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HILFERDING'S INFLUENCE ON SCHUMPETER:
A First Discussion

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Abstract

In the present paper, the origins of some of Joseph Alois Schumpeter's views are traced back to Rudolf Hilferding's *Finance Capital*, regarding the Schumpeterian hypothesis and the separation of roles between capitalists, entrepreneurs and managers. After a careful examination of Hilferding's writings, the conclusion may be drawn that Schumpeter expresses ideas very similar to Hilferding's on these issues, and seems to have been influenced by his conceptualisation of a "latest phase" of capitalism, shaped by the structure and functions of the "monopolistic enterprise". Hilferding's approach is understood in this paper as a major revision of Marx's methodological perspective and conceptual understanding of the capitalist mode of production and, therefore, as a "paradigm shift" within Marxian economic theory.

J.E.L. Classification: B14, B24

Key Words: entrepreneur, technology, monopoly, Schumpeter, Hilferding, Marx.

1. Introduction

There is no doubt that Joseph Alois Schumpeter "was one of the greatest economists of all time" (Haberler 1950: 1).[1] Given Schumpeter's various theories and the modern spin-offs of his work, the issue of which theories or ideas might have influenced his thought becomes of great interest and deserves analysis. In other words, the question posed is the following: what were the main influences behind Schumpeter, in the development of his ideas, and to what extent, if any, can his views be traced back to earlier works? This paper attempts to provide a partial answer to this question, regarding the affinity of certain Schumpeterian elaborations with Hilferding's theory of monopoly capitalism.

It is true that there is a gap in economic literature concerning the influence that Hilferding's work might have exercised on Schumpeter, and with the exception of very few papers (e.g. Fritz and Haulman 1987) no research seems to have been done on this important issue. In this framework, we will investigate some of Hilferding's ideas to fill in a gap concerning the originality of certain economic notions, which are of primary importance in the history of economic thought. Following Backhouse, we would like to affirm the following thesis, which has been the point of departure of our investigation:

"[T]he history of economic thought is concerned […] primarily, with who first invented particular concepts. It is of course important to be as accurate as possible in ascribing priority in the development of economic ideas, but […] the date when an idea came into general circulation may be more important than the date of the earliest document in which the idea can be found" (Backhouse 1985: 8).

More precisely, the purpose of the present paper is to show how the book *Finance Capital*, published by the Austrian Marxist economist Rudolf Hilferding at the beginning of the twentieth century, influenced some of Joseph Alois Schumpeter's analyses. In this

[1] Tibor Scitovski (1980: 1) places Joseph Alois Schumpeter at the highest level in economic thought: "America's most brilliant economist". On the other hand, the historian Martin Kessler (1961: 334) agrees that, apart from Keynes, Schumpeter was "the only truly great economist the twentieth century has produced". Oscar Morgenstern (1951: 203) claims: "all will agree that [Schumpeter] belongs to that small top group where further ranking becomes almost impossible". Many other historians, like Alfred Chandler, Jr. (1962: 284), regard Schumpeter as the economist with the best understanding of the rise of big business and the crucial role of innovation and entrepreneurship. Also, the works of Nathan Rosenberg (1982), William Lazonick (1990), F. M. Scherer (1984) and R.R. Nelson (1982) are influenced by the Schumpeterian doctrine. Even Michael Porter (1985) places a distinctive emphasis on Schumpeterian innovation as the essence of competitive advantage.

context, a major scope of the paper is to promote dialogue between Marxist and Schumpeterian political economy, which is a very barely-developed area of analysis.

The outline of this paper is as follows: section 2 offers a brief biographical presentation of both economists' life and work; in section 3 we explore Hilferding's influence on the formulation of what has been codified as the Schumpeterian hypothesis; section 4 investigates the influence of Hilferding's work upon Schumpeter's approach to the separation of roles between capitalist(s), entrepreneur(s) and manager(s); section 5 elaborates on the *paradigm shift* that was introduced in Marxian economic theory by Hilferding's *Finance Capital* in order to defend the paper's main thesis; namely that Schumpeter drew arguments and ideas from the version of Marxism established *after* Hilferding's theoretical intervention; finally, section 6 concludes the paper.

2. Joseph Alois Schumpeter and Rudolf Hilferding: Brief Biographical Notes

Before starting developing our argument on the way that Hilferding's *Finance Capital* might have shaped some of Schumpeter's analyses, we will devote a few lines to a brief presentation of the life and works of the two Austrian economists. If not otherwise stated, the information is drawn from the *Routledge Encyclopedia of International Political Economy* (Milios 2001: 676-8), the *New Palgrave* (Green 1990: 201-2) and the International Institute of Social History (2001: Internet), as well as from the authors' personal archives.

2.1 Joseph Alois Schumpeter

Joseph Alois Schumpeter (1883-1950), the son of a cloth manufacturer, was born in Triesch in the Austrian part of Moravia, in what was then the Hapsburg Empire (now part of the Czech Republic) and died in Taconic, Connecticut. As already noted, he is widely regarded as one of the most influential economists of the twentieth century. His works include economic theorizing on the matters of economic development, innovation and some specific, more "sociological" issues, such as imperialism and modern democracy.

In 1901 Schumpeter enrolled in the faculty of law at the University of Vienna, and continued his studies in Berlin and London. He studied economic theory under Friedrich von Wieser, Eugen von Philippovich and Eugen von Böhm-Bawerk. In 1905 he took part in Böhm-Bawerk's Seminar, where the latter's criticism of Marx was one of the topics of debate. A year later, in 1906, he took the degree *Doctor utriusque iuris (doctor of law).*

In 1909, thanks to Böhm-Bawerk (Kisch 1979: 143), Schumpeter became an Assistant Professor at the University of Czernowitz, the capital of Bukowina, then the easternmost province of Austria, which in 1918 became part of Rumania, in 1939 was annexed by the U.S.S.R., in 1941 returned to Rumania, at the end of World War II was again part of the U.S.S.R., and today is in the Ukraine. Between 1911 and 1919 he taught Political Economy as a Full Professor in Graz, the capital of the Austrian province of Styria, while in 1913 – at the age of thirty – and in 1914 he was an Exchange Professor at Columbia University.

In 1918, he became member of the German Socialisation Commission (*Sozialisierungskommission*), and in 1919 he was appointed Minister of Finance in the new government formed by the Social Democrats (Haberler 1950: 346).

In 1921 Schumpeter became president of a highly respected private banking house (*Biederman Bank*) in Vienna, and when the bank collapsed in 1924 after the great inflation in Germany, he returned to the academic world and in 1925 accepted a professorship at the University of Bonn in Germany. From 1932 until his death he taught at Harvard University, and he served as president of the American Economic Association, the first foreign-born economist to attain this distinction (Oser and Blanchfield 1975: 451).

Schumpeter's writings cover a very broad range of topics, but certain major motifs can be identified: (a) The dynamics of economic development, a subject on which he elaborated extensively in his *Theory of Economic Development*, whose first German edition was published in 1912 (preface dated Vienna, July 1911), with an English translation issued in 1934. His voluminous book on *Business Cycles* (1939), which discusses an extensive historical and statistical material regarding the development and the fluctuations of capitalist economies, belongs to the same area; (b) The integration of economic, sociological and political perspectives with regard to the feasibility of capitalism and socialism, which is documented in *Capitalism, Socialism and Democracy* published in 1942; (c) The essence and history of economic concepts, which is reflected by his *Epochen der Dogmen- und Methodengeschichte* (1914), translated in 1954 as *Economic Doctrine and Method*, and his classic *History of Economic Analysis*, published posthumously in 1954.

2.2 Rudolf Hilferding

Rudolf Hilferding (1877-1941) was born in Vienna and died in Paris. He is regarded as one of the most prominent Austrian Marxist economists and socialist politicians of the 20th century. With his *Finance Capital* (1910), Hilferding changed the dominant theoretical paradigm in Marxist economic theory, as he introduced in it the idea of "stages" of capitalism and the notion of "monopoly capitalism" (Milios 2001, see also what follows).

Hilferding studied medicine at the University of Vienna, where Joseph Schumpeter was also a student, and obtained his doctorate in 1901. However, he practised medicine only until 1906 (returning briefly during his military service in the First World War), and thereafter devoted himself exclusively to politics and the study of economic theory.

At the age of fifteen, he joined the socialist movement and from 1902 he contributed frequently to *Die Neue Zeit,* the theoretical journal of the German Social-Democratic Party (S.P.D.). Between 1904 and 1923 he published, along with Max Adler, the *Marx Studien,* as a means of expression for the emerging Austrian Marxism. In issue No 1, his first important monograph was published, under the title *Böhm-Bawerk's Criticism of Marx*.

In 1905 Hilferding participated in the Seminar on economic theory directed by Böhm-Bawerk. In 1906 he accepted an invitation from the S.P.D. and tutored for a year at the party school in Berlin. Immediately afterwards he was appointed to foreign editor of the party's newspaper, *Vorwärts*.

After the publication of his major work *Finance Capital*, in 1910, Hilferding was praised as one of the most pre-eminent Marxist theoreticians, his book being hailed as a continuation of Marx's *Capital*. As a recognized Marxist theoretician, Hilferding was appointed to a member of the scientific Committee that formulated the editorial principles for the publication of the *Collected Works* of Marx and Engels.

In *Finance Capital*, Hilferding introduced the notion of a "latest phase" of capitalism, characterized by the following features: (a) the formation of monopolistic enterprises, which put aside competition; (b) the fusion of bank and industrial capital leading thus to the formation of finance capital, which was considered to be the ultimate form of capital; (c) the subordination of the state to monopolies and finance capital; and finally (d) the formation of a protectionist and expansionist policy.

The idea of a "latest" stage of capitalism possessing the above described features was adopted by Bukharin, Lenin and others, thus shaping the so-called Marxist theories of "monopoly capitalism" that dominated Soviet Marxism. However, "Hilferding went far beyond any previous Marxist" in the thoroughness with which he formulated this theoretical approach (Winslow 1931: 728).

Finance Capital (1910) was Hilferding's last book, as he began to devote himself full-time to politics soon after its publication. In 1914 he voted against war credits, and joined the Independent Social Democratic Party of Germany (U.S.P.D.), which emerged from a split with the S.P.D. In 1918, he became member of the German Socialisation Commission, which also included Schumpeter and was presided over by Karl Kautsky (Kirsch 1979: 147). In 1922, after the majority faction of the U.S.P.D. had been transformed to the German Communist Party (K.P.D.), Hilferding followed the party's minority faction, which returned to the S.P.D. He became editor of the party's theoretical journal, *Die Gesellschaft* and also served twice as Minister of Finance, in 1923 and 1928-9.

When Hitler came to power in 1933, Hilferding had to go into exile, being not only a socialist, but also Jewish. He fled to Denmark in 1933, then stayed for several years in Switzerland and in 1939 went to Paris. In February 1941 he was handed over to the Nazis by the Vichy government and died in Paris either by suicide or from injuries inflicted by the Gestapo.

2.3 Schumpeter and Hilferding: The Interaction

From Schumpeter's biography we know that he spent a significant part of his life in Vienna. Then he lived in other cities of Austrian-Hungary and payed longer visits to London, Berlin, Cairo, New York and elsewhere. If we include his extensive reading in German, English, French, Italian, Latin and Greek we may conclude that he was a cosmopolitan (Haberler 1951: ix, Andersen 1991: 6), not only as a man, but also as a theoretician, i.e. as regards the possible influences on his thought. However, if we include some knowledge of general history as well as of Schumpeter's preferences, we may delimit our main focus in Vienna (Andersen 1991: 6). This conclusion was also reached by his colleague Gottfried Haberler at the occasion of his death: "Although he [Schumpeter] became one of the most cosmopolitan of men, *the experience of those early years in Vienna never really left him*" (Haberler 1951: ix, emphasis added).

The Vienna of Schumpeter's youth was a "melting pot" of policies, nationalities, and theories.[2] His experience was primarily gathered in Vienna and was used effectively in his own theory of economic development. In this intellectual environment Böhm-Bawerk's personality, despite not being widely known abroad, was dominant.[3] As a teacher, Böhm-Bawerk was quite liberal, especially during summer-terms when he was the leader of seminar discussions; there the students had a chance to develop their views and fight for them intellectually. During Schumpeter's student years, political and intellectual conflicts had become extremely aggravated and it was in this theoretical environment that he built his skills in discussion and theoretical construction (Andersen 1991: 20).

In the 1905 Böhm-Bawerk's Seminars in Vienna, many prominent Marxists participated (Taylor 1951: 547), among them Emil Lederer, later Professor in Heidelberg and Berlin and founder of the New School for Social Research in New York (Haberler 1950: 337) and Otto Bauer, the brilliant theorist and intellectual leader of the Austrian

[2] Following Andersen (1991), we may say that Schumpeter stayed all his life, whether located in Austria, Germany or the U.S., a sharp-minded and cosmopolite member of the part of the Viennese intelligentsia who "tried to come to grips with the basic contradictions between stability and radical change, classical harmony and irreconcilable conflict" (Andersen 1991: 6).

[3] According to Schumpeter, Böhm-Bawerk had become "bourgeois Marx" (Schumpeter 1954: 846).

socialist movement after 1918 (Haberler 1950: 337), member of the 1919 Republican Government (together with Schumpeter) and, afterwards, physical leader of the Austrian Democratic Party until fascism (Andersen 1991: 20).

However, as Bottomore (1978) and Andersen (1991) have pointed out, for Schumpeter, "even *more important was the encounter with […] the leading representative of the new Austro-Marxist School: Rudolf Hilferding*, twice Minister of Finance in the German Republic" (Andersen 1991: 20, emphasis added). It was Hilferding (along with Otto Bauer) who had recently formulated an open-minded research program on the critique of Bernstein's "Evolutionary Socialism". At that time, in 1905, Hilferding was finishing his path-breaking book *Finance Capital* (Andersen 1991: 21), a significant contribution to 20th century Marxian Economics which was published five years later (1910), in Germany. In fact, according to Faltello and Jovanovic (1997), during the Seminar meetings, in 1905, Hilferding had already written the first full draft of it.

Thus, referring to those Seminar meetings in 1905, Andersen (1991: 21) wrote: "With such young men Schumpeter had a unique opportunity to discuss major visions of the world and analytical techniques, both at the University and at Vienna's famous cafes". Schumpeter seems to have done so, and been inspired by those discussions in the Seminar meetings. As Schumpeter's colleague Haberler pointed out, he had conceived the fundamental ideas (fully expanded in the *Theory of Economic Development*) in 1905 (Haberler 1950: 341).[4]

It was also in these Seminars that Schumpeter became well acquainted with certain interpretations of Marxian theory, as well as with the socialist movement and the psychology of its leaders, a fact which later allowed him to present a "long series of articles culminating in his book, *Capitalism, Socialism and Democracy* […]", which therefore also "originated in those Seminar meetings" (Haberler 1950: 338).

[4] Schumpeter himself, wrote in his Preface to the English edition of the *Theory of Economic Development*: "Some of the ideas submitted in this book go back as far as 1907" (Schumpeter 1912: ix), while in his preface to the first German edition "Schumpeter stated that he had conceived the fundamental ideas *as early as 1905*" (Haberler 1950: 341, emphasis added). Andersen (1991: 20, fn. 30) believes that the age of the members of the seminar gives some hints concerning their relation to Schumpeter: Lederer (1882-1939), Bauer (1881-1938), Hilferding (1877-1941). Obviously, Hilferding was the oldest and presumably the most educated discussant, since he had obtained his doctorate in 1901 from the University of Vienna.

Our view that Böhm-Bawerk's Seminar in 1905 was a turning point in the formation of Schumpeter's thought, and that ideas and questions formulated during that period (a theoretical interaction in which Rudolf Hilferding certainly played an important role) served as a point of departure for the later development of his theories, is completely consistent with the approach of Andersen, who wrote: "The period of broad search in neighbouring fields and of sensitivity to the new trends […] should probably be seen […] in the case of Schumpeter, roughly in the […] subperiod which was especially crucial to Schumpeter, *namely the years 1905-1909*. There can be little doubt that *it was during that period that Schumpeter obtained something which can be described as a vision which became a guiding thread for much of his analytic work*" (Andersen 1991: 5-6, emphasis added).

As the available material demonstrates, the two fellow students, Schumpeter and Hilferding, seemed to be on good terms from the beginning of their acquaintance, (Haberler 1950: 337) and later became friends (Taylor 1951: 547). The two theoreticians' interaction must have continued in the years that followed Böhm-Bawerks Seminar and the publication of *Finance Capital* by Hilferding, and in 1918 Schumpeter became member of the German Socialization Commission (*Sozialisierungskommission*), signing the majority report, which pleaded for socialization of the economy as a means of increasing economic efficiency.[5] The Socialization Commission, was presided over by another Marxist, Karl Kautsky (Kirsch 1979: 147), on whom, according to some commentators, "fell the task of carrying on where Marx […] left off" (Winslow 1931: 719). In the next year, the Social Democrats emerged as the largest party in Austria and formed the new government under the leadership of Carl Renner, a right wing socialist (Haberler 1950: 346). Schumpeter became the Minister of Finance, a position that Hilferding also occupied twice later, in 1922 and 1928-9.

[5] This membership has been often regarded as proof of his flirtation with socialist ideas (Haberler 1950: 345). For instance, the editor of the German translation of Schumpeter's book *Capitalism, Socialism and Democracy*, Edgar Salin, wrote in his introduction: "Schumpeter ist Sozialist" and later again referred to him as "that socialist" (Salin, E., "Einleitung" in *Kapitalismus, Sozialismus und Demokratie*, Bern, 1946: 8). However, this should be doubtful to anyone familiar with Schumpeter's work. It was as a member of this Commission, that Schumpeter gave his well-known reply to a young economist asking how he could be connected to this Socialization Commission, despite not being a socialist ("if by that word we designate those who *advocate* socialism" [Haberler 1950: 369, fn. 3]). Schumpeter replied: "If somebody wants to commit suicide, it is a good thing if a doctor is present" (cited in Kirsch, 1979: 147). As Haberler (1950: 369, fn 3) correctly pointed out, "it is true that Schumpeter was pessimistic with respect to capitalism's chances of survival", however, "to call him a socialist is like calling Cassandra a Greek partisan because she prophesied the fall of Troy".

Concluding we may reiterate that it is, of course, a "vain endeavour to attempt to analyse the often complex interconnections between economic theorists" (Foster 1983: 327). However, it is evident that there was significant interaction between Hilferding and Schumpeter. They were both Austrian, had studied at the University of Vienna, had participated in Böhm-Bawerk's influential Seminar meetings in 1905 and had spent a large part of their lives in Vienna, as prominent members of the Viennese intelligentsia and political personnel, at a time when the city functioned as the "intellectual melting pot" of the world. In 1905, when Hilferding – who was six years older that Schumpeter – was finishing the first full draft of his *Finance Capital* (1910), Schumpeter, as material evidence indicates, conceived his fundamental ideas presented in his *Theory of Economic Development* (1912), and got inspired for writing his *Capitalism, Socialism and Democracy* (1942). Also, they both served as members of the German Socialisation Commission in 1918 and later as Ministers of Finance in Social-Democratic cabinets.

These facts do not, of course, proclaim that both theoreticians should develop any similar theories and ideas. However, the facts show that both thinkers developed certain of their major theories in the same social, political, theoretical and ideological environment, and that they were well acquainted with each other's ideas. We may suppose, therefore, that the similarities of *certain* Schumpeterian elaborations with theoretical theses and analyses originally formulated and introduced in Marxian economics by Rudolf Hilferding (see below) is not accidental, but the outcome of this long acquaintance and interaction between the two Austrian economists.

3. Market Structure and Technological Progress

According to Schumpeter, even before he had developed what is now described as the "Schumpeterian hypothesis", economic development is accompanied by growth, i.e. sustained increases in national income; however quantitative growth does not constitute development *per se*. He wrote:

"[W]hat we are about to consider is that kind of change arising from […] the system *which so displaces its equilibrium point that the new one cannot be reached from* *the old one by infinitesimal steps*. Add successively as many coaches as you please, you will never get a railway thereby" (Schumpeter 1912: 64, emphasis added).

Real economic growth and development depends primarily upon productivity increases based on "innovation". More precisely, for Schumpeter this concept covered the following five cases:

"1. The introduction of a new good – that is one with which consumers are not familiar – or a new quality of a good.

2. The introduction of a new method of production, that is one not yet tested by experience in the branch of manufacture concerned, which need by no means to be founded upon a discovery scientifically new, and can also exist in a new way of handling commodity commercially.

3. The opening of a new market that is a market into which the country in question has not previously entered, whether or not this market has existed before.

4. The conquest of a new source of supply of raw materials or half-manufactured goods, again irrespective of whether it has first to be created.

5. The carrying out of the new organisation of any industry, like the creation of a monopoly position (for example through trustification) or the breaking up of a monopoly position" (Schumpeter 1912: 66).

In this context, he used the term "technological progress" to characterize these changes (Scherer 1992: 1417). These changes account for the greater part of economic development. He clearly distinguished this process from growth due to the gradual increase in population and capital. He wrote:

"The slow and continuous increase in time of the national supply of productive means and of savings is the obviously an important factor in explaining the course of economic history through centuries, but it is completely overshadowed by the fact that development consists primarily in employing existing resources in a different way, in doing new things with them, irrespective of whether those resources increase or not" (Schumpeter 1942: 65).

The Schumpeterian hypothesis was formulated along this line of reasoning, as a response to the question of "who is actually the vehicle of innovation and technological progress", and can be summarized as follows (Mokyr 1990: 267, emphasis added):

“*large firms* with considerable market power, *rather than perfectly competitive firms* were the ‘most powerful engine of technological progress’” (Schumpeter 1942: 106).

Economists have been discussing this hypothesis for many years now, and the literature is summarized elsewhere (e.g. Scherer 1980: ch. 15, Kamien and Schwartz 1982, Baldwin and Scott 1987).

Schumpeter criticized traditional price theory for its misleading focus of analysis on perfect competition:

“It is still competition within a rigid pattern of invariant conditions, methods of production and forms of industrial organization in particular, that practically monopolizes attention” (Schumpeter 1942: 84).

However, according to Schumpeter’s understanding of competition:

“[I]n capitalist reality as distinguished from its textbook picture, it is not [perfect] competition which counts but the competition from the new commodity, the new technology, the new source of supply, the new type of organization (the largest – scale unit of control for instance) – competition which commands a decisive cost or quality advantage […]. This kind of competition is much more effective than the other” (Schumpeter 1942: 84-5).

In his book *Capitalism, Socialism and Democracy*, Schumpeter rejected perfect competition as an ideal market structure in capitalism, and dismissed the idea of “an entirely golden age of perfect competition” as mere “wishful thinking” (1942: 81). He wrote:

“[P]erfect competition is not only impossible but inferior” (Schumpeter 1942: 106).

Schumpeter believed that perfect competition is not favourable to technological progress, for two reasons: (a) the system of perfect competition cannot lead to high profitability and thus it cannot create real incentives for innovation; (b) the system of perfect competition cannot create incentives for the capitalist and the enterprise to undertake risky and uncertain projects, because it is unable to guarantee, as a reward, an *extra profit*. More precisely, by incorporating new technologies, new types of organization, etc., innovations create surpluses of revenues over costs. Competition, however, tends to eliminate these extra revenues (extra profits), but the "spread of monopolist structures" and the ability of big enterprises to promote innovation constantly recreates them (Schumpeter 1942: 81 ff.).

In fact, in the *Theory of Economic Development* (1912), the predominant role of large oligopolistic firms in technical innovation had been already acknowledged by Schumpeter:

"And if the competitive economy is broken up by the growth of great combines, as it is increasingly the case today in all countries, then this must become more and more true of real life, and the carrying out of new combinations must become in ever greater measure the internal concern of one and the same economic body. The difference so made is great enough to serve as the water-shed between *two epochs in the social history of capitalism*" (Schumpeter 1912: 67, emphasis added).

However, Hilferding seems to have developed first this idea, which is detectable in the Schumpeterian hypothesis, namely that development mainly depends on large non-competitive enterprises, whose technological superiority derives from their ability to attain profits high above the average. Just like Schumpeter, Hilferding believed that:

"[T]he reduction of profit in the non-monopolised industries is bound to retard their development", whereas:

"Cartelisation brings exceptionally large extra profits" (Hilferding 1910: 233) that function as incentives for undertaking such entrepreneurial acts, which, in turn, will lead to the further empowerment of the non-competitive, monopolistic formations. Hilferding considered technical progress to be the condition *sine qua non* for assuring a cartel's or a trust's supremacy in the market:

"[O]nce a combination has come into existence as a result of economic forces it will very soon present opportunities for the introduction of technical improvements in the process of production" (Hilferding 1910: 197).[6] In fact: "They are obliged to introduce

[6] By combination, Hilferding (1910: 197) meant "an association of capitalist enterprises in which one supplies the raw materials for another". Further, he argued that: "The unification of enterprises can take two forms. The enterprises may retain a formal independence, and affirm their association only by agreements, in which case we are faced with a 'consortium' (*Interessengemeinschaft*). If, however, the enterprises are dissolved in a new enterprise, this is called a 'merger' (*Fusion*). Both a consortium and a merger may be either partial, in which case free competition continues to prevail in the branch of industry concerned, or monopolistic" (Hilferding 1910: 197). As far as the cartel is concerned, he wrote: "A consortium comprising as many enterprises as possible, which is intended to raise prices, and hence profits, by excluding competition as completely as possible, is a cartel. Or, in other words, a cartel is monopolistic

these [technical] improvements, for otherwise there is a danger that some outsider will use them in a renewed competitive struggle […]. [I]n this case technical improvements mean an extra profit, which is not eliminated by competition" (Hilferding 1910: 233).

It is this technical superiority that makes the monopolistic formations able to maintain and constantly reproduce their dominant role: "These technical advantages, once achieved, in turn become powerful motive for forming combinations where purely economic factors would not have brought them about" (Hilferding 1910: 197). "The corporation can thus be equipped in a technically superior fashion, and what is just as important, can maintain this technical superiority" (Hilferding 1910: 123).

The thesis regarding the limited ability of free competition to promote technological progress is supposed to be, for both theoreticians, a conclusion drawn from past historical experience.

More precisely, Schumpeter argued that, until then, the capitalist era could be divided into two distinct periods (Screpanti and Zamagni 1993: 243 ff.): (a) The era "competitive capitalism" when small enterprises dominated, an era which declines in the 1880s and (b), the era of monopolistic or "big-business capitalism", during which large enterprises, trusts and cartels dominated, starting roughly from the 1880s and having consolidated its fully fledged form by the time Schumpeter's book was written. Considering the fact that before 1880 a system more close to the model of perfect competition dominated, the author claimed that by simply comparing the rates of growth of the competitive period with those of the big-business period, the superiority of monopolistic capitalism could easily be confirmed.

But for Hilferding, as well, the elimination of free competition and monopolies came, historically, in a similar way: "Finance capital signifies the unification of capital. The *previously separate* spheres of industrial, commercial and bank capital are brought under the common direction of high finance, in which the masters of industry and of the banks are united in a close personal association" and consequently: "The basis of this association is the *elimination of free competition among individual capitalists by the large monopolistic combines*" (Hilferding 1910: 301, emphasis added). Thus, "it is also clear that monopolistic combines will control the market" (Hilferding 1910: 193).

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consortium. A merger which is designed to attain the same end, by the same means, is a trust. A trust then is a

We have seen, so far, that for both theoreticians, the *real incentive* for innovation was the ability of monopolistic formations – deriving from their non-competitive nature – to create extra profits. Also, the elimination of free competition was regarded, by both economists, as the main characteristic of an era, during which large enterprises, trusts and cartels dominated, and which attained its typical characteristics at the turn of the 20th century.

As far as the other aspect of the so-called Schumpeterian hypothesis is concerned, namely that perfect competition is an unstable market structure and therefore only large enterprises can push technological progress forward, the views of both theoreticians are again, in our opinion, strikingly similar.

More precisely, in Schumpeter's point of view, once big corporations are formed, the imperfectly competitive market structure that is thus shaped becomes stable, as large firms become increasingly conducive to technological progress and change[7]:

"There are superior methods available to the monopolist which either are not available at all to a crowd of competitors or are not available to them so readily" (Schumpeter 1942: 101). "The perfectly bureaucratized giant industrial unit […] ousts the small or medium-sized firm" (Schumpeter 1942: 134).

In the same line of argument, the large firm is considered to possess the ability to attract superior "brains", to secure a high financial standing (Schumpeter 1942: 110), and to deploy an array of practices in order to protect their risk-bearing investments.

In his *Finance Capital,* Hilferding had developed a similar approach: "The expansion of the capitalist enterprise which has been converted into a corporation […] can now conform simply with the demands of technology. The introduction of new machinery, the assimilation of related branches of production, the exploitation of patents, now takes place […] from the standpoint of their technical and economic suitability. […] Business opportunities can be exploited more effectively, more thoroughly, and more quickly […] A corporation […] is able, therefore, to organize its plant according to purely technical considerations, whereas the individual entrepreneur is always restricted […] The corporation can thus be equipped in a technically superior fashion, and what is

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monopolistic merger" (Hilferding 1910: 198).

[7] For an excellent description of the dynamics of capitalist change in the Schumpeterian system s. Oakley (1990) and McKee (1991).

just as important, can maintain this technical superiority. This also means that the corporation can install new technology and labour saving processes before they come into general use, and hence produce on a large scale, and with improved, modern techniques, thus gaining an extra profit, as compared with the individually owned enterprise" (Hilferding 1910: 123-124).

Consequently, "The introduction of improved techniques […] [benefits] the tightly organized cartels and trusts. [T]he largest concerns introduce the improvements and expand their production" (Hilferding 1910: 233).

Hilferding repeatedly affirmed the position that the big corporation is able to create the conditions which may assure its market supremacy as well as its extra profits for a long period: "An industrial enterprise which enjoys technical and economic superiority can count upon dominating the market after a successful competitive struggle, can increase its sales, and after eliminating its competitors, rake in extra profits over a long period" (Hilferding 1910: 191).

Thus, Hilferding expressed what we could codify as "Hilferding's Hypothesis", namely the thesis that "*the size and technical equipment of the monopolistic combination ensure its superiority*" (Hilferding 1910: 201, emphasis added), which is, in general terms, very similar to the so-called "Schumpeter's Hypothesis", written thirty two years after Hilferding: "*large firms* with considerable market power, *rather than perfectly competitive firms* were the 'most powerful engine of technological progress'" (Schumpeter 1942: 106). The obvious similarity of ideas of both theoreticians on this specific issue needs no further comment.

Further to the above, Hilferding introduced, in his *Finance Capital*, as already mentioned the notion of a "latest phase" of capitalism, which is characterized by the following main features: the formation of monopolistic enterprises, which put aside capitalist competition; the fusion of bank and industrial capital leading thus to the formation of finance capital, which is considered to be the ultimate form of capital; the subordination of the state to monopolies and the finance capital and, finally, the formation of an expansionist policy of colonial annexations and war.[8]

[8] "The policy of finance capital has three objectives: (1) to establish the largest possible territory; (2) to close this territory to foreign competition by a wall of protective tariffs, and consequently (3) to reserve it as an area of exploitation for the national monopolistic combinations" (Hilferding 1910: 326).

Hilferding utilized the above theoretical scheme to interpret *capital exports as an inherent characteristic of capitalism in its "latest", monopolistic, stage*, rooted in the "cartelisation and trustification" of the economy and the need "to annex neutral foreign markets [...] above all overseas colonial territories" (Hilferding 1910: 326, 328).

More specifically, he comprehended capital export on the basis of a twofold approach. On the one hand, the *surplus of capital* approach, which claims that in industrial countries "while the volume of capital intended for accumulation increases rapidly, investment opportunities contract. This contradiction demands a solution, which it finds in the export of capital" (Hilferding 1910: 234); on the other hand, the *colonial extra profits* approach, which claims that colonial or low wage countries become "a source of extra profits by [...] reducing the cost price of industrial products" and that, therefore, these territories "can have great importance for the most powerful capitalist groups" (Hilferding 1910: 328).

Finance capital, as Hilferding defined it, is advanced to industrial capitalists who use it. This "new" concept, not only is regarded as the dominant force in capitalism, but is also seen as the linking between capitalism's "latest" stage and imperialism (Winslow 1932: 727). At home, wrote Hilferding, finance capital seeks domination by organizing industries into monopolies and at the same time seeks to secure exclusive control of the domestic market by excluding foreign competition by means of tariff walls. Thus finance capital "does not want freedom, but domination" (Hilferding 1910: 426). The colonies were regarded as the outlets for the export of finance capital. In this sense, finance capital was considered to be helpless without political and military support: "capital export works for an imperialistic policy" (Hilferding 1910: 406).

Imperialism is, thus, a tendency to expansion of a developed capitalist power, a tendency created, in the last instance, by economic processes, but also supported by political and ideological processes. It is argued, therefore, that imperialism, which is the capitalist rivalry at its highest level, leads to war and mutual destruction of capitalist powers.[9]

[9] The idea of a "latest", monopolistic-imperialist stage of capitalism dominated, until recently, most Marxist streams of thought, and especially Soviet Marxism. For a compendious presentation and critique of these theories, with emphasis on the differences between the different approaches and on their contradictions, see Milios (1999).

On this issue Schumpeter clearly differentiated himself from Hilferding – and also from all other Marxist approaches that conceived imperialism as an indispensable trend of the "latest phase" of capitalism. He limited the field of discussion at once, by defining imperialism as the "objectless disposition of a state toward unlimited and violent expansion" (Schumpeter 1919: 3). Schumpeter considered imperialism to be an obsolete policy and regime, i.e. an absolutist remnant, which was bound to fade away with the development of modern capitalism. Indeed, he regarded imperialism, as an "old" inheritance from pre-modern capitalist eras, which was going to disappear, contrarily to Hilferding, who regarded imperialism as a "new", inherent characteristic of capitalism in its "latest", monopolistic, stage: "A purely capitalist world […] can offer no fertile soil to imperialist impulses. This does not mean that it cannot maintain an interest in imperialist impulses" (Schumpeter 1951: 69).

He so regarded expansion and war as a possible outcome of intra-state (imperialist) rivalries, and pointed out to the various forces opposed to militarism and war. He claimed that the socialist perspective could be comprehended as an attempt towards a solution to the problem of imperialism.

Schumpeter (1919: 296-7) gave Hilferding credit for working out such problems, and believed that factors impelling imperialistic policies are not lacking in the capitalist society. He finally remarked that many elements (e.g. tariffs, cartels, trusts, monopolies), which were analysed as a part of the "economic" framework of imperialism, were political and, possibly, pre-capitalist in origin (Schumpeter 1919: 295).[10]

Conclusively, Schumpeter, contrary to Hilferding, defended the thesis that imperialism is not a "necessary stage of capitalism". In this framework, the famous Marxist economist Paul M. Sweezy claimed that Schumpeter's essay on imperialism was a corrective supplement to his own *Theory of Economic Development*, repairing the

[10] He agreed with Hilferding that cartels and trusts can achieve their highest purpose, which is complete monopoly, only under the shelter of protective tariffs, but he added that such measures, in origin and nature, were political and eventually pre-capitalist. However, he also stressed the fact that imperialist motives arise from the process of cartelization. He wrote: "It was neo-Marxist doctrine that first tellingly described this causal connection (Bauer) and fully recognized the significance of the 'functional change in protectionism' (Hilferding) […]; Thus we have here, within a social group that carries great political weight, a strong undeniable, economic interest in such things as protective tariffs, cartels, monopoly prices, forced exports (dumping), an aggressive economic policy, an aggressive foreign policy generally, and war, including wars of expansion with typically imperialist character" (Schumpeter 1951: 79; 83-84).

latter's omission of any explanation of "imperialism and war" as an aspect of "capitalist reality" (Schumpeter 1951, Preface by Sweezy).

Schumpeter wrote his essay on imperialism at a time (1919) when historical events (World War I) seemed to have verified the postulate of Marxist authors like Hilferding, Bukharin, Lenin and others, that modern capitalism included imperialism as one of its indispensable features. It is evident, therefore, that his approach may be regarded as a critique to this postulate. As Taylor (1951: 546) correctly concluded:

"There is no doubt at all that the purpose […] of this essay [*The Sociology of Imperialisms* (1919)] was to counter the essence […] of the modern-Marxist (Bauer-Hilferding) theory of capitalist imperialism, with a radically different as well as more complex and adequate theory of imperialism".

At this point, we must insist on the fact that despite his differentiation from the thesis that imperialism consisted an inherent feature of modern capitalism, Schumpeter always argued on the basis of the theory originally introduced by Rudolf Hilferding (and later adopted by other Marxist theorists of Imperialism), about the monopolistic character of modern capitalism (see in detail Section 5 of this paper). Indeed, in his *The Sociology of Imperalisms* (1919), he often adopted identical expressions with those of Hilferding.[11]

Closing this section, we must pose the question of whether the similar theses of both economists under discussion might be directly rooted in a common theoretical framework, i.e. in the economic theory of Karl Marx. A thorough analysis of this important issue takes place in Section 5. There, we will defend the thesis, that contrary to Marx's approach which proceeded on the assumption that free competition is a structural feature of the capital relation which *cannot be abolished*, both Hilferding and Schumpeter thought of monopolies, as already discussed, as the *decisive feature* of the supposed "latest phase" of capitalism from which both innovation and growth originate. Finally, according to Marx's approach, the question of whether it is big or small enterprises that promote technical change, is a problem which cannot be answered on the abstract level of analysis, but shall be situated on a more empirical level of investigation.

[11] Schumpeter wrote: "Monopoly capitalism has virtually fused the big banks and cartels into one" (Schumpeter 1951: 81). Schumpeter does not differentiate himself from Hilferding's theory of *monopoly capitalism* (see Section 5), but

4. The Separation of Roles

We may now move on to another area of Hilferding's work that may also have influenced Schumpeter's writings. Hilferding believed that the domination of big monopolistic enterprises in the "latest phase" of capitalism brought with it the sharp distinction between the entrepreneur, conceived as the head of the firm's managerial staff, on the one hand, and the capitalist (owner of the enterprise or creditor) on the other. He further considered this separation of roles to be of fundamental economic significance for the "latest phase" of capitalism, as it allowed the distinction between two specific forms of enterprise: the dominant (big "monopolistic" enterprise), from which emerge the main patterns of evolution of capitalism, and the dominated (traditional individually owned firm). He wrote:

"Up to the present, economics has sought to distinguish between the individually owned enterprise and the joint-stock company (or corporation) only in terms of differences in their organisational forms and of the consequences which flow directly from them. […B]ut it has neglected to investigate the fundamental economic differences between the two forms of enterprise, even though these differences are crucial to any understanding of modern capitalist development, which can only be comprehended in terms of the ascendancy of the corporation and its causes" (Hilferding 1910: 107).

In addition, Hilferding argued that the new form of industrial corporation:

"involves above all a change in the function of the industrial capitalist. For it converts what has been an occasional, accidental occurrence in the individual enterprise into a fundamental principle; namely, *the liberation of the industrial capitalist from his function as industrial entrepreneur*" (Hilferding 1910: 107, emphasis added). And he concluded: "As a result of this change the capital invested in a corporation becomes pure money capital as far as the capitalist is concerned. The money capitalist as creditor has nothing to do with the use which is made of his capital in production. […] His only function is to lend his capital and, after a period of time, to get it back with interest" (Hilferding 1910: 107).

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only from certain theses that Hilferding regarded as *consequences* of that theory: "I do not go along with Hilferding, incidentally, in anticipating that trustification will bring about a stabilization of capitalism" (Schumpeter 1951: 175).

It is obvious that Hilferding made a clear distinction between the entrepreneur, who is in charge of the use of capital in production, and the (money) capitalist who advances or lends his capital and bears the risk. He further considers this separation of roles to be an outcome of the formation of the "latest phase" of capitalism.

This very sharp separation of roles between the capitalist and the entrepreneur in modern "trustified" capitalism is also at the core of Schumpeter's approach, and has been commented on by many authors (e.g. Heilbroner 1998: ch. 10).

Both Hilferding and Schumpeter conceived, thus, of the separation of roles between the capitalist and the entrepreneur as a major characteristic of the big corporation. However, they saw differently the connection of each one of these two agents with the corporation's managers: While for Hilferding the entrepreneur was simply the top manager, closely connected with the rest of the managerial staff in promoting innovation and development, for Schumpeter the entrepreneur, representing the element of initiative and change, confronted the managers, who were mainly concerned with routine affairs and with the reproduction of the existing status of the corporation.

Consequently, for Hilferding the capitalist-owner had become superfluous, an evolution which paved the way to socialism. He wrote:

"Finance capital puts control over social production increasingly into the hands of a small number of large capitalist associations, separates the management of production from ownership and socializes production to the extent that this is possible under capitalism. […] The tendency of finance capital is to establish social control of production, but it is an antagonistic form of socialization, since the control of social production remains vested in an oligarchy [… However, this] socializing function of finance capital facilitates enormously the task of overcoming capitalism [...] it is enough for society, through its conscious executive organ – the state conquered by the working class – to seize finance capital in order to gain control [...] of production" (Hilferding 1910: 367).

On the contrary, for Schumpeter the entrepreneurs constantly renewed the capitalist class, as the more successful among them systematically showed the propensity of becoming capitalist-owners themselves (Schumpeter 1912: 78-9).[12] Only the bureaucratisation of the big enterprise, through the subordination of the entrepreneurs to managers could lead trustified capitalism to socialism: "The perfectly bureaucratized giant industrial unit […] ousts the entrepreneur and expropriates the bourgeoisie as a class which in the process stands to loose not only its income but what is infinitely more important, its function" (Schumpeter 1942: 134). "Thus the same process that undermines the position of the bourgeoisie by decreasing the importance of the functions of entrepreneurs and capitalists, by breaking up protective strata and institutions, by creating an atmosphere of hostility, also decomposes the motor forces of capitalism from within" (Schumpeter 1942: 161-62).

Schumpeter defined socialism as "an institutional arrangement that vests the management of the productive forces with some public authority" (Schumpeter 1942: 113), and claimed that "the modern corporation, although the product of the capitalist process, socializes the […] mind" (Schumpeter 1942: 156). Furthermore, he argued that the "bureaucratisation of economic life" is stimulated by and within the *large-scale corporation* (Schumpeter 1942: 206) and this fact allows the transition to a socialist but "bureaucratic apparatus" by establishing new modes of managerial responsibility and selection that "could only be reproduced in a socialist society" (Schumpeter 1942: 206-7).

In fact, a basic argument of *Capitalism, Socialism and Democracy* is that the entrepreneur becomes less and less important, and consequently the process of economic development comes to halt and capitalism gives way to socialism. Schumpeter gave two reasons for the gradual disappearance of the entrepreneur:

"For, on the one hand, it is much easier now than it has been in the past to do things that lie outside the familiar routine –innovation itself is being reduced to routine. Technological progress is increasingly becoming the business of teams of trained specialists who turn out what is required and make it work unpredictable ways. The romance of earlier commercial venture is rapidly wearing away, because so many more things can be strictly calculated that had of old to be visualized in a flash of genius.

[12] As Elliott puts it: "Schumpeter made it clear that successful entrepreneurs *become* capitalists (or landowners), while unsuccessful ones presumably become workers or managers" (Elliott 1980: 49).

On the other hand, personality and will power must count for less in environments which have become accustomed to economic change – best instanced by an incessant stream of new consumer's and producer's goods – and which, instead of resisting, accept it a matter of course" (Schumpeter 1942: 132).

However, Schumpeter still stressed the importance of individual entrepreneurs, albeit in a different institutional setting: eg. a production/development engineer in the Research and Development (R&D) department of a large electrical firm could be regarded as an "entrepreneur" in Schumpeter's sense of the word. Thus, Schumpeter despite envisaging the demise of the entrepreneurs and their partial replacement by a new mode of economic organization (Freeman 1982, Philips 1971), never completely abandoned his initial model of the entrepreneur as the agent of technological and economic change (te Velde 2001: 24).[13]

For Schumpeter, this new mode of economic organization, "the growth of the great combines or the rise of trustification, is the final stage of capitalism […A]fter that, it would resolve itself into socialism" (te Velde 2001: 24).

We may conclude therefore that both authors commenced from a similar theoretical point (i.e. separation of roles between the capitalist and the entrepreneur in the big enterprise of "trustified capitalism") and arrived at a similar conclusion: the possibility of socialism, conceived as a system of control of the means of production by central state authorities.[14]

However, they understood differently the "capitalist element" in the big enterprise: For Hilferding this element consisted in private property and had become superfluous, while for Schumpeter this private ownership regime necessarily entailed the entrepreneur

[13] In the age of "perfect competitive capitalism", which Schumpeter regarded to have come to an end, one could argue that the carrying out of new combinations was a low-trust affair. It could be depicted as the feat of the exceptional will-power of a single entrepreneur. But in the era of high technology, high complexity and high dependency on other people, the entrepreneur must be able to "woo support" and "to negotiate with and handle men with consummate skill" and not only to "impress the social group [that is adjoined to the new combination]" and "educate the consumers" and teach them "to want things, or things which differ in some respect or other from those which have been in the habit of using" (Schumpeter 1912: 65). It should not come as a surprise, then, that in his later work, Schumpeter explicitly recognized the rise of collective entrepreneurship. "[…the] entrepreneurial function need not to be embodied in […] a single physical person. Every social environment has its own ways of filling the entrepreneurial function […it] may be and often is filled co-operatively. With the development of the largest-scale corporations this has evidently become of major importance: aptitudes that no single individual combines can thus be built into a corporate personality; on the other hand, the constituent physical personalities must inevitably to some extent, and very often to a serious extent, interfere with each other" (Schumpeter 1949: 260-1).

[14] It should be noted that Schumpeter made an effort to discuss the relationship between socialism and entrepreneurship at length in the second German edition (1926) of the *Theory of Economic Development* (Csontos 1987).

as conveyor of vision, economic novelty and innovation. In Hilferding's view the role of innovation was ascribed the firm's managerial staff, to which belonged not only the entrepreneur (being identified with the top-manager) but also another "personality" (belonging to the same managerial staff), *the innovative manager*, whose primary goal was to make new ideas work properly and accurately. This innovative manager would attain and further unfold his innovative role in the framework of a socially planned economy.

In this line of reasoning, Hilferding concluded that a form of tension emerged between capitalist owners and managers, the former being only interested in short-term profit maximisation, the latter preferring long-run strategies based on technological development and innovation. He wrote:

"The separation of capital ownership from its function also affects the management of the enterprise. The interest which its owners have in obtaining the largest possible profit as quickly as possible, their lust for booty, which slumbers in every capitalist soul, can be subordinated to a certain extent, by the managers of the purely technical requirements of production. More energetically than the private entrepreneur they will develop the firm's plant, modernize obsolete installations, and engage in competition to open up new markets, even if the attainment of this goals entails sacrifices for the shareholders" (Hilferding 1910: 126).

Schumpeter defined production as the combinations or materials and forces that are within our reach (Schumpeter 1942: 65). The producer *is not an inventor*. The basic driving force behind economic growth *is the introduction of new combinations* of materials and forces.

Following Scott's excellent formulation: "Schumpeter, emphasized the role of the entrepreneur in development. By definition, he is the man who sees that the new combination is made. He is to be distinguished from the capitalist (who bears the risk) and from the inventor (who has the ideas), although it is possible for one man to be all three" (Scott 1998: 104).

Schumpeter incorporated the modernizing functions of Hilferding's "innovative manager" to those of the entrepreneur and thus connected them with the "spirit of capitalism". In other words, he ascribed the role of innovation, i.e. of introducing new goods or production techniques, of opening new markets or implementing new organisational forms to the entrepreneur who, without being a capitalist-owner, might exist *only in the framework of the capitalist regime* of private ownership of the means of production.

It is along these lines of reasoning that Schumpeter drew a sharp distinction between the roles of entrepreneur(s) and manager(s). More precisely, Schumpeter believed that "the entrepreneur is concerned with change" whereas the manager is "concerned with routine problems" (Scott 1998: 104). We agree with Scott (1998: 104), that the tension between the manager and the entrepreneur had already been stressed in *The Theory of Economic Development*:

"Carrying out a new plan and acting according to a customary one are things as different as making a road and walking along it" (Schumpeter 1912: 85). "Surmounting this opposition is always a special kind of task which does not exist in the customary course of life, a task which also requires a special kind of conduct" (Schumpeter 1912: 87). Schumpeter stressed the difference between an entrepreneur and a manager with the following words: "[everyone] is an entrepreneur only when he actually 'carries out new combinations', and loses that character as soon as he has built up his business, when he settles down to running it as other people run their businesses" (Schumpeter 1912: 78).

Schumpeter further developed this idea of antithesis between the entrepreneur and the manager in *Capitalism, Socialism and Democracy.* He claimed, as already stated, that the bureaucratisation of the big enterprise, with the transformation of entrepreneurial activity into a routine process conducted by managers and technical employees, would lead to the petrifaction and final decline of the big enterprise and thus of the capitalist economic and social order. He explicitly tackled the diminishing importance of the entrepreneur in a chapter entitled "The Obscolescence of the Entrepreneurial Function". (Schumpeter 1942, Ch. XII.).

We will not continue this discussion any further, since Schumpeter's contribution to this subject has been widely recognized and analysed. Closing this subsection, it is important to stress again here that the conceptualisation of the separation of roles between the capitalist, the entrepreneur and the managers seems to have been developed by Schumpeter in close connection with his idea of the supremacy of the large oligopolistic corporation. In other words, the separation of roles is considered to be an outcome of the prevailing type of firm structure and entrepreneurial activity. We argue that this conception traces its roots back to Hilferding, who first presented the "liberation of the industrial capitalist from his function as industrial entrepreneur" (Hilferding 1910: 107) as an outcome of the formation of the "latest phase" of capitalism, characterized by the predominance of monopolistic enterprises. However, Schumpeter elaborated on the idea of antithesis between the entrepreneur and the manager, and in this framework tended to incorporate the functions of Hilferding's "innovative manager" into the role of the entrepreneur himself.

Schumpeter was realist enough to see that the carrying out of new combinations involves a lot more than "an act of will"; command over the means of production is necessary (te Velde 2001: 7). In most cases the entrepreneur has to resort to credit, especially since new ventures do not have revenues from previous years. Consequently, if someone wants to function as entrepreneur, he must raise funds. The provision of credit, as discussed, comes from another personality, the capitalist. The capitalist may, of course, use funds which are themselves the result of successful innovation and entrepreneurial profit (Schumpeter 1912: 72).

The capitalist bears the financial risk (the entrepreneur risks his job and his reputation) and, because capital utilization is nothing but the diversion of the factors of production to new uses (Schumpeter 1912: 116), the capitalist has some power to dictate new directions to production (te Velde 2001: 7).

In his *Theory of Economic Development* (1912) Schumpeter began with the description of a market based circular flow of economic activity and in this context defined economic development as a phenomenon "entirely foreign to what maybe observed in the circular flow or in the tendency toward equilibrium". It is a "spontaneous and discontinuous change in the channels of the flow, disturbance of equilibrium, which forever alters and displaces the equilibrium state previously existing" (Schumpeter 1912: 64). Continuously, the great Austrian economist pointed out that "the 'new combination of means of production' and credit" were the "fundamental phenomena of economic development" (Schumpeter 1911: 74).

Schumpeter stressed the importance "of credit means of payment created *ad-hoc*, which can be backed neither by money in the strict sense nor by products already in existence" (Schumpeter 1912: 106). In this manner, credit performs the functions of "enabling the entrepreneur to withdrawn producers' goods which he needs from their previous employments, by exercising a demand for them, and thereby to force the economic system into new channels" (Schumpeter 1912: 106).

According to Schumpeter's analysis, credit provides the entrepreneur with an additional purchasing power that enables him to foster development "in a system with private property and division of labor. By credit, entrepreneurs are given access to the social stream of goods before they have acquired the normal claim to it [...] Granting credit in this sense operates as an order on the economic system to accommodate itself to the purposes of the entrepreneur, as an order on the goods, which he needs: it means entrusting him with productive forces. It is only thus that economic development could arise from the mere circular flow in perfect equilibrium. And this function constitutes the keystone of the modern credit structure". (Schumpeter 1912: 107).

Following Fritz and Haulman: "Thus, for Schumpeter it is new credit creation that is a key to growth and development. It does not matter whether the situation involves the emergence of a new financial structure which allows new credit creation to occur or whether the new credit creation takes place within an existing financial structure. *What is important is that new credit creation takes place*" (Fritz and Haulman 1987: 117, emphasis added).

Hilferding also emphasized, in his analysis of "credit money", the crucial role of banks in the development of capitalism (Fritz and Haulman 1987). However, where Hilferding presented an indictment of capitalism, Schumpeter found considerable strength.

At first, Hilferding differentiated between paper money as legal tender "which emerges from circulation as a social product", and credit money which is a "private affair", not backed by the government (Hilferding 1910: 66). In this last case, money can be replaced by a promise to pay. The development of the capitalist system is followed by a rapid increase in the total volume of commodities in circulation and thus "of the socially necessary value in circulation. [...] Further the expansion of production, the conversion of all obligations into monetary obligations, and especially the growth of fictitious capital, have been accompanied by an increase in the extent to which transactions are concluded with credit money". So Hilferding concluded that credit money required "special institutions where obligations can be cancelled out and the residual balances settled, and as such institutions develop so is a greater economy achieved" (Hilferding 1910: 66). And this was seen as a fundamental function of any developed banking system.

According to Hilferding's analysis of "credit money" in *Finance Capital*, credit originated as a consequence of the changed function of money as a means of payment. A purchase not followed by direct payment, i.e. a delay in payment "means that one capitalist has enough surplus capital to wait for payment for the purchaser, the money due is credited" and "money is […] merely transferred" (Hilferding 1910: 82).

However, when a promissory note functions as a means of payment, money capital has been saved, and this type of credit is called "circulation credit" (Hilferding 1910: 83). According to Hilferding, this credit form increases transactions between (productive) capitalists and so an increased demand for production capital emerges, which constitutes a presupposition for capital accumulation. He pointed out that: "Credit which is thus based upon release of money capital is radically different from the commercial credit which originates only from the changed function of money in simple commodity circulation" (Hilferding 1910: 81).

He believed that an increase in production means a simultaneous expansion of circulation and "the enlarged circulation process is made possible through an increase in the quantity of credit money" (Hilferding 1910: 83).

However, circulation credit, does not "transfer money capital from one productive capitalist to another; nor does it transfer money from other (unproductive) classes to the capitalist class" (Hilferding 1910: 87). This role is played by another form of credit, which converts idle money into active money capital, and is called "capital credit". This credit form constitutes a transfer of money to those who use it as money capital, i.e. for the purpose of purchasing the elements of productive capital.

Conclusively, credit "puts money into circulation as money capital in order to convert it into productive capital" (Hilferding 1910: 88). This expands the scale of production with the simultaneous expansion of circulation. Thus, the scale of circulation is enlarged by utilization of *previously idle money*.

In this context Hilferding emphasized the need for an economic institution which will collect idle money capital and then distribute it to productive capitalists. Banks offer the ideal means for exercising this function of credit. They make payments, they converse idle money into active money capital; they collect idle money from other classes and make it available to capitalists as money capital (Hilferding 1910: 90). He wrote: "With the development of the banking system, as unemployed money flows into the banks, bank credit is substituted for commercial credit, so that increasingly all bills serve as means of payment not in the original in which they circulate among productive capitalists, but in their converted form as bank notes" (Hilferding 1910: 86).

Banks offer the institutional framework in which to exercise the functions of credit. However, Hilferding concluded that the banking system is the major instrument of trustification, as it generates tendencies toward fusion and concentration of banking and industrial capital in the form of finance capital: "The concentration of industry is the ultimate cause of concentration of the banking system" (Hilferding 1910: 98). Hence, he attacked the system of "latest" capitalism, in which banking and bankers play a critical role in increasing monopoly market power. He summarized:

"An ever-increasing part of industrial capital does not belong to the industrialists who use it. They get the disposition of it only through the banks, which represent the owners of it. On the other hand, the bank must invest an ever-increasing part of its capital in industry. Thus the bank becomes, to an ever-greater extent, an industrial capitalist. This bank capital, or capital in the form of money, which in this way has in reality been transformed into industrial capital, I shall call finance capital […] an ever larger part of capital used in industry is finance capital – capital disposed of by the banks and used by the industrialists" (Hilferding 1910: 283).

The above presentation of the main tenets of Schumpeter's and Hilferding's approaches to credit may justify the argument stated by Fritz and Haulman (1987: 126, emphasis added), that "*Hilferding's emphasis on capital credit is the forerunner of Schumpeter's […] credit*". The main point behind this argument is that both authors stressed the idea that “the key characteristic of development lies in the financial system’s ability to mobilize capital credit” (Fritz and Haulman 1987: 126).

Although we agree with this point, we still think that the two theoreticians’ views on the nature of credit seem to diverge significantly: Schumpeter adopted a more “endogenous” approach to money and credit (“means of payment created *ad-hoc*, which can be backed neither by money in the strict sense nor by products already in existence”; Schumpeter 1912: 106, i.e. “new credit creation”), while Hilferding adopted a more traditional or Classical approach, regarding credit rather as substitute for the value of existing commodities or of “commodity money” (and in this sense as conversion of *already existing* “idle money” into “active money capital”).

Closing this section, we may say that ideas and elaborations regarding the connection of Schumpeter’s understanding of credit with other classic works of Marxist literature (including, of course, Marx’s *Capital* and Hilferding’s *Finance Capital*), would, obviously, be of great interest especially for promoting dialogue between different Schools of economic thought (in particular Schumpeterian and Marxian economics), and for understanding current economic issues. Thus, an issue that is extraneous, in strict terms, to the subject of the present paper, i.e. the potential Marxian influences behind Schumpeter’s theory of credit, could be a good example for future investigation and dialogue between Schumpeterian and Marxian political economy.[15]

Up to this point we have emphasized the affinity between Hilferding’s and Schumpeter’s analyses regarding the role of the big enterprise in economic development, the tendency towards trustification of the capitalist economy and the separation of roles between capitalists, entrepreneurs and managers. In the next Section we are going to investigate wether these ideas are directly rooted in the writings of Karl Marx, or whether under concern is a *unique interpretation* of Marx’s theory, originally put forward by Hilferding, which has also influenced Schumpeter.

Thus, as far as the question of whether the theses of both Schumpeter and Hilferding could be directly rooted in the theory of Karl Marx is concerned, in the next section we will attempt to show, that while Marx put emphasis on the separation of roles

[15] The question of credit and money “endogeneity” was posited and discussed in the framework of nearly all major non-Neoclassical Schools of Political Economy: The Classic (Thomas Tooke and the Banking – Currency debate, see

between the legal owner and the directing agents of enterprises (entrepreneur or top manager), thus favouring conceptualisations that comprehend all these categories of economic agents as *constituent parts of the bourgeoisie*, Schumpeter, as discussed, seemed again to move along the theoretical path opened by Hilferding's interpretation of Marx's theory.

5. Hilferding's and Schumpeter's "microeconomic" vis-à-vis Marx's "macroeconomic" approach

In this section we will explore the question of whether the theses of both economists under discussion are rooted in a common theoretical framework, more precisely, in the economic theory of Karl Marx. On the one hand, Hilferding was a major Marxist theoretician of his time, while on the other, as Ricardo Bellofiore has argued, "Schumpeter's legacy may be summarized through a comparison with Marx" (Bellofiore 1998: 1009).[16] If the similarities of their approaches to the issues of market structure and technological progress on the one hand, and to the separation of roles between capitalist and entrepreneur on the other, are the result of unfolding certain Marxian theses, analyses or ideas, then the first impression that Hilferding might have influenced Schumpeter could be wrong: Both economists might have come to similar conclusions because they had commenced, independently, from the same theoretical point of departure, i.e. Marxian theory.

In what follows we will argue against the above hypothesis: Our main argument will be that the theoretical system developed by Hilferding and first introduced with his *Finance Capital*, which Schumpeter seems to have followed at certain points of his work, bears the character of a "revision" rather than of a further development or "actualisation" of Marx's theoretical analysis.

Rubin 1989), the Keynesian and Postkeynesian (see Moore 1988: 207 ff), the Marxian School (see Milios 2002, Milios 2005).

[16] Other authors are even more affirmative on the issue of Marx's influence on Schumpeter. According to Catephores for example, this influence "cannot possibly be gainsaid; it bursts through the seams of virtually everything he wrote.

5.1 The Marxian Theory and the Notion of "Social Capital"

Marx developed his economic theory, under the rubric of *A Critique of Political Economy*, mainly in the period 1857-1867. It is a well-defined system, structured as a logical array of original concepts and analyses based on Marx's notions of *value* and *surplus value*.[17]

Concerning Marx's value theory, it must first of all made clear that, according to Marx, this theory does not have as its object of study any specific capitalist country or "historical form" ("historical stage") of capitalism, but the Capitalist Mode of Production (C.M.P.), i.e. the structural elements of the capitalist system as such, irrespective of its specific forms of historical appearance[18] or its level of development (see Althusser *et al.* 1965, Milios *et al*. 2002).

Before we proceed any further, it should be noted that Marxism has since its beginnings taken the form of various (Marxist) trends and schools of thought, which are based on contradictory theoretical principles, positions and deductions (see e.g. Howard and King 1989, Milios 1995).

However, both Hilferding in his early writings (1904) and Schumpeter adopted a "mainstream" interpretation of value theory, which we have elsewhere defined as "Ricardian Marxism" or the "Classic version" of value theory (see Milios *et al.* 2002, Milios 2005). This version incorporates into Marxist theory the viewpoint of the Classical School of Political Economy on value as "labour expended": according to it, the value of each commodity is determined independently, and is commensurable (qualitatively identical) with price (i.e. belongs to the category of *empirically* tangible

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Nor did he ever attempt to deny the influence of Marx on his work, belittle his debt to or in any way conceal his vast admiration for the author of *Capital*" (Catephores 1994: 4).

[17] Marx's mature economic writings contain the following works: the Manuscripts 1857-58, (first published in 1939-41 as *Grundrisse, Foundations of the Critique of Political Economy*, MEGA II, 1.1); *A Contribution to the Critique of Political Economy* (first published 1859, MEGA II, 1.2); the *Manuscript 1861-63* (comprising nearly 2,500 printed pages –MEGA II, 3.1-3.6, a part of which was published during the period 1905-10 under the title *Theories of Surplus Value*); the *Manuscripts 1863-67* (containing all drafts of the three volumes of *Capital. A Critique of Political Economy* –MEGA II, 4.1 and 4.2); and Volume one of *Capital* (first published in 1867 –MEGA II, 5). In the second (1872-73) edition of Volume one of *Capital*, Marx revised Part one of the book, entitled "Commodities and Money". Volumes two and three of *Capital* were edited and published by Engels in 1885 and 1894 respectively.

[18] As Marx himself noted in the Preface to the first edition of Vol. 1 of *Capital*: "What I have to examine in this work is the capitalist mode of production, and the relations of production and forms of intercourse that correspond to it" (Marx 1867: 90); and in Volume 3 of *Capital* he stated: "we are only out to present the internal organization of the capitalist mode of production, its ideal average" (Marx 1894: 970).

quantities).[19] Consequently, value can be reduced to (production) price by means of mathematical calculation.[20]

Most important for our analysis is the fact that, despite different interpretations of Marx's economic analysis, all versions of Marxism until the publication of *Finance Capital* accepted an identical point of view concerning the relationship between the capitalist economy as a whole and the individual enterprise. This point of view was based on theses explicitly formulated by Marx, which shaped a fundamentally "macroeconomic" approach to the capitalist economy. According to it, the immanent causal regularities ("laws") of the capitalist system stand at the level of the capitalist economy as a whole and are thereof imposed as "motives" on the individual constituent elements of this economy.

As Marx clearly noted: "the immanent laws of capitalist production manifest themselves in the external movement of the individual capitals" and "assert themselves as the *coercive laws of competition*, and therefore enter into the consciousness of the

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[19] According to our understanding of Marxian value theory (Milios *et al* 2002; see also for a converging approach Heinrich 1999, Arthur 2002), Marx's theory of value constitutes not a "modification" or a "correction" of Classical Political Economy's theory of value, but a new theoretical domain, shaping thus a new theoretical object of analysis. Marx's notion of value does not coincide with Ricardo's concept of value as "labour expended", but it constitutes a complex notion, a theoretical "junction" which allows the deciphering of the capital relation, by combining the specifically capitalist features of the labour process with the corresponding forms of appearance of the products of labour. In this way, value becomes an expression of the capital relation and of the Capitalist Mode of Production (C.M.P.), i.e. of the structural elements shaping the capitalist relations of production in general, independently of any temporal or spatial peculiarities (historical era, "phase", geographical region or country, see above). In Marx's theoretical system, money constitutes the only form of appearance of value. Value is determined, of course, by "abstract labour", i.e. by capitalistically expended labour (labour process for-the-exchange and for-profit); however, abstract labour does not constitute an empirical magnitude, which could be measured by the stopwatch. It is an abstraction, which acquires a tangible existence only in the process of exchange, in the commodity's price. The essential feature of the "market economy" (of capitalism) is thus not simply commodity exchange (as maintained by mainstream theories) but monetary circulation and money. The Marxian analysis holds that exchange *is necessarily mediated by money*. In Marx's theory both value and money are concepts, which cannot be defined independently of the notion of capital. In summary, value and price are not commensurable quantities, but they belong to different levels of abstraction. In Marx's system, value is the notion, which deciphers prices, shows what prices *are*, without determining their exact level. Values as such cannot be measured quantitatively, and it is even more impossible to refer to the level of any value at all as such, taken in isolation. With Marx's words: "Value can only manifest itself in the social relation of commodity to commodity" (Marx 1867: 138-39).

[20] Analytically, Hilferding (1904) defended the main thesis of "Ricardian Marxism", namely the commensurability between value and price, as follows: "we have commensurability, inasmuch as prices and values are both expressions for different quantities of labour […] they are qualitatively homogeneous" (Hilferding 1904: 161), while Schumpeter explicitly expressed the view that "Marx must be considered a 'classic' economist and more specifically a member of the Ricardian group" (Schumpeter 1954: 390). However, while Schumpeter rejected this (considered as *the* Marxian) value theory, Hilferding initially praised it. For example, Schumpeter (1942: 23n) wrote that Marx "was under the same delusion as Aristotle, viz., that value, though a factor in the determination of relative prices, is yet something that is different from, and exists independently of, relative prices or exchange relations. The proposition that the value of a commodity is the amount of labour embodied in it can hardly mean anything else". On the other hand Hilferding wrote: "The law of value is not cancelled by the data of the third volume [of *Capital*], but is merely modified in a definite way" (Hilferding 1904: 157).

individual capitalist as the motives which drive him forward" (Marx 1867: 433; emphasis added).[21]

The notion that corresponds to the overall causal relationships of capitalist production is, according to Marx, *social capital* (Gesamtkapital). In another formulation, the immanent causal relationships governing the capitalist economy transform the totality of enterprises ("individual capitals", according to Marx's terminology) into elements of *social capital*, i.e. they situate them within an *economic system*, which then exercises a conditioning influence on them.

It is in this way, according to Marx, that capital constitutes a historically specific social relation of exploitation and domination.[22] Social capital is thus the concept of capital at the level of the capitalist economy as a whole, i.e. it is the complex concept embracing empirically detectable regularities of a capitalist economy, but also all the "laws" – the hidden causal determinants – of the capitalist system. Embodied in the structural framework of social capital, the individual "capitalist is simply personified capital, functioning in the production process simply as the bearer of capital" (Marx 1894: 958). He/she is not the subject of initiative and change; he/she is subjected to the laws of evolution and change of social capital, imposed as motives to his/her consciousness through competition.

5.2 Free Competition and Monopolies in the Capitalist Mode of Production

We will focus now on the issue of *free competition*, as it allows a deep insight into matters of causality and into the content of notions such as monopolies and technical change in Marx's and Hilferding's respective theoretical systems.[23]

As already stated, according to Marx free competition ensures the reciprocal engagement, peculiar to the capitalist system, of institutionally independent production units, imposing on the respective capitals the laws of capitalist production. Competition

[21] What is valid for the individual enterprise is much more valid for the persons who man this enterprise (the entrepreneur, the managers…): "My *analytic* method […] does not proceed from *man* but from a given economic period of society" (Marx-Internet 1881). "Individuals are dealt with here only in so far as they are the personifications of economic categories, the bearers of particular class-relations and interests" (Marx 1867: 92). "Marxism comprehends society as a system without subjects" (Bucharin 1926: 227).
[22] This relation manifests itself, in the first instance, in the commodity character of the economy, in the general exchangeability (through money) of the products of labour on the market.

makes it possible for the separate capitalist enterprises, the individual capitals, to constitute themselves and function as social capital. Through their structural interdependence, that is to say their organization as social capital, the individual capitals proclaim themselves a *social class*: they function as a uniform social force which counterposes itself to, and dominates, labour (see Milios 2000: 289-98).

As individual capitals, enterprises are intended to maximize their profit. This tendency is however, through free competition, subordinated to the laws inherent in the concept of social capital, and more specifically to the process of equalisation of the rate of profit and the formation of a tendentially average profit. The tendency towards equalisation of the rate of profit is thus *a structural characteristic of the capitalist relation as such*.

This tendency is related to two processes:

a) Competition *within each branch* or sector of production, which in principle ensures for each commodity the "establishment of a uniform market value and market price" (Marx 1894: 281). Competition within each branch of production therefore tends in every instance to impose on all the individual capitals the more productive manufacturing techniques and in this way to equalize the rate of profit within each branch.

b) Competition *at the level of overall capitalist production*, which ensures such mobility of capital from one branch to another that a uniform rate of profit tends to emerge for the entire capitalist economy (the general rate of profit). The shaping of the uniform general rate of profit is achieved on the basis of *production prices*. These are, in other words, precisely those prices for the product of each individual capital that guarantee it a rate of profit (= ratio of the total profit for a certain period of production to the total capital advanced) equal to (tending towards equality with) the general rate of profit in the economy.

"Freedom of capital", its concentration and centralisation and its *capacity to move from one sphere of production to another* – mobility facilitated by the credit system and necessitated by competition, because every individual capital seeks employment where it can achieve the highest rate of profit – are the terms which secure the predominance of

[23] For an interesting presentation of Marx's and Hilferding's related theses see Kyung-Mi Kim (1999).

the tendency towards equalisation of the rate of profit. It is according to this theoretical reasoning that "[T]he predominance of capital is the presupposition of free competition" (Marx 1857-58: 651)[24] and free competition shall be regarded as an indispensable feature of the C.M.P.

As argued in Section 3, by introducing the idea of "the elimination of free competition among individual capitalists by the large monopolistic combines" (Hilferding 1910: 301), *Hilferding substitutes Marx's macroeconomic view with a "microeconomic" approach*, according to which the characteristics of the "dominant form" of enterprise (individual capital) shape the whole capitalist system (the social capital) and determine its patterns of evolution and change. What we have here is *an inversion of the flow of cause and effect in the relationship between social capital and individual capital*, which constitutes a *paradigm shift within Marxian economic theory*.

Opposite to Soviet Marxists and other descendants of his theory of "monopoly capitalism", Hilferding himself was frank enough to admit that his approach was not compatible with Marx's value theory: "*It seems that the monopolistic combine, while it confirms Marx's theory of concentration, at the same time tends to undermine his theory of value*" (Hilferding 1910: 228, emphasis added).

The above conclusion concerning the paradigm shift introduced in Marxist economic theory by Hilferding's *Finance Capital* may be further elucidated on the basis of Marx's monopoly theory in the 3rd Volume of *Capital*. This theory is explicitly formulated by Marx, *contrary to the belief that monopolies can be studied only in the framework of the "latest phase" of capitalism, which was supposedly formed only after Marx's death.*

Marx's theses can be summarized as follows:

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[24] As Marx put it: "*Free competition* is the relation of capital to itself as another capital, i.e. the real conduct of capital as capital. The inner laws of capital – which appear merely as tendencies in the preliminary historic stages of its development – are for the first time posited as laws; production founded on capital for the first time posits itself in the forms adequate to it only in so far as and to the extent that free competition develops, for it is the free development of the mode of production founded on capital; the free development of its conditions and of itself as the process which constantly reproduces these conditions. It is not individuals who are set free by free competition; it is, rather, capital which is set free. [F]ree competition is the real development of capital. By its means, what corresponds to the nature of capital is posited as external necessity for the individual capital; what corresponds to the concept of capital, is posited as external necessity for the mode of production founded on capital […] is the *free,* at the same time the *real* development of wealth as capital. [T]he predominance of capital is the presupposition of free competition, just as the despotism of the Roman Caesars was the presupposition of the free Roman 'private law'" (Marx 1857-58: 650-1).

The fact that there is a tendency towards equalisation of the rate of profit, that causes individual capitals to constitute themselves as social capital, does not mean that *at any given moment* the rates of profit of different individual capitals will automatically be equal.[25]

Monopoly was thus defined in Marx's theory as an *individual capital* which systematically earns an above average ("extra") rate of profit (and not as a company which monopolizes the market). Monopoly is accordingly not the polar opposite of free competition. It is a *form of individual capital*, which is created precisely within the framework of free competition: *not outside and/or alongside free competition but through free competition and in the framework of its function.*

Marx in *Capital* draws a distinction between two major types of monopoly: *natural and artificial monopolies* (see Varga 1974: 117).

Natural monopolies arise from monopolistic possession of the elements of production in their natural form, which leads to increased productivity (in relation to the social average) and increased (monopoly) profit (Marx 1894: 784-5).

Artificial monopolies also establish their monopoly status on the basis of conditions of labour productivity higher than the social average within a certain branch of production. However, in this case the higher-than-average productivity derives not from monopolisation of a natural resource but from the technological superiority of the specific individual capital in relation to average conditions in its own specialized branch of production. This technological superiority is reflected in above average profit rates.

More precisely, artificial monopoly is created when an individual capital is able, through its technological superiority, to keep the production costs of the commodities it produces lower than their average production costs, which are determined at the level of the economy (or the economic sector) as a whole.[26]

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[25] On the contrary, the possibility of some inequalities in the rate of profit being reproduced may be discerned, albeit within the context of the tendency toward equalisation of the rate of profit, and not invalidating such a tendency: "With the whole of capitalist production, it is always only in a very intricate and approximate way, as an average of perpetual fluctuations which can never be firmly fixed, that the general law prevails as the dominant tendency" (Marx 1894: 266).

[26] Marx wrote: "The individual value of these articles is now below their social value; […] the real value of a commodity, however, is not its individual, but its social value; […] [The] capitalist who applies the new method sells his commodity at its social value […] and thus realizes an extra surplus value" (Marx 1867: 434).

It is crucial to note at this point, that according to Marx's analysis, and contrary to Hilferding's and Schumpeter's approaches, all monopolies must be short-lived, as extra profit always vanishes in competition: the extra profit enjoyed by an artificial monopoly "acting as a coercive law of competition, forces his competitors to adopt the new method [of production]" (Marx 1867: 436). Artificial monopoly is thus brought into existence through free competition and abides in the midst of it, although at the same time its monopoly position is under continual threat from competition. The same is true of natural monopoly, given that its superiority in productivity, which derives from monopolisation of a natural resource by the specific individual capital, may very well be forfeited as a result of technical innovations introduced by its competitors.

We may conclude, therefore, that both monopoly forms only temporarily prevent the entrance of new enterprises in a specific branch: as extra profits (which characterize any monopoly) function as incentive to technical innovation and cost squeeze for other individual capitals, the tendency towards the generalization of the most productive techniques prevails.[27] According to Marx, free competition cannot be abolished.[28]

It follows from the above that *monopoly profit cannot be the predominant characteristic of the capitalist mode of production*. The predominance of the tendency towards equalisation of the general rate of profit is the social condition that ensures the self-organization of individual capitals into a ruling capitalist class: "The various different capitals here are in the position of shareholders in a joint-stock company" (Marx 1894: 258). "This is the form in which capital becomes conscious of itself as a *social power*, in which every capitalist participates in proportion to his share in the total social capital" (Marx 1894: 279).

Contrary to Marx's approach, both Hilferding and Schumpeter considered monopolies to be a permanent characteristic of modern capitalism; much more, they both thought of monopolies as the *decisive feature* of this "latest phase" of capitalism (from which both innovation and growth originate). Schumpeter, after adopting a non-

[27] "This constant migration, the distribution of capital between the different spheres according to where the profit rate is rising and where it is falling, is what produces a relationship between supply and demand such that the average profit is the same in the various different spheres" (Marx 1894: 297).

[28] Marx referred also to a third type of monopoly, which may come into existence, this time in the sphere not of production but of circulation of commodities (the market). He named this type of monopoly the *accidental monopoly*. The term is applied to certain *individual capitals*, which are able to secure extra profit by exploiting conjunctural or

neoclassical definition of monopoly, which converges with that of Marx,[29] summarized his main thesis as follows: “The large-scale establishment or unit of control must be accepted as a necessary evil inseparable from the economic progress which it is prevented from sabotaging by the *forces inherent in its productive apparatus*” (Schumpeter 1942: 106, emphasis added).

At this point we may recapitulate:

Marx’s theory proceeded on the assumption that free competition is a structural feature of the capital relation, which clearly *cannot be abolished*. Contrary to Rudolf Hilferding (and Schumpeter), for Marx *the development of capitalism can be associated only with the evolution, not with the abolition, of free competition*. Social capital is not the sum of the individual capitals. It is the social predominance of the capital relation, which is secured and elaborated in its adequate forms by means of the equalizing processes imposed by free capitalist competition.[30] In this theoretical framework, monopolies can exist only as rather short-lived forms of individual capital, of secondary significance. It was Rudolf Hilferding in *Finance Capital* who first elaborated on the idea of a “monopoly supremacy” and a supposed antithesis between free competition and monopoly, a view which became the central tenet of all theories of “monopoly capitalism”, and which can, as shown, be found in Schumpeter’s analyses, as well.[31]

Our main argument is that this supposed antithesis evokes an empirically verifiable phenomenon, the tendency towards concentration and centralisation of capital and the establishment of very large corporations, but gives no sign of being able to comprehend this phenomenon in accordance with Marx’s theoretical system as it was developed in *Capital*. It does not take into account that while monopoly pertains, according to Marx’s

more permanent imbalances and fluctuations of supply and demand in the market (Marx 1894: 297). However, these imbalances are once more considered by Marx to be of restricted significance and duration.

29 “When talking about monopolists [w]e mean only those single sellers whose markets are not open to the intrusion of would-be producers of the same commodity and of actual producers of similar ones” (Schumpeter 1942: 99).

30 On this point Marx is unequivocal: “Capital arrives at this equalisation [of the general rate of profit] to a greater or lesser extent, according to how advanced capitalist development is in a given national society: i.e. the more the conditions in the country in question are adapted to the capitalist mode of production” (Marx 1894: 297).

31 Schumpeter praised Hilferding’s main theses on monopolies as the result of “elimination of competition” and the formation of a “latest phase” of capitalism with the following remark: “Whatever may be thought of the rather old-fashioned monetary theory of the first chapter and the monetary theory of crises of the fourth [Schumpeter actually means the 1st and 4th Parts of *Finance Capital*], its central thesis […] is interesting and original” (Schumpeter 1954: 881). The Parts of *Finance Capital* are entitled as follows: Part I: Money and credit; Part II: The mobilisation of capital. Fictitious capital; Part III: Finance capital and the restriction of free competition; Part IV: Finance capital and crises; Part V: The economic policy of finance capital.

theoretical system, to the category of individual capital – denoting an enterprise which on account of its peculiar position in the capitalist production process temporarily earns higher-than-average profit – free competition by contrast relates exclusively to the category of social capital and is the pre-eminent condition for "the equalization of the general rate of profit" (Marx 1894, Ch. 10: 273-306) and thus integration of individual capitals into social capital.

In what follows we will demonstrate that Marx's sharp conceptual distinction between "social capital" on the one hand and "individual capital" on the other, has as consequence a very different comprehension of the motive force of technical change and of the separation of roles in the capitalist enterprise than that adopted by either Hilferding or Schumpeter.

5.3 The Question of Innovation and Technical Change according to Marx

As can be inferred from the above analysis, technical change and innovation are considered in Marx's macroeconomic perspective to emerge from the regularities determining the capitalist system *as a whole*, i.e. from the trends regulating the expanded reproduction of social capital: Innovation and technical change are the main means of increasing labour productivity and "no less than other socio-economic activities, were best analysed as social processes […] the focus of Marx's discussion of technology and innovation is […] upon a collective, social process" (Rosenberg 1982: 35). Marx himself wrote that: "A critical history of technology would show how little any of the inventions of eighteenth century are the work of a single individual" (Marx 1867: 493).

Consequently, production relations *per se* impose on *all individual capitals* the urge towards innovation and technical change. Capitalism cannot be technologically static. Continuous innovation ensures on the one hand the increase in the rate of exploitation of labour by capital – and thus may raise the rate of profit – (what Marx describes, in Vol. 1 of *Capital* as "production of relative surplus-value"), while on the other it is the means *par excellence* for improving the individual enterprise's position vis-à-vis its competitors.

As Marx explicitly stated: “Apart from certain extraneous factors […], the tendency and the result of the capitalist mode of production is steadily to increase the productivity of labour, hence continuously to increase the amount of the means of production converted into products with the same additional labour” (Marx 1867: 959). “Productivity of labour in general = the maximum of profit with the minimum of work, hence, too, goods constantly become cheaper. *This becomes a law, independent of the will of the individual capitalist*” (Marx 1867: 1037; emphasis added).

It is apparent that Schumpeter drew from Marx some hints for his own theory of “creative destruction”[32] and his explanation of extra profit, which is partly contained here: The innovation creates a disequilibrium in the market, which enables the extraction from the sale of the product of a “rent” over and above the normal rate of profit, *as long as the monopoly position of some new method is maintained*.

The idea that the introduction of new techniques generates an extra surplus was first developed in the framework of the Marxian labour theory of value. Marx stressed the fact that new technologies enabled the individual capitalist who first introduced them to enjoy extra profit. However, Marx emphatically insisted that these extra profits are always short-lived, as *competition soon leads to the diffusion of technological progress in the whole economy*:

“No capitalist voluntarily applies a new method of production […] if it reduces the rate of profit. But every new method of production of this kind makes commodities cheaper. At first, therefore he can sell them above their price of production […]. He pockets the difference between their costs of production and the market price of the other commodities, which are produced at higher production costs. […]. His production procedure is ahead of the social average. But *competition makes the new procedure universal and subjects it to the general law*” (Marx 1894: 373-4, emphasis added).

Contrary to this approach, Hilferding and Schumpeter defended the thesis that high (monopolistic) profits, over and above the average rate of profit, are being constantly maintained, exactly due to the prevalence of monopolies in capitalist economies: “Perfect competition would prevent or immediately eliminate such surplus

[32] “Capitalism […] is by nature a form or method of economic change and not only never is but never can be stationary […] revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism” (Schumpeter 1942: 82-83).

profits […] But since in the process of capitalist evolution these profits acquire new organic functions […] that fact cannot any longer be unconditionally credited to the account of the perfectly competitive model" (Schumpeter 1942: 105).

For Marx the monopolization of an advanced technique is an "exception", which soon sets in motion the process of generalization of innovation and technical progress. For Schumpeter (who seems to follow Hilferding's paradigm) it is the rule: The "microeconomic" perspective (the monopolistic enterprise and "the forces inherent in its productive apparatus" [Schumpeter 1942: 106]) replaces the Marxian "macroeconomic" perspective (the dynamics of *social capital*, which function as "coercive laws of competition, and therefore enter into the consciousness of the individual capitalist as the motives which drive him forward" [Marx 1867: 433]).

Let us now turn to the consequences that each point of view has in concern with the question of "who is the vehicle of technological progress". Hilferding's and Schumpeter's approach allows only one answer, as already discussed: the monopolistic enterprise is "the most powerful engine of that progress and in particular of the long-run expansion of total output" (Schumpeter 1942: 106). This monopolistic enterprise is considered to be the causal factor of evolution (or "creative destruction") in the "latest phase" of capitalism.[33]

Things are much more complex with Marx's approach: From the above-presented abstract level of Marxian analysis of the structural interconnections of capitalism in general, i.e. from the level of *social capital* and the C.M.P, one may move then to lower levels of abstraction, i.e. to more concrete objects of investigation, regarding specific capitalist societies, at certain economic (or political) conjunctures etc. It is at this lower level of abstraction that the question may be posited, as to which sector of capital takes the lead of innovation and technical progress at a given concrete situation.

In other words, according to Marx's approach, and contrarily to Schumpeter (who seems to follow Hilferding's Hypothesis), *the question of whether it is the big or the small enterprise that promotes technical change, is a problem which cannot be answered on the abstract-general level of analysis*, since it is situated on a lower, more empirical

[33] Schumpeter (1942) brought this idea to its logical limits, when he claimed that the "bureaucratization" of the big enterprise would lead the whole capitalist system to stagnation and decline, leaving thus no space for the possibility of

level of investigation (referring, e.g., to the economic conjuncture in a given country): This concrete analysis will show how (and to what extent) the general tendency towards innovation and technical change emanating from the structural characteristics of the capitalist system *as a whole*, is concretely materialized[34] in the specific case under investigation.[35]

5.4 The Complementarity of Roles according to Marx

We saw above that both Hilferding and Schumpeter considered the separation of roles between the capitalist and the entrepreneur to be a consequence of the formation and domination of the big monopolistic enterprise.[36] However, Marx had already regarded the separation of roles as a tendency created by capitalist relations in general: it expresses the regularities inherent in the C.M.P., which are imposed upon (all) individual enterprises.

Marx conceived of enterprises as bearers of causal relations and trends traceable on the level of *social capital*, i.e. in the framework of the totality of capitalist relations of production and distribution. In a similar manner he conceived of entrepreneurs and managers as bearers of the functions of capital, irrespective of whether they are the legal owners of the enterprise or not. In this view, *entrepreneurs and managers become*

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a process of restructuring of capitalist production emanating from units other than "monopolistic" enterprises (e.g. specific innovative branches comprising mostly small or medium-sized enterprises).

[34] The concrete analysis may show which economic sectors, branches of industry or types of enterprise take the initiative of technological change at a given historical moment in a given country, depending on the characteristics of the specific conjuncture (e.g. overaccumulation crisis and restructuring of the economy, "de-industrialisation" and "tertiarisation", phase of economic recovery or prosperity etc.). This point of view is supported by a large number of empirical studies, which showed that in the 1980s, in many capitalist countries, innovation in the secondary sector had as its main vehicle mostly small enterprises (see e.g. Perez 1983, Piore and Sabel 1983, Murray 1987).

[35] It is worth mentioning that in his earlier works, Schumpeter seemed to have allowed for a different view (i.e. a view similar to that of Marx). This is apparent in most of his writings preceding *Capitalism, Socialism and Democracy*, i.e. before formulating the so-called "Schumpeterian Hypothesis". In his 1912 *Theory of Economic Development* (Schumpeter 1912: 66), Schumpeter believed that innovations might also originate in new, characteristically *small firms*, which might grow large, although they had started as outsiders. Also, in his *Business Cycles* he wrote: "It is, of course, true that mere size is not necessarily an advantage and may well be a disadvantage. Judgment must turn on the merits of each case. But statistical evidence to the effect that smaller concerns often do better than the giants should not be uncritically accepted. [I]t is held […] that the big concerns […] implied technological and organisational improvement when they were founded. It is not held that they retained their advantages until the present day. Our theory would in fact lead us to expect the contrary" (Schumpeter 1939: 404).

[36] The same view is shared by Marxists defending the "monopoly capitalism" paradigm of Marxist theory, which was first introduced by Hilferding and was further developed by Soviet Marxists: Catephores (1994: 24) claims so that "the separation of the ownership of capital from the management of the production process and from entrepreneurship […] fall into place among institutions of late capitalism" of which "Marx gave in *Capital* only the briefest sketches". He also claims that Marx's analysis "was carried forward, at the beginning of the century, by Marxist authors like Hilferding" (op. cit.).

functionaries of capitalist economic control over the means of production and thus complement the capitalist legal-owners rather than confront them:

"Mr. Ure[37] has already noted how it is not the industrial capitalists, but rather the industrial managers who are 'the soul of our industrial system' […]. Capitalist production has itself brought it about that the work of supervision is readily available, quite independent of the ownership of capital. It has therefore become superfluous for this work of supervision to be performed by the capitalist. A musical conductor need in no way be the owner of the instruments in his orchestra, nor does it form part of his function as a conductor that he should have any part in paying the 'wages' of the other musicians. […] Joint-stock companies in general (developed with the credit system) have the tendency to separate this function of managerial work more and more from the possession of capital, whether one's own or borrowed" (Marx 1894: 510, 511, 512).

Marx's remarks on the separation of roles between legal owners and the directors of the production process have fuelled interesting discussions among Marxist theorists. Commencing from the analyses of Althusser *et al.* (1965), several Marxist authors distinguished between *legal* and *real economic ownership* of the means of production (see e.g. Bettelheim 1968, 1970; Poulantzas 1968, 1974; Rey 1973). According to these approaches, *real ownership* of the means of production as an economic relationship (that is, as comprising the essential content of the relations of production) consists in the control of the means, objects and results of the production process. In distinction from formal legal ownership, ownership as an (real) economic relation presupposes *possession* of the means of production, i.e. the management of the production process and the power to put to utilisation of the means of production. That is to say, *ownership as an economic relationship* exists in a relation of homology (coincidence - correspondence) with the *possession* (management) of the means of production. In this theoretical tradition, Nicos Poulantzas (1974: 180) commented on these theses of Marx: "Marx's argument is clear: while the various powers of ownership and possession belong to the place of capital (they are 'functions' of capital), they are not necessarily fulfilled by the owner-agents". This, according to Poulantzas, does not mean that the capitalist class is being narrowed (or becomes superfluous), but rather that it is being enriched by capitalist strata, who

[37] Marx refers here to the following work: A. Ure, *Philosophy of Manufacturers*, French translation, 1836, I: 67.

however do not hold legal ownership of the production means: "The directing agents who directly exercise these powers and who fulfil the 'functions of capital' occupy the place of capital, and thus belong to the bourgeoisie class, even if they do not hold formal legal ownership" (Poulantzas 1974: 180). [38]

Contrarily to this view, *both Hilferding and Schumpeter distinguished the entrepreneurs and managers from the class of capitalists, who they restricted to the legal owners of enterprises*:

"The perfectly bureaucratized giant industrial unit […] ousts the entrepreneur and expropriates the bourgeoisie as a class", wrote Schumpeter (Schumpeter 1942: 134), who thought of entrepreneurs and top managers only as would-be capitalists, in the sense that they might acquire *property rights*, if being successful, and be thus (and only thus) incorporated into the bourgeoisie, since they do not form a social class by themselves (Heilbroner 1998: 405, 420). Schumpeter (1942: 134) wrote: "Although entrepreneurs are not necessarily or even typically elements of that stratum [the bourgeoisie] […] from the outset, they nevertheless enter it in case of success […] entrepreneurs do not *per se* form a social class".

Concluding this Section, we suggest that while Marx put emphasis on the separation of roles between the legal owner and the directing agents of enterprises (entrepreneur or top manager), regarding this separation as an inherent feature of the *capitalist mode of production*, and thus opening the way to conceptualizations and theoretical conclusions that understand all these categories of economic agents as *constituent parts of the bourgeoisie*, Schumpeter seems again to move along the theoretical path opened by Hilferding's interpretation (and revision) of Marx's concepts.

6. Concluding Remarks

In this paper, the origins of some of Schumpeter's ideas have been traced back to Hilferding's *Finance Capital,* concerning two main issues: the market structure and

[38] A significant consequence of the above conceptualisation of real ownership, which is considered always to take priority over legal ownership, is that socialism cannot be identified with (legal) nationalisation of the means of production, but only with the accession of the working class to the real ownership of the means of production. In this context, Poulantzas (1970) understood the Soviet Union as a state-capitalist society.

technological progress on the one hand and the separation of roles between capitalist(s), entrepreneur(s) and manager(s) on the other.

Taking into consideration the facts that Schumpeter had developed a cordial relationship of fellowship and friendship with Hilferding (see section 2 of this paper) and that he was well acquainted with his work (as indicated by its discussion in *Capitalism, Socialism and Democracy*, *Imperialism and Social Classes* and in his *History of Economic Analysis*), the question was posited of whether Hilferding had actually influenced Schumpeter, or both authors simply drew their arguments and ideas from Karl Marx's writings, given their proclaimed affinity with Marx's work: Hilferding was a prominent theoretician of the Marxist camp, Schumpeter was an expert discussant of Marx's work. We consider our attempt to give a first answer to this question to be a contribution to the dialogue between Marxist and Schumpeterian political economy, which until now remains a very sparsely developed area of analysis.

The way that we have dealt with and answered this question may be summarized as follows: Hilferding's thought in *Finance Capital* constitutes a major revision of Marx's "macroeconomic" theoretical system in favour of a "microeconomic" point of view, that seeks causality in the individual enterprise (formation of big "monopolistic" enterprises and abolition of free competition; the dominant form of individual capital –monopolistic enterprise– determines the patterns of evolution of the social capital –of the capitalist system as a whole–; a "latest phase" of capitalism has thus emerged).

Hilferding reversed the Marxian flow of cause and effect in the relationship between social and individual capital. In the new paradigm introduced with *Finance Capital*, it is individual capital (monopolistic enterprise) which takes the causal role, and thus determines the main features and the mode of evolution of the economy as a whole (of social capital). It is exactly this theoretical paradigm that can be traced in Schumpeter's approach. In his own words: "It is therefore quite wrong […] to say […] that capitalist enterprise was one, and technological progress a second, distinct factor in the observed development in output; they were essentially one and the same thing, or as we may also put it, *the former was the propelling force of the later*" (Schumpeter 1942: 110, emphasis added).

At this point, one must face an issue already raised by Backhouse: "When forgotten precursors of later ideas are found, the main interest is often in why they were neglected, as much as in the ideas themselves" (Backhouse 1985: 5). Put concretely, why is Hilferding's contribution to the formation of Schumpeter's ideas systematically neglected, whereas Marx's influence is persistently stressed?

In our view, the explanation lies in the fact that the new paradigm of Marxian economic theory (the theory of "monopoly capitalism") introduced by Rudolf Hilferding was (and is still) considered by many historians of economic thought, especially Marxists, to constitute a "development" or a mere "actualisation" of Marx's theory. This is mainly due to the fact that it was soon imposed on the communist and Marxist movement as "Marxist orthodoxy" *per se*, as, in its main tenets, it was adopted by Lenin in his pamphlet *Imperialism. The last stage of capitalism* [1917] and soon after was incorporated in the official version of Marxism formulated in the Soviet Union, (see Milios 1999, 2001).[39] This, we believe, is the reason why many authors regard Marx as the forerunner of certain ideas of Schumpeter, and either fully neglect Hilferding's influence, or consider its effect to be meditative in character: Hilferding is supposed to have digested and actualized Marx's analyses, which Schumpeter later adopted.[40]

Marx considered that both technical progress, on the one hand, and the separation of roles between legal owners of enterprises and entrepreneurs (and managers), on the other, are inherent regularities of the capitalist mode of production (not the outcome of the formation of the big "monopolistic" enterprise and of an alleged "latest phase" of capitalism). This view does not preclude the possibility of technical progress and a process of restructuring of the capitalist system based thereon having as its main point of departure, or even as its main vehicle, certain economic sectors consisting of small or

[39] Official Soviet Marxism presented Lenin's polemic booklet on Imperialism, which Lenin himself had described in its subtitle as "A Popular Outline", as one of the greatest works in economic literature, which contained the tenets of *the* Marxist analysis of modern capitalism. However, Lenin had the opportunity to criticize the dogmatic codification of the "monopoly capitalism" approach: "Nowhere in the world has monopoly capitalism existed in a whole series of branches without free competition nor will it exist. […] [I]mperialism and finance capital are a superstructure on the old capitalism. If the top is destroyed, the old capitalism is exposed. To maintain that there is such a thing as integral imperialism without the old capitalism is merely making the wish father to the thought" (Lenin-internet 1919).

[40] If one considers Hilderding's analysis in *Finance Capital* to be a continuation and clarification of Marx's theory, then whatever influence it may have had on Schumpeter would be of purely historiographic interest: Schumpeter might have been acquainted with and been influenced by some of Marx's ideas through Hilferding's work. Characteristic in this context is the affirmation of Catephores that Schumpeter had "certainly absorbed some of the spirit of Marxist political analysis […] through […] Rudolf Hilferding" (Catephores 1994: 4).

medium sized enterprises. Besides, Marx regarded entrepreneurs and managers as bearers of real economic ownership of the means of production (of the enterprises), and so understood their relation with legal owners of enterprises not as antithetical but as mainly complementary in character.

It may be concluded, therefore, that it is the version of Marxism first shaped by Rudolf Hilferding that seems to have exerted a certain influence upon the formation of Schumpeter's theses.[41]

From what has followed it is clear that we have no serious reasons to believe that Rudolf Hilferding, the influential Austrian Marxist economist and social politician, was the first or the only prominent economist to have influenced Joseph Alois Schumpeter.[42] Nor that he has influenced him on all of the theoretical issues and analyses that Schumpeter formulated. Our findings, backed by theoretical analysis as well as by empirical and textual evidence, supports the conclusion that Schumpeter had most probably been influenced by his older compatriot, fellow student, colleague and friend Rudolf Hilferding on issues such as the role of the big enterprise in technological progress and economic development, the tendency towards trustification of the capitalist economy –shaping a "latest phase of capitalism"– and the separation of roles between capitalists, entrepreneurs and managers. We limited our conclusions to these issues, where it became clear to us that Schumpeter had followed the conceptualizations of the new theoretical paradigm that was first introduced into Marxist economic theory by Hilferding.

Closing this paper, we may say that ideas and elaborations that can be traced back in the history of economic thought, as demonstrated here regarding the connection of the Schumpeterian hypothesis with the classic work of Marxist literature *Finance Capital*, may be very useful for promoting dialogue between different Schools of economic thought and for understanding current economic issues. The potential Marxian influences behind e.g. Schumpeter's theory of credit, besides what has been discussed in the present paper, could be a good example for future investigation.

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[41] On this issue, we agree with Catephores (1994: 24) that Schumpeter "completely adopted the concept of the emergence of distinct modern epoch of capitalist development, dominated by oligopolies".

[42] For instance, Hashagen (1919: 205, 210) stated that Schumpeter's theory of imperialism was anticipated in 1900 by Franz Mehring. On the other hand, Werner Sombart (1928: 66-9) as well, had a theory of imperialism similar to that of Schumpeter.

After all, it was Joseph Schumpeter who, in the mid-twentieth century, toward the end of a long and successful career, advised:

"[I]f, starting my work in economics afresh, I were told that I could study only one of [the fundamental fields of economic analysis: economic history, statistics, or theory] but could have my choice, it would be economic history that I should choose" (Schumpeter 1954: 12).

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