmölders emphasized an improving approval rate for the role of entrepreneurs in Germany, although other professions were clearly held in higher esteem. Compared to the relatively positive accounts of Germany and the United States, the British perspectives offered by Hamilius and Fisher were bleak. Negative stereotypes of “Mammonism” were blamed on the politics of nationalization of industries like coal and steel. The French picture presented in turn was more positive again. A first wave of opinion surveys on the topic (like in Germany), did not display the expected stereotypes of French entrepreneurs (nationalist, protectionist). The assessment of the role and functioning of enterprises and owners was mixed, but Bilger suggested the biggest obstacle was a lack of intimate knowledge of French companies. He found old resentments based on class struggle to be in decline, while new objections against efficiency under the keyword of “Americanism” seemed to be fashionable. Tixier also pointed to a lack of employer ideology in France, which left entrepreneurs feeling helpless in the face of animosities. Japan, in turn, was held to suffer from a serious decline in the number of entrepreneurs, and the increasing relevance of large enterprises. Kiuchi’s comments

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33 Großmann, *Die Internationale der Konservativen*, 406f.

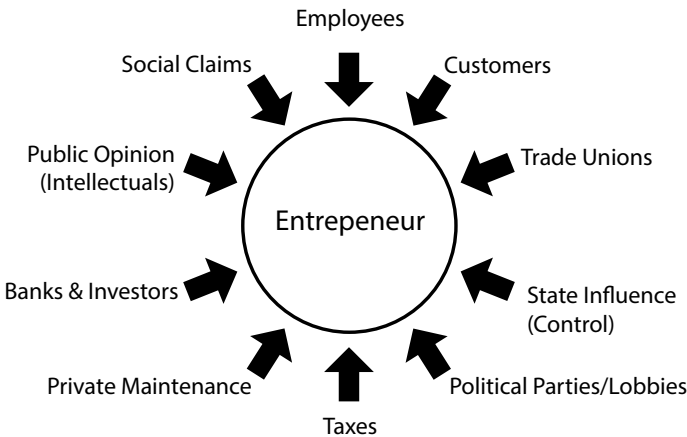
once again lent support to an expanded entrepreneurship perspective within the corporate sector.

The sociological perspective presented focused on the perceived sources of negative public opinion: intellectuals, educators, tax authorities, trade unions, and the left (though Erich Streissler explicitly defended Karl Marx and blamed Rousseau instead for the hostility of the New Left towards entrepreneurship). In a wide-ranging chapter on intellectuals and entrepreneurs, Hamilius argued that intellectuals were sawing off the branch on which they were sitting by turning against entrepreneurs. Böhm suggested that the effort to support entrepreneurs needed to be concentrated on the image of the market order. He offered three reasons for the intellectual opposition to entrepreneurs and the market: resentment, utopian ideas, and lack of knowledge. Hamilius summarized the challenges that entrepreneurs faced in a graphical display (Figure 5.1). In the face of manifold and comprehensive challenges, and the anti-intellectual alternative of totalitarianism, Hamilius demanded that the entrepreneur turn himself into an intellectual. One can easily interpret this as a recommendation for entrepreneurs to strengthen their own corps of organic intellectuals represented by the very group assembled at the MPS meeting in Munich.

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**Figure 5.1** Many Hounds Soon Catch the Hare

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After 1970, entrepreneurship was no longer considered doomed due to an inevitable decline of the class of individual entrepreneurs. The essentialist perspective of Schumpeter was increasingly replaced by the political contingency perspective of Mises. True, the end of the 1960s

and early 1970s are usually considered a very dark time for neoliberals. Student revolts and working-class collective action reached unprecedented levels in many countries, constituting the illiberal tendencies neoliberals bemoaned. Reading the papers of the Munich conference, however, one sees not just concern but also a clear sense of direction as to how to strategically address the challenges.

Firstly, neoliberal scholars used survey studies in different countries to direct attention to challenges and to offer solutions to contrast negative images. Secondly, they developed clarity about the need to defend economic freedom and the market system as a whole rather than the individual entrepreneur; the entrepreneurship function rather than the particular person. Thirdly, they clarified the sources of negative images of entrepreneurs, ranging from educators, trade unions, tax officials to intellectuals, which served also to develop agendas adequate to address particular audiences (e.g. teachers, journalists) in addition to the general public. This job was given to the growing army of neoliberal think tanks.<sup>34</sup> Fourthly, authors ascertained the positive roles and functions of entrepreneurs and entrepreneurship both at the micro and at the macroeconomic level. In line with the unambiguous endorsement of entrepreneurship, ever more attention was directed at the constraints entrepreneurs faced from various sides.

The 1970 MPS conference thus marked the end of Schumpeterian essentialism and pessimism and a shift in focus to the conditions of economic freedom and entrepreneurship. Apart from delivering clarity about the need for lowering constraints on business transactions, the conference also marked the beginning of revisionism with regard to Schumpeter's innovation entrepreneurship and a new perspective on corporate management. Such revisionism arguably culminated in the work of Herbert Giersch, Mont Pèlerin Society president from 1986–88, when he announced a new age of Schumpeter in 1984.

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34 Richard Cockett, *Thinking the Unthinkable: Think-Tanks and the Economic Counter-Revolution, 1931–83* (London: Harper Collins, 1994); Lee Edwards, *The Power of Ideas: The Heritage Foundation at 25 Years* (Ottawa, IL: Jameson Books, 1997); Arthur Seldon, ed., *The Prime Mover of Progress: The Entrepreneur in Capitalism and Socialism* (London: Institute of Economic Affairs, 1980). Quite a number of think tanks even reflect the task in their name. Among those founded in the orbit of the Mont Pèlerin Society are the Competitive Enterprise Institute (US, 1984), the Centro de Investigaciones Sobre la Libre Empresa (Mexico, 1984), the Instituto de Estudos Empresariais (Brazil, 1984), and the Institut für Unternehmerische Freiheit (Germany, 2006), for example.



## Incorporating Schumpeter: Herbert Giersch's Unification of Schumpeter and Mises

Herbert Giersch's work marks the reversal of previous approaches of neoliberals to issues of entrepreneurship. While Mises, Kirzner, Schmolders, and many others scrutinized the different constraints faced by entrepreneurs, Giersch turned the tables to emphasize the constraints that entrepreneurs themselves presented to regulators and other enemies of economic freedom at and beyond the scale of the region and nation. The long-time president of the Kiel Institute for the World Economy was at the center of a newfound interest in global competitiveness, innovation, and locational dynamics. Unlike well-known figures such as Michael Porter, Jeffrey Sachs, and Paul Krugman, Giersch has been unjustly forgotten in the Anglo-Saxon discussion of new growth economics and new economic geography.<sup>35</sup> He and his students and colleagues were at the forefront of the development of a new—and in Giersch's case, decidedly neoliberal—economic geography. They are also at the center of the intellectual history of the entrepreneurship revival of the 1980s.

Giersch's work completes the circle described above. Schumpeter's original perspective was on innovation as disruption coupled with a pessimism regarding the future of capitalism. Kirzner refuted Schumpeter's belief in the equilibrating function of entrepreneurship and argued that the future of capitalism depended on removing market restrictions. Finally, with Giersch, we see the invocation of Schumpeterian innovation as the inevitable fate of all economic regions due to globalized competition and the realities of technological innovation in communication.<sup>36</sup> The world economy as an "object of experience" requires the replacement of nationalist ideology with a "cosmopolitan welfare function (in the sense of Meade . . .)"<sup>37</sup> wrote Giersch, suggesting the rise of a new version of cosmopolitan capitalism. It was not capitalism in general that was doomed due to the lack of a capable class of entrepreneurs, but only those regions and nations unwilling or incapable of

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35 Karl-Heinz Paqué, "Die Welt als Kegel und Vulkan," in *Das Zeitalter von Herbert Giersch. Wirtschaftspolitik für eine offene Welt*, ed. Lars P. Feld, Karen Horn, and Karl-Heinz Paqué (Tübingen: Mohr Siebeck, 2013).

36 Herbert Giersch, "Anmerkungen zum weltwirtschaftlichen Denkansatz," *Weltwirtschaftliches Archiv* 125, no. 1 (1989): 13.

37 *ibid.*, 15.

enabling innovation-oriented competition and advancing the competitiveness of their local economic entities.

Giersch has been considered a modern Keynesian economist in Germany, but his work displayed a decisive swerve towards supply-side economics and Austrian perspectives from the 1970s onward. Even before this redirection he was personally close to Hayek and maintained a friendship with him throughout his life. For example, Giersch's wife, Friederike, herself a PhD in economics, reported in a personal letter that the Gierschs and Hayek met in January 1978 at the European Management Forum in Davos.<sup>38</sup> In 1983, Giersch presented at the Davos Forum again, this time on the topic of Europessimism. He was soon to publish his famous diagnosis of "Eurosclerosis,"<sup>39</sup> demanding and supporting deregulation and the European liberalization required to enable cross-border competition and the passage to a more complete single European market. Notwithstanding his faith in the moving force of globalization, Giersch was an important neoliberal agenda-setter in European integration and global trade politics.

Giersch published his seminal text on the new age of Schumpeter in 1984,<sup>40</sup> which marked the end of the age of merely defensive optimism within MPS neoliberalism. Now relying on a selective reading of Schumpeter, neoliberals like Giersch proudly professed a new confidence in greatly expanded notions of entrepreneurship. The age of Keynes and macroeconomic steering had come to an end according to Giersch. Keynes is presented as the pessimist instead of Schumpeter, who is turned into a trusting supporter of capitalist revival right after World War II.

This point about "regenerative creeds"—made in 1946 [by Schumpeter against Keynes]—highlights Schumpeter's postwar optimism. The point is gaining more and more relevance in our present phase of slow world economic growth, a phase with cumulating pains of delayed adjustment. In such a phase, the faith in the regenerative forces of a

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38 Friederike Giersch, Letter to Hayek, December 31, 1977. I thank the estate of F. A. Hayek for permission to quote from his correspondence.

39 Herbert Giersch, "Eurosclerosis: The Malaise that Threatens Prosperity," *Financial Times*, January 2, 1985.

40 Herbert Giersch, "The Age of Schumpeter," *The American Economic Review* 74, no. 2 (1984), 103–9.

decentralized market system has once more become critical for the choice of the appropriate socioeconomic paradigm.<sup>41</sup>

Giersch's research focus from the second half of the 1970s onward was on structural change in the world economy. This positioned him to address supply-side conditions in general and entrepreneurial activity in particular. He merged the German tradition of marginalist locational economics of Thünen and Lösch with the dynamic evolutionary economics of Schumpeter.

At the heart of Giersch's new economic geography was what he called the "Schumpeter volcano," a center of innovation in a specific location, which would provide the innovating company or business unit with a temporary monopoly. Once the innovation "lava" flowed downward and cooled, competitive advantage was lost. The volcano thus must continue producing new innovations (new technologies) or move to the margins in the process of locational competition (*Standortwettbewerb*). While established "volcanoes" can maintain their position due to incumbency effects, the framework allows for imitation and the possibility of new centers to emerge and successfully compete with existing firms, business units, and regions.

In line with Mises, innovation thus became a function of enabling factors and actively jumping at chances rather than an essential and rare ingredient of the economic process. The entrepreneurial mindset has to function perpetually or else miss opportunities and pass the command on to others. Giersch quite obviously follows Kirzner without explicit reference to his notion of alertness. To this end, local, regional, and national entities can align policies in favor of competitive practices. Successful entrepreneurship is seen to require complementary public and private initiative and resolve. While trade economists and new economic geographers like Krugman would challenge free trade on a similar basis, Giersch was adamant about unrestricted movements of capital, goods, and to a certain extent, labor. Support for innovative regions and companies would need to combine open markets and enabling policies for market participants.<sup>42</sup>

In reaction to the slow growth patterns of the late 1970s and early 1980s, Giersch directly opposed Keynesian economics in his nine-point program allegedly based on Schumpeter. His third point noted:

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41 Ibid., 105.

42 Paqué, "Die Welt als Kegel und Vulkan."

What matters most in present circumstances are the driving forces of economic development. Emphasis, therefore, is on the growth and dissemination of knowledge, on path breaking entrepreneurs and eager imitators, on credit creation for the supply of venture capital, and on Schumpeterian competition (i.e. on innovative monopolistic competition rather than sterile perfect competition, on oligopolistic rivalry rather than collusive equilibria and on aggressive trading rather than arbitrage transactions). In the international economy, which Schumpeter mostly neglected [*sic!*], emphasis is on free trade rather than fair trade (trade minus competition) and on export orientation rather than import substitution.<sup>43</sup>

Giersch's last point number nine reads: "Entrepreneurial talent is in almost unlimited supply, but it often finds productive outlets only abroad, or less productive (or even counterproductive) use in politics and government, in public and private bureaucracies or in the military."<sup>44</sup> Giersch evidently took his page from Mises. Entrepreneurs are everywhere, both in the public and the private sector: in human action hampered or enabled by the institutional make-up of society. Once decision-makers embrace this understanding, society can be moved towards productive entrepreneurship. Otherwise society will have to live with an exodus of talent to better locations and with sub-optimal application of the remaining talent.

In the 1980s, Giersch divided the world into advanced innovative (Schumpeterian) regions—at the time US and Japan—and less developed Schumpeterian regions like Taiwan and Singapore, and advanced Keynesian and less developed Keynesian regions, which hampered entrepreneurship. Additional regions were categorized as Ricardian, Malthusian, or Marxist. Progressive change was on the way in the Keynesian regions (of Europe) due to disillusionment with the welfare state and increasing sensibility for the fiscal crisis, the growth of the shadow economy, mass unemployment and the spectacular growth of self-employed and employees in new businesses, and, last but not least, the decentralization potential of new telecommunication technologies.<sup>45</sup>

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43 Giersch, "The Age of Schumpeter," 105. Emphasis added.

44 *Ibid.*, 106.

45 *Ibid.*, 108.

Giersch's dynamic reasoning has subsequently been vindicated by the collapse of the Soviet Union and the ongoing and massive neoliberal transformation of welfare state capitalism in the OECD world. Dynamics of structural change unsettled most national and regional economies, which ironically became increasingly subject to strategic planning, both public and private, precipitating the neo-nationalist rise of right-wing populism following the global financial crisis. Contrary to anti-statist rhetoric, the (competition) state has been charged with advancing the neo- and post-Schumpeterian notions of entrepreneurship through regional, educational, economic, and even social policies. Giersch himself speaks of a post-Schumpeterian approach because of the limits and problematic ambiguities of the original. While older welfare state institutions were and are shrinking, new public management and public-private governance institutions are advancing at all levels of government, supranational, national, regional, and local. Competitiveness has become the universal buzzword for all kinds of "market units," individual, companies, regions, states, and world regions.<sup>46</sup>

With regard to the new economic geography based on neo- and post-Schumpeterian (Gierschian) insights it is important to emphasize both the political dimension and the openness or non-local dimensions. Unlike Porter, Giersch did not perceive competitive advantages in terms of a local or national combination and allocation of resources. The world market was the key referent, attracting mobile factors of production to the most competitive region: capital and knowledge. Flexible regions are upwardly mobile, and regions marked by rigidity are prone to decline. Local endowments can be more or less favorable to local development, but they do not explain the trajectory.

Contrary to Kirzner's effort to de-emphasize innovation and the resulting disruption, Giersch reinstated the innovator-entrepreneur without reinstating the small social class of Schumpeter's elite entrepreneurs. Instead, Giersch adopted the far-and-wide approach to risk and responsibility carrying entrepreneurship offered by Knight and Mises, and the special ability entrepreneur offered by Kirzner, all fellow MPS members. All these elements of an individualist entrepreneurial mindset fed the new perspective of entrepreneurial management, collaboration in innovation systems and "intrapreneurship," or "Schumpeter

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46 See Davies, *The Limits of Neoliberalism*.

Mark 2.”<sup>47</sup> Creative destruction would no longer require the boom and bust of the firm. Giersch raised the question: Is there “enough good entrepreneurial talent and if not . . . can [we] produce more of it by forming teams?” His “tentative” answer was “there is no shortage of entrepreneurial talent, but institutional resistances and technical requirements may create so complicated situations that no single person, but only a combination of persons, can successfully perform the entrepreneurial role.”<sup>48</sup>

Herbert Giersch’s entrepreneurship amounts to the paradox of individualism. The complexity of contemporary capitalism requires a collective effort disguised by a language of entrepreneurship. Individual entrepreneurial behavior aside, the discussion is focused on the firm, on capital, on technological knowledge, and on managerial skill for the entrepreneurial talent to work out. Since it is probably “easier for a person to acquire managerial skills than to accumulate capital, it appears evident that capitalists will normally hire entrepreneurs. In this case, capital becomes the limiting factor and the barrier to entry,” writes Giersch.<sup>49</sup> Note that the person hires managerial skills suddenly rather than entrepreneurial talent. Entrepreneurial management of companies and regions is not considered in contrast to economic and political intervention and planning. Entrepreneurship criteria simply replace the traditional socioeconomic criteria (e.g. GDP per capita) for regional and national development. Weaker regions are no longer treated as equal. Deserving regions are those that support entrepreneurial initiative and forge an ever-closer alliance of public and private actors to this end.

In any case Giersch declined the invitation offered by several authors to integrate entrepreneurship into the realm of macroeconomic neoclassical equilibrium thinking. The important link between Schumpeter, Mises, Kirzner, Schmölders, and Giersch is the emphasis on market process, dynamic, and change. The vastly expanded vision of individual entrepreneurship we already found in the writing of Mises and expressed by some of the speakers at the 1970 MPS conference was thereby consolidated in a theoretical position, and was ready to be projected to ever

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47 Sturn, *Varianten des Unternehmertums*, 10.

48 Herbert Giersch, “The Role of Entrepreneurship in the 1980s,” *Kiel Discussion Papers* (August 1982): 5.

49 *Ibid.*, 6.

wider classes of citizens within corporations (intrapreneurship) and outside. The underemployed and unemployed are turned into self-employed, provided the political institutions are adequately reformed and the incentives are right. Giersch calls this the demand side for entrepreneurship, “the demand permitted, induced or actively provoked by the socio-economic structure and the political and cultural environment.”<sup>50</sup> The demand for entrepreneurship, in other words, depends on the social arrangements in support of economic freedom. “The central question is . . . What institutional frameworks are best-suited to tap the reservoir of entrepreneurial alertness which is certainly present among the members of society? The answer is that entrepreneurial talent is ‘switched on’ by the prospect of ‘pure gain’—broadly defined to include fame, prestige, even the opportunity to serve a cause or to help others.”<sup>51</sup> Progress in favor of entrepreneurship can thus be measured by reforms dedicated to enabling the prospect of pure gain, to advance economic freedom broadly conceived, and reaching far into the nonprofit sector to advance social entrepreneurship and civic engagement. Restrictions on economic freedom included the welfare state and the whole range of legal regulatory measures that compromise price signals.<sup>52</sup>

## Conclusion

Excavating and reconstructing the entrepreneurship discourse from the 1960s to the 1980s complements the existing narrative about the rise of shareholder-value ideas in the United States. Apart from the American students of Ludwig von Mises like Israel Kirzner, many of the key actors were located in Europe. The rise of the German-language literature on the entrepreneurship topic (*Unternehmertum*) during the 1970s and

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50 Ibid., 15.

51 Israel Kirzner, “The Primacy of Entrepreneurial Discovery,” in *The Prime Mover of Progress*, ed. Seldon, Summary / Extracts 1–2.

52 The history of the institutionalization of policy instruments in support of entrepreneurship—such as the Economic Freedom Index, developed by the Canadian Fraser Institute with funding from the Liberty Fund (Indianapolis) during the second half of the 1980s and the early 1990s—remains to be written. See Steve H. Hanke and Stephen J. K. Walters, “Economic Freedom, Prosperity, and Equality: A Survey,” *Cato Journal* 17, no. 2 (Fall 1997): 117–46, and Jim Stanford, *Economic Freedom for the Rest of Us* (Halifax: Canadian Autoworkers Union, 1999), at [www.csls.ca](http://www.csls.ca).

1980s was arguably due to the challenges emanating from institutional restrictions like co-determination and corporatist arrangements. Paradoxically, arm's-length-type market relations gave rise to managerialism and planning in the United States, whereas institutions of coordinated capitalism generated a strong sensibility for the role and relevance of entrepreneurs.

But the new entrepreneurial behavior was certainly not just left as a choice for individuals. All kinds of state and private institutions involved in regional and business development, education, and even unemployment insurance and labor exchanges were involved in crafting the new entrepreneurship agendas quite in line with the thinking and advice of neoliberal intellectuals like Herbert Giersch. Take Germany as an example: transfer payments for economic development are no longer distributed evenly across space and population. They are redirected to promising locations and firms.<sup>53</sup> Private companies in turn provide incentives for intrapreneurship: most company units are now organized according to the cost-center principle to simulate market relations within corporations. The meaning and practice of managerialism has changed significantly as a result. Public sector universities receive additional funding specifically for the establishment of entrepreneurship chairs, and both public and an increasing number of private business schools and universities engage in entrepreneurship education and support for start-ups.<sup>54</sup>

Following the Hartz reforms of social security and unemployment insurance, long-term unemployed people in Germany are offered monthly payments to start their own business for up to three years. Hundreds of thousands of new small businesses dubbed Ich-AG (I-corporation) have been funded, albeit with mixed success. In any case it is clear that entrepreneurship and entrepreneurial behavior is not left to natural development or chance. There is a common and clear understanding across the mainstream political parties now to transform public and private institutions in support of entrepreneurship. Only a

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53 Neil Brenner, "Building 'Euro-Regions': Locational Politics and the Political Geography of Neoliberalism in Post-Unification Germany," *European Urban and Regional Studies* 7, no. 4 (2000): 319–45.

54 Jasmina Haus, *Förderung von Unternehmertum und Unternehmensgründungen an deutschen Hochschulen* (Lohmar: Josef Eul Verlag, 2006). By 2017, German universities counted 133 entrepreneurship chairs. Although the United States had already reached the number of 400 chairs in 2004, the number of chairs per capita are now approximately even in the US and Germany. Compare the tables and statistics supplied by FGF e.V. online at [fgf-ev.de](http://fgf-ev.de).



lack of political initiative and stamina gives reason for pessimism, pace Schumpeter.

While Mises is not invoked nearly as frequently in the ongoing revival as Schumpeter, it is the former who can be seen smiling. Following the general theory of *Human Action*, neoliberals subscribe to the axiomatic statement according to which the *potential* supply of entrepreneurship is unlimited. Demand can be raised, according to Giersch, by ending the growth of restrictive rules and regulations, by way of overcoming the “domestic imperialism of the welfare state,” by stopping “the growth of bureaucracy within industry, greatly but only partly induced by government bureaucracy,” and by ending “excessive wage pressures from organized labor.”<sup>55</sup> Freedom of action thus becomes freedom of profit-oriented management, and the entrepreneurial self is shrinking to self-reliance and individual responsibility of those not fortunate enough to forge a liaison with capital owners.

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55 Giersch, “Role of Entrepreneurship,” 12.