



## Creativity and/or Alertness: A Reconsideration of the Schumpeterian Entrepreneur

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**T**he purpose of this paper is to reconsider the difference between Schumpeter's portrayal of the entrepreneurial role, and my own earlier (1969, 1973) portrayal of that same role.<sup>1</sup> In 1969 and in 1973, in the course of developing my own understanding of the entrepreneurial character of the competitive, equilibrative market process, I emphasized these differences as I then saw them. Schumpeter's entrepreneur, I pointed out, was essentially disruptive, *destroying the pre-existing state of equilibrium*. My entrepreneur, on the other hand, was responsible for the tendency through which initial conditions of disequilibrium come systematically to be displaced by *equilibrative* market competition. The outcome of the present reconsideration will be, not a thoroughgoing "reconciliation" of these two conceptions of the entrepreneurial role—I still believe that these views are, at least in part, contrasting ones—but a clearer understanding of how each of these apparently conflicting views can be seen as plausible and realistic; and how each can usefully advance economic understanding (of respectively different aspects of the capitalist economy).

The central theme of this reconsideration can be expressed in the following four propositions:

1. For understanding the psychological profile typical of the real-world entrepreneur as we know him, Schumpeter's portrayal is valid and accurate.
2. For understanding the "creative destruction" which Schumpeter sees as the central and distinguishing feature of the capitalist system, Schumpeter's portrayal is valid and essential; to the extent that policy objectives include the stimulation of such creative destruction, careful attention will indeed have to be paid to that Schumpeterian psychological profile to which we have referred.
3. For understanding the equilibrative tendency of markets in general, my own view of the entrepreneur as alert to opportunities (created by, or able to be created by, independently-initiated changes), is valid and significant.
4. To see the entrepreneurial role of a real-world entrepreneur as essentially that of being "merely" alert to opportunities created (or able to be created) by independently-initiated

<sup>1</sup> Although the objective of this paper is to throw light on the nature of the entrepreneurial role (rather than to clarify what this writer "really meant" in earlier, almost forgotten writings), it does focus distressingly abundantly, upon some of that earlier work. I can only apologize for this.

changes, is not *necessarily* inconsistent with a Schumpeterian perspective on the activity of that same entrepreneur (which sees him as aggressively and actively initiating change).

### **The entrepreneur as I saw him in 1973**

My 1973 book, *Competition and Entrepreneurship* sought to offer an Austrian (i.e., a Misesian) perspective on markets which would highlight the dynamically competitive character of the market process. In that process markets tend continually (in the face of equally continual exogenous changes in the relevant independent variables) towards equilibrium, as the consequence of continually-stimulated entrepreneurial discoveries. These discoveries are discoveries of earlier errors made in the course of market exchanges. As a result of those earlier errors, market participants have been led (i) over-optimistically to insist on receiving prices that are “too high” (to enable them to sell all that they would like to sell at those prices) [or on paying prices that are “too low” (to enable them to buy all that they would like to buy at those prices)]; or (ii) over-pessimistically to enter into transactions that turn out to be less than optimal in the light of the true market conditions as they in fact reveal themselves (e.g., a buyer discovers that he has paid a price higher than that being charged elsewhere in the market; a seller discovers that he has accepted a price lower than that which has been paid elsewhere in the market). The first of these latter two consequences of error (i.e., of errors of over-optimism) leads inevitably to frustrated plans: would-be buyers return home without having bought goods, would-be sellers return home with their unsold goods (in spite of the fulfillment of the conditions needed for mutually gainful exchange to be feasible among potential buyers and sellers). The second of the afore-mentioned two consequences (arising out of over-pessimism) expresses itself as the phenomenon of unexploited pure profit opportunities (the same good is being sold at different prices in different parts of the same market). The entrepreneurial role is that of alertly noticing (“discovering”) where these errors have occurred, and of moving to take advantage of such discoveries, and thus of nudging the market systematically in the direction of greater mutual awareness among market participants. (Since equilibrium is the state in which all market participants are, in effect, fully and correctly aware of what all others are doing, the entrepreneurial discovery process is one whose tendency is systematically equilibrative.)

This perspective on the entrepreneurial role and of its equilibrative character was articulated, in my 1973 book, *primarily* in the simplest of contexts, i.e., in markets for single commodities, within a single time period. For the purposes of that work I believed it important deliberately to abstract, for the most part, from the complications introduced by consideration of production, and of the passage of time. Readers of that work may be excused for concluding that phenomena associated with *innovative* production and with the *uncertainty* that accompanies time-consuming processes of production (and certainly time-consuming *innovative* processes of production) are basically irrelevant for the entrepreneurial role as portrayed in that work.

The entrepreneur who played the equilibrative role for me in 1973, fulfilled his essential function not by introducing new products, or technologically more efficient methods of production (in fact he was not a producer at all)—but simply by noticing earlier errors (manifested, most importantly, by the availability of pure profit opportunities existing

in the multiple-price-for-the-same-good situation generated by those earlier errors). The emphasis was thus on the entrepreneur as the person who alertly (but “passively”) simply *noticed* the opportunities generated by the earlier errors, which errors were seen as arising from unanticipated independently-caused, changes in underlying market circumstances.

Indeed, in that 1973 work (based on insights first developed in a 1969 paper) I was careful to distinguish sharply between the entrepreneurial role as I saw it, and that role as portrayed by Schumpeter. Let us turn to see how I presented that distinction.

### **The Schumpeterian entrepreneur—As I saw him in 1973**

It was important for me in 1973 to emphasize the differences between Schumpeter’s entrepreneur and my own, because a superficial reader of my exposition of the dynamically competitive market process might easily and understandably be misled by the very significant parallels between my exposition of that process and Schumpeter’s understanding of the competitive process. Schumpeter had vigorously rejected the orthodox emphasis on the perfectly competitive market.<sup>2</sup> He emphasized the *entrepreneurial* character of real-world *dynamically* competitive processes.<sup>3</sup> In these respects my own expositions of the competitive process (expositions based on my understanding of Ludwig von Mises’s monumental 1949 work, *Human Action*) overlapped considerably with those of Schumpeter.<sup>4</sup> Yet, as we shall see, my (“Misesian”) understanding of the market economy differed significantly from Schumpeter’s understanding of capitalism as a “perennial gale” of “creative destruction”. In seeking to clarify this difference I found it convenient to draw attention to the different roles played, within these different expositions of the competitive process, respectively, by the entrepreneur.

For Schumpeter “the essence of entrepreneurship is the ability to break away from routine, to destroy existing structures, to move the system away from the even, circular flow of equilibrium. . . . For Schumpeter the entrepreneur is the disruptive, disequilibrating force that dislodges the market from the somnolence of equilibrium.”<sup>5</sup> The primary consequence of Schumpeter’s entrepreneurship was the long-run economic development of the capitalist system. “The opening up of new markets, foreign or domestic, and the organizational development from the craft shop and factory to such concerns as U.S. Steel illustrate the same process of industrial mutation. . . that incessantly revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism.”<sup>6</sup> The Schumpeterian entrepreneur is a *leader* (contrasted with the many “imitators” who follow the innovative lead of the entrepreneurs). All this contrasted, I pointed out, with the way I saw the entrepreneurial role. For me the essential element in that role was its potential of impinging on an initial state of disequilibrium, and, through alertly noticing (“discovering”) those errors of which

<sup>2</sup>Schumpeter (1942, 1950), pp. 103ff.

<sup>3</sup>Schumpeter (1942, 1950), p. 84.

<sup>4</sup>On this see also Kirzner (1990), pp. 245–249.

<sup>5</sup>See Kirzner (1973), p. 127.

<sup>6</sup>Schumpeter (1942, 1950), p. 83.

this state consists, moving equilibratively to correct them. I pointed out<sup>7</sup> that Schumpeter's exposition was "likely to generate the utterly mistaken view that the state of equilibrium can establish itself without any social device to deploy and marshall the scattered pieces of information which are the only sources of such a state." (I also drew attention to Hayek's work<sup>8</sup> in regard to the role of mutual ignorance in disequilibrium, and to his critique of Schumpeter in the latter's seeming to fall prey to precisely that "mistaken view" mentioned in the preceding sentence.)

The contrast between the two views was concisely reflected in my following complaint concerning Schumpeter's view of entrepreneurial activity:<sup>9</sup> "Instead of entrepreneurs grasping the opportunities available, responding to and healing maladjustments due to existing ignorance, the entrepreneur is pictured as generating disturbances in a fully adjusted circularly flowing world in which all opportunities were already fully and familiarly exploited." The contrast between Schumpeter's view and my own, which I saw in 1969 and in 1973, came to be variously commented on by several writers during subsequent years. A number of valuable insights emerged from these comments.

### **Conflicting appraisals of the "contrast"**

One reaction was to treat the contrast which I had perceived between Schumpeter's view and my own, as exaggerated. "Superficially", Hébert and Link<sup>10</sup> declared in 1982, "the Kirznerian entrepreneur appears to be the antithesis of the Schumpeterian entrepreneur, but fundamentally their differences are more apparent than real . . . one vision seems to complement the other."<sup>11</sup> This complementarity consists in the circumstance that while Schumpeter's innovating entrepreneur is responsible for creating disequilibrium "in the first place", it is the "Kirznerian" entrepreneur who "springs into action upon recognizing a disequilibrium situation". One gathers from Hébert and Link that, while the differences between the two views are real, they arise not from two fundamentally inconsistent views of the economic process, but from the necessarily different emphases relevant to the two parts of the same market process, to which these views respectively pertain. (What is not made clear, however, is how a single economic function, the entrepreneurial function, can be simultaneously identified with two contrastingly different sets of characteristics.)

Two other papers have similarly perceptively criticized the sharpness of the contrast drawn between Schumpeter's view and my own. Donald J. Boudreaux<sup>12</sup> argues that *both* Schumpeterian and Kirznerian entrepreneurs should be seen as equilibrating (since both tend to push the market towards fulfillment of as yet unfulfilled potential). The different

<sup>7</sup>Kirzner (1973), pp. 73f.

<sup>8</sup>Hayek (1945, 1949).

<sup>9</sup>Kirzner (1969, 1979), p. 118.

<sup>10</sup>Hébert and Link (1982), p. 99.

<sup>11</sup>In a recent (as yet unpublished) paper (Holcombe (1997)) Professor Randall G. Holcombe states that "at least a part of the difference between Schumpeter's and Kirzner's views might be semantic, based on different understandings of the meaning of the word equilibrium."

<sup>12</sup>Boudreaux (1994).

views should be seen as complementary: Schumpeter usefully draws attention to dimensions of improvement in product quality (dimensions which Boudreaux believes to be necessarily outside any picture based on my own entrepreneurial discovery process); Kirzner, on the other hand, usefully draws attention to the equilibrative sense in which all social opportunity-grasping, including (by extension) Schumpeterian innovation, can be perceived.

Young Back Choi, after a discussion (rather similar to Boudreaux's) in which the similarities between Schumpeter's entrepreneur and my own are emphasized, reaches the following conclusion: "the concern over whether the entrepreneur is equilibrating or disequilibrating [seems] similar to the debate whether a glass is half-full or half-empty."<sup>13</sup> What Choi means is that the two views are not so much complementary (referring to different segments of the same market process) as in fact *identical* (differing only as a result of "a difference in perspective" reflecting merely "what Schumpeter and Kirzner take as the basis").<sup>14</sup>

Brian Loasby, like several of these above-cited writers, considers the possibility of complementarity between the two views of the entrepreneurial role, but is led to dismiss it. "Kirzner's entrepreneur profits by assisting cohesion, Schumpeter's by disruption. Each might be regarded as providing opportunities for the other; yet they do not fit together all that well. They are linked to quite different conceptions of profit, and to substantially different conceptions of the working of the economy."<sup>15</sup> Elsewhere he has emphasized the differences as follows: "Whereas Kirzner's entrepreneurs respond to changing data, Schumpeter's cause the data to change."<sup>16</sup>

Stephan Boehm, too, tends to agree with existence of irreconcilable differences between the two views. "Schumpeter's and Kirzner's entrepreneur share a number of characteristics, but they are outweighed by some important dissimilarities."<sup>17</sup>

Affirmation of the contrast which I emphasized in 1973 (between Schumpeter's view of the entrepreneur and my own) does not, however, imply acceptance of my own characterization of the entrepreneurial role. In fact a number of writers generally sympathetic to a Misesian view of the competitive market process, have felt uncomfortable with my emphasis on the entrepreneur as "passively" noticing (and profiting by) independently created changes that have occurred in the data. The Schumpeterian view of the aggressive, active, innovative entrepreneur appears, to these critics, to be too faithful a portrayal of real-world business entrepreneurs to be given up simply in order to achieve the somewhat obscure analytical purposes claimed on behalf of my own entrepreneurial portrait. A number of these critics seem to have been particularly disturbed by what they saw as my deliberate abstraction from uncertainty. Because Mises himself emphasized the place of uncertainty in the context of entrepreneurship, and because the boldness needed to grapple confidently with uncertainty seems more similar to the aggressiveness of Schumpeter's entrepreneur (the success of whose innovations must be inextricably bound up in the uncertainty of an

<sup>13</sup>Choi (1995), p. 62.

<sup>14</sup>Choi (ibid.).

<sup>15</sup>Loasby (1982), p. 224.

<sup>16</sup>Loasby (1989), p. 178.

<sup>17</sup>Boehm (1990), p. 229. See also McNulty (1987), pp. 536f ("Schumpeter's entrepreneur is a disequilibrating force . . . Kirzner's entrepreneur plays an equilibrating role.") See also Ricketts (1994), pp. 63f.

open-ended world) than to the passivity of the Kirznerian entrepreneur—these Misesian critics tended to be critical of my own characterization of the entrepreneur.<sup>18</sup>

### Entrepreneurship and uncertainty

In a 1981 paper<sup>19</sup> I sought to address these criticisms by exploring the role of uncertainty in Misesian entrepreneurship. The relevance of such an exploration to the differences between Schumpeter's entrepreneur and my own can be recognized by noticing that I introduced my exploration with the observation<sup>20</sup> that the character of the market process is, for Mises, "decisively shaped by the leadership, the initiative, and the driving activity displayed and exercised by the entrepreneur." Clearly, I wished to emphasize that the uncertainty which envelops entrepreneurial activity evokes these "Schumpeterian" qualities of "leadership, initiative and driving activity". Although no explicit mention was made, in that '81 paper, of the contrast which I had earlier emphasized as existing between Schumpeter's entrepreneur and my own, the issues discussed in that paper, concerning the place of uncertainty in entrepreneurship, are profoundly significant for the "reconsideration" in which the present paper is engaged. Because my 1981 paper was concerned with the role of uncertainty, it deliberately extended my earlier discussions of entrepreneurship from the simple period (in which uncertainty can be, in one sense, ignored)<sup>21</sup> to the multi-period case (in which scope for uncertainty must be granted). It was this extension which implied, in addition, recognition for imagination and innovativeness. ("[T]he futurity that entrepreneurship must confront introduces the possibility that the entrepreneur may, by his own creative actions, in fact *construct* the future as *he* wishes it to be. In the single-period case alertness can at best discover hitherto overlooked current facts. In the multi-period case entrepreneurial alertness must include the entrepreneur's perception of the way in which creative and imaginative action may vitally shape the kind of transactions that will be entered into in future market periods. . . . To be a successful entrepreneur one must now possess those qualities of vision,

<sup>18</sup>See e.g., Greaves (1974); Hazlitt (1974); White (1976); High (1980); see also High (1990), p. 41.

<sup>19</sup>Kirzner (1982, 1985), chapter 3.

<sup>20</sup>Kirzner (1982, 1985), p. 40.

<sup>21</sup>Although the single-period context (upon which my 1973 discussion of entrepreneurship focused) permits us to "ignore uncertainty", this is *not* inconsistent with Mises's insistence that (as my critics pointed out) the entrepreneurial role can be defined only in the context of uncertainty. What Mises meant by that insistence, it is my understanding, was that scope for entrepreneurial discovery (of errors being made by others) cannot be imagined to exist except in a world in which "sheer ignorance" (i.e., undeliberate, costlessly-removable ignorance which "inefficiently" remains after all *known* worthwhile, cost-benefit-calculated efforts have been made to remove known ignorance) is essentially present. In the world in which we live the element within it which creates scope for such sheer ignorance is the uncertainty of the future. Were the future to be "determined" (and thus essentially knowable), the only ignorance of it which would remain would be "efficient" ignorance (i.e., ignorance the costly removal of which would be seen as not worthwhile). My device, in 1973, of focusing on the single-period context for entrepreneurship, required the *deus-ex-machina-assumption* of the possibility of sheer ignorance in that context (*without* the multi-period uncertainty which renders sheer ignorance plausible or inevitable in the real world). The analytical core of the 1973 treatment is, I believed (and still believe), identical with that which Mises develops in his own treatment of entrepreneurship in the multi-period real world.

boldness, determination and creativity. . . .”<sup>22</sup>) Some comments upon this paper seem to wish to assert that it may have misleadingly understated the extent to which it acknowledges, in effect, the inadequacies which earlier critics found in my 1973 exposition.<sup>23</sup> They read that (1981) paper as constituting a rather significant modification of my earlier position—a more significant modification than I was apparently prepared to admit. Some further clarification may be helpful. The truth is that (while the extension presented in my 1981 paper did permit explicit attention to the psychological characteristics of Schumpeter’s entrepreneur that were absent from my own 1973 entrepreneur) it was not (and is not) my understanding of the extension from single-period to multi-period entrepreneurship that it entails any modification of my conception of the entrepreneurial role. The key to that conception is, following Mises, to recognize the *arbitrage* element in *all* entrepreneurial activity, whether single-period or multi-period.

In discussing pure entrepreneurial profit Mises pointed out that what is responsible for such profit “is the fact that the entrepreneur who judges the future prices of the products more correctly than other people do buys some or all of the factors of production at prices which, seen from the point of view of the future state of the market, are too low.”<sup>24</sup> The crucial element in intertemporal entrepreneurship is thus captured in the entrepreneur’s perception of a price gap between present inputs and (appropriately discounted) future output. My 1973 work found it expedient to focus upon this, the essential feature of entrepreneurship, through the device of abstracting from all other aspects of the real-world exercise of entrepreneurship. This device consists in imagining how entrepreneurship might be exercised in a world in which all those other aspects are imagined to be absent—i.e., in a single-period world without production and without the uncertainty that arises from awareness of futurity. It was certainly not the intention, in deploying this analytical device, to deny that in the real world of production and (consequently) of multi-period decisionmaking and radical uncertainty, entrepreneurship is exercised only by calling upon the entrepreneur’s qualities of boldness, innovativeness and creativity. Conversely, in extending the single-period entrepreneur to my 1981 multi-period context, it was not the intention to modify what I understood to be the Misesian conception of pure entrepreneurial activity, viz the perception (and thus the inevitable grasping) of a divergence between two prices at which the “same” item can be bought and sold. In recognizing how, (in order to act entrepreneurially in the uncertain context of time-consuming production possibilities) the entrepreneur will need to display qualities of boldness and creativity, there was no intention (and no need) to see these qualities as essential to the pure entrepreneurial role, *as that role enters into our analysis and understanding of the market process*. In acknowledging that, for Mises, the uncertainty within which the entrepreneur operates is an essential defining condition *for the situations in which scope for entrepreneurship exists*, there was no intention (and no need) to see boldness and creativity as anything more than the psychological qualities needed in order for the entrepreneur *effectively* to recognize, in peering into the future, those pure price differentials in which prospective entrepreneurial profits are to be won. (Consider the factor service “labor”. For many real-world employment situations (perhaps all), the

<sup>22</sup>Kirzner (1982, 1985), pp. 63f.

<sup>23</sup>Hébert and Link (1982), pp. 97f; High (1982).

<sup>24</sup>Mises (1962), p. 109.

psychological profile of a successful laborer will include the quality of “obedience”. Yet this does not require us to *define* the laborer’s decision to sell labor, in terms of obedience. We simply define the essence of the laborer’s decision as that of selling his human services.) Perhaps this can be more clearly expressed in the following assertions: (a) Were we to be able to imagine a world without uncertainty in regard to the future, we would (as Mises taught us) be unable to find scope in that world for pure entrepreneurship. With the future knowable with certainty, we could hardly imagine those errors being made that create the scope for entrepreneurship in our own, open-ended, world. (b) Entrepreneurship, in the context of production possibilities, consists in one’s conviction that one has perceived earlier errors in the market to have created a differential between the price at which one can buy inputs and the price at which it will be possible to sell outputs. (c) While psychological and personal qualities of boldness, creativity, and self-confidence will doubtless be helpful or even necessary in order for a person to “see” such price-differentials in the open-ended, uncertain world in which we live (with “seeing” defined as necessarily implying the grasping of the opportunity one has seen), the *analytical essence* of the pure entrepreneurial role is itself independent of these specific qualities.

So that while the explicit introduction of uncertainty into my portrayal of the entrepreneurial context<sup>25</sup> certainly fleshes out and improves that portrayal ((a) by bringing it closer to the real-world context, and (b) by relating that context to Mises’s own explicit insistence on the presence of uncertainty as the defining feature of that context), it does *not* embody any change<sup>26</sup> in the pure, analytical conception of the entrepreneur who, in my 1973 work, was responsible for the tendency towards market equilibration. The equilibrative properties of entrepreneurial activity still consist purely in perceiving price differences. Aggressive, creative or other “Schumpeterian” characteristics often or typically displayed by successful real-world entrepreneurs, play no analytical role in the dynamically competitive market process driven by entrepreneurial activity.

### **The Schumpeterian entrepreneur reconsidered**

Despite this insistence (my critics may consider it obstinacy) on my part in asserting that my 1981 paper did not (contrary to a number of commentaries upon it) represent any essential modification of my earlier understanding of the entrepreneurial role, it must certainly be recognized that that paper encourages a far more sympathetic appreciation, on my part, for the Schumpeterian entrepreneur. Once we permit the multi-period character of real-world entrepreneurial behavior to be explicitly considered, the relevance of the active, aggressive characteristics of Schumpeter’s entrepreneurs becomes understandable and important. Entrepreneurial alertness, in this essentially uncertain, open-ended, multi-period world must unavoidably express itself in the qualities of boldness, self-confidence, creativity and innovative ability. In order to make a discovery, in this world, it is simply not sufficient

<sup>25</sup>That portrayal did point out very explicitly that uncertainty was being deliberately abstracted from (see Kirzner (1973), pp. 86f).

<sup>26</sup>Although Professor Vaughn disagrees with much of my position, she has recognized the essentially unchanged core of that position over the years. See Vaughn (1994), pp. 148f. For a disagreement with Vaughn on this, see Rizzo (1996), pp. xviiiif and footnote 7.

to be somehow more prescient than others; it requires that that “abstract” prescience be supported by psychological qualities that encourage one to ignore conventional wisdom, to dismiss the jeers of those deriding what they see as the self-deluded visionary, to disrupt what others have come to see as the comfortable familiarity of the old-fashioned ways of doing things, to ruin rudely and even cruelly the confident expectations of those whose somnolence has led them to expect to continue to make their living as they have for years past. Recognition of all this is no doubt responsible for the difficulties which my critics had with my earlier discussion of the pure, alert entrepreneur *without* these Schumpeterian characteristics. Perhaps it was this which led them to read my 1981 paper as a belated concession to the inadequacy of my earlier simple notion of the entrepreneur as merely the (“passive” but alert) noticer of hitherto overlooked changes—a concession compelled, they believed, immediately one takes the step of extending analysis of entrepreneurial behavior beyond the highly artificial context of the single period.

Our discussion in the preceding section of this paper will, I trust, have made it clear how I can both eat my cake and have it (i.e., recognize how the multi-period world *requires* its entrepreneurs to display the Schumpeterian qualities, while still maintaining that it does *not* require me to surrender one iota of my earlier view of the entrepreneurial role as one of pure, alert, discovery of hitherto overlooked, exogenously created, changes.) To be sure, the entrepreneurial exercise of alert prescience calls for aggressive, bold, creative, leadership qualities. But this simply means that the seer who can imagine how the world *might* be improved by a radical innovation, but who lacks the needed boldness and initiative (to shoulder the risks which he would have to assume in order actually to introduce this innovation to reality in a world fraught with uncertainties)—has in fact not yet *really* discovered an available, attractive opportunity for innovation. If he has not seen that opportunity in so shining a light that it drives him to its implementation in spite of the jeering scepticism of others, and in spite of the possibility of its ultimate failure—then he has *not* really “seen” that opportunity. To imagine how, under hypothesized conditions, (not confidently believed to be in fact feasible), a true opportunity might exist, is not yet to have seen that opportunity as a tempting available option. For the possibility of genuine “alertness” in the multi-period, uncertain world, that alertness must indeed express itself in the boldness, self-confidence, and daring of the Schumpeterian leader. My “obstinacy” consists in my continuing to insist that what is important for analytical purposes is *not these leadership qualities in themselves*, but the pure “alertness” which these qualities express and sustain.

### **Entrepreneurial innovation—Coordinative or disruptive?**

It may be helpful, in this regard, to consider an objection which many have raised in the past in regard to my emphasis on the *coordinative* tendencies set in motion by (successful) entrepreneurship. This objection has deeply worried a number of otherwise sympathetic scholars, in regard to my notion of the entrepreneurial role. Surely, they argue, every successful entrepreneurial venture constitutes a shock to the market, more or less severely disrupting the existing plans of those who, failing to anticipate these changes, have invested all or parts of their careers in the methods of production which the new venture is about to displace. We may grant, the objection concedes, that this shock may be seen as beneficial

to the consumers; but surely, they claim, these benefits to the consumer are obtained only through drastically *discoordinating* and frustrating the plans of those in the displaced industry. To pronounce these disruptive shocks as essentially coordinative and equilibrative, as I have, is to twist language outrageously. My use of language in this way, my critics tend to believe, is not unrelated to my obstinate refusal to recognize (as Schumpeter did) that successful entrepreneurship is indeed disruptive, to concede that while the destruction it sets in motion may indeed be “creative”, it is destructive nonetheless.

To see why and how I believe it possible and accurate to insist on my use of the term “coordinative” to describe the entrepreneur’s behavior, it will be useful to focus on an example of bold, creative, innovative Schumpeterian entrepreneurship responsible for a dramatic technological breakthrough, revolutionizing an entire industry. Consider the invention and innovation of the automobile in the U.S. This innovation, we may be sure devastated the livelihoods of many who had built their entire careers around the horse-drawn carriage industry. Virtually overnight, we may be convinced, enormous loss of value occurred in capital investments that had been made in that industry; large numbers of skilled professional workers in that industry find that the market value of their skills has fallen catastrophically. Yet, while understanding how Schumpeter can focus on the creative destruction which this successful and dramatic entrepreneurial innovation has wrought, I maintain that we must, at the same time, recognize the coordinative quality of this innovation, *even in regard to the horse-drawn carriage industry*.

The truth surely is, we now see with 20-20 hindsight, that the horse-drawn carriage industry, for all its placid, normal-profitability over many decades, was an industry in grave disequilibrium *before* the automobile actually appeared. This was so, we now realize, in that the means (and even, in a sense, the technology) to replace expensive, inconvenient, time-consuming horse-drawn transportation by lower-cost, convenient and rapid motorized transportation was available at an acceptable cost, *at the very moment when the horse-drawn carriage industry (as far as the superficial vision of the person in the street could discern) seemed normally prosperous and secure*. The truth is, we now know, that the investments made in physical and human capital were *malinvestments*. The value of the output of the horse-drawn carriage industry was, as we now know, far lower than the value which the market *at that very moment* would have been prepared to place upon the outputs of comparable inputs directed into an automobile-producing industry.

The consumers paying substantial prices for (what we now know to have been) inefficient and inconvenient horse-drawn transportation were in fact “wasting” their money; opportunities, as yet unnoticed, existed for far superior motorized transportation to be provided at prices that would have been highly attractive to many consumers. Production was, in this sense, being conducted inefficiently; capital and labor were being misallocated—invested and specialized in directions and skills that were (in the light of the true conditions which hindsight reveals to have existed) utterly mistaken.

The brash, bold entrepreneurs who introduced the automobile to the U.S. market indeed set in motion market movements which, in one sense, disrupted the plans of many investors and workers in the industries they displaced. But their doing so, we now see, constituted not an act of destruction in itself, but one which *revealed* the wastefulness and the misallocated character of the enormous volume of investor and labor decisions

that mistakenly committed resources to the horse-drawn carriage industry. The superficial placidity of the situation in that industry on the eve of the emergence of the automobile was indeed just that, merely superficial. The truth, as we now know, is that it was an industry sitting on a powder keg waiting to explode. The essential entrepreneurial contribution of the automobile pioneers was unmistakably to make clear what that disequilibrium situation really was. Those entrepreneurs alertly *saw* better ways of using resources; their putting into effect the productive possibilities they saw was coordinative in the sense that it brought the pattern of resource allocation into a *higher* degree of coordination both with the true pattern of technological possibilities and the pattern of consumer preferences, than had the leaders of the horse-drawn carriage industry. While we can readily understand how, at a superficial level, it seems obvious that it is the actions of the automobile entrepreneurs that have directly destroyed the capital and labor-skill values built up in the horse-drawn carriage industry, we must recognize that, at a deeper level, these losses, while as yet unnoticed, *had already occurred at the times the investments (in the horse-drawn carriage industry) were made*. From this perspective, the automobile entrepreneurs can no more accurately be described as the agents of “destruction,” than can the physician whose diagnosis sends an apparently healthy person (undergoing a routine medical examination) to hospital with a newly-identified severe heart condition, be described as having ruined that patient’s health.

### Semantics and substance

We may readily grant to my critics<sup>27</sup> that a certain semantic ambiguity is partly responsible for the possibly overemphasized differences (between Schumpeter’s views and my own) which I had asserted in 1969 and 1973. As I had recognized as early as 1963,<sup>28</sup> so long as one can imagine that “there are *always* unknown technological possibilities that future generations will discover,” we can describe a market system as necessarily always being “in a state of disequilibrium, with respect to the infinity of knowledge that is beyond (contemporary) human reach.” While this use of the term disequilibrium would permit us to see each and every “Schumpeterian” technological innovation as “equilibrating” (as I appeared to wish to argue in 1969 and 1973), such a semantic usage is neither required nor necessarily advisable. Ordinarily we do describe as an equilibrium that Walrasian state of affairs which fully and adequately incorporates all *currently* available technological knowledge. Surely, then, Schumpeter was not out of order in seeing entrepreneurial technological innovation as disruptive and disequilibrating. It must seem that my insistence on seeing even Schumpeterian entrepreneurial activity as coordinative and equilibrative, does involve a confusing and unfortunate use of language.

The following may permit me to plead non-guilty to this latter offense. There *is* an important sense in which we must indeed see the entrepreneur who achieves Schumpeterian technological revolutions, who engages in what Schumpeter valuably identifies as “creative destruction,” as (Schumpeter’s use of language to the contrary notwithstanding) equilibrative. This sense is that in which we wish to understand the *economic* forces at work

<sup>27</sup>For references see above footnotes 11, 12, 13.

<sup>28</sup>Kirzner (1963), p. 258 footnote.

in generating such technological revolutions. Schumpeter correctly identified the economic forces so responsible as being driven by entrepreneurial activity. What Schumpeter's use of language (i.e., his identification of this activity as disruptive and disequilibrative) *obscured*, I maintained (and still maintain), is that this entrepreneurial activity is, after all (and most significantly) stimulated and motivated by the possibility of winning pure profit. What Schumpeter's use of language (and indeed his "vision" of how capitalism works) obscured, is that the entrepreneurial activity with which he is dealing is, at a deep level, *responding* to the conditions of the market. To fail to see that the entrepreneurs, in the automobile industry were responding to the economic inefficiencies and resource misallocations (and the resulting profit opportunities) *already present* in the horse-drawn carriage industry, is surely to fail to see a most important aspect of the market process. My 1973 book was built on the idea that it is this aspect of the market (present but overlooked in Schumpeter's account of long-run technological change) which is responsible for that tendency for market equilibration which is at the very core of economic understanding—even in the imagined world in which technological change is absent.

I believe the foregoing permits me to sum up the "reconsideration" undertaken in this paper, by simply reiterating the four propositions announced at its very outset:

1. For understanding the psychological profile typical of the real-world entrepreneur as we know him, Schumpeter's portrayal is valid and accurate.
2. For understanding the "creative destruction" which Schumpeter sees as the central and distinguishing feature of the capitalist system, Schumpeter's portrayal is valid and essential; to the extent that policy objectives include the stimulation of such creative destruction, careful attention will indeed have to be paid to that Schumpeterian psychological profile to which we have referred.
3. For understanding the equilibrative tendency of markets in general, my own view of the entrepreneur as alert to opportunities (created by, or able to be created by, independently initiated changes), is valid and significant.
4. To see the entrepreneurial role of a real-world entrepreneur as essentially that of being "merely" alert to opportunities created (or able to be created) by independently initiated changes, is not *necessarily* inconsistent with a Schumpeterian perspective on the activity of that same entrepreneur (which sees him as aggressively and actively initiating change).

To put the matter somewhat differently: The reconsideration here undertaken indeed permits us to see how both the Schumpeterian view of the entrepreneurial role and my own view can both be simultaneously accepted. Schumpeter is concerned to enable us to see, *from the outside*, as it were, what constitutes the essence of capitalism (viz its being characterized by continual technological change driven by innovative, creative entrepreneurs). My own focus on the entrepreneur was inspired by the objective of enabling us to see the *inside* workings of the capitalist system (its ability to offer pure profit incentives that can evoke entrepreneurial perception of available opportunities—some (but not all!) of which opportunities may consist in the potential for technological revolution (implementation of which calls for the "Schumpeterian" qualities of boldness, initiative, and creativity)). To the extent, however, that Schumpeter's language and his picture of capitalism lead us to see the placid, old-fashioned-technology world as one in which actions have long come to be fully and efficiently mutually and smoothly coordinated, with

no “gaps” crying out for alert entrepreneurial notice—until the placidity is rudely disrupted by exogenous “entrepreneurial” creative innovation, I must continue to assert that my own view of entrepreneurial activity permits and requires us to see a quite different picture *even in that very same sequence of Schumpeterian events*.

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The central theme of this reconsideration can be expressed in the following four propositions: 1. For understanding the psychological profile typical of the real-world entrepreneur as we know him, Schumpeter's portrayal is valid and accurate. T&F logo. Policies. Creativity and/or Alertness: A Reconsideration of the Schumpeterian Entrepreneur. Published on Jan 1, 1999 in The Review of Austrian Economics. DOI :10.1023/A:1007719905868. Schumpeter's entrepreneur, I pointed out, was essentially disruptive, destroying the pre-existing state of equilibrium. My entrepreneur, on the other hand, was responsible for the tendency through which initial conditions of disequilibrium come systematically to be displaced by equilibrative market competition. The place of the entrepreneur in economics the prehistory of entrepreneurship first steps on a new path a fork in the road dead ends, detours and redirections the entrepreneur resurrected. Creativity and/or Alertness: The Misunderstandings. My emphasis on the entrepreneur as the agent driving the competitive-equilibrative forces of the market, focuses attention on the entrepreneur not as a creator, but as being merely alert. His equilibrative role stemmed, not from his autonomously introducing change into existing 5. He has valuably argued for an extension of my own approach that might show how an alertness-understanding of entrepreneurship can lead to the recognition that it is entrepreneurship itself (responding to discovered opportunities) which, by creating market possibilities, generates yet further entrepreneurial opportunities.