

The Schumpeter–Hilferding Nexus

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Abstract The paper interprets certain parts of Joseph Schumpeter’s *oeuvre* in association with the writings of Rudolf Hilferding. For instance, we show that Hilferding’s conception of economic development has striking similarities with Schumpeter’s respective thesis. Also, Hilferding expressed the thesis that ‘*the size and technical equipment of the monopolistic combination ensure its superiority*’ which has striking similarities with the so-called Schumpeterian Hypothesis. Furthermore, Hilferding made a distinction between the entrepreneur who is in charge of the use of capital in production and the capitalist who advances his capital and bears the risk. There, Hilferding identified another personality who has similar tasks to those of an innovative manager. It is exactly this separation of roles which is at the core of Schumpeter’s famous analysis. Moreover, regarding credit, for both theoreticians, it is determined by its demand side i.e. creation of credit money resulting from the demand for investment funds and is indispensable for the functioning of capitalism. In this context, their views on economic instability have further similarities, since for both theorists, development presupposes an innovation, which enables the firm to earn an extra profit and stimulates the demand for credit in order to finance new investments through credit creation. As for socialism, Hilferding regarded it as the organization of production not by and for the benefit of capitalist magnates but by and for society as a whole, whereas for Schumpeter socialism is an institutional arrangement that vests the management of the productive forces with some public authority. Finally, regarding imperialism, Schumpeter differentiated himself from Hilferding and considered

It is with great pleasure that we contribute this paper in honour of Mark Perlman. It is, most of all, a great privilege to have been asked to do so.

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it to be an ‘old’ inheritance from pre-modern capitalist eras, which was bound to disappear contrarily to Hilferding, who regarded imperialism as a ‘new’, characteristic of capitalism in its ‘latest’ stage. In brief, some of Schumpeter’s ideas are probably not quite as unique as they appeared to be, since many of them could be described as a reworking of Hilferding’s views. Apparently, Schumpeter’s originality is, at least partly, based on the approaches on which he built his *oeuvre*.

Keywords Schumpeter · Hilferding · Influence · Austrian

JEL Classification B15 · B25 · B31 · B52

1 Introduction

Despite the fact that there is no “systematic study of *influence* in the economics profession” (Leeson 1997, 637, emphasis in the original) the study of Joseph Schumpeter’s affinities with other theoreticians is important, given that he was one of the “most important and enduringly influential economists of all time” (Hodgson 2007, 1). In this spirit, Giersch emphatically argued: “[T]he present quarter of the twentieth century is likely to become Schumpeter’s age” (1984, 107). This paper interprets certain parts of Schumpeter’s *oeuvre* in association with the writings of the Austro-Marxist Rudolf Hilferding. This is by no means an easy task.

2 Market structure & technology

According to Schumpeter (1912, 66), economic development depends upon ‘innovation’ covering the following cases: “1. The introduction of a new good [...] or a new quality of a good. 2. The introduction of a new method of production [...]. 3. The opening of a new market [...]. 4. The conquest of a new source of supply [...]. 5. The carrying out of the new organisation of any industry”. These changes were characterised as ‘technological progress’ by Schumpeter (Scherer 1992, p. 1417) and distinguished this process from growth due to the increase in factor inputs (Schumpeter 1942, 65). In this spirit, the Schumpeterian hypothesis was formulated as follows (Mokyr 1990, 267): ‘large firms with considerable market power, rather than perfectly competitive firms were the ‘most powerful engine of technological progress’ Schumpeter, p. 106¹ and in a similar vein Schumpeter criticised perfect competition for not being favourable to technological progress because it cannot lead to high profitability and thus it cannot create incentives for innovation (Schumpeter 1942, 81 ff). See further Papageorgiou et al. (2013).

¹See Kamien-and-Schwartz (1982) and Baldwin and Scott (1987).

However, it is Hilferding who first developed these ideas. More precisely, Hilferding's definition of economic development, has striking similarities with Schumpeter's respective quotation: the "expansion of production [...] in general can be attributed to the opening of new markets, the establishment of new branches of production, the introduction of new technology, and the expansion of needs resulting from population growth" (Hilferding 1910, 258) and "the introduction of new machinery, the assimilation of related branches of production, the exploitation of patents" (Hilferding 1910, 123–124). The obvious similarity of ideas of both theoreticians on this specific issue needs no further comment.

Moreover, Hilferding just like Schumpeter, argued that: "[O]nce a combination has come into existence as a result of economic forces it will very soon present opportunities for the introduction of technical improvements in the process of production" (Hilferding 1910, 197). By the term 'combination', (Hilferding 1910, 197) meant "an association of capitalist enterprises in which one supplies the raw materials for another". However, he made clear that: "The unification of enterprises can take two forms. The enterprises may retain a formal independence, and affirm their association only by agreements, in which case we are faced with a 'consortium' (*Interessengemeinschaft*). If, however, the enterprises are dissolved in a new enterprise, this is called a 'merger' (*Fusion*). Both a consortium and a merger may be either partial, in which case free competition continues to prevail in the branch of industry concerned, or monopolistic" (Hilferding 1910, 197). As for the cartel: "A consortium comprising as many enterprises as possible, which is intended to raise prices, and hence profits, by excluding competition as completely as possible, is a cartel. Or, in other words, a cartel is a monopolistic consortium. A merger which is designed to attain the same end, by the same means, is a trust. A trust then is a monopolistic merger" (Hilferding 1910, 198).

The great combines are "obliged to introduce these [technical] improvements, for otherwise there is a danger that some outsider will use them in a renewed competitive struggle [...]. [I]n this case technical improvements mean an extra profit, which is not eliminated by competition" (Hilferding 1910, 233). It is this technical superiority that enables the monopolistic firms to maintain their position: "The corporation can thus be equipped in a technically superior fashion, and what is just as important, can maintain this technical superiority" (Hilferding 1910, 123). As a result, "An industrial enterprise which enjoys technical and economic superiority can count upon dominating the market [...] can increase its sales, and after eliminating its competitors, rake extra profits over a long period, which more than compensate it for the losses sustained in the competitive struggle" (Hilferding 1910, 191). This technical superiority that makes the monopolist firms able to reproduce themselves as stressed: "These technical advantages, once achieved, in turn become powerful motive for forming combinations where purely economic factors would not have brought them about" (Hilferding 1910, 197). "The corporation can thus be equipped in a technically superior fashion, and what is just as important, can maintain this technical superiority" (Hilferding 1910, 123).

Schumpeter believed that he was living in a *transitional phase* of capitalism, which was the unique outcome of the *co-existence* of “two different epochs”, i.e. capitalism and absolutism. Present-day capitalism existed alongside feudal remnants, with the bourgeoisie subject to the power of imperialist autocracy. This transitional social regime could be named *imperialist capitalism* to differentiate it from *anti-imperialist pure capitalism*, a theoretical construct designating a hypothetical gradual countertrend extrapolated into the future.

For Hilferding, the elimination of free competition came in the following way: ‘The basis of this association is the elimination of free competition among individual capitalists by the large monopolistic combines’ (Hilferding 1910, 301). Thus, ‘it is also clear that monopolistic combines will control the market’ (Hilferding 1910, 193). And it was even Schumpeter himself who came to recognise that Hilferding’s central vision “is interesting and original” (Schumpeter 1954, 881).

As for the second part of the Schumpeterian hypothesis, the views of both theoreticians once again converge significantly. For Schumpeter, large firms become conducive to technological progress: ‘There are superior methods available to the monopolist which either are not available at all to a crowd of competitors’ (Schumpeter 1942, 101). ‘The perfectly bureaucratized giant industrial unit [...] ousts the small or medium-sized firm’ (Schumpeter 1942, 134). In this spirit, the large firm possesses the ability to attract superior ‘brains’ and to deploy an array of practices to protect their risk-bearing investments’ (Schumpeter 1942, 110).

Hilferding expressed a similar view: ‘the corporation can install new technology and labour saving processes before they come into general use, and hence produce on a large scale, and with improved, modern techniques, thus gaining an extra profit, *as compared with the individually owned enterprise*’ (Hilferding 1910, 123-124), emphasis added). Consequently, ‘[T]he largest concerns introduce the improvements and expand their production’ (Hilferding 1910, 233). Summarising, “a corporation [...] is able, therefore, to organize its plant according to purely technical considerations, *whereas the individual entrepreneur is always restricted by the size*” (Hilferding 1910, p. 123), emphasis added).

In this context, Hilferding expressed the thesis (‘Hilferding’s Hypothesis’) that ‘*the size and technical equipment of the monopolistic combination ensure its superiority*’ (Hilferding 1910, 201), emphasis added), which has, in general terms, striking similarities with ‘Schumpeter’s Hypothesis’ arguing that : ‘*large firms with considerable market power, rather than perfectly competitive firms were the ‘most powerful engine of technological progress*” (Schumpeter 1942, 106, emphasis added).

3 Imperialism

“Imperialism” is one of the most widely-discussed terms. As we have seen, it was Hilferding who introduced first the notion of a ‘latest phase’ of capitalism, building on Hobson’s embryonic analysis. This concept is seen as the linking between capitalism’s ‘latest’ stage and imperialism (Winslow 1931, 727). In this

framework, the colonies were regarded as the outlets for the export of finance capital (Milios 1999).

The basic views may be summarized as follows: The predominance of monopolies within the bourgeois class is the distinguishing feature, of contemporary capitalism. This predominance is based on the merging of banking capital with industrial capital, under the direction of the former, and the formation of finance capital. Imperialism and colonialism thus emerge as the expression and the result of competition at the international level between the dominant monopoly groups of the different countries: “Finance capital does not want freedom, but domination [...] But in order to achieve these ends, and to maintain and enhance its predominant position, it needs the state [...] It needs a politically powerful state [...] which can intervene in every corner of the globe and transform the whole world into a sphere of investment of its own financial capital. Finally, finance capital needs a state which is strong enough to pursue expansionist policy and the annexation of new colonies. [...] Capital becomes the conqueror of the world” (Hilferding 1910, 334–5).

Schumpeter differentiated himself from Hilferding by defining imperialism as the ‘objectless disposition of a state toward unlimited and violent expansion’ (Schumpeter 1919, 3) and considered it to be an ‘old’ inheritance from pre-modern capitalist eras, which was bound to disappear (Schumpeter 1951, 69) or transform itself (Papageorgiou and Michaelides 2015), contrarily to Hilferding, who regarded imperialism as a ‘new’, characteristic of capitalism in its ‘latest’ stage. Imperialist capitalism in Schumpeter’s conception is the temporary outcome of the *fusion* between “the inter-state “political” competition of absolutism (state expansion) and the inter-enterprise “economic” competition of capitalism (free-trade). Schumpeter (1919, 296–7) gave Hilferding considerable credit for working out such problems. However, he claimed ‘It was neo-Marxist doctrine that first tellingly described this causal connection (Bauer) and fully recognized the significance of the “functional change in protectionism” (Hilferding) [...] ; Thus we have here, within a social group that carries great political weight, a strong undeniable, economic interest in such things as protective tariffs, cartels, monopoly prices, forced exports (dumping), an aggressive economic policy, an aggressive foreign policy generally, and war, including wars of expansion with typically imperialist character’ (Schumpeter 1951, 79, 83–84).

Hilferding’s theory was influential when Schumpeter wrote his *The Sociology of Imperialisms* (Schumpeter 1919). Taylor claimed (Haberler 1951, 546): ‘There is no doubt at all that the purpose [...] of this essay was to counter the essence [...] of the modern-Marxist (Bauer-Hilferding) theory of capitalist imperialism, with a [...] more complex and adequate theory of imperialism’. Meanwhile, Sweezy claimed that Schumpeter’s essay on imperialism was a corrective supplement to his own *Theory of Economic Development*, repairing his omission of any explanation of “imperialism and war” (Schumpeter 1951, Preface by Sweezy).

It should be pointed out that Hilferding published his influential book *Finance Capital* with considerable success in providing a theory of Imperialism, just before Schumpeter’s *Theory of Economic Development* appeared. Probably, after having studied Hilferding’s influential book *Finance Capital*, Schumpeter “wrote his essay, so that theory is of course what is examined in it” Taylor (1951, 546).

4 The entrepreneur & the separation of roles

Hilferding believed that ‘monopoly capitalism’ introduced a distinction between the entrepreneur (i.e. the head of the firm’s managerial staff), and the capitalist (i.e. the owner or principal creditor). He wrote that the new form of corporation: ‘converts what has been an occasional, accidental occurrence in the individual enterprise into a fundamental principle; namely, *the liberation of the industrial capitalist from his function as industrial entrepreneur*’ (Hilferding 1910, p. 107, emphasis added).

Hilferding made a distinction between the entrepreneur, who is in charge of the use of capital in production, and the capitalist who advances or lends his capital and bears the risk. However, Hilferding also identified another “personality” belonging to the firm’s management staff, who has similar tasks to those of an (*innovative*) manager, and whose goal is to make new ideas work properly: “The separation of capital ownership from its function also affects the management of the enterprise. [T]hey [the managers] will develop firm’s plants, modernize obsolete installations, and engage in competition to open up new markets” (Hilferding 1910, 126). Therefore, it “separates management from ownership and makes management a special function” (Hilferding 1910, 347).

This separation of roles between the capitalist and the entrepreneur in modern capitalism is at the core of Schumpeter’s approach. Both Hilferding and Schumpeter conceived of the separation of roles between the capitalist and the entrepreneur as a major characteristic of the big corporation. Schumpeter adopted this “separation of ownership and management” (Schumpeter 1942, 156) that Hilferding introduced. However, while for Hilferding the entrepreneur was simply the top manager, for Schumpeter the entrepreneur, representing the element of change, confronted the managers, who were mainly concerned with routine affairs.

According to Schumpeter, it is often the entrepreneur who undertakes the role of the *innovative*-manager, although it is not necessary that she is also an inventor. Schumpeter believed that “the entrepreneur is concerned with change”, whereas the manager is “concerned with routine problems” (Scott 1998, 104). “He [the entrepreneur] may be a manager, but *need not* be – a manager” (Scott 1998, 104, emphasis added). The difference between the two (manager and entrepreneur) is: “Carrying out a new plan and acting according to a customary one are things as different as making a road and walking along it” (Schumpeter, 85). “Surmounting this opposition is always a special kind of task which does not exist in the customary course of life, a task which also requires a special kind of conduct” (Schumpeter 1912, p. 87).

In his mature works, Schumpeter recognised the rise of a “collective” type of entrepreneurship: “[the] entrepreneurial function need not to be embodied in [...] a single physical person. Every social environment has its own ways of filling the entrepreneurial function [...] it may be and often is filled co-operatively. With the development of the largest-scale corporations this has evidently become of major importance: aptitudes that no single individual combines can thus be built into a corporate personality; on the other hand, the constituent physical personalities must inevitably to some extent, and very often to a serious extent, interfere with each other” (Schumpeter 1949, 260–1).

In a similar spirit, Hilferding concluded that a form of tension emerged between capitalist owners and managers, the former being interested in short-term profit maximisation, the latter preferring long-run strategies based on innovation: “The separation of capital ownership from its function also affects the management of the enterprise. The interest which its owners have in obtaining the largest possible profit as quickly as possible, their lust for booty, which slumbers in every capitalist soul, can be subordinated to a certain extent, by the managers of the purely technical requirements of production. More energetically than the private entrepreneur they will develop the firm’s plant, modernise obsolete installations, and engage in competition to open up new markets” (Hilferding 1910, 126).

Schumpeter incorporated the modernising functions of Hilferding’s ‘innovative manager’ to those of the entrepreneur and connected them with the ‘spirit of capitalism’. He, thus, ascribed the role of innovation to the entrepreneur who, without being a capitalist, might exist *only in the framework of the capitalist regime*. So, the separation of roles was an outcome of the prevailing type of firm structure. This idea traces its roots back to Hilferding, who first presented the ‘liberation of the industrial capitalist from his function as industrial entrepreneur’ (Hilferding 1910, 107).

5 The transition to socialism

For Hilferding the distinction between entrepreneurs and capitalists paved the way to socialism: ‘Finance capital puts control over social production increasingly into the hands of a small number of large capitalist associations, separates the management of production from ownership and socializes production to the extent that this is possible under capitalism’ (Hilferding 1910, 367). This, “facilitates enormously the task of overcoming capitalism [...] it is enough for society, through its conscious executive organ – the state conquered by the working class – to seize finance capital in order to gain control [...] of production” (Hilferding 1910, 367). And “Since all other branches of production depend upon these, control of large-scale industry already provides the most effective form of social control” (Hilferding 1910, 367).

Hilferding made clear that “The tendency of finance capital is to establish social control of production, but it is an antagonistic form of socialization, since the control of social production remains vested in an oligarchy”. And “The response of the proletariat to the economic policy of finance capital [...] cannot be free trade, but only socialism” (Hilferding 1910, 366), but socialism regarded as “the organization of production, the conscious control of the economy not by and for the benefit of capitalist magnates but by and for society as a whole, which will then at last subordinate the economy to itself” (Hilferding 1910, 366–7).

For Schumpeter, the entrepreneurs renewed the capitalist class, as the more successful among them became capitalist themselves (Schumpeter 1912, 78–9). Only ‘bureaucratisation of economic life’ (Schumpeter 1942, 206), simplifies the transition to a socialist but “bureaucratic apparatus” by establishing new modes of managerial responsibility and selection that “could only be reproduced in a socialist society” (Schumpeter 1942, 206–7), and defined socialism as “an institutional arrangement

that vests the management of the productive forces with some public authority” (Schumpeter 1942, 113). Schumpeter gave one reason for the disappearance of the entrepreneur: ‘it is much easier now than it has been in the past to do things that lie outside the familiar routine – innovation itself is being reduced to routine. Technological progress is increasingly becoming the business of teams of trained specialists’. However, he never abandoned his model of the entrepreneur as the agent of change. For Schumpeter, this new mode of economic organization, “the growth of the great combines or the rise of trustification, is the final stage of capitalism [. . . A]fter that, it would resolve itself into socialism” (TeVelde 2001, 24).

Schumpeter declared an “inevitable decomposition of capitalist society” (Schumpeter 1942, xiii): “Can capitalism survive?” he asked. “No I do not think it can” (Schumpeter 1942, 61). Schumpeter described a process in which capitalism’s success, prepares the way for socialism. Thus, capitalism’s prospective failure is not due to “its breaking down under the weight of economic failure”, instead “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 out to socialism as the heir apparent” (Schumpeter 1942, 61). In this sense, “capitalism is being killed by its achievements” (Schumpeter 1942, xiv). Capitalism’s “tendency toward self-destruction [. . .] may well assert itself in the form of a tendency toward retardation of progress” (Schumpeter 1942, 162). For Schumpeter, the various factors “make not only for the destruction of the capitalist but for the emergence of a socialist civilization [. . .]. The capitalist process not only destroys its own institutional framework but it also creates the conditions for another” (Schumpeter 1942, 162).

Schumpeter claimed that “things and souls are transformed in such a way as to become increasingly amenable to the socialist form of life”. The capitalist “economic process tends to socialize *itself* – and also the human soul” and so “the technological, organizational, commercial, administrative, and psychological prerequisites of socialism tend to be fulfilled more and more” (Schumpeter 1942, 168, 219). These factors also “point to socialism as the heir apparent” (Schumpeter 1942, 61). “[P]rivate enterprise will lose its social meaning through the development of the economy and the consequent expansion of the sphere of social sympathy. [. . .] Society is growing beyond private enterprise [. . .] *That too is certain*”. (Schumpeter 1918, 131). So, “the hour [of socialism] will come” (Schumpeter 1918, 131). Schumpeter’s view on socialism expressed in 1918 seems surprising, as he had written several texts before 1918, expressing very conservative or even monarchist views, adopting upper nobility and Catholic–conservative arguments (Blumenthal 2008, 647–8). This change could be attributed to the rise of socialism in 1918 and Schumpeter’s chance to update his political profile.

6 Credit & banking

Schumpeter (1912, 74) pointed out that “the ‘new combination of means of production’ and credit” were the “fundamental phenomena of economic development”. Credit provides the entrepreneur with an additional purchasing power that enables him to foster development ‘Granting credit in this sense operates as an order on

the economic system to accommodate itself to the purposes of the entrepreneur [...]’ (Schumpeter 1912, 107). Schumpeter stressed the importance ‘of credit means of payment created *ad-hoc*, which can be backed neither by money in the strict sense nor by products already in existence’ (Schumpeter 1912, 106). Credit performs the functions of ‘enabling the entrepreneur to withdrawn producers’ goods which he needs from their previous employments, by exercising a demand for them, and thereby to force the economic system into new channels’ (Schumpeter 1912, 106).

Hilferding differentiated between paper money as legal tender ‘which emerges from circulation as a social product’, and credit money which is a ‘private affair’, not backed by the government (Schumpeter 1910, 66). In this case, money can be replaced by a promise to pay. For Hilferding credit originated as a consequence of the changed function of money as a means of payment. A purchase not followed by direct payment ‘means that one capitalist has enough surplus capital to wait for payment for the purchaser, the money due is credited’ and ‘money is [...] merely transferred’ (Hilferding 1910, 82). However, when a promissory note functions as a means of payment, money capital has been saved, and this type of credit is called ‘circulation credit’ (Hilferding 1910, 83).

He believed that an increase in production means a simultaneous expansion of circulation and ‘the enlarged circulation process is made possible through an increase in the quantity of credit money’ (Hilferding 1910, 83). However, circulation credit, does not ‘transfer money capital from one productive capitalist to another; nor does it transfer money from other (unproductive) classes to the capitalist class’ (Hilferding 1910, 87). This role is played by ‘capital credit’. This credit form constitutes a transfer of money to those who use it as money capital, i.e. for the purpose of purchasing the elements of productive capital.

Credit ‘puts money into circulation as money capital in order to convert it into productive capital’ (Hilferding 1910, 88) expanding the scale of production while the scale of circulation is enlarged by utilization of *previously idle money*. To sum up, credit, *determined by its demand side* (creation of credit money resulting from the demand for ‘investment funds’) is given special attention by both theoreticians and it is considered as indispensable for the functioning of capitalism.

In this context, Hilferding emphasised the crucial role of banks (Fritz-and-Haulman 1987). He argued that credit money required ‘special institutions where obligations can be cancelled out and the residual balances settled, and as such institutions develop so is a greater economy achieved’ (Hilferding 1910, 66). And this was a fundamental function of any developed banking system. Thus, “money capital” replaces “commodity capital”. And banks offer the ideal means for exercising the functions of credit (Hilferding 1910, 90): “With the development of the banking system, as unemployed money flows into the banks, bank credit is substituted for commercial credit, so that increasingly all bills serve as means of payment not in the original in which they circulate among productive capitals, but in their converted for as bank notes” (Hilferding 1910, 86).

Banks enlarge the scale of the process through concentration: “taking possession of six large Berlin banks [...] would mean taking possession of the most important

spheres of large scale industry” (Hilferding 1910, 368). Hilferding stressed that the banking system generates tendencies toward concentration “but the concentration of industry is the ultimate cause of concentration of the banking system” (Hilferding 1910, 98). There, Hilferding argued: “An ever-increasing part of industrial capital does not belong to the industrialists who use it. They get the disposition of it only through the banks, which represent the owners of it. On the other hand, the bank must invest an ever-increasing part of its capital in industry. Thus the bank becomes, to an ever-greater extent, an industrial capitalist. This bank capital, or capital in the form of money, which in this way has in reality been transformed into industrial capital, I shall call finance capital [...] capital disposed of by the banks and used by the industrialists” (Hilferding 1910, 283).²

Schumpeter’s theory of money attributes increasing importance to banks acting as capitalists and constituting the necessary link for the realisation of the investment plans by the firms. The crucial role of the banker as “ephor of the exchange economy” (Schumpeter 1912, 110) and of the credit market as “the headquarters of the capitalist system” (Schumpeter 1912, 205) are clear evidence of the increasing attention he attributed to financial institutions.

To sum up, we strongly believe that Hilferding’s critique of the role of credit, despite its crucial differences, has some elements found later in the Schumpeterian theory but we strongly believe that Hilferding’s critique of the role of credit, despite its crucial differences, has some elements found later in the Schumpeterian theory: “Circulation credit may be an efficient means of transfer but the key characteristic of development lies in the financial system’s ability to mobilize capital credit”. It is only in this sense that “Hilferding’s emphasis on capital credit is the forerunner of Schumpeter’s [...] credit” (Fritz and Haulman 1987, 126). Characteristic of this situation is the fact that even Schumpeter characterised Hilferding’s monetary theory and explanation of crises as “rather old-fashioned” (Schumpeter 1954, 881).

7 Economic crises & business cycles

The two theoreticians’ views on economic crises and business cycles have some similarities. For both Austrian theorists, development presupposes an innovation, which enables the firm to earn an extra profit and stimulates the demand for credit in order to finance new investments, through credit creation. This produces a general expansion. According to Schumpeter, prosperity may reach its upper point for various reasons (e.g. non-innovating firms suffer losses; new investments are limited, etc). Hence, the possibilities offered by innovation are exhausted. The subsequent downturn coincides with a “panic” which results in credit tightening and there is shrinkage of operations when all investments are liquidated. Next, a movement towards a new equilibrium point express the last phase of the cycle. See further Michaelides et al. (2010a).

² For an analysis of Hilferding’s approach in the light of Stuart and Smith, see Lapavistas (2004).

Schumpeter stressed certain actors: “Social facts are the result of human conduct, economic facts result from economic conduct and the latter may be defined as conduct directed towards the acquisition of goods” (Schumpeter 1912, 3–4). But “Economic conduct may have *any* motive” (Schumpeter 1939, 10, emphasis added).

Hilferding, in his discussion of economic crises (Hilferding 1910, ch. 16–17) argued that “such expressions as ‘overproduction of commodities’ and ‘underconsumption’ tell us very little” (Hilferding 1910, 241). He investigated the specific causes of economic crises and, in particular, the disproportionality between the capital goods and consumer goods industries (Milios et al. 2002). Hilferding developed a theory of economic fluctuations based on ‘disproportionality’ crises. Disproportional developments in the producer and consumer goods sectors in the course of the business cycle constitute a common point between Hilferding’s analysis and Schumpeter’s work on business cycles. See further Vouldis et al. (2011). However, while Schumpeter acknowledged the importance of disproportionality by arguing that “[T]his idea [...] is moreover easy to substantiate from certain very obvious facts” [Schumpeter 1954, 1133], he avoided attributing a substantive role to it. He stressed the importance of looking for “the definite factors that are to account for it” and concluded that “those factors [...] will individuate an author’s theory” (Schumpeter 1954, 1133) and explained its acceptance as the result of the “unduly great confidence that the best theorists of the period placed in the equilibrium analysis” (Schumpeter 1954, 1133).

8 Conclusion

Now, the question arises of whether Hilferding had influenced Schumpeter, or whether both authors drew their ideas from Karl Marx’s *oeuvre*. As we have argued elsewhere (Michaelides and Milios 2005), Hilferding’s (and Schumpeter’s) analysis constitutes a major revision of Marx’s ‘macroeconomic’ theoretical system in favour of a ‘microeconomic’ point of view, that seeks causality in the individual enterprise by reversing the Marxian flow of cause and effect.

To conclude, Schumpeter’s ideas were apparently not quite as unique as they appeared to be and this paper provided relevant insights and this paper provided relevant insights. See also Michaelides and Milios (2009), Michaelides et al. (2010b), Michaelides and Theologou (2010). Schumpeter’s originality seems to be based on the approaches on which he built his *oeuvre* (Appel 1992). Hence, most Schumpeterians, would be surprised by our approach that describes many of Schumpeter’s theses as a reworking of an Austrian colleague’s ideas which had been developed and published earlier, where Schumpeter practically neither referred to the idea itself, nor to its intellectual “father”, despite the fact that in his preface to the first German edition of the *Theory of Economic Development* he admitted “that he had conceived the fundamental ideas as early as 1905” (Haberler 1950, 341) when Hilferding was finishing his influential book at Böhm-Bawerks famous seminar meetings, where both Schumpeter and Hilferding were present. Clearly, future research would be of great importance.

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