

to
Prof. Polanyi
P.M.

CONCEPTUAL AND METHODOLOGICAL
PROBLEMS IN APPLYING SCHUMPETER'S
THEORY OF ECONOMIC DEVELOPMENT
TO NON-MARKET ECONOMIES

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Columbia University, 1960

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Although the central role of technological and other innovations in Schumpeter's model of economic progress would make it particularly relevant to the analysis of newly-industrializing economies today, it is widely believed that the seemingly decisive character in it of the role of the individualist entrepreneur limits its actual applicability to market economies of the nineteenth century type. Schumpeter himself, however, regarded his model of economic development as applicable to socialist economies as well, and denied that even his model of capitalist economic development centers on the entrepreneur. He has referred to him as "merely the bearer of the mechanism of change."

This suggests that a closer examination should be undertaken of the most basic concepts on which Schumpeter's model of capitalist development rests in order to establish the nature of the non-entrepreneurial institutional elements that it contains, and also to consider the more general forms that such elements may assume in progressing non-market economies.

The most basic concepts on which that model is founded come from the works of Menger, Max Weber, and Marx.

The concept of an innovation itself, which is much wider, in Schumpeter's analysis, than merely the concept of a technological innovation, represents an elaboration of Menger's analysis of production in terms of the "order of goods."

The five basic types of innovation listed by Schumpeter are deduced from a distinction between production in the technical sense and production in the "economizing" sense, that is, through the reallocation of products and resources from channels of lower utility to channels of higher utility. Schumpeter also reformulated Menger's concept of capital as the power to reallocate resources into channels of higher productivity in terms of his own analysis of the role of innovations in increasing productivity. Calculations of the relative productivity of innovations do not necessarily require, Schumpeter observed, the presence of market-established prices. They could be "accounting" prices established through the centralized trial and error process described by O. Lange.

In analyzing the institutional basis on which the continuous introduction of innovations rests in a capitalist economy Schumpeter relied on Weber's concept of rationalized social behaviour, on the one hand, and also on Marx's analysis of the functioning of declining profits as an investment-inducing mechanism. He relied on Weber's concept in formulating his own theory of individualist leadership in terms of an ability to make decisions in the presence of gaps in the data that merely rational calculation would require. Since Schumpeter indicated, however, that both the "capitalist" entrepreneurial attitudes that he described and entrepreneurial leadership itself might be altogether absent in a developing economy, particular interest attaches to his analysis of the profit-eliminating aspects of competition as an innovation-inducing mechanism. It appears that ultimately it is on the functioning of this mechanism and not on the presence of entrepreneurial leadership that the continuity of economic development in his capitalist model rests. In seeking to apply his basic model to non-capitalist economies, therefore, it is counterparts to this mechanism that must be sought in the first place.

The fruitfulness of this general methodological principle may be illustrated with regard to the planned economy of the Soviet Union during the Five Year Plans. There, continuity in the introduction of innovations by enterprises has ultimately been brought about by a combination of two mechanisms: "economic calculation" which refers to the requirement that enterprises submit calculations indicating the direction of projected expenditures before they are

permitted to spend the funds accumulated to their own account within the state banking system; and periodic revisions in the "technico-economic norms" or material input-output relations on which acceptable calculations of this kind must rest. In the absence of an orientation on fluctuating prices the general effectiveness of the innovations on which such reductions in the "calculable" allotments of material resources rest is then expressed through a combination of four indices: the planned increase in production resulting from the use of revised technico-economic norms; the planned increase in labour productivity; the planned reduction in unit costs; and the planned level of profitability.

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