

Institutions, Entrepreneurship and the Rationale of Government:

An Outline of the Schumpeterian Theory of the State

Paper submitted to the *Journal of Economic Behaviour and Organisation*,

Special Issue on Fiscal Sociology, edited by Jürgen G. Backhaus, 2003.

Alexander Ebner

Assistant Professor

Krupp-Chair of Public Finance and Fiscal Sociology

Faculty of Economics, Law and the Social Sciences

University of Erfurt

Nordhäuserstrasse 63

D-99089 Erfurt

alexander.ebner@uni-erfurt.de

JEL-Code: B 15 - B25- B52 - P16

Keywords: Schumpeter, institutional variety, entrepreneurship, theory of the state,
entrepreneurial state

***Institutions, Entrepreneurship and the Rationale of Government:
An Outline of the Schumpeterian Theory of the State***

Abstract

The Schumpeterian theory of the state, based on the conceptual framework of fiscal sociology, parallels the theory of entrepreneurship in its concern with the institutional dynamism of capitalist development. Schumpeterian entrepreneurship denotes the capability for carrying out innovations by means of leadership. It may be executed by diverse agents, whose capabilities are embedded in a variety of institutional forms. This institutional variety is an indispensable condition of capitalist development, due to its role in the behavioural articulation of entrepreneurship which is basically driven by atavistic motives. These are also relevant in other domains of socio-cultural evolution, even affecting the genesis of the modern state which is perceived as an equivalent to the entrepreneurial features of competitive capitalism. Its rationale mirrors the emergence of a distinct sphere of self-interested economic activity in a private sector. While the state is concerned with the provision of common goods, its economic impact needs to be assessed with regard to the social interests that mark its relationship with the private sector. This holds for the evolution of the fiscal system as well as for other domains of government activity. Indeed, Schumpeter pointed out that the state could temporarily carry out the entrepreneurial function in capitalist development, quite in accordance with the notion of entrepreneurship as institutional leadership.

1. Introduction

The Schumpeterian theory of the state has been largely neglected in recent discussions on the analytical relevance of Schumpeter's thought for current theorising on the economic role of the state. Indeed, it is rather the matter of entrepreneurship and innovation that seems to have dominated the ongoing reassessment of Schumpeter's theorising – perhaps apart from scattered references to Schumpeter's notion of democratic competition. However, it is argued in the following essay that the Schumpeterian theory of the state provides quite valuable analytical insights for an institutional perspective on the rationale of government, the formation of fiscal systems and the related orientation of economic policy. In particular, it is proposed that the Schumpeterian theory of the state parallels the theory of entrepreneurship in its concern with the institutional dynamism of capitalist development. This is in accordance with Schumpeter's suggestions on the methodological role of economic sociology as an analytical device for the institutional analysis of modern capitalism, pinpointing the matter of entrepreneurship as a key concern, with fiscal sociology identified as a sub-discipline. Indeed, it is argued in the following essay that fiscal sociology provides those conceptual foundations for the Schumpeterian theory of the state that parallel the analytical impact of the sociology of leadership in the Schumpeterian theory of entrepreneurship, as both conceptual frameworks account for the developmental impact of institutional variety.

According to the Schumpeterian approach, entrepreneurship denotes the capability for carrying out innovations by means of leadership. It constitutes the decisive internal source of capitalist development. The entrepreneurial function may be executed by diverse agents, whose capabilities are embedded in a variety of institutional forms. The

underlying institutional dynamism, characterised by a tendency of rationalisation, is basically derived from the persistence of pre-capitalist institutions. This institutional variety is an indispensable condition of capitalist development, due to its role in the behavioural articulation of entrepreneurship which is basically driven by atavistic motives. These specific motives are also relevant in other domains of socio-cultural evolution, such as competition, imperialism and parliamentary democracy. Even the genesis of the modern state, interpreted as a tax state, is associated with an aristocratic influence that is transformed in the course of capitalist development. The tax state is actually perceived as an equivalent to those entrepreneurial features of competitive capitalism which shape the bourgeois epoch, for its rationale mirrors the emergence of a distinct sphere of self-interested economic activity in a private sector. While the state is concerned with the provision of common goods, its actual economic impact needs to be assessed with regard to the underlying social interests that mark its relationship with the private sector. This holds for the evolution of the fiscal system as well as for other domains of government activity. Indeed, Schumpeter pointed out that the state could temporarily carry out the entrepreneurial function in the setting of capitalist development, quite in accordance with the notion of entrepreneurship as institutional leadership.

In outlining the Schumpeterian theory of the state, the essay proceeds with three sections. First, the matter of institutional variety in the course of economic development is taken to the fore. Following a discussion of fiscal sociology as a framework for theorising the state, the Schumpeterian notion of modern capitalism is explored with regard to its institutional underpinnings, resulting in a presentation of the behavioural aspects of the development process. Second, the matter of Schumpeterian entrepreneurship is reconsidered, highlighting the aspects of institutional embeddedness

and historical specificity. Third, the Schumpeterian theory of the state is discussed in more detail. Based on a presentation of the decisive arguments in Schumpeter's work on the tax state, then, the related problems of an entrepreneurial state are examined, which leads to an assessment of related policy conclusions.

2. Institutional variety in economic systems: Schumpeterian perspectives

Fiscal sociology and the theory of the state

Schumpeter's research program was characterised by an orientation toward the integration of historical and theoretical concerns, thus promoting a perspective of methodological pluralism.¹ Accordingly, in the "History of Economic Analysis", Schumpeter identified the particular fields of economic history, statistics, theory, and economic sociology as techniques of economic analysis. Economic sociology, in particular, should deal with an institutional analysis of economic development, highlighting a reasoned type of economic history. It would transcend the assumption of given behaviour as the guiding principle of methodological individualism, exploring instead the diversity of behavioural patterns and their motivational foundations (Schumpeter 1954: 21). The matter of government belongs to that domain of economic sociology:

“By ‘economic sociology’ (the German *Wirtschaftssoziologie*) we denote the description and interpretation of – or “interpretative description” – of economically relevant institutions, including habits and forms of behaviour in

general, such as government, property, private enterprise, customary or 'rational' behaviour (Schumpeter 1949a: 203).

In other words, economic sociology is concerned with the institutional framework of the economic processes, yet it needs to be combined with theoretical, historical and statistical instruments in order to grasp the dynamism of economic development (Swedberg 1989: 508n). In this context, then, the Schumpeterian approach to fiscal sociology would constitute a sub-discipline of the more comprehensive domain of economic sociology, based on a focused concern with the fiscal patterns of government as an institutional expression of socio-economic evolution. Expressed in current terms, fiscal sociology differs from the rational actor perspective of public finance by allowing for an interdisciplinary approach to the variety of economic as well as non-economic aspects of government activities, budget structures and fiscal policies that integrates the specific positions of economics, law and social sciences (Backhaus 2002: 73n).

Therefore, fiscal sociology promotes the recognition and analytical exploration of complex social interactions that are embedded in a historically specific institutional context (Campbell 1993: 164n). Thus, the institutional perspective of economic sociology, with fiscal sociology as a sub-discipline, provides the analytical foundations for Schumpeter's theory of the state. In accordance with Schumpeter's concept of sociology as an analytical approach that deals with the variety of institutional forms in society, this implies that non-rational patterns of behaviour and extra-capitalist institutions are taken to the fore. Based on these considerations, which hint at the behavioural impact of atavistic motives, economic sociology accounts for the matter of leadership in socio-cultural affairs (Schumpeter 1954: 25n). Entrepreneurship, perceived as industrial leadership, is also viewed from the perspective of economic sociology, that

¹ Schumpeter's assessment of the methodological controversy between the Austrian School and the German Historical as ill-conceived and futile was of particular importance for the related account of

is, it involves a specific sociology of leadership which contributes to the institutional core of Schumpeter's theory of economic development.² As this scheme applies basically to the capitalist process, it follows that the analytical framework of economic sociology is set to grasp the institutional characteristics of modern capitalism, thus underlining the historical specificity of the Schumpeterian approach.

Institutional variety in modern capitalism

Among Schumpeter's most pointed definitions of capitalism, the focus is on the monetary means of introducing novelty to the circular flow of the economic process, perceived in institutional terms: "capitalism is that form of private property economy in which innovations are carried out by means of borrowed money, which in general, though not by logical necessity, implies credit creation" (Schumpeter 1939: 223). In agreement with that focus on institutional aspects, Schumpeter argued that rising capitalism would promote the evolution of the specific institutional dimension of rationality. Money becomes a unit account and thus serves the practice of cost calculation, whereas progress in science and technology becomes a systematic result of capitalist development. Even cultural spheres are subjugated to that type of hegemonic rationality, which finally extends its reach to the domains of art and life styles, as well as to related segments of government and politics. This leads to the point of view that the institutional substance of modern capitalism transcends the narrow margins of the economic process, as it contributes to the gradual emergence of a specific civilisation,

theorising on economic development (Ebner 2000a: 361n).

² Schumpeter referred most explicitly to the inspiration provided by Friedrich von Wieser's "sociology of leadership" (Schumpeter 1926: XVIII). Indeed, Wieser, well in addition to his value and price theory of imputation, excelled regarding his sociological theses on leadership and the problems of mass behaviour which exercised a persistent influence on Schumpeter's theory of entrepreneurship (Streissler 1981: 66n).

representing historically-specific social and institutional patterns that reflect a drive for quantification and rationalisation (Schumpeter 1942: 123n).

Schumpeter rejected the notion of an acquisitive spirit as the decisive factor behind the historical genesis of capitalism, while emphasising the gradual character of changes in institutional settings:

“So soon as we realize that pure Feudalism and pure Capitalism are equally unrealistic creations of our own mind, the problem of what it was that turned the one into the other vanishes completely. The society of the feudal ages contained all the germs of the society of the capitalist age. These germs developed by slow degrees, each step teaching its lesson and producing another increment of capitalist methods and of capitalist ‘spirit’” (Schumpeter 1954: 80n).

Capitalism therefore evolved from the socio-cultural substance of preceding forms of economic organisation, based on institutional elements that were cumulatively growing in economic and social influence. Thus, Schumpeter accentuated the notion of institutional variety as a basic feature in the dynamism of economic development (Schumpeter 1928a: 477). Indeed, the thesis of the constitutive role of institutional variety in actually existing socio-economic systems was also applied to feudalism and other historical formations, implying that “every society contains, at any given time, elements that are the products of different social systems” (Schumpeter 1943: 114n). This resembled a “principle of continuity”, also prominent with the eminent Austrian economist Friedrich von Wieser, perceived as a macroscopic position on the continuity of historical processes that could impede the accurate delineation of economic epochs (Schumpeter 1939: 227).

This constitutive role of variety was also prevalent in Schumpeter’s conceptualisation of differences in the institutional set-up of nation-states and national economies. While

Schumpeter held sympathy for the idea of historically rooted national regularities in habits and thoughts, subsumed under the term “*Volksgeist*” which had been prominent in idealist strands of German political philosophy, he argued that these would result from social values set up by dominant groups and classes in a certain historical context, exhibiting a high degree of inertia. National economies would accordingly differ in terms of their inherent variety of production modes, accompanied by an equivalent variety of social, institutional and organisational ensembles (Schumpeter 1929a/1953: 214n). Schumpeter then concluded on the matter of variety and changes in institutional settings:

“Social structures, types and attitudes are coins that do not readily melt. Once they are formed they persist, possibly for centuries, and since different structures and types display different degrees of this ability to survive, we almost always find that actual group and national behaviour more or less departs from what we should expect it to be if we tried to infer it from the dominant forms of the productive process” (Schumpeter 1942: 12).

In current discussions on the evolution of economic systems, these developmental aspects raised by Schumpeter have been reiterated in terms of an impurity principle that has become prominent with systems theory. In this context, the impurity principle maintains that each functional system contains impurities which are not typical of the whole, but which are nevertheless necessary for the reproduction of that particular system. The related principle of dominance then suggests that every system exhibits a dominant functional structure. It follows that economic systems represent diversified pluralities which exhibit a dominant economic structure by which they may be classified, yet based on multi-faceted and inter-penetrating components (Hodgson 1988: 167n). For instance, the institutional dynamism of modern capitalism may be

portrayed as the combination of a system of contractual commodity exchange that is embedded in distinct segments of the institutional setting apart from the domain of the contract-based market mechanism, highlighting community-based trust and family-oriented values (Fukuyama 1995: 3n).³

Moreover, it is a decisive point in Schumpeter's argumentation that these historically persistent institutional segments, which seem to be alien to the rationale of capitalist market economies, exhibit a dynamising role in the development process. Thus, it is not only the adaptive potential with regard to changes in the data environment that constitutes an advantage of institutional variety, as suggested by the impurity principle of systems theory, but it is primarily the embedded capability for creative responses by innovative activities. Thus, countering Marxist positions on the materialist determination of institutional change, which would imply an assessment of historically-rooted institutional constellations as a potential impediment to the development of the productive forces, Schumpeter claimed that pre-capitalist institutions would contribute decisively to economic evolution in modern capitalism by providing institutional incentives as well as by shaping modes of economic behaviour that could be conducive to the carrying out of innovation (Ebner 1999: 148n). More specifically, Schumpeter pointed to the role of family sentiment as a motivating force of economic activity in general, and of entrepreneurship in particular. Indeed, as discussed subsequently, the figure of the entrepreneur belongs to the outstanding representations of Schumpeterian ideas on institutional variety in economic development. This is expressed implicitly in Schumpeter's proposal that "the capitalist order not only rests on props made of extra-

³ In related terms of economic anthropology, Karl Polanyi suggested that sustainable economic processes were embedded both in economic and non-economic institutions. Hence, the seemingly self-regulating market mechanism would be necessarily framed by non-economic institutions like religious beliefs, kinship-related custom, as well as government activities (Polanyi 1977: 55n).

capitalist material but also derives its energy from extra-capitalist patterns of behaviour which at the same time it is bound to destroy” (Schumpeter 1942: 162).

Behavioural aspects of development

Accordingly, the developmental tendency of rationalisation, which is an outcome of the distinct type of rationality that characterizes capitalist civilisation, also affects non-capitalist institutions. As technological and organisational innovations drive the competitive restructuring of firms and industries, a decomposition of established institutional and social configurations is taking place, at last fuelling a tendency of capitalist decline, while heralding the possibility of socialist transformation (Schumpeter 1942: 131n). Again, the institutional devaluation of the family provided a most important illustration of that argument, for it seemed to promote the adoption of short-run philosophies and anti-saving attitudes in the economic domain, thus obstructing the developmental dynamism of the capitalist system (Schumpeter 1942: 160n). Schumpeter’s conclusion then followed rather provocatively:

“In breaking down the pre-capitalist framework of society, capitalism thus broke not barriers that impeded its progress but also flying buttresses that prevented its collapse. That process, (...) was not merely a matter of removing institutional deadwood, but of removing partners of the institutional stratum, symbiosis with whom was an essential element of the capitalist schema. Having discovered this fact (...) we might well wonder whether it is quite correct to look upon capitalism as a social form *sui generis* or, in fact, as anything else but the latest stage of the decomposition of what we have called feudalism” (Schumpeter 1942: 139).

In this context, it needs to be underlined that the Schumpeterian notion of feudalism allows for an extended role of atavistic value schemes which are reflected by allegedly aristocratic characteristics of heroic leadership. This hints at another decisive facet of Schumpeter's thought, namely the intellectual impact of *fin de siècle* philosophy, mirroring the crisis of beliefs in a rationality-based automatism of socio-cultural progress. Schumpeter pointed to Nietzsche, Bergson and Sorel as the most prominent representatives of that strand of philosophical thought with its anti-rationalist stance and "anti-intellectualist" orientation (Schumpeter 1954: 774n). In particular, vitalist philosophy informed the Schumpeterian argumentation on the developmental dynamism that would be promoted through institutional variety, for extra-capitalist institutions would allow for a non-rational orientation that was perceived as indispensable in proceeding with the type of discontinuous economic change that characterised modern capitalism. Atavistic values regarding power and conquest were said to motivate those types of entrepreneurs who were identified as the internal force of the development process in the setting of capitalist market competition, for they would carry out innovations by means of their leadership capabilities. In other words, Schumpeter associated rationality with adaptive routine behaviour in an established setting, while non-rational behaviour was associated with a radical mode of change, reflecting the impact of novelty and leadership (Ebner 2000b: 82n).

This distinction was derived from a conceptual framework that should highlight the relationship between novelty, leadership and endogenous change. Indeed, Schumpeter applied the underlying mode of argumentation also to other domains of socio-economic life. Concerning the sphere of competition, he suggested that industrial concentration and trustification were not based on efficiency considerations, but resulted from the impact of instinctive rivalry, rooted in "nationalist, militarist, imperialist instincts of

struggle” (Schumpeter 1920-21: 313). Furthermore, the motives of leadership, authority and power were also traced in the political system of representative democracy, which was interpreted as a selection procedure of political leadership. Democracy as a method for the selection of leaders would imply political competition for the vote of the electorate. In this context, the capability for political leadership was introduced as a charismatic feature of aristocracy that would contrast with bourgeois rationalism. Hence, in accordance with the proposition that a pure system of capitalism could not exist, Schumpeter rejected the idea of a pure democracy, which would be based solely on the principles of people’s sovereignty and parliamentary order (Schumpeter 1942: 137n). At last, the ongoing process of social rationalisation would also affect the political domain, leading to the rise of political parties as electoral machineries whose activities tend to parallel economic rationalisation (Schumpeter 1942: 282n). Additionally, Schumpeter used these arguments in his analysis of imperialism. He maintained that imperialism was neither an outcome of concrete economic interests, including class interests in Marxian terms, nor a structural feature of modern capitalism, but rather the manifestation of atavistic motives like “expansion for the sake of expanding, struggle for the sake of struggling, win for the sake of winning, rule for the sake of ruling”, as the leitmotif of an ongoing “plus ultra” led to the brief definition: “Imperialism is the objectless disposition of a state to violent expansion without storable limits” (Schumpeter 1918-19: 3n). Again, aggressive nationalism and national rivalry were said to be rooted in instincts of dominance and warfare. Thus, imperialism should be understood as a historical atavism, that is, a persisting element of pre-capitalist institutional patterns. In this context, Schumpeter explicitly noted with regard to the non-hedonistic behaviour of the “captains of industry”, that this portrayal of imperialist motives paralleled the matter of entrepreneurial motives (Schumpeter 1918-19: 21).

Indeed, the evolution of modern capitalism should imply a reduction of imperialist leanings, reflecting an inherently pacifist rationale of capitalism; just like instinctive modes of entrepreneurial behaviour were gradually replaced by rational calculation and bureaucratisation. The conflict between free-trade regimes and neo-mercantilist policies then denoted varieties of capitalist performance. Mercantilism with its instinct of domination was set against free trade as an equivalent of peaceful and mutually beneficial exchange (Schumpeter 1918-19: 119n). Again, this points to the perception of entrepreneurial leadership, rooted in atavistic motives, as a basic theme in Schumpeter's theory of economic development. An outline of the institutional substance of entrepreneurship in the capitalist process thus evolves as an indispensable condition for approaching the Schumpeterian theory of the state.

3. Schumpeterian entrepreneurship as institutional leadership

Theorising entrepreneurial leadership

The Schumpeterian approach to economic development deals with innovation as the internal force of discontinuous change, carried out by the means of entrepreneurial leadership. This argument is framed by the idea that novelty does not evolve harmoniously from within an established economic setting, but places itself alongside established patterns and competes them down (Schumpeter 1939: 241). More specifically, entrepreneurs fulfil their developmental function by introducing innovations as new combinations of productive means, basically new goods and new methods of production, new markets and supply sources, as well as new organisational

constellations in an industrial sector (Schumpeter 1926: 100n). The entrepreneur is modelled as a specific type of economic agent who carries out innovations by setting up a firm as the organisational terrain for the new combination of productive means. This venture is credit-financed by capitalists who represent the rationally calculating element in capitalism. The cost-related advantages of innovations generate an entrepreneurial profit, perceived as the material incentive for related business activities. However, quite in accordance with the exposed role of atavistic motives in the development process, entrepreneurial profits are viewed as means to achieve further ends.⁴ These seemed to exhibit an aristocratic atmosphere, reflecting extra-capitalist habits and values, as highlighted by the drive for building a family-empire or dynasty, accompanied by an impulse for conquering and fighting, as well as the joy of creating (Schumpeter 1926: 138n). Thus, Schumpeterian entrepreneurship is driven by motivations which are alien to the rationalist foundations of capitalist civilization.⁵ Still, regarding the actual implementation of innovations, entrepreneurs were said to be void of traditional relationships, yet oriented towards individualist rationalism in the carrying out of the entrepreneurial function (Schumpeter 1926: 134).

The Schumpeterian notion of entrepreneurship should reflect the impact of leadership, based on an interplay of imagination and creation, which was identified as a most relevant source of socio-cultural change, whereas it had emerged specifically as the internal driving force of economic development in modern capitalism (Schumpeter 1912: 124n). Acts of creative leadership, which were traced in diverse areas like industry, politics, the arts, and science, were said to be based on a temporary reservoir

⁴ Thus the profit incentive does not represent the ultimate cause for entrepreneurial activity (Santarelli and Pesciarelli 1990: 685).

⁵ This position has raised the critical question, whether Schumpeterian entrepreneurship is really an internal force of capitalist development, as entrepreneurial motives seem to remain exogenous to the economic process (Shionoya 1997: 170). Yet this criticism misrepresents Schumpeter's notion of

of vitality and energy, underlining the impulsive character of innovation (Schumpeter 1912: 147). Leadership constitutes the decisive component of entrepreneurship: “The carrying out of new combination is form and content of development, just like the activity of the leader is its driving force” (Schumpeter 1912: 162).⁶ The original Schumpeterian position then highlighted static and dynamic types of behaviour, paralleled by hedonistic and energetic motives (Schumpeter 1912: 128). Schumpeter claimed that the motives of ordinary economic agents in the circular flow were not based on rational choice and egoistic hedonism, but on habits that were meant to satisfy given wants that are also shaped by the social environment (Schumpeter 1926: 132n). That is why Schumpeter claimed the motto “plus ultra” as the characteristic device of entrepreneurial ventures (Schumpeter 1926: 137).

More specifically, the role of entrepreneurial leadership was derived from an institutional reorientation after the introduction of novelty, due to the disruption of the routines of the circular flow. The radical change of data that had been used as guideposts for calculation would lead to a decomposition of habitual attitudes and experience-based rationality. Autonomous adaptation would be impossible for ordinary economic agents who face radical uncertainty. It follows that novelty needs to be forced upon the majority of economic agents, as progress in general is basically a result of force and confrontation (Schumpeter 1912: 185n). Corresponding entrepreneurial tasks contain breaking the inertia of traditions and routines, finding strategic partners for the carrying out of innovations, and gaining the acceptance of consumers (Schumpeter

institutional variety as a characteristic of modern capitalism, which allows for non-capitalist components as an indispensable requirement of its evolutionary dynamism.

⁶ Hints at the theory of entrepreneurship are to be observed even in Schumpeter’s early works on static theory. Already in “*Wesen*”, certain “energetic” elements are sorted out, which represent the internal source of economic change (Schumpeter 1908: 596n). Schumpeter also suggested that phenomena like the “will to power” could serve as fundamental arguments for elaborating on a general approach for dealing with major economic changes from a historical perspective (Schumpeter 1908: 618). Moreover, in a subsequent review of advances in economic theory, published in 1910, Schumpeter claimed in

1926: 125n). The clustering of innovations, meant as a fundamental aspect of Schumpeter's business cycle theory, was derived from these effects of entrepreneurial leadership, as pioneering innovations would enlarge opportunities for further ventures that could be carried out by less entrepreneurial agents (Schumpeter 1939: 100n).

Schumpeterian types of economic agents

This differentiation points to the modelling of distinct types of economic agents by comparing spontaneous-creative and habitual-adaptive types of behaviour (Schumpeter 1926: 119). According to this argument, the entrepreneurial function is characterised by the capability for creative response – a notion, which, like the phrase of creative destruction, hints once more at the vitalist dimension of Schumpeter's theorising.⁷ In contrast to an adaptive attitude, denoting adaptations to gradual changes in the set of economic data, creative response is neither predictable nor determined, for it implies activities outside of the range of existing practice (Schumpeter 1947a: 150). With creative response present, the evolution of modern capitalism would remain undetermined. It therefore characterises the quality of entrepreneurship as a historical factor in economic development (Schumpeter 1947b: 8). These essential features of the Schumpeterian modelling of economic agents are outlined in Figure 1.

delineation against established neoclassical theorists like Clark that the "herd of consumers" needed to be "mastered and guided" by the "leading personalities" of the production sphere (Schumpeter 1910b: 51).

⁷ For instance, Schumpeter explained in a private comment on Marschak's criticism of "Business Cycles" as published in 1940, pointing to a lack of formal theory, that enterprise should represent a "source of energy" internal to the system and related to the Bergsonian notion of "*evolution créatrice*". Hence, a useful theory of economic development would not deal with "surface mechanical relations" but with an unpredictable evolutionary process. This would impede its formalisation (Stolper 1994: 375).

Figure 1: Schumpeterian types of economic agents

	Ordinary Type <i>“Wirte“</i>	Entrepreneurial Type <i>“Unternehmer“</i>
Type of Response	<i>Predictably Adaptive</i>	<i>Unpredictably Creative</i>
Type of Behaviour	<i>Experience-Based</i> <i>Habitual</i>	<i>Novelty-Embracing</i> <i>Spontaneous</i>
Type of Motivation	<i>Hedonistic Calculation</i>	<i>Visionary Imagination</i>
Mode of Action	<i>Uncertainty-Absorbing</i> <i>Routine</i>	<i>Uncertainty-Spreading</i> <i>Innovation</i>
Mode of Change	<i>Slowly Gradual by</i> <i>Administering Structures</i>	<i>Rapidly Discontinuous by</i> <i>Creating Structures</i>

However, the logic of Schumpeterian entrepreneurship is not associated exclusively with the institutional setting of capitalist market economies, as it represents a general principle which is also of utmost relevance for other historical formations, and in different areas of social life. This universal nexus between novelty and leadership was underlined as follows:

“Social leadership means deciding, ordering, carrying out, forging ahead. As such it is special, both within the actions of the individual, and within the social whole always a distinguishable function. It is to be considered only when confronting novel individual and social situations, and it would not exist if the life of the individual and the peoples would run steadily in the tracks of always the same routine” (Schumpeter 1927: 64).

Its historicity is described by the proposition that the universal nexus of novelty and leadership would manifest itself through diverse carriers, historically conditioned in institutional and organisational shape. Hence, Schumpeter claimed that the entrepreneurial function could be fulfilled by the organs of a socialist commonwealth or by the chief of a primitive horde, that is by those agents who would hold the leading and commanding position in their particular social and institutional environment, enabling them to enforce the dynamism of change by introducing novelty (Schumpeter 1926: 111).

Entrepreneurship and the phases of capitalist development

This aspect of the historicity of entrepreneurship was also applied to capitalist development. Underlining the historical specificity of institutional patterns, Schumpeter combined business cycle analysis with the delineation of specific phases of capitalist development (Ebner 2003: 117n).⁸ Yet the elaboration on these phases abstracted from the statistical framework of the business cycle scheme. Instead, the perspective of a rationalisation of the capitalist process was taken to the fore. The reconsideration of this perspective needs to be assessed with respect to one of Schumpeter's basic research motives, namely the question whether modern capitalism would evolve towards socialism, driven by rationalisation and bureaucratisation.⁹ Most arguments on the

⁸ Kondratieff cycles as "historical individuals" were accordingly outlined. The first Kondratieff cycle from the 1780s to 1842 should mirror the impact of the industrial revolution in Western Europe. The second Kondratieff cycle from 1842 to 1897 should represent a so-called bourgeois age of steam and steel, that is the industrial process of developed capitalist economies. The third Kondratieff from 1898 onwards should reflect the economic and institutional setting of a neo-mercantilist period (Schumpeter 1939: 170).

⁹ Recognising these aspects, shifts in the analytical emphasis of Schumpeter's approach to entrepreneurship become accessible. It has been suggested that a conceptual continuity in Schumpeter's argumentation is to be observed as soon as a historical perspective is taken into consideration, combining the characterisation of the carriers of the entrepreneurial function with the development pattern of modern capitalism (Langlois 1998: 57n).

institutional transformation of capitalism had already been formulated in an essay on the “possibilities of socialism”, published in 1920. First, industrial concentration and the emergence of corporations and trusts would lead to the dominance of bureaucratic organisations. Second, the rationalisation of economic life, as indicated by the automatising of technological change, would imply the obsolescence of the entrepreneurial function, with leadership replaced by administration. Third, rationalisation would cut loose the economic sphere from pre-capitalist and non-economic sentiments and ties, illustrated by the decreasing role of family values as a motive for the private accumulation of wealth (Schumpeter 1920-21: 312n). The conclusion pointed to rationalisation as a step towards socialism: “The principle of efficiency can assert oneself much purer in the economy, when all the persons involved are merely calculating, instead of ruling, serving and being guided by other than purely economic considerations” (Schumpeter 1920-21: 319).

Subsequently, Schumpeter distinguished between “competitive” capitalism during the 19th century, and “trustified” capitalism in the 20th century, derived from institutional patterns that could be identified in Western Europe and the United States (Schumpeter 1928b: 362). The “liberal epoch” of competitive capitalism was dominated by family enterprises. The motivation of the entrepreneurial type of the “industrial bourgeois” was accordingly characterised by a sense of duty as well as an unambiguous family-orientation (Schumpeter 1929b: 308).¹⁰ Trustification during the “neo-mercantilist” period of capitalism would lead to the dominance of large enterprises, based on the capability for organising large-scale technological change as a professional routine (Schumpeter 1929b: 316). Accordingly, different types of entrepreneurs would be

¹⁰ This entrepreneurial type, also typified as the “merchant” who dominated the competitive epoch, was additionally portrayed as a socially responsible businessman, as a patriarch and master who tended to care for the enterprise in terms of a personal as well as a family concern, implying a rationale beyond pure economic calculation (Schumpeter 1928a: 484n).

selected, as large organisations required capabilities in the domain of organisational coordination and cooperation (Schumpeter 1929b: 317n). Schumpeter even suggested that employees in large corporations could act as entrepreneurs, for they would need to exhibit the entrepreneurial blend of charismatic leadership only temporarily in the context of professional routine tasks. Innovation would become foreseeable, as even consumers got accustomed to a type of predicated economic change. Hence, the leadership function of entrepreneurship would become obsolete in terms of personal leadership (Schumpeter 1942: 132n). In accordance with that developmental tendency, the totality of capitalist institutions becomes the subject of structural decomposition, also involving its extra-capitalist components. The family, for instance, has no particular role to play in the emerging post-capitalist institutional order (Schumpeter 1942: 156n).¹¹

Accordingly, Schumpeter acknowledged the perspective of socialist transformation, prepared by the establishment of “state capitalism” as a transition stage, resembling a mixed economy with a strong public sector and extended administrative guidance (Schumpeter 1943: 125). Moreover, this position implied that the state could carry out the entrepreneurial function: as a temporary device in the capitalist setting, yet permanently in a socialist system of administrative planning. Transformation, however, would affect the institutional rationale of government. Indeed, just like entrepreneurial leadership in the private sector is a historically-specific feature of capitalism, so is the modern state an element of the capitalist process. From the Schumpeterian perspective follows that the evolution of the state complements the dynamism of entrepreneurship. Although neglected in the literature on Schumpeterian thought, Schumpeter’s conceptual range even included the analytical device of an “entrepreneurial state”. In

¹¹ This aspect may be related to Schumpeter’s proposition that families constitute the basic analytical unit in a theory of social classes, for the family represented the decisive unit of social mobility and group

order to explore Schumpeter's theory of the state, thus, the following section proceeds with a reconsideration of the concept of the tax state, for it provides a basic institutional approach to the rationale of government.

4. The tax state and the rationale of government

The institutional evolution of the tax state

In accordance with positions on institutional variety, Schumpeter's approach to the "tax state" explicitly accounted for the modern state in terms of a specifically capitalist institutional form. Its character was said to be shaped by distinct forces of economic and socio-cultural evolution, embedded in an institutional setting that would resemble a specific cultural pattern (Schumpeter 1918/1953: 3). It should be analysed as an ideal typical fiction which does not exist as a pure type, for it was penetrated by "elements of the past" and "shadows of the conditions of the future" (Schumpeter 1918/1953: 23).¹²

The modern state evolves from a historical process in which it obtains a role beyond merely representing the underlying material interests of those social classes and groups which promoted most actively its institutional evolution. In particular, the differentiation of private and public domains, endowed with specific legal frameworks in private and public law, reflects the genesis of the modern state as an institutional

behaviour in the cyclical renewal of elites (Schumpeter 1927: 12n).

¹² Schumpeter outlined this conceptual problem as follows: „Each social condition contains remnants of the past and seeds of the future, and the latter are especially noticeable to research looking back through the glasses of a later time. *Natura non facit saltum*, and one can speak of every condition in the sense of a definitely defined type only as an abstraction. Yet such abstractions are necessary in terms of an „economy of thinking“. Every concrete condition, in its totality (*not* as an abstraction) gives birth to the succeeding one in its totality“ (Schumpeter 1918/1953: 61, emphasis in original).

form.¹³ Historically, it is the dissolution of the institutional order of the feudal system that leads to the emergence of a specific private domain as the subject of fiscal efforts, organised by an evolving state apparatus. The rationalising effects of capitalism are the underlying factor in the institutional dissolution of feudalism, as Schumpeter remarks with formulations that echo both Marxian and Weberian thought:

“While the stream of productive revolutions sweeps away this world, the knight forgets the Holy Grail and is reminded of his landed property, thus this order breaks up like a corpse swollen by putrefying gases – and it breaks up into individuals and families with a thousand conflicting interests” (Schumpeter 1918/1953: 19).

With individualism and private property as fundamental institutional conditions of its evolution, as expressed by the formation of individuals and families as economic units, the modern state is indeed perceived as a historically-specific institutional form in the capitalist system. Different forms of political leadership govern pre-capitalist systems, like the organisations of primitive hordes, as well as socialist systems with their comprehensive bureaucratic organisation. In these systems, a distinction of private and public domains could not exist, for all individual activities are merged in the social whole (Schumpeter 1918/1953: 18n). The state then serves common purposes that persist despite the societal decomposition of community:

“Therefore the state can never be its own end but only a machine for those common purposes. It belongs to its nature as a representative of the latter that it stands opposite the individual personifications of self-interest. Only then it is a separate, distinguishable social entity” (Schumpeter 1918/1953: 20).

¹³ Thus Schumpeter criticised the functionalist distinction of a private sphere and a sphere of state activity, basically regarded as the public sphere (Schumpeter 1918/1953: 62n).

Historically, Schumpeter approached the modern state, which is the tax state, as a product of the princely fiscal crisis since the 14th century, following the structural crisis of the desmesne economy. The need for financing the rising expenses for warfare and courtly waste was confronted by the dissolution of the institutional order of feudalism with its societal consequences, namely the emergence of market relations with individuals and families as economic units (Schumpeter 1918/1953: 9n). As the prince got into debt, the fiscal crisis induced the development of the modern state as an organisation for raising taxes and governing the tax system. This organisation mirrored not only the concerns of aristocracy, for a bureaucracy of the estates was soon established in order to administer the fiscal system. Still, the princes usually took control of that bureaucratic apparatus – thus shaping the modern state in manner that would persist even in a democratic setting (Schumpeter 1918/1953: 14n).

Given these considerations, Schumpeter's references to Goldscheid's notion of the public budget as "the skeleton of the state stripped of all misleading ideologies" – a notion that should be constitutive for the approach of fiscal sociology – becomes accessible in terms of a theory of the state.¹⁴ Moreover, with regard to the matter of economic development, government activity needs to be reconsidered in terms of the fiscal manipulation of the flow of resources that constitutes the economic process. This aspect is paralleled by the motivational impact on economic agents (Schumpeter 1918/1953: 4n). Indeed, Schumpeter argued:

“Not only has the economic policy of all states been primarily driven by financial motives up to the turn of our century – (...), but the fiscal measures of the state, even where it was not intended at all, have created and destroyed industries, industrial forms and industrial regions, and have thus contributed

directly to the construction (and distortion) of the edifice of the modern economy and through it of the modern spirit” (Schumpeter 1918/1953: 4n).

Thus, the state is both result and propagator of the rationalisation process underlying the evolution of capitalist civilisation. Taxation is of major importance in this process, as it affects its motivational and behavioural dimension:

“With the tax bill in hand, the state penetrated the private economies, gaining increasing power over them. And the tax brings monetary economy and calculating spirit in corners, where they do not yet dwell, and thus exhibits a formative effect on the organism which has developed it” (Schumpeter 1918/1953: 17n).

Still, in the course of capitalist development, the state establishes a distinct nature as an institutional force that moulds the fiscal system in which it is rooted, while penetrating the private sector with its entrepreneurial business ventures (Schumpeter 1918/1953: 21).¹⁵

States, markets and the common good

The institutional character of the state as well as the rationale of government, however, is not to be assessed independently from a reconsideration of the social foundations.

“Decisive for a realistic understanding of the phenomenon of the state – apart from its character as a machine for some relatively narrow ends, to which

¹⁴ This argument was reiterated in the „History of Economic Analysis“, as Schumpeter argued that “nothing shows so clearly the character of a society and of a civilization as does the fiscal policy that its political sector adopts” (Schumpeter 1954: 769).

¹⁵ Various historical cases of the development of fiscal systems hint at a pattern of increasing military expenditures followed by tax increases. This implies that state-building, perceived as nation-building, and the evolution of taxation are closely related, as both the form and level of taxation matter (Campbell 1993: 176n). In the framework of the transaction cost approach to economic history, for instance, North refers to Schumpeter’s notion of the fiscal crisis of the state in the context of an institutional analysis of the divergence of development paths of England and Spain in the sixteenth century (North 1990: 113n).

machine the whole of the national cultural life with all its essential driving forces is standing opposed to – is the recognition of the importance of that group of persons in whom it is socially materialised and of those factors which gain dominance over it. This explains its real power and the way in which it is used and developed” (Schumpeter 1918/1953: 22).

Consequently, in the Schumpeterian theory of the state, the relationship between state and society is interpenetrating, for the societal context shapes government activity, while the latter may influence social patterns:

“Really, one should never say: ‘the state does this or that.’ It is always important to recognise who or whose interest it is that sets the state machine in motion and speaks through it. Such a position must be repulsive to everyone for whom the state is the highest good of the people, the crown of its achievements, the sum of all its ideals and powers. However, only this position is realistic. It also contains, what has been true in the otherwise wrong theory that the state is nothing but a means of exploitation for the ruling class: neither the moment of the class state, nor the idea of the state floating above all parties and classes as an entity which is simply the organised ‘totality’, is adequate to the nature of the state. Yet neither of the two is taken out of thin air: the state always reflects the social power relations, although it is not a mere reflection of these” (Schumpeter 1918/1953: 68).

An implication of that position was the explicit rejection of any “ideological theory of the state that raises the latter into a superhuman agency for the public good”; a position that was also meant as a demarcation from those policy ideals that should become influential with the rise of Keynesianism (Schumpeter 1954: 37).

In historical terms, then, the pioneering social force within the state apparatus is the prince, who establishes it as a system of administrative rule. In the course of the development process, bureaucracy gains influence, representing a shift from ruling to serving personnel, while the state evolves as a distinct social entity that penetrates the behaviour of economic agents, at last even resembling a habit of thought. The limits of the state are thus not to be found in the domain of institutions, but rather in its fiscal potential.¹⁶ Its country-specific features are derived from institutional settings and social structures, as well as from the nature of wealth that reflects the pattern of the development process. Differentiating between old and new forms of wealth, Schumpeter even stylised rentier states and entrepreneurial states, as outlined in Figure 2.

Figure 2: Rentier state and entrepreneurial state

	Rentier State	Entrepreneurial State
Economic Foundations	<i>Routine-Based</i>	<i>Innovation-Driven</i>
Nature of Wealth	<i>Established Wealth</i>	<i>New Wealth</i>
Developmental Tendency	<i>Stagnation</i>	<i>Accumulation</i>

These types reflect a distinction of economic scenarios, involving stagnation versus novelty-based accumulation. Schumpeter even hinted at the impact of further limiting

¹⁶ These considerations have been reiterated in recent transaction-cost approaches. For example, North's "neo-classical theory of the state" provides a definition of the state that emphasises the role of property rights. The state is approached as an organisation which is endowed with comparative advantages in the

factors, like military expenditures, debt service, the moral spirit of bureaucracy, as well as the degree of etatism in the populace (Schumpeter 1918/1953: 22n).

As the private sector of the capitalist economy provides the dynamising elements of the economic process, the state remains a peripheral and particularly even hostile entity which confronts the self-interested individualism of economic agents in the private sector by means of the fiscal system. As such, Schumpeter claims that the tax state may be viewed as “an economic parasite” in the setting of bourgeois values of competitive capitalism. As the state is in permanent need of the revenue that is generated by private economic agents, then, the promotion of private sector entrepreneurship marks the rationale of government (Schumpeter 1918/1953: 23n).¹⁷ This aspect constitutes a fundamental relationship between entrepreneurship and the rationale of government, as viewed from a Schumpeterian perspective. Therefore, the taxation of entrepreneurial profits would affect the process of industrial evolution in terms of an institutional obstacle that manipulates the material incentives for entrepreneurial activity (Schumpeter 1918/1953: 27n).¹⁸ Even a position of the state as an entrepreneurial owner of the means of production would not alter that situation, for the data and methods of the private sector would prevail as dominant principles (Schumpeter 1918/1953: 30n). Accordingly, Schumpeter argued that no economic structure has been created by the state that would not have evolved in more or less the same manner as a result of initiatives from the private sector in the setting of market competition (Schumpeter 1918/1953: 58).

execution of violent means, yet limited in its territorial range by the capability for taxation (North 1981: 21).

¹⁷ The tax state thus appears as a “fiscal analogue” to the institutional setting of the market system (Musgrave 1992: 90).

¹⁸ Schumpeter actually portrayed the income tax as the tax of bourgeois liberalism, adapted to the culture of the bourgeois factory and the bourgeois household in the competitive market system, and administered by a liberal state that would follow an anti-interventionist orientation (Schumpeter 1929-30/1985: 127n).

It may be emphasised that these arguments were meant as contribution to contemporary debates on a solution of the economic problems of the Austrian Republic in the aftermath of the First World War. While Goldscheid's influential essay on the perspectives of state socialism and state capitalism, published in 1917, had proposed a comprehensive socialisation programme, Schumpeter favoured the reconstruction of private sector entrepreneurship through a capital levy. Indeed, a fiscal crisis in Schumpeterian terms would basically occur as a result of irreversible social changes, as exemplified by the decline of feudalism.¹⁹ Capitalism, however, was far from over – its dynamism would instead contribute most promisingly to the reconstruction of the Austrian economy. Thus, according to the Schumpeterian position, published right before his ill-fated intermezzo as an Austrian Minister of Finance, there was no inherent crisis of the Austrian tax state, but a need for a revival of entrepreneurial activities in the face of a political crisis of capitalism (Schumpeter 1918/1953: 56n).

Policy implications for the entrepreneurial state

Along the lines of the preceding arguments, more recent discussions on the role of economic policy, as viewed from the Schumpeterian perspective, have emphasised the facilitation of change through innovations as well as the mitigation of the social costs that arise from that change (Stolper 1991: 203n). In the institutional framework of the market process, this broad perspective has been interpreted as if Schumpeterian policies should primarily highlight the public sector as an intermediary in providing credit facilities to entrepreneurs who are in need of these funds in order to proceed with their innovative ventures (Jackson 1988: 299n). The Schumpeterian theory of the state,

¹⁹ This implies that the evolution of the tax state addresses three specific dimensions of long-term change, namely a change in the source of revenue, a change of social structures and a change of the political

however, allows for policy implications that pinpoint the problems of selective government interventions, associated with the concept of an entrepreneurial state that rests its economic position on the accumulation of wealth through novelty. Indeed, the matter of rationalisation and socialist transformation, implicit in the Schumpeterian perspective on economic development, leads to the controversial thesis that even government may carry out the entrepreneurial function – temporarily in the institutional context of the capitalism, yet permanently in a socialist system. At first glance, it seems to be rather difficult to reconcile this concept of an entrepreneurial state with Schumpeter’s general theoretical framework of market competition and personal entrepreneurship (Freeman 1992: 75). Nonetheless, in assessing this concept of the entrepreneurial state, the historical specificity of the institutional order of modern capitalism needs to be taken into consideration. According to Schumpeter, an administrative enforcement of innovation as the dominant type of entrepreneurship would already signal the socialist transformation of trustified capitalism. Capital, credit and interest would lose their function as monetary levers of change, for innovation would result from administrative command. Thus, in a socialist system, the state could carry out the entrepreneurial function directly by exercising economic leadership (Schumpeter 1912: 173).²⁰

The Schumpeterian perspective on government agencies as entrepreneurial agents was of course perceived as historically conditioned. Schumpeter illustrated it by invoking

system (Schmidt 2003: 343).

²⁰ Indeed, Schumpeter closed his first ever exposition of the theory of economic development with an outlook on the matter of economic crises. There he argued that the impact these crises, perceived as the turning points of business cycles, would diminish in the future due to advances of economic culture. The development process would become a respected fact of economic life, perhaps supported by monetary measures, as opposed to futile attempts of regulation by policy intervention (Schumpeter 1910a: 323n). This argumentation differed from the bureaucratisation perspective that became a prominent topic in Schumpeter’s subsequent works, when even the planning of innovations and thus the stabilisation of the economic process seemed to be feasible. In this case, Schumpeter claimed: “(G)iven sufficient power and insight in a central authority, innovation may of course be planned for in such a way as to minimize disturbance” (Schumpeter 1939: 697).

agricultural policies in the United States which had been revolutionising the practice of farmers through the introduction and dissemination of novel methods; a process that was primarily based on extensive efforts in training and education (Schumpeter 1949b/1951: 255). Moreover, an articulation of the entrepreneurial function by organs of the state would point to an entrepreneurial intervention in certain industries by setting up public enterprises that could proceed with the introduction of innovations. Another domain of entrepreneurial states was associated with the conditioning of the economic process through institutional and physical infrastructures. Thus, Schumpeter stylised statecraft as a particular kind of entrepreneurship that could temporarily shape the data of capitalist development (Schumpeter 1939: 235).

Yet it is worthy to note that Schumpeter accentuated problems with the sustainability of these policy measures. Recognition of the temporary character of entrepreneurship allowed for a more affirmative assessment of states as entrepreneurs. Indeed, with regard to those policy options that should provide a long-term view on the development process, the aspect of conditioning private sector entrepreneurship by adequate policies seemed to provide the most promising perspectives. Underlining the persistent relevance of this aspect, Schumpeter emphasised that innovation resulted from a distinct type of entrepreneurial behaviour which could be incited by an appropriate institutional environment. The latter would include government involvement in the promotion of entrepreneurial behaviour among economic agents: “This business behaviour may, of course, be moulded not only by general environmental conditions but also by the specific action of other social organs, governments for instance, taken with the intention of calling it forth” (Schumpeter 1939: 86).²¹ Therefore, it becomes once again obvious

²¹ A similar viewpoint has been outlined in recent institutionalist discussions on the theory of the state. The state is approached as an organisation through which collectives may pursue their goals, yet it is also understood as an institutional configuration that influences the meaning and methods of politics, thus shaping society as a relatively autonomous agent (Skocpol 1985: 27n).

that it is the behavioural dimension of entrepreneurship, embedded in the context of institutional variety, which constitutes a key concern of the Schumpeterian theory of the state – analytically as well as in terms of the policy conclusions. This underlines once more the outstanding role of institutional aspects in Schumpeter's theorising.

6. Conclusion

The institutional dimension of Schumpeter's theory of economic development highlights the systemic impurity of modern capitalism in terms of an institutional variety that contains capitalist as well as extra-capitalist elements. The former represent the process of an ongoing rationalisation of the socio-cultural domain, with economic life as a crucial segment of that domain, whereas the latter point to the diverse patterns of motivation and behaviour which drive entrepreneurial initiative. Schumpeter then pointed to the combination of atavistic values, as represented by pre-capitalist institutions, and the drive for rationalisation which would characterise the capitalist civilisation. According to Schumpeter, this specific combination of diverse institutional components had been indispensable for promoting the dynamism of capitalist development, for it informed the entrepreneurial carrying out of innovations – motivated by atavistic values yet implemented in a most rational manner. In a similar fashion, Schumpeter presented the state as a historically specific institutional phenomenon, associated with the constitution of a private sphere of economic activity that would require the provision of common goods by a basically tax-financed state. The bureaucratic administration of the state, however, exhibits historical roots which reach back to the fiscal needs of the prince, resulting from motives that resemble those

pre-capitalist values which drive entrepreneurship in the competitive phase of modern capitalism. Schumpeter thus argued that private sector entrepreneurship and public sector government represent two sides of a comprehensive development process. Therefore it was suggested that the rationalisation of the socio-economic sphere, heralding the emergence of socialism, would result both in the decline of private sector entrepreneurship and the transformation of the tax state.

A reassessment of these considerations on the development tendency of modern capitalism may lead to the conclusion that Schumpeter underestimated the economic potential of an expanding public sector, misjudging it as an indication of capitalist decline, whereas the market system seems to have benefited from some aspects of the welfare state, thus promoting a diversity of institutional forms that corresponds to a persistent variety of capitalist settings (Musgrave 1992: 102). Similar arguments apply to the matter of entrepreneurship, for Schumpeter seemed to have misjudged the capacity for institutional reproduction that characterises the various modes of entrepreneurship, ranging from small business ventures to the initiatives of entrepreneurial states. However, this does not affect the analytical value of Schumpeterian thought, for these developments may be explained by Schumpeterian theorising too. Regarding the Schumpeterian theory of the state, in particular, the impact of ideological factors and social interests remains of utmost importance for the institutional analysis of governance.

Literature

Backhaus, J. (2002) Fiscal Sociology: What For?, *American Journal of Economics and Sociology*, Vol.61, No.1, pp.55-78.

Campbell, J. (1993) The State and Fiscal Sociology, *Annual Review of Sociology*, Vol.19, pp.163-185.

Ebner, A. (1999) Understanding Varieties in the Structure and Performance of National Innovation Systems: The Concept of Economic Style, in J. Groenewegen and J. Vromen (eds.) *Institutions and the Evolution of Capitalism: Implications of Evolutionary Economics*, Aldershot: Elgar, pp.141-169.

Ebner, A. (2000a) Schumpeter and the “Schmollerprogramm”: Integrating Theory and History in the Analysis of Economic Development, *Journal of Evolutionary Economics*, Vol.10, No.1-2, pp.355-372.

Ebner, A. (2000b) Systems of Innovation between Globalisation and Transformation: Policy Implications for the Support of Schumpeterian Entrepreneurship, in A. Kukliński and W.M. Orłowski (eds.) *The Knowledge-Based Economy – The Global Challenges of the 21st Century*, Warsaw: State Committee for Scientific Research of the Republic of Poland, pp.80-99.

- Ebner, A. (2003) The Institutional Analysis of Entrepreneurship: Historist Aspects of Schumpeter's Development Theory, in J. Backhaus (ed.) *Joseph Alois Schumpeter: Entrepreneurship, Style and Vision*, Boston: Dordrecht, pp.117-139.
- Freeman, C. (1992) *The Economics of Hope: Essays on Technical Change, Economic Growth and the Environment*, London: Pinter.
- Fukuyama, F (1995) *Trust: The Social Virtues and the Creation of Prosperity*, New York: Free Press.
- Hodgson, G.M. (1988): *Economics and Institutions: A Manifesto for a Modern Institutional Economics*, Oxford: Polity Press.
- Jackson, P.M. (1988) The Role of Government in Changing Industrial Societies: A Schumpeter Perspective, in H. Hanusch (ed.) *Evolutionary Economics: Applications of Schumpeter's Ideas*, Cambridge: Cambridge University Press, pp.285-308.
- Langlois, R.N. (1998) Personal Capitalism as Charismatic Authority: The Organizational Economics of a Weberian Concept, *Industrial and Corporate Change*, Vol.7, No.1, pp.195-213.
- Musgrave, R.A. (1992) Schumpeter's Crisis of the Tax State: An Essay in Fiscal Sociology, *Journal of Evolutionary Economics*, Vol.2, No.2, pp.89-113.

North, D.C. (1981) *Structure and Change in Economic History*, New York: W.W. Norton.

North, D.C. (1990) *Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press.

Polanyi, K. (1977) *The Livelihood of Man*, ed. by H.W. Pearson, New York: Academic.

Santarelli, E. and Pesciarelli, E. (1990) The Emergence of a Vision: The Development of Schumpeter's Theory of Entrepreneurship, *History of Political Economy*, Vol.22, No.4, pp.677-696.

Schmidt, K.-H. (2003) Schumpeter and the Crisis of the Tax State, in J. Backhaus (ed.) *Joseph Alois Schumpeter: Entrepreneurship, Style and Vision*, Boston: Dordrecht, pp.117-139.

Schumpeter, J.A. (1908) *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie*, Berlin: Duncker und Humblot.

Schumpeter, J.A. (1910a) Über das Wesen der Wirtschaftskrisen, *Zeitschrift für Volkswirtschaft, Sozialpolitik und Verwaltung*, Vol.19, pp.271-325.

Schumpeter, J.A. (1910b) Die neuere Wirtschaftstheorie in den Vereinigten Staaten, *Schmollers Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft im Deutschen Reiche*, Vol.34, No.1, pp.913-963.

Schumpeter, J.A. (1912), *Theorie der wirtschaftlichen Entwicklung*, Duncker und Humblot, Berlin.

Schumpeter, J.A. (1918/1953) Die Krise des Steuerstaates, *Zeitfragen aus dem Gebiet der Soziologie*, Vol.4, pp.1-71, repr. in J.A. Schumpeter, *Aufsätze zur Soziologie*, ed. by E. Schneider and A. Spiethoff, Tübingen: Mohr, pp.3-74.

Schumpeter, J.A. (1918-19) Zur Soziologie der Imperialismen, *Archiv für Sozialwissenschaft und Sozialpolitik*, Vol.46, pp.1-39 and pp.275-310.

Schumpeter, J.A. (1920-21) Sozialistische Möglichkeiten von heute, *Archiv für Sozialwissenschaft und Sozialpolitik*, Vol.48, pp.305-360.

Schumpeter, J.A. (1926) *Theorie der wirtschaftlichen Entwicklung: Eine Untersuchung über Unternehmergewinn, Kapital, Kredit, Zins und den Konjunkturzyklus*, Second Edition, Berlin: Duncker und Humblot.

Schumpeter, J.A. (1927) Die sozialen Klassen im ethnisch homogenen Milieu, in *Archiv für Sozialwissenschaft und Sozialpolitik*, Vol.57, pp.1-67.

Schumpeter, J.A. (1928a) Unternehmer, in L. Elster (ed.) *Handwörterbuch der Staatswissenschaften*, Fourth Edition, Vol. 8, Jena: Gustav Fischer, pp. 476-487.

- Schumpeter, J.A. (1928b) The Instability of Capitalism, *Economic Journal*, Vol.XXXVIII, No.151, pp.361-386.
- Schumpeter, J.A. (1929-30/1985) Ökonomie und Soziologie der Einkommenssteuer, *Der deutsche Volkswirt*, Vol.4, 1929/1930, pp.380-385, repr. in J.A. Schumpeter (1985) *Aufsätze zur Wirtschaftspolitik*, ed. W.F. Stolper and C. Seidl, Tübingen: Mohr, pp.123-132.
- Schumpeter, J.A. (1929a/1953) Das soziale Antlitz des Deutschen Reiches, *Bonner Mitteilungen*, No.1, repr. in J.A. Schumpeter, *Aufsätze zur Soziologie*, ed. by E. Schneider and A. Spiethoff, Tübingen: Mohr, pp.214-225.
- Schumpeter, J.A. (1929b) Der Unternehmer in der Volkswirtschaft von heute, in B. Harms (ed.), *Strukturwandlungen der Deutschen Volkswirtschaft*, Second Edition, Vol.1, Berlin: Reimar Hobbing, pp.303-326.
- Schumpeter, J.A. (1939) *Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process*, Two Volumes, New York: McGraw-Hill.
- Schumpeter, J.A. (1942) *Capitalism, Socialism and Democracy*, London: Allen and Unwin.
- Schumpeter, J.A. (1943) Capitalism in the Postwar World, in S.E. Harris (ed.) *Postwar Economic Problems*, New York: McGraw-Hill, pp.113-126.

Schumpeter, J.A. (1947a) The Creative Response in Economic History, *Journal of Economic History*, Vol.VII, No.2, pp. 149-159.

Schumpeter, J.A. (1947b) Theoretical Problems of Economic Growth, *Journal of Economic History*, Vol.VII, Supplement, pp. 1-9.

Schumpeter, J.A. (1949a) The Communist Manifesto in Sociology and Economics, *Journal of Political Economy*, Vol.LVII, pp.199-212.

Schumpeter, J.A. (1949b/1951) Economic Theory and Entrepreneurial History, Change and the Entrepreneur, pp.63-84, repr. in R.V. Clemence (ed.) *Essays of J. A. Schumpeter*, Cambridge, Mass.: Addison-Wesley, pp.248-266.

Schumpeter, J.A. (1954) *History of Economic Analysis*, New York: Oxford University Press.

Shionoya, Y. (1997) *Schumpeter and the Idea of Social Science: A Metatheoretical Study*, Cambridge: Cambridge University Press.

Skocpol, T. (1985) Bringing the State Back In: Strategies of Analysis in Current Research, in P.B. Evans, D. Rueschmeyer and T. Skocpol (eds.) *Bringing the State Back In*, Cambridge: Cambridge University Press, pp.3-37.

Stolper, W.F. (1991) The Theoretical Bases of Economic Policy: The Schumpeterian Perspective, *Journal of Evolutionary Economics*, Vol.1, No.3, pp.189-205.

Stolper, W.F. (1994) *Joseph Alois Schumpeter: The Public Life of a Private Man*,
Princeton: Princeton University Press.

Streissler, E.W. (1981) Schumpeter's Vienna and the Role of Credit in Innovation, in H.
Frisch (ed.) *Schumpeterian Economics*, New York: Praeger, pp.60-83.

Swedberg, R. (1989) Joseph A. Schumpeter and the Tradition of Economic Sociology,
Journal of Institutional and Theoretical Economics, Vol.145, No.3, pp. 508-524.