

1. Social entrepreneurship: the view of the young Schumpeter

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One of the most interesting advances in recent entrepreneurial thought is the idea that the notion of innovative or entrepreneurial behavior, which was originally invented to deal exclusively with economic phenomena, is today also used to explain what happens in social or non-economic areas of society. As examples of this one can mention expressions such as moral entrepreneur, political entrepreneur, organizational entrepreneur and so on. There is also the increasingly popular phrase social entrepreneurship, which is traveling around the world and traces its origin to the United States in the 1990s.

One of the difficulties with the notion of social entrepreneurship (which I shall use in this article to represent the general trend of analyzing social change with the help of the economic theory of entrepreneurship) is that it is not connected to a general theory of entrepreneurship, but is usually used as a slogan or inspiring phrase. It is true that sometimes in the literature on social entrepreneurship one can find references to theories of entrepreneurship. David Bornstein, for example, refers both to Schumpeter and Peter Drucker in his excellent *How to Change the World: Social Entrepreneurs and the Power of New Ideas* (Bornstein, 2004). But even in a case like this, a sustained theoretical attempt fails to accompany the references. The result is that the current literature on social entrepreneurship is richer on inspiring examples and anecdotes than it is on theoretical insights and analytical power.

Is it then possible to develop a theory of social entrepreneurship that is linked to our current theories and knowledge of entrepreneurship? This remains to be seen. In the meantime, and as a modest effort in this direction, I will use this article to explore what Joseph Schumpeter had to say on entrepreneurship and social change. I shall begin by presenting and explicating his most famous attempt to capture this phenomenon, namely his idea of creative destruction. I shall then proceed to his general theory of entrepreneurship, as outlined in his most important work on entrepreneurship, *Theorie der Wirtschaftlichen Entwicklung* (1911, 1926; trans. 1934).

The term 'creative destruction' is typically used in a loose sense, roughly meaning that wherever there is entrepreneurship, there will also be social

change. Sometimes there is an aggressive undertone to the use of the term along the lines that if there is to be an omelette, you will have to break some eggs.

What Schumpeter actually says about creative destruction is somewhat different from this, and one reason is that his notion of creative destruction is closely related to his general theory of entrepreneurship. To show that this is the case, one only needs to take a closer look at the way that Schumpeter uses the idea of creative destruction in his work. The notion of creative destruction was introduced in a short chapter in *Capitalism, Socialism and Democracy* (1942), entitled ‘The Process of Creative Destruction’ (Schumpeter, 1994, pp. 81–86). Schumpeter refers explicitly to ‘creative destruction’ twice in this chapter. The central passage reads as follows:

The opening up of new markets, foreign or domestic, and the organizational development from the craft shop and factory to such concerns as US Steel illustrate the same process of industrial mutation – if I may use that biological term – that incessantly 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. It is what capitalism consists in and what every capitalist concern has got to live in (Schumpeter, 1994, p. 83).

A little later Schumpeter also refers to ‘the perennial gale of creative destruction’ that can be found in capitalism. He adds that ‘capitalism, then, is by nature a form or method of economic change and not only never is but never can be stationary’ (Schumpeter, 1998, p. 84).

If one takes a close look at these statements one quickly notices that Schumpeter has a special type of change in mind when he talks of creative destruction. He specifies that this type of change has to come ‘*from within*’, and he uses italics to draw attention to this qualification. Can change then also come from the outside, and, if so, what would this type of change be like? Furthermore, how would this latter type of change be related to entrepreneurship and creative destruction?

From Schumpeter’s way of expressing himself in the section on creative destruction in *Capitalism, Socialism and Democracy*, it is clear that he is referring to a set of ideas that he expects the reader to be familiar with. It is, however, my sense that many of the readers of *Capitalism, Socialism and Democracy* may not be acquainted with Schumpeter’s ideas on change; and I shall therefore take this opportunity to present and discuss them. In doing so – and this is what constitutes the *raison d’être* and novelty of this article – I will exclusively draw on Schumpeter’s *original and most radical formulation* of his ideas. This is to be found in the first edition from 1911 of *Theorie der wirtschaftlichen Entwicklung*, an edition that is still untranslated and which Schumpeter rarely referred to during his career. Schumpeterian scholars (as

well as Schumpeter himself) instead usually cite the second edition of this work, which was translated in 1934 into English as *The Theory of Economic Development*. The first edition, however, is much more original than the one from 1934 and also breaks in a much more decisive fashion with mainstream economics.

In the following, in brief, I shall focus on what to my mind represents Schumpeter's most creative attempt to address the issue of entrepreneurship and social change. By drawing attention to the first version of Schumpeter's theory of entrepreneurship, it should also be added, I join a recent trend in Schumpeterian research that argues that we know very little about the young Schumpeter (see Shionoya, 1990; Swedberg, 1991, Ch. 2; Becker and Knudsen, 2002; Backhaus, 2003; Koppl, 2003).

The first edition of *Theorie der wirtschaftlichen Entwicklung* is a large book of more than 500 pages, of which huge parts are devoted to a technical attempt to work out the economic theory of entrepreneurship. In two of the chapters – Chapters 2 and 7 – Schumpeter addresses the more general issue of how to define entrepreneurship and how it is related to different forms of economic as well as social change. Chapter 2 is entitled 'The Fundamental Phenomenon of Economic Development' and was reduced by some 50 per cent in the second edition that appeared in 1934. Chapter 7 ('The View of the Economy as a Whole'), which is 86 pages long in the original edition from 1911, was totally eliminated from the 1934 edition.

Important theoretical changes were also introduced by Schumpeter in the 1934 edition, in an effort to make this work easier to appreciate for mainstream economists of the time. These changes no doubt also reflect the fact that Schumpeter by the early 1930s was some twenty years older than when he published the first edition. In 1934 Schumpeter was an established scholar at a well known mainstream university (Harvard University in the United States), as opposed to the days when the first edition of *Theorie der wirtschaftlichen Entwicklung* was conceived and Schumpeter was an unknown scholar at a provincial university (the University of Czernowitz in the Austro-Hungarian Empire).

While small parts of Chapter 2 have recently been translated as well as the whole of Chapter 7, these two important texts are still not widely known in English-speaking academia and have not been properly assimilated either in entrepreneurial or in Schumpeterian scholarship (for the translated parts of Chapter 2, see Schumpeter, 2002; and for the translation of Chapter 7, see Schumpeter, 2003). One purpose of this article is to help this process of assimilation along, and also to add to the discussion of the early Schumpeter by taking a close look at these two chapters. I will especially try to show that the early Schumpeter, who wrote *Theorie der wirtschaftlichen Entwicklung* (henceforth *Theorie* in 1911) is much more interesting and relevant for today's

discussion of entrepreneurship in general than the later Schumpeter, who was not as radical and also concerned with integrating his work into mainstream American economics. Schumpeter, as I see it, also has an important contribution to make to any contemporary discussion of the relationship between entrepreneurship and social change.

CHAPTER 2 IN *THEORIE DER WIRTSCHAFTLICHEN ENTWICKLUNG*: DIFFERENT TYPES OF CHANGE AND WHAT AN ENTREPRENEUR IS

Chapter 2 in *Theorie* deals only with what happens in the economic sphere of society, while the rest of society is held constant (politics, population, and so on). Chapter 7, which will be discussed later in this article, deals in contrast with the situation when the economic sphere is in interaction with the rest of society. From this statement, a reader who is unfamiliar with Schumpeter might conclude that he only deals with economic changes in Chapter 2, and with the interaction of economic and social changes in Chapter 7. This, however, is not the case. Schumpeter deals with economic as well as social change in both Chapter 2 and Chapter 7 – but he does it in different ways.

While Schumpeter's theory of entrepreneurship, which is famously presented in Chapter 2, is centered around what we today would call change, the terminology that Schumpeter uses is distinctly his own. The key term is 'development' (more so than 'entrepreneurship'), and it covers a very special kind of change, namely the type of change that can only arise *from within* the economic sphere.

But there also exist different types of changes in the economic sphere, namely those that originate in response to processes *outside* this sphere, and Schumpeter refers to these as 'adaptation'. 'Development' and 'adaptation' have nothing in common, and Schumpeter's whole theory of entrepreneurship, as well as his attempt to develop a new type of economic theory, is centered around the distinction between these very different types of change.

The definition of development that Schumpeter provides in Chapter 2 reads as follows: 'By "development" we shall understand only such changes in economic life that are not forced upon it from without, but arise by its own initiative from within' (Schumpeter, 2002, p. 405). No definition is given of 'adaptation', but it is described as economic changes that are not 'qualitatively new' and emerge in response to forces from outside the economy (Schumpeter, 2002, p. 406). This type of change, Schumpeter says, is simply 'dragged along', and as examples he mentions 'mere growth' in population or wealth (Schumpeter, 2002, p. 405).

Ordinary economic theory (what we today would call neoclassical economics) only deals with static phenomena, while there does not yet exist a theory that is capable of explaining development. Schumpeter's purpose in Chapter 2, and in *Theorie* more generally, is precisely to complement existing economic (or neoclassical) theory with one that can deal with development. Later in the chapter Schumpeter will introduce the term 'entrepreneur' for the economic actor who causes development.

Schumpeter uses the terms 'development' and 'static' not only as conceptual tools in his attempt to construct a new approach to economic theory, but also to denote concrete economic phenomena that exist in the world. While we may think that most of the economy around us today in the industrial world is dynamic and in a state of development, he says, this is actually not the case. Nearly everywhere economic reality is static. This also goes for the most dynamic part of economic reality, namely industry. When something qualitatively new happens in industry – say, that Carnegie decides to get rid of some perfectly good machines because he has found some better machines – everybody is surprised. What we should wonder at instead, Schumpeter says, is why development takes place in the first place.

Statics – defined as no change or automatic change in response to outside forces – is 'the general rule throughout the history of mankind' (Schumpeter, 2002, p. 111). Statics is, for example, the norm among artisans and peasants. While these are always very eager to make extra money and work very hard in what they do, they only act within given limits. The artisan does not want to change the way that he produces his goods, and the peasant is at the most ready to switch from one type of crop to another in an effort to make more money. But they never do anything radically new, and in this they are similar to people in countries like India and China as well as in primitive societies. People in all of these societies, Schumpeter says, are wed to the old, and if they ever make any changes, it is only because something happens outside the economy, and they are forced to adapt.

What then accounts for the nearly universal existence of 'non-development', as Schumpeter calls it? Do people in static economies not have to satisfy their material needs, and does this not lead to change and development? Not at all, Schumpeter says; most people only try to satisfy their needs within given circumstances. What accounts for the prevalence of static economic behavior, he argues, are instead two very distinct factors. One of these is sociological in nature, and the other psychological. Together they effectively block development from taking place.

The sociological factor that prevents development from taking place is *other people* or rather other people who are static. When you try to do something new, other people tend to react negatively. Deviance is something that evokes this reaction in all societies, according to Schumpeter. 'Each act of

deviant behavior on the part of a member of a community meets with disapproval from the other members' (Schumpeter, 1911, p. 118). People react negatively to deviance because they feel psychologically threatened; they are used to doing things in a familiar and 'safe' way. If Sartre says that 'hell is other people', Schumpeter might have said that 'what kills entrepreneurship is other people'.

But there is also a psychological factor involved, and that is the resistance to doing something new that each economic actor feels within himself or herself. While doing what is familiar, Schumpeter says, is always easy, doing what is new is not. 'The whole difference between swimming with the stream and against the stream is to be found here' (Schumpeter, 1911, p. 121). To do the right thing presents few problems as long as everything is known, but it is very different when you find yourself in a new situation. In a static economy 'the principle of rational behavior' (read: rational choice) works perfectly well – but not when it is a case of economic development (Schumpeter, 1911, p. 123). When you have to do something new, there is no logical or correct answer.

In order for something radically new to emerge, the economic actor has to be bold and willing to fight against the old. Obstacles have to be overcome. In brief, if there is to be any economic development, there have to be *leaders* – those very special people who display energy to act in new ways and are also motivated to do so. Schumpeter repeatedly refers to this type of person or leader as 'Man of Action' (*Mann der Tat*), and he describes him as someone who does not accept reality as it is. If there exists no demand for a good, for example, the Man of Action will create one: he will *make* people demand it. He (and the Man of Action is always a 'he' for Schumpeter) is full of energy and leaps at the obstacles. Schumpeter writes: 'The Man of Action acts in the same decisive manner inside as well as outside the usual tracks in the economy. He does not feel the restrictions that block the actions of the other economic actors' (Schumpeter, 1911, p. 132). The Man of Action, in brief, does not have the same inner obstacles to change as static people or people who avoid doing what is new. But what then drives the Man of Action? As opposed to the static person, who goes about his business because he wants to satisfy his needs and stops when his goal has been accomplished, the leader has other sources of motivation. He charges ahead because he wants power and because he loves to accomplish things. In Schumpeter's formulation: 'he takes pleasure in a social power position and in creating' (Schumpeter, 1911, p. 138). The leader has no equilibrium point at which the energy expended equals the satisfaction received, but keeps fighting till he is too old or otherwise defeated by the forces that the static person does not even think of confronting.

At this point of his argument Schumpeter raises the question: can one not

say that the static person as well as the Man of Action are quite similar in that both of them want to be satisfied, albeit in different ways? Viewed from this perspective, do they not have quite a bit in common, and can they not therefore be analyzed using the same analytical tools? To my mind, Schumpeter here raises a very interesting question that is similar to the one that economists often raise today, when they argue that egoism and altruism (or whatever gives a person satisfaction) are basically one and the same thing, since both of them represent a distinct value to the actor. And since this is the case, there is no need to develop a new type of approach when we deal with something like altruism in economic life; the existing one, based on egoism, does very well.

How does Schumpeter respond to this type of argument? The answer is that he violently rejects it and says that it is nothing but a play with words. Development *is* very different from adaptation, and you *do* need a new type of economic theory to handle it: 'The fact that we have to do with two fundamentally different types of behavior, which lead to diametrically opposed results, must not be formulated away' (Schumpeter, 1911, p. 149). Schumpeter also notes that the qualitatively new phenomenon that the Man of Action brings about does not come out of nowhere; it already exists in embryonic form in reality. The Man of Action can only bring about 'something whose time has come' (Schumpeter, 1911, p. 152). You cannot force what is new out of nothing; it has to be there in some form, ready to be seized on and developed.

As opposed to the situation in static theory, however, this potential for coming into being and what the Man of Action does with it, cannot be easily measured and translated into ordinary science. Development therefore represents an enormous challenge to economic theory; and the researcher has to proceed in ways that are fundamentally different from the ones that are used in static theory. The idea of equilibrium, for example, does not work when it comes to entrepreneurial behavior, and neither do the ideas of marginal utility and rational choice.

How is one then to proceed, in order to account for development? Schumpeter's answer to this question represents what we today know as his theory of entrepreneurship; and it is first at this stage of the argument that he introduces the term 'entrepreneur' (*Unternehmer*; Schumpeter, 1911, p. 171). Schumpeter explains: 'The entrepreneur is our Man of Action in the area of the economy. He is an economic leader, a real and not only an apparent leader as the static leader' (Schumpeter, 1911, p. 172).

What is characteristic of the entrepreneur is that he does something qualitatively new; and in the area of the economy this means that he recombines or makes a new combination of already existing resources. The entrepreneur is not an inventor; instead he introduces 'new ways of using existing means' or 'factors of production' (Schumpeter, 2002, p. 409; 1911, p. 175). Schumpeter

sums up: ‘Our assumption is that he who makes new combinations is an entrepreneur’ (Schumpeter, 1911, p. 172).

Schumpeter also notes that the number of possible combinations is nearly infinite and that the entrepreneur cannot possibly go through all of them in some rational manner. His talent consists instead of being able to intuitively pick a few of the ones that are possible and decide to go with one of these. The entrepreneur does not make a rational choice, but an intuitive one; and it is the capacity to make the right intuitive choice that separates a good entrepreneur apart from a bad entrepreneur.

Schumpeter gives several examples of what he means by a new combination in the area of the economy: ‘the introduction of a new quality of a good, or a new use of an already existing good . . . a new production method . . . the opening up of a new market (and) the change of economic organization, e.g., in founding a trust, establishing a large corporation, etc.’ (Schumpeter, 2002, p. 410). He also importantly states that the most common form of entrepreneurship is to create a new firm: ‘the most typical case representing all the different possibilities and all the different sides of the matter, the organizational, commercial, technical side, etc. *is the founding of a new enterprise*’ (*Unternehmung*; Schumpeter, 2002, p. 410).

What is absolutely crucial for the entrepreneur is to be able to envision some new combination; and as opposed to the static person, this is something that comes very easily to him. While the universe of the static person is limited to the combinations that already exist, the entrepreneur wants to break the old mold and create a new one. Where the static person sees nothing but routine, the entrepreneur knows that there exists a nearly limitless number of new ways of doing things.

But knowing that there exist different ways of doing things is not enough to turn someone into an entrepreneur, according to Schumpeter. ‘There always and everywhere is a richness of ideas and plans’ (Schumpeter, 1911, p. 177). It is true, he says, that only a minority of people have the capacity to envision that things can be done differently. But only a minority of *this* minority has also the capacity to transform one of these new combinations into reality. Ideas are cheap, Schumpeter says, and what is truly difficult is to face the risk and uncertainty that comes with doing something in reality, not just in your mind. Schumpeter makes this point with so much force that one must conclude that he prioritizes doing over thinking in *Theorie*.

In order to successfully carry out an entrepreneurial enterprise, the leader needs the help and cooperation of other people. The problem with this is that other people are typically static and do not want to take the risk of doing something new. ‘The disposition of the mass of people is static and hedonistic’, while ‘new enterprises mean new dangers that may cost you your existence’ (Schumpeter, 1911, p. 183). The way out of this dilemma for the entrepreneur,

according to Schumpeter, is to buy the labor power of other people and order them to do what is new.

To be in a position to buy the cooperation of workers and employees, the entrepreneur needs money; and this is where the banker or the capitalist enters into Schumpeter's theory. The entrepreneur borrows money that has been created by the banks, and in this manner finances his enterprise: 'The principle is this: the entrepreneur buys productive labor and thereby removes it from its ordinary static use; he makes use of it without asking its owners for permission; and in this way he forces the economy into new directions' (Schumpeter, 1911, p. 189). Schumpeter sums up the argument in Chapter 2 of *Theorie* as follows: 'Like the carrying out of new combinations is the form and content of development, the activity of the leader is the driving form' (Schumpeter, 2002, p. 434). Entrepreneurship, in brief, represents a very special type of economic change – a type of change that consists of a new combination that is translated into reality by a leader. All other changes in the economy lack a dynamic element and are fundamentally passive (see Table 1.1).

Table 1.1 The Man of Action and the Non-Entrepreneurial Person, according to the young Schumpeter

<i>The Man of Action</i>	<i>The Non-Entrepreneurial Person</i>
dynamic	static
breaks out of equilibrium	seeks equilibrium
does what is new	repeats what has already been done
active, energetic	passive, low energy
leader	follower
puts together new combinations	accepts existing ways of doing things
feels no inner resistance to change	feels strong inner resistance to change
battles resistance to his actions	feels hostility to new actions of others
makes an intuitive choice	makes a rational choice among
among a multitude of new	existing multitude of new
alternatives	alternatives
motivated by power and joy	motivated exclusively by needs
in creation	and stops when these are satisfied
commands no resources but	commands no resources and has no
borrows from a bank	use for new resources

Note: In *Theorie der wirtschaftlichen Entwicklung* (1911) Schumpeter draws a sharp line between the entrepreneurial and the non-entrepreneurial person. He refers repeatedly to the former as Man of Action (*Mann der Tat*) and the latter as static.

CHAPTER 7 IN *THEORIE DER WIRTSCHAFTLICHEN ENTWICKLUNG*: CHANGE AND ENTREPRENEURSHIP IN SOCIETY AT LARGE

In the chapter of *Theorie* that has just been presented, Schumpeter only looks at entrepreneurship and change within the economic sphere itself, while the rest of society is kept constant. This restriction is removed in the last chapter in Schumpeter's book which is entitled 'The View of the Economy as a Whole'. While Schumpeter rewrote, compressed and on a few crucial points also changed the chapter on economic development for the 1934 translation, the reader should be reminded once more of the fact that he totally eliminated this last chapter.

In approaching the topic of the economy as a whole, Schumpeter says, you may either use economic theory or economic history. While these two approaches ultimately complement one another, Schumpeter says that he prefers to deal only with economic theory in *Theorie*. The reason for this is that economic theory is more theoretical in nature than economic history in that it attempts to conceptualize reality in terms of regularities and processes. Economic theory allows you, as Schumpeter later would phrase it, to lay bare 'the *mechanism of change*' (Schumpeter, 1934, p. 61).

Schumpeter then moves on to the classics of economics, by which he roughly means the economists from Adam Smith to Alfred Marshall. While static theory views economic change exclusively as a response to forces outside of the economy, and dynamic theory as a response generated from within the economy, the classics take what may be termed an intermediary position. They also single out five factors as central to economic development: an increase in population, a rise in capital, new technology, new forms of organization and new consumer wants. Each of these factors is seen as capable of moving the economy forward, and not just to a new equilibrium, as in static economic theory.

According to Schumpeter, this rejection of a stable equilibrium represents a definite advance over static theory, but it is also clear that Schumpeter finds the approach of the classics wanting in some important respects. There is one particular problem with their way of conceptualizing development, he says, and this is that economic progress is ultimately seen as happening by itself. It is, for example, implied that better technology automatically leads to progress. But Schumpeter is not willing to accept a type of analysis in which the entrepreneur has for all practical purposes been eliminated: 'The economy does not grow into higher forms by itself', as he puts it (Schumpeter, 2003, p. 75).

In the last chapter of *Theorie* Schumpeter also insists on another crucial feature of dynamic theory, and this is that it can *never* lead to an equilibrium.

This is one of the most radical ideas in *Theorie* and a full quote is therefore in order:

There is no such thing as a dynamic equilibrium. Development, in its deepest character, constitutes a disturbance of the existing static equilibrium and shows no tendency at all to strive again for that or any other form of equilibrium . . . If the economy does reach a new state of equilibrium then this is achieved not by the motive forces of development, but rather by a reaction against it. Other forces bring development to an end, and by so doing create the first precondition regarding a new equilibrium (Schumpeter, 2003, p. 76).

Just as Schumpeter removed all of Chapter 7 from the 1934 edition, he also eliminated this very radical emphasis on dynamics and the idea that entrepreneurial change can *never* be at rest or reach an equilibrium. He now chose instead to emphasize what he termed the discontinuous nature of economic reality and that it moved from one equilibrium to another – a formulation that is quite similar to the one that he earlier had used to characterize static theory (Schumpeter, 1934, p. 64). Again, he presumably did this in order to not situate himself too far outside mainstream economics.

In trying to fully understand the economy of a concrete country from the perspective of economic theory, Schumpeter continues in *Theorie*, you have to take a number of different forces into account. There is, first of all, static and dynamic economic behavior, and the way that these two types of behavior interact and influence one another. To this must also be added other causes, some of which are closer to the economic core of society (such as population, technology and capital), and others that are more distant (such as war, chance events and political interventions).

The result of all these forces acting and interacting together is an uneven type of economic development, according to Schumpeter. The economy moves forward through a series of partial advances and setbacks, rather than through a continuous movement. It essentially goes up when entrepreneurship flowers, and down when it declines. Workers mainly benefit from entrepreneurship, but there is also temporary unemployment because of the downward movements. Regardless of the positive impact of entrepreneurship on the economic situation of the workers in the long run, they are hostile to the entrepreneur. The average worker, Schumpeter says, ‘considers the profit of the entrepreneur as being robbed from him’ (Schumpeter, 2003, p. 105).

In mentioning the opinions of the workers, a non-economic element is introduced into the analysis of the economy, and according to Schumpeter it is absolutely essential to also take the non-economic areas into account when you produce a picture of the economy as a whole. When entrepreneurs move ahead, for example, static businesses will soon begin to experience problems. They will begin to dry up and eventually they will disappear, a process that is

very painful for the individuals involved. While it is true that this is all for the good in the long run, this is of little consolation for ‘those about to be crushed, when the wheels of the new era roll over them’ (Schumpeter, 2003, p. 85).

In his attempt to analyze the interaction between the economy and the social, Schumpeter points out that the economic success of the entrepreneur deeply influences his social position or his position outside the economy. But even if successful entrepreneurs rise in society and join the upper class, a group of entrepreneurs is not the same as a social class, according to Schumpeter. A number of entrepreneurs is just a collection of individuals, while a class is a distinct social group. An entrepreneur is also only an entrepreneur as long as he does something new; and he cannot bequeath his entrepreneurial talent to his son:

His position as entrepreneur is tied to his performance and does not survive his energetic ability to succeed. His position as entrepreneur is essentially only a temporary one, namely, it cannot also be transmitted by inheritance: a successor will be unable to hold on to that social position, unless he inherits the lion’s claw along with the prey (Schumpeter, 2003, p. 101).

In discussing the different areas that together make up society, Schumpeter points out that these are all relatively autonomous. He also proposes that the prevalent behavior in all of them is either static or dynamic, precisely as in the economy. Schumpeter considers this last idea as absolutely fundamental to a future theory of social behavior. It constitutes, he says, ‘*the dawn of the scientific understanding of human affairs*’ (Schumpeter, 2003, p. 106; emphasis added). He also notes that while the analysis of static behavior has advanced very far in economics, it is still very much wanting in areas such as politics and art.

Schumpeter ends *Theorie* with a brief discussion of a country’s general culture. While in most of the book he presents himself as an advocate of methodological individualism, in approaching this particular topic he takes the stance of methodological holism. There is a totality to a country’s culture that simply goes beyond its individual parts, he says. As one would guess, Schumpeter also suggests that there are static as well as dynamic elements to the culture of a country. But in the last hand – and this is how *Theorie* ends – little is known about the forces that ultimately shape the culture of a country.

CONCLUDING REMARKS ON ENTREPRENEURSHIP AND SOCIAL CHANGE

By way of summarizing Schumpeter’s position on the issue of entrepreneurship and social change, the following may be said. Schumpeter makes a very sharp distinction between economic changes that are caused by entrepreneur-

ship and those that are not. The former means economic progress for the entrepreneur and in the long run also economic change in a positive direction for the rest of the population – but not for everybody.

Schumpeter also suggests that economic change of the entrepreneurial kind has distinct social effects. The successful entrepreneur will not only make money (entrepreneurial profit), but also rise in the social hierarchy of status and class. For all of this he will be resented, especially by the workers. They will draw economic benefits from his work, but will nonetheless view him as a profiteer and a bit of a thief. Owners of static businesses will slowly go under, suffering not only from economic decline but also from a painful decline in social position.

Is anything of what Schumpeter says in his work from 1911 relevant for today's debate about entrepreneurship and social change? As I see it, the answer is a clear 'yes'; and I would especially like to point to what Schumpeter says in the last chapter of *Theorie*. We can here read that in other areas of society than the economy also, people can be divided into those who are dynamic and do what is new, and those who are static and only repeat what has already been done. Social entrepreneurship, to use a term that is popular today, can be translated into Schumpeterian terminology as *a form of dynamic behavior in one of the non-economic areas of society*.

Does it really help us to know that the term social entrepreneurship can be translated into Schumpeterian language in this way? Again the answer is 'yes', as I see it, and the reason for this is that Schumpeter, in contrast to many of those who discuss social entrepreneurship today, had worked through what a general theory of entrepreneurship should look like *before* he approached the phenomenon of social entrepreneurship. The advantage of proceeding in this way is that you can then single out what factors social entrepreneurship has in common with entrepreneurship in general and ignore the rest. In brief, it helps to have a general theory of some phenomenon before you begin to analyze a sub-phenomenon of that phenomenon (see Figure 1.1).

Does the fact that Schumpeter's theory is so strongly centered around an individual – a nearly heroic individual – detract from the value of his ideas on entrepreneurship? My answer would be yes and no. Entrepreneurship is indeed a social process, and Schumpeter no doubt has a tendency to hero worship. On the other hand, one of the many interesting things about both economic and social entrepreneurship is precisely that a single individual can make an enormous difference (for social entrepreneurship in this respect, see e.g. Bornstein, 2004). There is also the fact that Schumpeter himself suggested a few times that one may want to conceptualize the entrepreneur as a group or some other collective. As I see it, the most valuable insight in Schumpeter is his notion of entrepreneurship as the putting together of new combinations, not that it is an individual who does it.

	Economy	Society
Dynamic or entrepreneurial change	Development	Social entrepreneurship
Static or non-entrepreneurial change	Adaptation	Social evolution

Note: In *Theorie der wirtschaftlichen Entwicklung* (1911) Schumpeter presented his most radical and original theory of entrepreneurship, which encompasses not only economic but also social change. In the last chapter, for example, he suggested that his argument about dynamic and static elements in economic life is also applicable to what happens in the non-economic areas of society. He argued as well – but this is not captured by the figure above – that dynamic economic change ('development') typically entails a series of social changes.

Figure 1.1 Economic change and social entrepreneurship, according to the young Schumpeter

What do Schumpeter's ideas tell us about the agenda today for social entrepreneurship? The main answer to this question, I believe, is that students of social entrepreneurship can draw quite a bit insight and inspiration from what has already been accomplished in the study of economic entrepreneurship along Schumpeterian lines. We would, for example, expect that there will be quite a bit of *resistance* to social entrepreneurship, and that this needs to be studied. It would probably also be useful to explore the distinction between *inventions* and *innovations* when it comes to social entrepreneurship. And there is finally also Schumpeter's idea of business cycles, which should lead us to ask ourselves if there are similar ups and downs – caused by the rise and fall of social profit? – in social entrepreneurship.

Let us now sum up the argument of this article. Through his work from the 1910s to the 1940s, Schumpeter worked out what I consider to be the most important and creative theory of entrepreneurship that is currently in existence. Being an entrepreneur means to do something new and to break the mould. More precisely, being an entrepreneur, Schumpeter suggests, means (1) to seize on *a new combination*, (2) *push it through* in reality (3) and to do this *through sheer willpower and energy*. Finally, it is an unfortunate sign of the lack of interest in Schumpeter's work that the first and most radical version of his theory of entrepreneurship is still so little known. But since it also so happens that the young Schumpeter explicitly tried to extend his theory of entrepreneurship to non-economic areas of society, or to what today is called social entrepreneurship, there now exists one more reason why we should pay attention to his ideas.