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1. Introduction

In this paper, we make an attempt to assess the parallels that can be drawn in the works of Joseph Alois Schumpeter and Thorstein Bunde Veblen. They elaborated their manifold works in the same socioeconomic environment, sharing in common affinities, a relation to institutional and evolutionary economics and the significance of their *oeuvres*. However, a comparative study of their works hardly ever takes place (O'Donnell 1973; Cramer and Leathers 1977; Ferrarotti 1999; Gurkan 2005; Wunder 2007). In fact, the relation between American theorists and Schumpeter has been inadequately acknowledged, even though Schumpeter's move to Harvard changed entirely his conception of capitalist evolution.

This paper aims at bridging this gap in the literature, comparing Schumpeter and Veblen with regard to technological change and determinism, the future of capitalism, individualism and institutions, through putting them in a broader methodological and analytical context. This new insight will hopefully open new paths in the conceptualisation of their works and will provide a broader understanding of the functioning of capitalism.

Despite the strong affinities in their oeuvres and the clear institutionalist reflections in the works of Schumpeter, he used to argue: 'Personally, I reproach to the most famous of Institutionalists, to Th. Veblen, bad workmanship and insufficient scientific equipment, which made him old err for new truth (Schumpeter 1931, p. 23)'. However, a large part of the literature puts both Veblen and Schumpeter under the same prism, that of

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evolutionary thinking (Witt 2003). Also their analysis of the interplay between social actors bears commonalities.

Also, Schumpeter's analysis of capitalist development and change blends economic and sociological elements, and his studies of the capitalist order provide 'at the very least an interesting Continental quasi-analogue of such American institutionalists as Thorstein Veblen and John R. Commons' (Elliott 1985, p. 15). Of course, the theories of Veblen and Schumpeter are of a rather complex nature, and as such, it is very difficult to situate them in a clear-cut intellectual tradition (Gurkan 2005, p. 3).

Sometimes their intellectual approaches have been classified as economic sociology. However, it should be noted that their voluminous *oeuvres* did have numerous turnovers and internal contradictions. No doubt, Schumpeter and Veblen were said to be controversial writers (Allen and Rostow 1994, p. 165) and their works yielded contrasting interpretations (Taylor 1955, pp. 12–22) sharing in common a limited ability to construct a dominant theory for the functioning of capitalism, for instance in the way John Maynard Keynes did.[1]

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2. Schumpeter and Veblen: the general framework

Joseph Schumpeter was born in 1883 and his writings covered a very broad range of topics including the dynamics of economic development, the integration of economic, sociological and political perspectives with regard to the feasibility of capitalism and, of course, the history of economic thought. He supported not only contemporary developments in mathematical economics and econometrics, but also opted for economic sociology and economics as a universal social science (Shionoya 2004). A key personality for Schumpeter's life was Eugene von Boehm-Bawerk. As put by Harris et al. (1951, p. 89): 'the experience of those early years in Vienna never really left him'. Veblen was born in 1857, 26 years earlier than Schumpeter. Having lived in the Gilded Age of American capitalism, Veblen was undoubtedly influenced by the general economic environment. The world of young Veblen bore great resemblance to a

1 According to Lawson (2003, p. 217), Veblen did not advance a conception of evolutionary science as a constructive programme, he believed that economics was becoming an evolutionary science anyway. Mayhew (1998) and Rutherford (1998) have argued that Veblen's evolutionary programme remained an unfulfilled promise. According to Dimand (1998, p. 462), what Veblen's legacy offered was corrosive scepticism and insightful critique but not an alternate body of theory and practice. However, Schumpeter *post mortem* initialized some Schools of thought (Nelson and Winter 1982) and neo-Schumpeterian modelling, even not necessarily in line with his original doctrine.

self-sufficient household economy very much in contrast with the nineteenth century American capitalism (O'Donnell 1973, pp. 200-1), and the roots for his radical thought could be traced there. According to Heath (2008, p. 2), his intellectual influences could be described as a blend of Herbert Spencer and Edward Bellamy.

Even though Veblen and Schumpeter may not be strictly classified into a single 'school of thought', they both criticised certain aspects of the standard neo-classical economics with reference to equilibrium theorising and rationality. The economists of the Classical school tried to derive general laws regarding the economic process. The marginal revolution shifted attention to individual choices, still seeking to unravel laws that condition both the individual and the economy placing political economy into a strict 'scientific' level and based on exact laws similar to the laws of the natural sciences: 'Pure theory in economics is a science which resembles the physio-mathematical sciences in every respect' (Warlas 1954 [1874], p. 81).

A slightly diverging point in their general outlook is their anti-teleological view regarding economics as a science and the future of capitalism. Veblen is well known for his critique towards classical and neo-classical economics on the basis that they were built upon outmoded preconceptions and were 'animistic' and 'teleological' and the resulting science was 'taxonomic' and subjective in its method (Veblen 1990 [1919], pp. 68–73, 82, 146). It was Veblen who wrote his dissertation on *Kant's Critique of Judgement* and recognised that this amounted to a reversion of teleological thinking, ignoring the general tide against teleology in science (Turner 2003, p. 35). Veblen identified two distinct classes of scientific endeavour, which he termed teleological and evolutionary methods of thought (Argyrous and Sethi 1996, p. 476). By teleology, Veblen referred to the tendency to view the laws of nature as purposively oriented towards a final end or consummation (Coats 1954, p. 529). Also, the 'substantially animistic' attitude to the nature and direction of temporal sequences reduces economic theory to economic taxonomy: 'a body of logically consistent propositions concerning the normal relation of things' (Veblen 1898a, p. 383–4). Veblen blamed neo-classical and Austrian economics for static and teleological[2] methodology postulating equilibrium as the legitimated end of all economic phenomena (Veblen 1898a, p. 382). See also Liagouras (2009).

2 According to Samuels (1990, p. 695) 'the animistic or teleological preconception typically tends to project a personalised conceptualization of ultimate design, reality and purpose. At its least animistic, it is a taxonomic venture, but more typically it is teleological in its imputation of final causes and inevitability of results'.

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On the other hand, Schumpeter partly rejected, the basic notion of standard neoclassical economics, the notion of static equilibrium elaborated by Leon Walras in favour of 'development', a more unstable and evolving situation of the economic process. He argued: 'I felt very strongly that this was wrong, and that there was a source of energy within the economic system which would of itself disrupt any equilibrium that might be attained' (Schumpeter 1989 [1937], p. 166). As Rosenberg (1994, pp. 44–5) argued: 'Schumpeter committed himself to the historical analysis of this process of mutation as an alternative to the equilibrium paradigm'.

Through the rejection of the Walrasian equilibrium he wanted to give economic substance to certain theories of his time (Santarelli and Pesciarelli 1990; März 1991; Arena 1992; Heilbroner 2000). According to Schumpeter: 'Development is the distinct phenomenon entirely foreign to what may be observed in the circular flow or in the tendency towards equilibrium'. 'It is spontaneous and discontinuous change in the channels of the flow, disturbance of equilibrium which forever alters and displaces the equilibrium previously existing' (Schumpeter 1983 [1934], p. 64). Thus for Schumpeter, teleology is 'the attempt to explain institutions and forms of behaviour *causally* by the social need or purpose they are supposed to serve; which is not always erroneous': (Schumpeter 1954, p. 58) Development may be related etymologically to some kind of progress; a positive procedure; and thus in that sense it may be related to some kind of teleology.

Veblen, regarded capitalist development as a 'cumulative causation' having 'no trend', 'no final term' and 'no consummation'. In his own words, 'It is a scheme of blindly cumulative causation, in which there is no trend, no final term, no consummation. The sequence is controlled by nothing but the vis a tergo of brute causation, and is essentially mechanical' (Veblen 1907, p. 304). In other words, Veblen understood the evolutionary sciences as being concerned with non-teleological processes of cumulative change and causation. Thus, he succeeded to study the competition of the units as a dynamic process and not as a stationary process (Liagouras 2009, p. 1048). Up to that point we may argue that although springing from the rejection of static equilibrium and teleological thinking, development and cumulative causation are different notions, signifying a first point of divergence between the two authors. Development is a positive term implying a kind of progress in the movement of capitalism, whereas cumulative causation is a neutral term which leaves economic move to luck.

Schumpeter emphasised that no method can be universally good or bad and that we should abstain from claiming superiority of any method (Schumpeter 1939, p. xiv). He disdained to follow any single school of thought. Samuels (1983, p. 19) argued that he wanted to be accepted as an orthodox economist and was sensitive about his broader interests, but

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underneath was his uninhibited institutionalism. Also, according to the same author, it is clear that Schumpeter was an institutional economist in scope and content but, possibly for reasons of ideology, world view and career, was loathe admitting it. Rather he was avid in the desire to examine all points of view and to absorb everything that was good in them (Shionoya 2008, p. 5). According to Shionoya (1997), his ambition was to create a 'universal social science'.

Veblen accused neo-classical economics on the basis of the purely individualistic foundation of its theory: 'An adequate theory of economic conduct, even for social purposes cannot be drawn in terms of the individual simply – as is the case in the marginal-utility economics – because it cannot be drawn in terms of the underlying traits of human nature simply' (Veblen 1909, p. 629). Meanwhile, 'the human material with which the inquiry is concerned is conceived in hedonistic terms; that is to say, in terms of a passive and substantially inert and immutably given human nature. The psychological and anthropological preconceptions of the economists have been those which were accepted by social sciences some generations ago' (Veblen 1898a, p. 389).

In fact, Schumpeter praised Pareto for getting rid of the concept of 'utility' and suggested that maximising rationality was not a realist feature (Freeman and Louçã 2001). Also, for Schumpeter there is no rationality on hedonism of the entrepreneur; the entrepreneur is in no sense rational in his 'characteristic motivation of the hedonist kind'; 'hedonistically the entrepreneur would be irrational' (Schumpeter 1983 [1934], p. 92).[3]

Finally, Schumpeter seems to have been opposed to Austrian *psychologism* – the essence of economic behaviour is in the satisfaction of wants along with the maximisation principle and the law of the diminishing marginal utility. He argued 'as saturation increases the demand for further food would decline and, as a result, saturated individual is only willing to pay a decreasing price for every additional quantity. . .Why is such an explanation given?' (Schumpeter 1908, p. 68)

Besides of the critique to certain aspects of marginalist revolution such as teleological theorising and static analysis in their works, Schumpeter's and Veblen's analyses bear differences, as well. For instance, their methodological 'schemas' are quite different. A major difference between Veblen

3 Furthermore, Schumpeter links the problem of teleology to that of rationality 'Mostly, [the] improper use [of rationality] consists in exaggerating the extent to which men act, and shape the institutions under which they live, according to clearly perceived ends that they consciously wish to realize in the most rational way. This is why the teleological error may be called a particular instance of the wider category of rationalist errors'.(Schumpeter 1954, p. 58).

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and Schumpeter has to do with the scientific reasoning of economics as a discipline. Schumpeter argued in favour of an autonomous and distinct *economic science* by arguing that 'we can state that the economic world is relatively autonomous because it takes up such a great part of a nation's life, and forms or conditions a great part of the remainder' (Schumpeter 1983 [1934], p. 58). His work may be considered as the starting point for economics of technical change as well as for evolutionary economics (Alcouffe and Kuhn 2004, p. 226). However, we doubt if Veblen would agree. Schumpeter and Veblen on the whole could be considered as pioneers of evolutionary economics. Schumpeter's relation to the term evolution is very often misleading, departing from his cautious attitude against the biological analogy and from his argument against the dilettante use of the term 'evolutionary' in economics, especially in chapter II (*The fundamental phenomenon of economic development*) of the 1934 English version of his *Theory of Economic Development* (p. 57). However, in a letter to Stewart Morgan (18 May 1934), Schumpeter refers to his book as *The Theory of Economic Evolution* (see Hedtke and Swedberg (eds), Siebeck, p. 267), and in his subsequent *Business Cycles* the term 'evolution' is a key ingredient.

3. Schumpeter and Veblen on technological change, business cycles and determinism

3.1 Technological change and business cycles

The role of technology in capitalist evolution exhibits similarities in the works of Schumpeter and Veblen. In the Schumpeterian system, technology is the cornerstone of economic evolution and appears as the making of new combinations. Fluctuations are related to three different sources, namely: external factors (i.e. changes in commercial policy, diseases, changes in gold production because of new discoveries, revolutions and disasters), growth (i.e. changes in economic data which occur continuously in the sense that the increment/decrement per unit of time can be currently absorbed by the system without perceptible disturbance) and innovation (i.e. the historic and irreversible change in the way of doing things and more specifically changes in production functions which cannot be decomposed into infinitesimal steps).

Of course, innovation is a qualitatively different phenomenon from invention: 'innovation is possible without anything we should indentify as invention, and invention does not necessarily induce innovation, but provides of itself [...] no economically relevant effect at all' (Schumpeter 1939, p. 84). Also, Schumpeter asserted that the social process which produces innovations is distinctly different 'economically and sociologically'

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from the social process which produces inventions (e.g. Ruttan 1959, p. 597). Schumpeter distinguishes innovation (endogenous) from invention (exogenous): 'innovation is endogenous to the system, but is finally determined by the entrepreneurial function, that unique capacity to make combinations' (Freeman and Louçã 2001, p. 59).

Economic change is not continuous, because 'innovations are not evenly distributed over time, but appear if at all discontinuously in groups, swarms or clusters' (Schumpeter 1939, p. 223). Innovations tend to cluster because when something fundamentally new and untried has been succeeded it is much easier not only to do the same thing again but also to do similar things in different ways.

The crystallisation of technical change in the Schumpeterian system is the business cycle and its phases. In fact, for Schumpeter, the business cycle is defined as the wave-like movement which is incident to industrial change. The way in which Schumpeter conceived of the cyclical features of the economic process is summarised by Elliot (1993, p. 14): 'development occurs through a cyclical process' and as a result 'cyclical fluctuations are no barrier to economic growth and recessions are not necessarily indicators of capitalism failure or breakdown'.

In the Veblenian theoretical framework, the bearer of change is to be found, primarily, in technology. Veblen is concerned with socio-cultural evolution primarily as it relates to changes in the methods of dealing with the economy – the material means of life – and basically technology (Lawson 2005, p. 206). Veblen defines technology as 'a joint stock of knowledge derived from past experience, and is held and passes on as an invisible possession of the community at large'[4] (Veblen 2001 [1921], p. 28). Technological advance 'is an affair of the community, not a creative achievement of individuals' (Veblen 1990 [1914], p. 103). Technology is of cumulative and social character, proceeds on past technical experiences, and any new technical possibility is the result not of 'a series of great inventions that precipitately burst upon the scenes' (Basalla 1998, p. 26). Technological change 'is always in process of change' cumulatively, and is 'held and carried forward collectively' (Veblen 1990 [1914], p. 103).

The following quotation is often used to capture his view of technology: 'the technological system is an organisation of intelligence, a structure of intangibles and imponderables, in the nature of habits of thought. It resides in the habits of thoughts of the community and comes to a head in

4 There is an apparent difference in the two schemas, on the one hand for Schumpeter the 'bearer' of technological change is to be found in the entrepreneur, and on the other for Veblen technical change springs from the collective entity.

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the habits of thought of the technicians' (Veblen 1967 [1923], p. 280). In other words, a major difference between Veblen and Schumpeter springs from the nature of technology. In Schumpeter, entrepreneurship is an affair of the individual and at the same time a social function. Technological change is an affair of the community and thus a social interest, a social function in Veblen. Also, technological change in Veblen coincides with the transition between whole historical periods. The transition from hunting and gathering to agriculture, to dynastic civilisations, to feudalism, to handcraft and to machine industry takes place in terms of changes in the mode of production. In fact, technical change does not seem to be reflected on the business cycle fluctuations in a strict way, but rather fluctuations seem to reflect the adverse working of credit system, thus posing another point of divergence. The credit system creates instability, inflation of the general prices and depreciation of the currency (Veblen 1967 [1923], p. 87). Furthermore, '[C]rises, depressions, hard times, dull times brisk times, periods of speculative advance, eras of prosperity are primarily phenomena of business; they are *in their origin and primarily incidence phenomena of price disturbance either of decline or advance* and in a sense foreign to capitalist evolution' (Veblen 1975 [1904], p. 88, emphasis added).

3.2 Determinism

Technology shaping society and thus capitalist evolution is referred to as technological determinism (e.g. Gille 1978). Determinism denotes a causal relation between two phenomena and thus a predetermined result. Technological change may be isolated in the capitalist strata; institutions and individuals are merely adapting in a predetermined way towards technological change. However, determinism does not necessarily imply a predetermined result, concepts such as path dependence and multiple equilibria may have embedded some kind of determinism. The works of Veblen and Schumpeter are accused to have been imbued to some extent with technological determinism in the bifurcation sense. In the light of that conceptualisation, we may argue that this critique may be more justified.

Schumpeter's business cycle theory is not to be confused with determinism concerning the future of capitalism, although the inherent nature of the cyclical motion in economic change infuses a deterministic element in economic life. We may say, in other words, that trends in the short-term may exist and thus a short-term determination may exist in the fluctuations, although no general predetermined result in the long-term future of capitalist development is in force, a meaning that shares similarities with path dependence. Evolution follows regularities, yet they are too weak to allow for

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reliable prediction of the future results of evolution. According to Frank (1998), predicting and forecasting future economic development is not possible within Schumpeter's dynamic theory of economic development, precisely because the creative response of the entrepreneur brings into the theoretical model an element of indeterminateness.

Innovation leads, in the Schumpeterian system, to different results with respect to the capitalist phase and the social context. The 'routinization' of innovation, the institutional framework in which it takes place and the hostility that is produced in the capitalist strata seem to remove the elements of technological determinism from the Schumpeterian schema or seem to establish a kind of multiple equilibriums. Veblen has taken some highly deterministic positions arguing that technical change and its associated institutional structure revolutionises capitalism in favour of the engineers and the industrial workers and against the pecuniary motives of the business class. He argued: 'In the modern culture, industry, industrial processes, and industrial products have progressively gained upon humanity, until these creations of man's ingenuity have latterly come to take the dominant place in the cultural scheme; and it is not too much to say that they have become the chief force shaping men's daily life, and therefore the chief factors shaping men's habits of thought. Hence men have learned to think in the terms in which the technological processes act' (Veblen 1990 [1919], p. 17). He thus concluded that economic change is always in the last resort a change in the habits of thought, a fact that is true even for changes in the mechanical process of industry (Veblen 1898b, p. 189). However, as will be also discussed below, what saves Veblen from determinism is his view expressed in his later works that the machine induced habits of thought may not win out against the existing pecuniary habits of thought. Society is divided in a war of two ideologies, somehow forming a war of capitalism and socialism, and the question as to which will dominate remains open.

The fact that technology affects institutions is not in contrast to the fact that institutions affect technology as the causal links between institutions and technology run in both directions. As Milonakis and Fine (2009) argued, not just technology but the relation between instinctive drives and habits of thought, and the role of institutions, are of particular importance in Veblen's work.[5] In fact, technology cannot be isolated from other powers

5 A thesis that brings in mind the notion of technology as a social process as opposed to technological determinism formulated by, among others, the argument of MacKenzie and Wajcman's 'social determination of technology'. Brinkman (1997, pp. 1035–6) argued in favour of a social form of technology challenging the traditional ontological and normative boundaries.

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as causal power in the capitalist evolution implying that Veblen is not in favour of determinism (See, Brette 2003, pp. 462–3).[6]

To sum up, technology is a crucial factor for the economic process both in Schumpeter and Veblen even though crystallised in a different way in terms of theoretical and empirical evidence. The non-deterministic way is a characteristic similar to both writers, and may be attributed to a common probabilistic and non-deterministic academic milieu. Both theoreticians were probably influenced by the economic environment of their time, namely the great financialisation of capitalism that set forth a vast innovative wave throughout the global economy. They also share the opinion that technology revolutionises capitalism[7] and has serious implications for its future as a system (see Section 4).[8]

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4. Schumpeter and Veblen on the future of capitalism

Schumpeter famously asked himself: 'Can capitalism survive? No, I do not think it can. The thesis I shall endeavour to establish is that the actual and prospective performance of the capitalist system is such that its very success undermines the social institutions which protect it, and inevitably creates conditions in which it will not be able to live and which strongly point to socialism as the heir apparent' (1975 [1942], p. 61). He argued instead that there were three main reasons for this. His theory of social change is indirectly related to technical change as it is more embedded in the ideological and political consequences of technical change than related to the direct and evident crystallisation of technological change, his theories of business cycles.

First, the role of entrepreneurs was becoming obsolete. Trained specialists were increasingly responsible for technological innovation, the latter being rationalised into a routine procedure. As this occurred, entrepreneurs were reduced to wage earners and lost their incentive to innovate.

Second, the core groups that defended capitalism were weakening. Small entrepreneurs were being absorbed by big business, thereby shifting

6 The recent interpretations of Veblen focus on the dialectical interplay between the means of production, relations of production and ideological superstructure so that Veblen is less likely to be interpreted as technological determinist than in the past.

7 In fact, for Veblen capitalist institutions are displaced rather than revolutionized. See also (Rutherford 1998, p. 469).

8 The views concerning the future of capitalism that dominated socialistic and Marxist circles of thought built on the gradual proletarian overthrow of capitalism closely related to the theories of Imperialism (e.g. Hilfreding, Bucharin, Lenin, etc). Along with the 'capitalism on decline'.

ownership towards shareholders whose investment in the system was much less direct. In addition, capitalism produces intellectuals and other groups that have a vested interest in social unrest. Capitalism is 'constitutionally' unable to produce 'emotional attachment to the social order'; it produces 'almost universal hostility' to itself (Schumpeter 1975 [1942], pp. 143, 145). This hostility, is not only 'external' but also internal, the 'bourgeois is unheroic to the point of the comic and does not even dare to say boo to a goose' (Schumpeter 1975 [1942], p. 138). Business is more and more becoming a 'routine' in the hands of professional managers, in the same way with innovation.

Third, the institutional framework of capitalism was crumbling.[9] The most likely scenario is a movement towards 'increasing bureaucratization of economic life, coupled with an increasing dominance of the labour interest' (Schumpeter 1951 [1946], p. 203). According to Schumpeter, this increasing dependence on government would lead to 'guided capitalism' and finally to 'state capitalism' which is so closely related to socialism; one might just as well call it precisely this (Schumpeter 1951 [1946], p. 204). This decline of capitalism takes place in spite of capitalism's economic and cultural achievements; modern medicine, modern painting and the modern novel are among its creations, a culture which is rationalistic, pacifist and pre-scientific (Schumpeter 1975 [1942], p. 126).

On the whole, we could argue that it is the bureaucratisation of the entrepreneur, of the process of innovation and of economic life, in general, that is to blame for the gloomy future of capitalism. The trend towards increased routine in economic life is a process that is more connected to ideological and political developments and only passes through the vehicle of technological change.

In fact, Veblen in his *The Theory of Business Enterprise (1904)* took an anti-capitalistic stance concerning the future of capitalism and later in his *Imperial Germany and the Industrial Revolution* (1915), he wrote: '[I]n their struggle against the cultural effects of the machine process, therefore, business principles cannot win in the long run; since an effectual mutilation or inhibition of the machine system would gradually push business principles to the wall; whereas with a free growth of the machine system business principles would presently fall into abeyance' (Veblen 1975 [1904], p. 177). And, 'The Imperial State, therefore, may be said to be unable to get along without the machine industry, and also, in the long run, unable to get along with it; since the industrial system in the long run undermines the foundations of the state' (Veblen 1994 [1915], pp. 270–1). So, the

9 Schumpeter illustrated this by pointing to the post-World War II policies of European governments.

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revolutionising nature of the machine process which is capable of liberating humanity from the 'imbecile institutions of the past' is highlighted. On the habituation of exigencies, Veblen argued that the growth of culture is a cumulative sequence of habituation, and the ways and means of it are habitual response of human nature to exigencies with something of a consistent sequence in the cumulative variations that so go forward, incontinently. This is so 'because each new move creates a new situation which induces a further new variation in the habitual manner of response; cumulatively, because each new situation is a variation of what has gone before it and embodies as causal factors all that has been effected by what went before; consistently, because the underlying traits of human nature (propensities, aptitudes, and what not) by force of which the response takes place, and on the ground of which the habituation takes effect, remain substantially unchanged' (Veblen 1919, p. 241–2).

These new habits are of impersonal nature. The deepening of technological change brings about the struggle between two basic classes with their own habits of thought. On the one hand, there are the business people along with their 'pecuniary habits'. 'Their ulterior end sought is an increase of ownership not industrial serviceability' (Veblen 1975 [1904], p. 24) and the class of businessmen has an interest in making 'the disturbances of the system large and frequent' since their gain emerges in the 'conjunctures of change'. The corollary of the struggle is unknown – at least in the mature works of Veblen – posing a definite limitation towards the prediction for the advent of socialism.

The outcome of this behaviour has been the dissociation of their interests from the interests of the community. 'Business principles' are corollaries under ownership; they are principles of property; they are of older date than the machine industry although their full development belongs within the machine era. On the other hand, the engineers and the 'industrial and mechanical employments' dominated by the values of workmanship and serviceability; mechanical efficiency is their chief habit and technological advance the outcome of their labour expanded. The relation between them – strive and conflict – leads to the evolution of the capitalist system. This argument parallels with the Schumpeterian view that technicians–engineers had taken in their hands the innovative process constituting the primary factor for the decline of capitalism. Furthermore, a striking similarity between the two authors is that innovation and business increasingly becomes an affair in the hands of professionals, which could imply that the functioning of capitalism is synonymous with routine and coincides with a period that the scale of business is enlarged and there is a subsequent boom in the need for the employ of managerial workforce. It may be argued that, in an epoch which was dominated by the prediction of a

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declining capitalism, both Veblen and Schumpeter sought for a vehicle for the decline of capitalism in their core conception of their theoretical apparatus, i.e. technology.

5. Schumpeter and Veblen on individualism

Schumpeter attributed the internal dynamic of capitalism to 'a vision of the economic evolution as a distinct process generated by the economic system itself' (Schumpeter 1911, p. 166). The idea of evolution is not only linked to economic development in isolation but to political, social and institutional changes as well, since the most characteristic purpose of his work was to analyse the evolution of capitalism as a civilisation (Shionoya 2008, p. 1). In fact, 'the term evolution. . .comprises all the phenomena that make an evolutionary process non-stationary' (Schumpeter 1954, p. 965). His methodological background, both individualistic and holistic, is rooted in his economic sociology and explains the relationships between individual behaviour and collective entities (Festre and Garrouste 2008, pp. 365, 381).

Veblen argued that socio-economic evolution must be regarded as a substantial unfolding of life (Veblen 1897, p. 137) where 'It is primarily the social system that would preserve or develop the capacity for change, not significantly the human genotype' (Veblen 1990 [1914], p. 18).[10] His understanding of the nature of capitalism is perhaps best expressed in the following quotations: 'The economic life history of the individual is a cumulative process of adaptation[11] of means to ends that cumulative change as the process goes on, both the agent and his environment being at any point the outcome of the last process' (Veblen 1898a, p. 391), emphasising that 'An evolutionary economics. . .must be a theory of cumulative sequence of economic institutions stated in terms of the process itself' (Veblen 1898a, p. 393). Veblen seems to adopt a clearly holistic view regarding the dynamics of capitalism, a view that in our opinion seems to go across every aspect of his argumentation. Furthermore, introducing the 'last process' in the explanation of the agent and his environment, Veblen undergoes the critique established to historicism.

Veblen's account is essentially a rudimentary transformational model of social activity, in which methods of production and individual human

10 Veblen is probably, the first thinker to have introduced the idea of human history as an evolving process of change with neither predetermined end, nor a specific pattern of development (Liagouras 2009, p. 1050).

11 Whereas Veblen rejects teleology in the social move and in a social level, it could be argued that the process of adaptation etymologically may adhere to some kind of teleology.

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attributes are both condition and consequence of the process, both being continually transformed from within (Lawson 2005, p. 208). The evolutionary process takes place not through the individual, but through the habits of thought, conventions and institutions. Habits both endure and adapt in line with 'changes in material facts'. The material means of life take the form of 'prevalent habits of thought, and it is as such that they enter into the process of industrial development' (Veblen 1898a, p. 375).

Veblen identified three basic drives or instincts that govern human behaviour: the instinct of workmanship or the impulse to work in order to 'turn things to human use' closely connected to the habits of thought (Veblen 1898b, p. 190), the instinct of idle curiosity, referring to the propensity to understand and explain the external world through the use of imagination; and the instinct of parental bent, stressing human interest in the welfare of others (Veblen 1898b, 1919 [1906a], 1964 [1914]. Under the impact of technology and its associated institutional structure, the balance and realisation of the basic human instincts changes drastically.

This process of technological change lies behind institutional change and changes in the habits of thought streaming from these basic human propensities. It may be argued that Schumpeter and Veblen share a notion of an evolutionary capitalism 'driving from within', having change and infinite move incident to the capitalist mode of production, though having differences that spring from the methodological point of view; as will be argued Veblen adopts a clear holistic view regarding social change whereas Schumpeter seems to adopt a methodological point relevant to what Agassi (1960, p. 246) calls institutional individualism. A relevant question of great interest is the following: 'Who is the bearer of change in the capitalist process?' On the one hand, Schumpeter's innovations are introduced by entrepreneurs, moved by the 'dream and will to found a private kingdom', the 'joy of creating', and the 'will to conquer' giving to the argument an anthropomorphic and animistic character. Schumpeter focuses on the individual as the initiator of economic change, 'the bearer of innovation', reflecting his adherence to 'the Schumpeterian version of' methodological individualism. It should be noted that Schumpeter's methodological individualism is not *the* methodological individualism[12] of the marginalists, since he was the first to coin the term. By this term, Schumpeter considers methodological

12 This is the methodological position that aims to explain all economic phenomena in terms of the characteristics and the behaviour of individuals. We must reduce all collective phenomena to the actions, interactions, aims, hopes and thoughts of individual (Popper 1957, p. 88). The individualist contends that only individuals are responsible actors on the social and historical stage (Agassi 1960, p. 244).

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individualism to mean 'just that one starts from the individual in order to describe certain economic relationships' (Schumpeter 1908) or to use the evolutionary terminology; the individual may be conceived as the unit of evolution. In our opinion, the term individualism coined to Schumpeter bears great resemblance to Max Weber's individualistic ideal type approach (see also Michaelides and Milios 2009). First, according to Weber's approach, the origin of any ideal type is a unique historical figure that had magical powers, called 'charisma', an individual that may paralleled with the entrepreneur of Schumpeter. Second, attributing only institutional characteristics to the ideal type in the way that Watkins (1952, p. 40) does 'the personality of a man in society comprises dispositions both of a more private and temperamental kind, and of a more public and institutional kind. Only certain individuals are disposed to weep during the death-scene in Othello'; seems to coincide with the institutional constraints that influence individual action in the works of Schumpeter.

In Schumpeterian terms, methodological individualism is 'the approach in which determination of economic phenomena, for instance, values and prices, surplus value and profits can be traced to individual decisions and choices' (Schumpeter 1954, pp. 888–9).

In this context, Schumpeter considered it necessary to make a sharp distinction between political and methodological individualism since both concepts have nothing in common. The first refers to the freedom of people to develop themselves and to take part in well-being and to follow practical rules. The second just means that one starts from the individual in order to describe certain economic relationships' (Schumpeter 1908, pp. 90–1). We should highlight that individualism as part of the theory in Schumpeter's words is substantially different from methodological individualism which neoclassical economics define: individual as the starting point for *all* economic *phenomena* in the latter, whereas for the former it can be used as analytical tool for *certain* economic *relationships*, principally, entrepreneurship. The individual is not seen as *homo economicus* that aims at satisfying his/her needs through utility maximisation, but as a human being who has social and psychological motives, as well. Generalisation of the individual behaviour to the whole society is, thus, not possible. The social character of the motives along with the existence of society and social classes that influence individual behaviour is the final reason for the substantially different character of Schumpeter's individualism. Finally, the process of routinisation of innovation underlines that entrepreneurship and thus individuals' actions are heavily dependent on the social context and the institutional framework. If the proposition that gives to 'wholes' distinct aims and interests of their own is rejected then individualism and institutionalism could be verged (Agassi 1960, p. 246–7).

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The essence of evolution and development lies not in technical changes *per se* but in energetic human activities carrying out innovation (Shionoya 2008, p. 3): 'Enterprise is called the carrying out of the new combinations and the one that carries them out is the entrepreneur' (Schumpeter 1983 [1934], pp. 74, 75).

In other words, this is how entrepreneurship becomes the 'ultimate cause' of capitalist development, since 'the mechanisms of economic change in capitalist society pivot on entrepreneurial activity' (Schumpeter 1951 [1947], p. 150) as opposed to the manager, the capitalist or industrialist 'who merely may operate an established business' (Schumpeter 1983 [1934], p. 74). The entrepreneur is 'rational' when he carries out the new plans, though he is in no sense rational in his 'characteristic motivation of the hedonist kind'; 'hedonistically the entrepreneur would be irrational' (Schumpeter 1983 [1934], p. 92). The motives are both social and psychological: the 'will to found a private kingdom', a 'dynasty' inspired by the ideal of the medieval lordship, including 'from spiritual ambition down to mere snobbery', the 'will to conquer', the will to prove superior to others, to succeed for the sake of success itself and finally the intrinsic motive of getting things done, 'the joy of creativity'.

Schumpeter argued that entrepreneurship is not a 'vocation', since 'everyone is an entrepreneur only when he carries out new combinations' (Schumpeter 1983 [1934], pp. 77–8). It is the 'spiritual constitution' that differentiates entrepreneurs from common people (Schumpeter 1911, p. 163 cf., pp. 142–3). The entrepreneur finds considerable resistance from his surroundings; people are set in their ways as a 'railway embankment in the earth' (Schumpeter 1983 [1934], p. 84). He is a 'man of action' ready to get into 'energetic action' (Schumpeter 1911, p. 132). The entrepreneur 'appears out of nowhere', he comes from outside the existing economic reality.

Even though Schumpeter's *oeuvre* could be conceived as a unity,[13] it is often argued that his works reflect internal contradictions and theoretical inconsistencies; the major shift in emphasis in his work could probably be highlighted in *Capitalism, Socialism and Democracy* where a theoretical shift towards theses closer to economic history and economic sociology is evident. In this historical perspective, Schumpeter himself seems to argue contrary to his overall individualistic stance in stressing the importance of the social milieu on individual action: 'we know that every individual is fashioned by the social influences in which he grows up. In this sense he is the produce of the social entity or class and therefore not a free agent'

13 Langlois (1991) has challenged whatever tendency there is in the economics literature to distinguish between an 'early Schumpeter' and a 'later Schumpeter'.

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(Schumpeter 1931, p. 286). The above may be conceived as an institutionalisation of Schumpeter's approach; he moved from theses closer to psychologistic individualism to theses closer to institutionalist individualism. Veblen being rather a holist[14] seems to be closer to the later views expressed by Schumpeter. The shift in Schumpeter's approach may not be irrelevant with Schumpeter's move to the USA, where institutional and holistic approaches were dominant.

Veblen's approach may be classified in what is often called 'impersonal and non-animistic' evolution of capitalism. According to Veblen, human evolution is impersonal. In his system the evolutionary process escapes the individual, and takes place through the habits of thought, conventions and institutions, and this is what is often called the 'elimination of personality' that dominated the Veblenian thought and that goes hand in hand with his anti-teleological spirit. In fact 'It is on individuals that the system of institutions imposes those conventional standards, ideals and cannons of conduct that make up the community's scheme of life' (Veblen 1909, p. 627).

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6. Schumpeter and Veblen on institutions

Undoubtedly, the role of institutions is of great importance in both Schumpeter and Veblen. Schumpeter in his *Theory of Economic Development* stated that 'economic sociology deals with institutions', which is contrasted to economic theory dealing with purely economic phenomena and mechanisms (Schumpeter 1983 [1934], pp. 60–1). Institutional development is

14 The Veblenian methodological framework is holistic (Wunder 2007). Gruchy (1967, p. 34), referring to Veblen's holism, noted that he 'absorbed the cultural approach to the interpretation of the behavior of the individual and became extremely impatient with the strongly individualistic psychology that was widely accepted by the late nineteenth-century academic economists'. In Gruchy's view, Veblen 'learned to uncover the meaning of isolated data by referring them to the larger cultural whole of which they were but minor parts'. On the holist view, 'social systems constitute "wholes" at least in the sense that some of their large-scale behaviour is governed by macro-laws which are essentially *sociological* in the sense that they are *sui generis* and not to be explained as mere regularities or tendencies resulting from the behaviour of interacting individuals' (Watkins 1957, p. 106). However, if holism is being defined as social entities having their own aims or purposes distinct from the individuals who make them up, Veblen could be classified as a methodological individualist since the fact that individuals are conditioned by their patterns of life does not necessarily mean a supra-individual purpose. In this context, both Schumpeter and Veblen could be seen as institutional individualists. At this point, we would like to thank an anonymous referee for this comment.

intended to achieve the synthesis of theory and history (Shionoya 2008, p. 7). Although Schumpeter was referring to himself as the 'arch-enemy of Institutionalism', Festre and Garrouste (2008, p. 372) argued that the connection between conflicting ends and Schumpeter's contribution to economic sociology favours an 'institutionalist' interpretation of Schumpeter's *Theory of Economic Evolution*, in which conflicts between self-interest and class-interest play an important role.

According to Schumpeter, there is a correspondence, sometimes weak, between the economic and social functions and individuals' conflicting ends. This correspondence is effective as soon as the individuals reveal some aptitudes to perform their economic and social functions. Human motives are always embedded in a social and historical context under which they have emerged (Festre and Garrouste 2008, p. 379). Routines are part of the institutional setting 'which compel individuals and groups to behave in certain ways whatever they may wish to do – not indeed by destroying their freedom of choice but by shaping the choosing mentalities and by narrowing the list of possibilities from which to choose' (Schumpeter [1942] 1975, pp. 129–30). The performance of individual actors depends on the institutional and the social context. Institutional change embodied in economic change takes place only when individuals overcome previously existing collective routines.

However, even though institutional changes are predominantly seen in a collective social context, Schumpeter's analysis is not based on class analysis in the Marxian sense of the term. In fact, there is no class struggle, no impoverishment of the masses and thus no social classes as bearers of a cause but rather social functions that take place in economic evolution, such as social leadership (see Rahim 2009, p. 70). Furthermore, social classes are not 'our making' or a 'creation of the researcher' but 'social entities that we observe', or 'social organisms, living, acting and suffering as such' (Schumpeter 1927, p. 137). Schumpeter (1927, p. 165) asserted that the contents of classes are changing like 'a hotel or an omnibus, always full, but always of different people'. Also, for Schumpeter, 'groups or social classes are not in general to be explained by reference to a particular purpose; mostly, sociological location and history are necessary to understand their nature and behavior'; which however does not mean that there are no class interests and thus a distinction between individual interests and class interests' (Festre and Garrouste 2008, pp. 374–5). The analysis of the class structure coincides with Agassi's approach of institutional individualism where it is a matter of indifference whether classes exist, though they do not have any kind of interests. Of course, in the other side of the argument holists attribute special interests to the classes and thus class struggle becomes meaningful.

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For Schumpeter, social classes are not independent from social functions; rather they are mutually dependent. Social classes are related to *Zeitgeist* and social values (social leadership). Each social area has a social function and social functions are *attributed* to social classes.[15] In other words, the rank of a social class depends on the ability of innovation (leadership) and in that way class structure is determined by diverse factors other than economic ones.[16]

The institutional individualistic stance is further confirmed by the acknowledgement that a whole is something different from the mere addition of its members. 'Class is something more than an aggregation of class members. It is something else, and this something cannot be recognized in the behavior of the individual class member. A class is aware of its identity as a whole, sublimates itself as such, has its own peculiar life and characteristic "spirit"' (Schumpeter 1927, p. 140). In that way, it is impossible to conceive social classes in a solely holistic or individualistic context.

Institutions as such are introduced in the Schumpeterian schema only in *Socialism, Capitalism and Democracy* where they play a central role closely related to the future of capitalism. Institutional and non-institutional factors enter into complex forms of interaction (Swedberg 2002, p. 247). In Schumpeter's work, the capitalist civilisation consists of institutions as well as of items such as 'motivation', 'lifestyle', 'atmosphere', 'rationalism', art, science and so on (Swedberg 2002, p. 249) that are prerequisites for capitalism to exist.

The more fundamental institutions are property, contract and are getting weaker in capitalist strata, along with the 'recent' emergence of the third key institution 'the big enterprise'. Property is hollowed out: shareholders and managers have substituted the traditional owner of the business and the latter has disappeared. While the old type of owner knew his factory inside-out, managers and shareholders only have an abstract concept of property, symbolised by the share (Swedberg 2002, p. 246): 'The big enterprise' is transformed to the engine of capitalist development and social transformation takes the entrepreneurs' place.

15 Shionoya (2005, p. 60), argued that social order consists of a hierarchy of classes which is explained by the relative importance of social functions that determines the social values (social leadership). 'The superstructure is established as consciousness, culture, and institutional framework, which are peculiarly related to the class endowed with social leadership in view of its contribution to social values'.

16 'Social classes are the compound results of various kinds of leadership, and a play of leadership brings about changes in social classes' (Shionoya 2005, p. 150).

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The mutual existence (and contradiction) of institutions along with the entrepreneur is necessary for evolution to take place, the necessity of the banker's credit being a good example, see also Festre and Nasica (2009). We may argue that evolution in the Schumpeterian schema is threefold, it takes place through the mutual transformation of technology, institutions and the entrepreneur with his spiritual constitution – even though there is a trend of integrating the entrepreneur into the institutions with the emergence of the big capitalist enterprise.[17]

Institutional change is one of the most complex issues of Veblen's economics (Brette 2003). Veblen identified institutions in his *Theory of Leisure Class* as follows: 'products of the past process, are adapted to the past circumstances, and therefore never in full accord with the requirements of the present. . .At the same time, men's present habits of thought tend to persist indefinitely, except as circumstances enforce a change. These institutions which so have been handed down, these habits of thought, points of view, mental attitudes and aptitudes, or what not, are therefore a conservative factor'. Or, alternatively institutions are seen as principles of action which underlie the current scheme of economic life, and as such, they are not to be called in question without questioning the existing law and order (Veblen 1990 [1919], pp. 239–40).

Often, institutions are considered as habits probably because of Veblen's famous phrase: 'Institutions are settled habits of thought common to the generality of men' (Veblen 1909, p. 626). Elsewhere, institutions are referred to as 'habits of thought, points of view, mental attitudes and aptitudes' (Veblen 1994 [1899], p. 133) in the sense that 'every situation is a variation of what has gone before it and embodies as causal factors all that has been effected by what went before'. Following Coats (1954, p. 533) 'every institutional situation is a product of everything that has proceeded it'.

For Veblen, class antagonism is engendered by conflicting habits that arise from the discipline of ownership, on the one hand, and from that of workmanship, on the other, rather than by differential conditions of income and production (Harris 1934, p. 45). On the importance of class consciousness in forming class interest, Veblen (1923, p. 6) argued that 'the effectual division of interest and sentiment is beginning visibly to run on class lines, between the absentee owners and the underlying

17 As Wunder (2007, p. 833), argued in a holistic vision 'there must be a two way interaction' i.e. 'an individual being acted upon by groups and subsequently, acting upon groups to change them'. Also, he argues (2007, p.837) 'for Schumpeter the common individual is clearly the result of socialization and is heavily influenced by the communities in which they are part', and 'when entrepreneur is analyzed, it is also easy to see the individual acting upon society'.

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population'. It has been already argued that society is formed at the basis of the conflict of two oppositional ideologies. Loyal to a holistic' methodological apparatus, he identifies the struggle in terms of a class struggle which tends to divide society. But as soon as private property is firmly implanted rather well-defined class distinctions begin to crystallise.

Institutional change takes place through dialectical processes; the dialectical processes – habituation being one of them – do not depend on class interests but on prevalent habits of thought. According to Rutherford (1998, p. 463), Veblen's theory was one of new technology changing economic conditions, and new economic conditions leading to new ways of thinking and to new institutions through habituation. Habituation, being perhaps the 'most important contribution' of Veblen in the field of social change, 'occurs through the relentless inculculation of a habit of thought as man makes a living through a particular mode of production' and thus is 'behaviouristic in nature' (Dugger 1979, p. 428). Also, Raines and Leathers (1993, p. 250) emphasised the unremitting character of the process of habituation such that institutional structure is 'insensibly but incessantly changing as it runs' (Veblen 1914, p. 17).

Institutional change in that sense is the 'response in the altered discipline of life under changing cultural conditions' (Veblen 1914, p. 18). The interest on class interests and its habituation does not exclude the possibility of individual interests and thus individual habituation. The unintentional nature of habituation is further elaborated by Rutherford (1998, p. 469) as follows: 'the unintentional nature of the process is preserved as the adaptation takes place not as a result of purposeful change or rational assessment, but as a result of the habituation that occurs through the *conditioning* influence of the new material circumstances, what Veblen calls the "discipline of a new order of experience" (Veblen 1919, p. 9)'. Thus, regarding institutions, the process of habituation is more consistent with adoption than selection.

Despite their different methodological apparatuses, holism on the one hand and institutional individualism on the other, Veblen and Schumpeter seem to have similar views on institutions. First, they are part of the social milieu. The underlying framework, much wider than mere economic and social, is common in the analysis of both theoreticians. The capitalist civilisation is a key notion to understanding the way in which institutions work and evolution takes place. The role of the capitalist civilisation and their relation with institutions is a common point for Veblen and Schumpeter. In the words of Veblen: 'The material framework of modern civilization is the industrial system, and the directing force which animates this framework is business enterprise [...] This economic organization is the "Capitalist System" or "Modern Industrial System" ' (Veblen 1975 [1904], p. 7).

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Second, institutions have a causal role in the shaping of human behaviour and in the evolution of capitalism. Their role is complex, in the sense that they are part of the contradictory powers that shape instincts, behaviours and habits of thought. This schema, has both causal power and at the same time is being shaped by institutions: 'The wants and desires, the end and aim, the ways and means the amplitude and drift of the individual's conduct are functions of an institutional variable that is of a highly complex and wholly unstable character' (Veblen 1909, p. 629) and 'the response that goes to make up human conduct takes place under institutional norms and only under stimuli that have an institutional bearing; for the situation that provokes and inhibits actions in any given case is itself in great part of institutional cultural derivation' (Veblen 1909, p. 629). We may conclude that the most obvious difference in the works of Schumpeter and Veblen is the fact that the latter gives the first move to institutional powers whereas Schumpeter seems to give at least before his move to the USA the first move to the individual action.

Just like in the Schumpeterian doctrine, in Veblen's theory economic evolution takes place through the mutual transformation of technology, institutions and the habits of thought in a threefold schema. Actually, the factors driving to economic evolution are the same. In fact, the role of the entrepreneur differentiates them slightly. Finally, if we are interested in introducing in the analysis powers that resist evolution we will find again striking similarities between Veblen and Schumpeter. The powers that resist evolution may be found, broadly speaking, in one of the three contradicting factors previously mentioned, e.g. in the agents that resist innovation and economic change, and the resistance of the business class with its pecuniary ends to the 'intrusion of new technology' and to 'industrial serviceability'. Some trends are clear, especially in the short-run. Actually, in an era dominated by an anti-capitalist spirit the trends go in favour of a gradual overthrow of capitalism.

The differences are obvious in the role of the individual entrepreneur as has been already discussed, and in the relation of the entrepreneur with the social and institutional surrounding. Furthermore, the shift in Schumpeter's work towards a more institutionalised individualism is traced in the bureaucratised technological change and the managerial function of the enterprise and innovation.

7. Conclusion

To sum up, Schumpeter and Veblen shared in common the opposition to certain aspects of standard neoclassical economics. Their critique consisted of two main arguments. First, central point in the theoretical

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constructions of Schumpeter and Veblen is their anti-teleological view of capitalist evolution and the resulting critique to the teleological view of equilibrium being the cornerstone of Austrian and neo-classical economics, especially that of equilibrium theorising. Second, Veblen rejected methodological individualism while Schumpeter gave a substantially different meaning to the term from the meaning of the neoclassical school, and the notion of utilitarianism and hedonism based on a passive and substantially inert and immutably given human nature. The substance given to individualism is not irrelevant with the individualistic institutionalist approach of Schumpeter.

Furthermore, technology is probably the most crucial driving force of capitalist evolution. They were probably influenced by the intellectual environment of the period, namely the excessive financialisation of the economy that set forth a vast wave of innovations throughout the global economy. The unique process of technological change is closely related to their theses on the revolutionising nature of capitalism. Also, the absence of determinism which gives way to a potential gradual overthrow of capitalism is a key notion of the later works of Veblen and Schumpeter. However, there is somehow a different view towards technical change, Veblen sees technology in terms of transition between whole historical periods whereas Schumpeter sees it in terms of business cycles and innovation. Also, technical change provides the vehicle for the possible overthrow of capitalism; in Schumpeter it is more indirect, based mainly on political and ideological consequences of technological change whereas in Veblen it is more directly related to technological change. In the capitalist strata, technology and innovation becomes an affair in the hands of technicians and professionals. The striking similarities concerning the issue cannot be irrelevant with the social context, where a need for professionals and managers is evident. Finally, even though they both reject determinism, they both seem to accept the approach of multiple equilibria and especially path dependence.

Additionally, the notion of evolution of the capitalist process as a unique transformation of various powers in the economic nexus is common in Veblen and Schumpeter. In a holistic framework, any given agent shapes and is simultaneously shaped by the 'whole', i.e. capitalist evolution. On the one hand, the powers taking part in the transformation are technology, institutions and habits of thought in a threefold schema. In the Schumpeterian system, however, evolution takes place through the mutual transformation of technology, institutions and the entrepreneur. The existence of the entrepreneur is not devoid of the general approach of institutional individualism of Schumpeter. More precisely, Schumpeter rejects the proposition that gives to 'wholes' distinct aims and interests of their

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own and thus rejects concepts such as social classes, though he admits that the social context influences and constraints individual action. Also, the special role attributed to the entrepreneur bears resemblance with Max Weber's notion of charisma.

The role of the individual in the capitalist process is significant. Even though, based on some of Schumpeter's writings, we may consider the entrepreneur as a mere unit in the economic process and thus the economic process as 'depersonalized and automatized', the great part of Schumpeter's work refers to the entrepreneur as the bearer of technological change and thus of economic evolution, motivated by values and ethics. However, his mature views are close to Veblen's caption of technological change which is more depersonalised. For Schumpeter, entrepreneurship is a social function and thus technology is an affair of the individual. Technological change is an affair of the community and thus a social function in Veblen. The mature views of Schumpeter seem to be more institutionalised versions of the previous expressed theses and cannot be irrelevant from his move to the USA.

No doubt, the choice of the research questions is rather stimulated by the specific historical circumstances (Blümle and Goldschmidt 2006). In this context, Schumpeter began to write in a social, political, theoretical and ideological environment at a time when evolutionary ideas dominated social thought. We may suppose, therefore, that the similarities of certain Schumpeterian elaborations with theoretical theses delivered by Thorstein Veblen could be attributed to the socioeconomic environment, in which Schumpeter lived and developed his theories. It is in this spirit, that Suranyi-Unger (1931, p. 319) argued that a 'chief merit' of Schumpeter's work was that he gave 'an individual and partly original shape' to ideas borrowed from others. Of course, there is no doubt that in this process Schumpeter not only read widely but also mastered what he read (Samuels 1983, p. 6). In this sense, Schumpeter seems to owe some intellectual debts to Thorstein Veblen. In fact, it could be argued that Veblen might have exerted a certain degree of influence upon Schumpeter. After all, it is Schumpeter himself who admitted that Veblen's works were 'of considerable importance' (Schumpeter 1954, p. 795).

The identification of any 'breaks' and/or 'shifts' in emphasis related to methodological and theoretical issues in the works of both Schumpeter and Veblen is another good example for future investigation. Schumpeter's focus on society and the concomitant social forces is made clear in his *Business Cycles*, where he stressed the fact that individual leadership was 'relatively insignificant in itself' (Schumpeter 1939, p. 227). Furthermore, in his *Capitalism, Socialism and Democracy*, Schumpeter (1947, pp 129–30) wrote that: 'mankind is not free to choose. . .things economic

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and social move by their own momentum and the ensuing situations compel individuals and groups to behave in certain ways whatever they may wish to do'. In this framework, we believe that his late writings seem to recognise the limits that the social capital imposes on the individual and, in this vein, Schumpeter (1951, p. 153) argued that the choices open to individuals are by no means unlimited.

In simple words, Schumpeter's mature writings indicate that he was well aware of the fact that individual action is strongly constrained by social forces (Prendergast 2006, p. 264). This could be regarded as a 'shift in emphasis' in Schumpeter's oeuvre from an individualistic to a holistic stance. This shift seems to place him closer to Veblen. No doubt, Schumpeter's 'shift in emphasis' could have been due to the influence of Karl Marx who believed that no individual is able to determine his/her own momentum, given that the individual energy is shaped by the so-called 'productive forces' in Capitalism, and is practically determined by the 'social capital'. After all, in sociological terms the 'social capital' is always more than a sum of the individual capitals. In conclusion, the connection between Veblen and Schumpeter may be very useful for analysing the various readings of their works and for understanding other economic issues. In fact, the potential connection between Schumpeter, Veblen and Marx could provide useful material for future investigation. No doubt, further research on the social and political *milieu* in which Veblen and Schumpeter developed their theories is also of great interest.

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Abstract

This article investigates Joseph Schumpeter's affinities with Thorstein Veblen with respect to technological change and determinism, the future of capitalism, individualism and institutions. From a methodological point of view, a common point in their analysis is their anti-teleological view regarding *economics* as a discipline. Also, in the Schumpeterian system, technology is the cornerstone of economic evolution and appears as the making of new combinations. In the Veblenian theoretical framework, the bearer of change is to be found, *inter alia*, in technology, just like in Schumpeter's works, although not without differences. They also share the opinion that technology revolutionises capitalism and has serious implications for its future as a system. Furthermore, regarding individualism, in his work Schumpeter stresses the importance of the social milieu on individual action, a fact which bears strong resemblance to the Veblenian notion of evolution as 'depersonalized evolution'. In this sense, Schumpeter is very close to Veblen, although Schumpeter's approach could be classified in what is called institutionalist individualism, whereas Veblen could be classified as holist. Undoubtedly, the role of institutions is of great importance in both Schumpeter and Veblen. Institutions in the Schumpeterian schema play a central role closely related to the future of capitalism. Institutional and non-institutional factors enter into complex forms of interaction just like in Veblen's approach. There, institutions are part of the social milieu and their underlying framework, much wider

than mere economic and social. Of course, the theoretical analyses of Schumpeter and Veblen are not devoid of differences springing mainly from their methodological approach such as the role of the individual in the capitalist process which is probably the most significant difference regarding the importance attributed to it in Schumpeter's early works. Also, the way technical change appears constitutes another difference. However, his views are quite close to Veblen's. After all, Schumpeter began to write in a social, political, theoretical and ideological environment at a time when evolutionary ideas dominated social thought.

Keywords

Schumpeter, Veblen, evolutionary

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