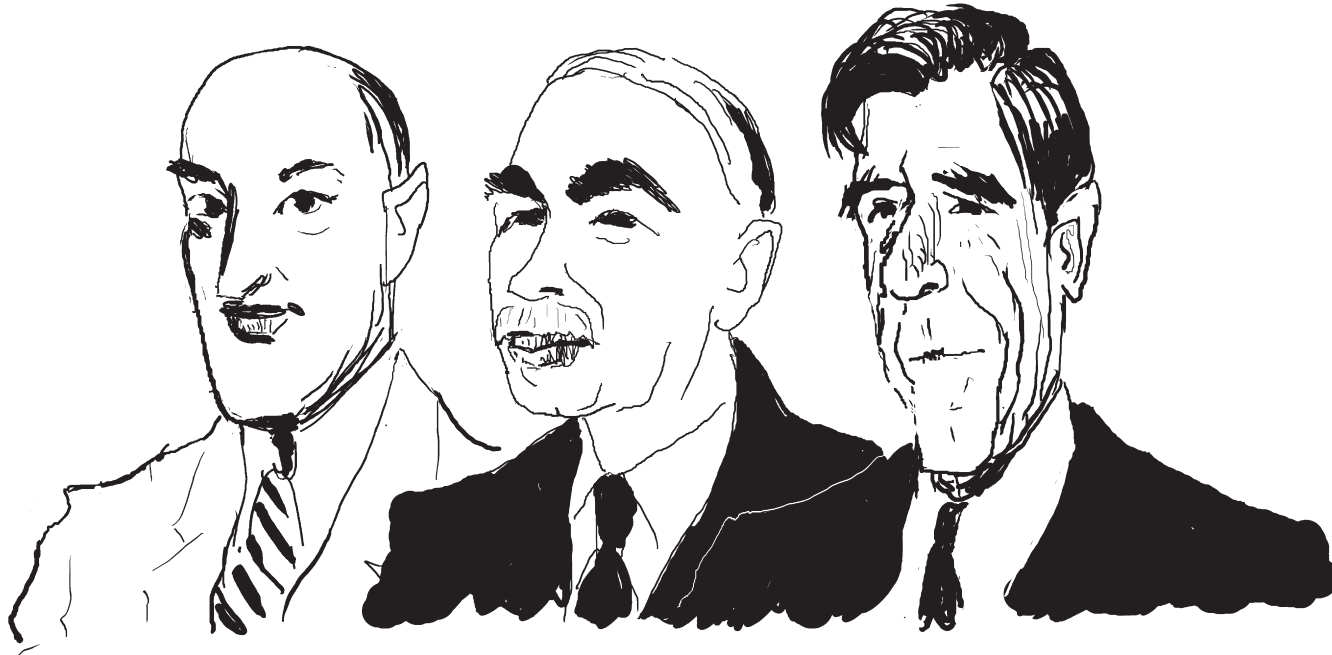




Essay by Carl J. Schramm

ECONOMICS AND THE ENTREPRENEUR



Left to right: Joseph A. Schumpeter, John Maynard Keynes, John Kenneth Galbraith

THE 20TH CENTURY HAD ITS SHARE OF economic downturns, but only two shook the modern economy—and modern economics—to the roots. The first of course was the Great Depression, widely interpreted at the time and afterwards (sometimes in quasi-Marxist terms) as a crisis of capitalism. Though not as convulsive, the second was the decade-long slough into which the world economy sank beginning in the early 1970s. What marked this second slump was the seeming failure of all the economic prescriptions that had cured, or were thought responsible for curing, the first. Here then was a crisis of welfare-state or managed capitalism: a challenge to the Keynesian vision of fine-tuned economic growth, of a world in which economic science had subdued the business cycle.

In this crisis, the Keynesian recipes followed since the New Deal—and associated with three decades of vigorous economic growth, full employment, and price stability—no longer seemed to work. The 1970s brought a cocktail so startling—sustained low growth, inflation, and unemployment—that it necessitated an ominous new term: “stagflation.” Real gross domestic product (GDP) per capita, after growing 3.2% a year from 1962 to 1973, sank to a 1% annual growth rate from 1974 to 1982. Whereas prices had risen at less than 2% per year from 1960 to 1965, inflation rose to nearly 6% annually from 1966 to 1978, and then soared to double-digit

yearly rates from 1979 to 1981. Productivity gains fell to a paltry 1% a year after 1973; and unemployment climbed to 8.3% in 1975 and 9.7% in 1982.

Stagflation produced nightmarish dramas in households as jobs disappeared and savings eroded. It produced panic in the political world as doubts grew about the future efficacy of American capitalism; by the 1980s, it appeared to many as if Japan would overtake us. Among economists, stagflation prompted a growing realization that the postwar Neoclassical Synthesis—the marriage of Keynesian demand-side theories with mathematical formalism—suffered from basic flaws, or at least didn’t hold for all times and circumstances. To some economists, the road to recovery seemed to demand that the understanding of capitalism itself had to change. The great debate over the nature of modern economics, which had been raging since before the Depression, entered a new and unexpected phase.

Keynes, Misunderstood

W.H. AUDEN FAMOUSLY SAID ON THE death of Yeats, “The words of a dead man are modified in the guts of the living.” What J.M. Keynes said and what he was represented as saying were in some respects different things. In *John Maynard Keynes*, the one-volume abridgement of his superb

biographical trilogy, Robert Skidelsky doubts whether Keynes would have approved of many uses to which his ideas were put in the decades after his death in 1946. Keynes never presumed in *The General Theory of Employment, Interest, and Money* (1936) to justify large-scale government, much less one based on permanent deficit spending, according to Skidelsky. Indeed, Keynes saw government’s fiscal role as dynamic, and marginal, adjusting in accordance with economic conditions. He would have been stunned to see the postwar British Labour Party impose public ownership on huge segments of the economy. Likewise, he would have been puzzled by our federal government’s beating the drums for continuous, juiced-up economic expansion (often through public spending), allegedly on Keynesian premises. Keynes was never that interested in stimulating big increases in the size of government or the economy.

Keynes, during his life and still today, is intellectually slippery—hard to pin down and harder to classify. We find him here praising Friedrich Hayek’s *Road to Serfdom* (1944) and justifying his own practical theories as warding off state socialism and fascism. We find him there, however, pondering the “end of laissez-faire” and agreeing with American economist John R. Commons that industrial capitalism had matured to a state of sluggish growth that required government pump-priming.



Stabilizing the economy seemed to present a vast intellectual puzzle that he delighted in solving. Keynes was, after all, a brilliant, rich intellectual from a circle of rich, brilliant Cambridge intellectuals who were more likely to be art historians than economists. For someone often hailed as the savior of capitalism, he was openly ambivalent about the “love of money,” intimating that personal greed and the “animal spirits” that motivate capitalists were somehow lesser instincts. He concluded *The General Theory* with enigmatic musings about a future where there will be no appreciable return to investors and entrepreneurs will be correspondingly less active. Charges that Keynes preached a “stagnationist” thesis were thus not without grounds in reality. Maybe his Bloomsbury friends had persuaded him that his daytime job, militating for market-based capitalism, was a little unseemly.

Yet a large part of our misunderstanding of Keynes today is the work of his American apostle John Kenneth Galbraith, himself the subject of a massive biography by Richard Parker. Galbraith mixed Keynes’s ideas with institutional economics, supplemented with an unqualified New Deal worldview. (He served during World War II in a position he described as “price czar,” fixing the prices of goods and services throughout the country, a formative experience if ever there was one.) In lively bestsellers beginning with *American Capitalism* (1952) and *The Affluent Society* (1958), he helped to define mid-century American liberalism and justify its confidence in bigger government with ever more numerous programs.

For Galbraith, Keynes had been correct that, in mature capitalism, government needed to assume a larger interventionist role. He was certainly not alone in this conviction, however. In the 1940s and 1950s, writes economist Gene Smiley,

it quickly became an article of faith among many economists that increased federal expenditures associated with [World War II] had demonstrated the power of the Keynesian model. There now was a way for

the federal government to use its spending and taxing powers to stabilize the economy at, or near to, full employment.

But Galbraith drew out another strand of Keynes’s thinking, one that, thanks to the Harvard economist, continues to influence intellectual discourse today. (Parker strains at times to

Galbraith’s thought, though with a twist. He conceived that the United States had reached the ultimate limit of the satisfaction that private consumption could provide. For society to truly achieve a state of self-actualization, it must have “energetic” public action: attainment of Keynes’s vision could only be accomplished by society acting through government.

What is important about Galbraith’s (and to a lesser extent Keynes’s) vision of the future was its expressed frustration with private consumption as a dominant facet of free-market capitalism. This frustration is still quite prevalent today—in, for example, Paul Krugman’s contribution to misanthropic economics, *The Age of Diminished Expectations*—and almost inexorably leads to the conclusion that further economic growth is a less-than-desirable objective. And indeed, this is the bugbear we find in Galbraith. Parker notes that Galbraith emphasized as contemporary problems “the constant, unreflective quest for technological innovation” and “the worship of aggregate growth at the heart of modern economic organization and economic theory.”

Galbraith’s most ambitious book, *The New Industrial State* (1967), was a sweeping and sometimes brilliant institutional analysis of the American economy. Yet it also marked the limits, and endpoint, of his thinking: when stagflation struck in the 1970s and deep recession in the early 1980s, he had nothing to offer except more endorsements of planning and government control. (He complained, for instance, not about the fact of President Richard Nixon’s wage and price controls, but that they were not properly implemented.) His analysis of the “technostructure” backed him into an unchanging, top-down view of the economy.

Creative Destruction

bestow upon his hero the gilded mantle of Lord Keynes, an honor that Galbraith, of course, would have been happy to accept.) In 1930 Keynes wrote the well-known essay “Economic Possibilities for our Grandchildren,” in which he envisioned a world of abundance where people could freely pursue leisure without worrying about economic striving. This vision—of satiated abundance—became a running theme in

JOSEPH SCHUMPETER THOUGHT SUCH VIEWS fundamentally mistaken. As a scholar of history, and of Karl Marx in particular, he doubted the utopian-achieving capabilities of the state, the notion of inexorable decline, and the supposed vices of private capitalist consumption. “The capitalist achievement,” wrote Schumpeter, “does not typically consist in providing

Books discussed in this essay:

John Maynard Keynes: 1883-1946: Economist, Philosopher, Statesman, by Robert Skidelsky. Penguin, 1056 pages, \$35 (paper)

The General Theory of Employment, Interest, and Money, by John Maynard Keynes. Prometheus Books, 403 pages, \$15 (paper)

John Kenneth Galbraith: His Life, His Politics, His Economics, by Richard Parker. Farrar, Straus and Giroux, 832 pages, \$35 (cloth); University of Chicago Press, 862 pages, \$22.50 (paper)

American Capitalism: The Concept of Countervailing Power, by John Kenneth Galbraith. Transaction Publishers, 208 pages, \$24.95 (paper)

The Affluent Society, by John Kenneth Galbraith. Mariner Books, 288 pages, \$15 (paper)

The Age of Diminished Expectations, by Paul Krugman. The MIT Press, 244 pages, \$55 (cloth), \$23 (paper)

The New Industrial State, by John Kenneth Galbraith. Princeton University Press, 576 pages, \$24.95 (paper)

Business Cycles: A Theoretical, Historical, And Statistical Analysis of the Capitalist Process, by Joseph A. Schumpeter. Two volumes. Martino Publishing, 1095 pages, \$150 (cloth)

Prophet of Innovation: Joseph Schumpeter and Creative Destruction, by Thomas K. McCraw. Belknap Press, 736 pages, \$35

The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle, by Joseph A. Schumpeter. Transaction Publishers, 244 pages, \$24.95 (paper)

Capitalism, Socialism, and Democracy, by Joseph A. Schumpeter. Routledge Publishers, 460 pages, \$70 (paper)



more silk stockings for queens but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort.”

Schumpeter is well known today as an important thinker. Yet because his contemporary Keynes largely set in place the framework and vocabulary of modern economics—and asserted its practical value—Schumpeter’s focus on grander theory came to seem antique. While he enjoyed the reputation of being America’s leading economist, his work was largely ignored after his death in 1950. But economists began to pay attention again in the crisis of the late 1970s.

Schumpeter was schooled in the tradition of Austrian economics, which emphasizes the crucial role of the entrepreneur who innovates and takes what may seem to be irrational risk—a perspective regarded by the Keynesians as quaintly Romantic. To the extent Schumpeter is widely recognized today, it is for his great insight into how free economies change: “creative destruction.” Indeed, the very tumult suggested by the phrase helped to sideline Schumpeter’s work during the decades when American economists labored to design a continuously stable form of capitalism. Readers of *The New Industrial State*, to take a conspicuous case, may be forgiven for picturing the economy as a matter of large, slow-drifting glaciers, occasionally colliding but rarely undergoing breakup or meltdown.

Glaciers would never come to mind to readers of Schumpeter, who held that “stabilized capitalism is a contradiction in terms.” The Austrian school studied the way markets were ordered, how they worked, and what they produced, in moral terms relating to free will, which inevitably made economics political and volatile by its very nature. His devotion to empiricism drove him to an exhaustive and finally unfulfilling treatise entitled *Business Cycles*, which appeared in 1939. Ten years in the making and a work of monumental scholarship, it could not overtake the immediate influence of *The General Theory*, then three years old. Schumpeter tried to understand the Depression as part of the history of business cycles; Keynes prescribed instead how to correct the massive downturn. In so doing, he purchased for subsequent generations of economists entrée into the world of applied policy and, hence, their grateful loyalty and service.

Schumpeter understood all of this and it was painful to him. In his new biography, *Prophet of Innovation: Joseph Schumpeter and Creative Destruction*, Thomas McCraw portrays, with a beautifully informed and sympathetic psychological treatment, a privately depressed and vain man, an immigrant uncertain of his place in American life, forced to operate in the shadow of the casually brilliant Keynes. It was a special kind of torment for someone who boasted of his ambition to be, *inter alia*, the world’s best economist. For

Schumpeter the pain included knowing that his insights were as important as Keynes’s, and that they might never be appreciated because of the misfortunes of history.

McCraw, a distinguished professor emeritus of business history at Harvard and author of the Pulitzer Prize-winning *Prophets of Regulation* (1984), ably draws out the contrast between the two men. Keynes knew nothing but stability during his life, enjoying a lifelong attachment to Cambridge University, where he inherited a faith in smooth and automatic economic progress. This faith, and the stability of which it was born, help explain Keynes’s intellectual response to the Depression. Schumpeter, however, knew anything but stability—the Austro-Hungarian Empire of his youth disappeared in World War I, and Austria was later annexed by Hitler’s Germany. He rose quickly—at 26 he was the youngest professor in the empire, and at 36 served a brief stint as Austria’s finance minister. In 1932, Harvard brought him to America to join its faculty. Even when he lived and worked pleasantly at Harvard, he remained an outsider, a man without a country. McCraw speculates that it was Schumpeter’s peripatetic life that enabled him to appreciate the important role of the disruptive entrepreneur in economic growth.

And, unfortunately, it seems likely that personal tragedy, too, contributed to his penetrating insights: the shattering deaths of his mother, new wife, and newborn son within weeks of each other in 1926 drove him relentlessly for the rest of his life. The contrast with Keynes is plain. Keynes always remained embedded in networks of colleagues and friends, tying him to elite policy analysis and circumscribing his economic vision. Schumpeter, untethered from family and country, gained at tragic cost the ability to see the entire sweep of history before him at once, especially its discontinuities and unexpected turns. Nonetheless, through it all the public Schumpeter was approachable, enjoyed teaching, and didn’t mind having a little fun with his students. He died with warm admirers but without the certainty of immortality that Keynes could anticipate.

Yet Schumpeter would have his recognition: an “Age of Schumpeter” was declared in 1984 by the German economist (and former Keynesian) Herbert Giersch and *BusinessWeek* pronounced him “America’s hottest economist” in 2000. Indeed, he laid the conceptual framework for our time and perhaps the long-term future of the world economy. That’s why Larry Summers, the former Treasury Secretary and president of Harvard, says that Schumpeter may well be the most important economist of the 21st century. Keynes was interested primarily in equilibrium and economic stability; Schumpeter thought the focus should be on economic growth.

The Grand Question

KEYNES AND SCHUMPETER WERE BOTH born in 1883, in the decade in which modern economic theory was developed simultaneously in Vienna by Carl Menger and in Cambridge by Alfred Marshall. Big-firm, industrial capitalism was in its adolescence. The knitting together of the world into a forever integrating international market was already an imminent reality. The time of thinking about economies as the market for products made within ten miles of the high street was over. McCraw does an excellent job depicting the twin revolutions of marginal productivity theory and the rise of large-scale firms: he shows that economic science both explained and helped enable the growth of firms such as Standard Oil and U.S. Steel.

The modern economy, today characterized by an astounding, incomprehensible network of exchanges—e.g., an insurance clerk in Sioux City enjoys extra virgin, cold-pressed olive oil from Spain, just as a youngster in remote China thinks about owning L.L. Bean’s Maine duck shoes (most likely made in a different part of China!)—was well underway. The table was set for Schumpeter to explain how it all worked.

He did so from three perspectives that are crucial to our needs today and into the future. First, he attempted to see how the whole economy works. Schumpeter’s lifelong commitment to a full view of the workings of capitalism cannot be overemphasized. Laboring predominantly under Marshall’s influence, American economists have long had a penchant for understanding parts of the economy very well. Even today, American-branded economists leave it for others who will come after to have the discipline’s Einsteinian moments. Few of our Nobel prizes in economics hang on synthetic insights. Scholars who strive for whole pictures or grand theories invariably court risk. Tenure goes to those who make incremental, often quantitative contributions.

Such narrow empiricism left the way open for Schumpeter’s second important concern: the causes of growth. When most economists think of growth, they focus on how efficiency gains might be achieved at the margin and in the short run. (Keynes’s lack of interest in the historic big perspective is captured in his famous line, “In the long run we are all dead.”) For Schumpeter, however, the grand question was how and why the economy had grown as a whole and over time. *Business Cycles* was a rather fruitless sideline to this inquiry. But in his precocious *The Theory of Economic Development* (1911) and especially in his masterpiece, *Capitalism, Socialism, and Democracy* (1942), he pursued the question directly and brilliantly.

Bureaucratic Capitalism's Demise

BY HAPPY ACCIDENT, EVEN AS GALBRAITH argued in the 1970s for government, by fiat, to solve the problem of stagflation, what could only be described as creative destruction writ large broke out in the general economy. The very institutions of bureaucratic capitalism failed or, more accurately, were overturned. Michael Milken turned junk bonds into respectable financial instruments and ended—i.e., creatively destroyed—the somnolence of underperforming firms. Congress relaxed government's hold on intellectual property relating to publicly funded research. The federal regulatory system began to come apart in communications, securities markets, and air transport. Technological changes, higher fuel prices, and academic studies had since the late 1960s begun to expose the absurdity of federal airline regulation—a flight from San Francisco to Los Angeles cost less than half the price of a flight of the same distance from Boston to Washington, D.C., simply because the latter crossed state lines.

Pension reform, by personally vesting retirement assets, suddenly made the American workforce highly mobile. The venture capital industry exploded. The Bretton Woods monetary system (in which Keynes had had a hand) was abrogated. And in response to extraordinary research

spending in defense and large-scale expansion in the National Institutes of Health budget, a new wave of innovation broke upon the economy. This time it was a computer-based revolution in information technology, biotechnology, and highly individualized consumer goods and it spawned an enormous new industrial base.

The primary outcome of these changes has been a revival of American productivity, which averaged gains of 3% a year from 1997 to 2004. Inflation has not reached double digits since 1981, averaging around 3% a year since then. We can also see the revolution in the *Fortune* 500 list: from 1956 to 1981, an average of 24 companies fell off the list each year. From 1982 to 2006, nearly 40 companies fell off each year. Indeed, the sheer velocity of firm turnover (at all levels) and the fading of long-term employment in large companies, both of which enhance productivity, are impressive.

Keynes's expositors, doing him a continued disservice, could not see this happening. Many had come to believe the view, propounded in the early 1930s, that the economy had just run out of innovation. Galbraith had written in 1967 that the entrepreneur was a "diminishing figure": "Apart from access to capital, his principal qualifications were imagination, capacity for decision[making] and courage in risking money, including, not infrequently, his own. None of these qualifications is especially important for organizing intelligence or effective in competing with it." In the entrepreneur's place was supposed to be the "technostructure," which would stabilize demand and eliminate uncertainty from the market. Well into the 1980s, the Japanese were to be our successors in leading the world economy and we could only hope to hold our position by emulating the large-scale, vertically-integrated *keiretsu*.

Having loudly renounced institutional analysis, most economists could not see the power of democratic capitalism to create the new institutions it needs and to destroy or transmute those that hold it back. Instead, many economists responded by seeking to push Keynesian recipes for a managed economy as far as they could go: to a planned economy. Robert Heilbroner wrote in 1976 that planning offered "the only opportunity, I think, to arrest the course of slow self-destruction on which we now seem to be embarked.... In the end, I believe that planning offers hope." Galbraith and others endorsed a bill in the United States Senate that would have established a national planning agency, and Harvard's Ezra Vogel called for a system of "guided free enterprise," based on his studies of Japan.

None of this would have surprised Schumpeter. An incisive political scientist and sociologist as well as an economist, Schumpeter foresaw, and foresaw the significance of, that

now-familiar human type—the comfortable intellectual who evinces antipathy toward growth. To such critics, free markets promote social welfare only up to a certain point, whereupon an allegedly more "social" or "public" orientation becomes necessary. This formed a partial basis for Schumpeter's famous (and semi-ironic) prognosis in *Capitalism, Socialism, and Democracy* that capitalism would slowly give way to socialism through bureaucratization and the hostility of intellectuals. Though he underplays Schumpeter's importance as a sociologist and theorist of democracy, McCraw does provide an excellent analysis of Schumpeter's thesis of the abandonment of capitalism for socialism.

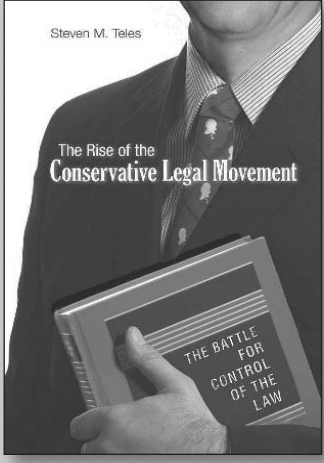
Schumpeter did not, of course, deny the temporary pain that can accompany economic growth. But he flipped the often perfunctory ideas about class and economic insecurity on their head by noting that the very fact of growth obviates static class categories: "The persistence of class position [in capitalism] is an illusion.... The work force is no homogenous mass. The united proletarian conscience of class is only a utopian idea."

Rise of the Entrepreneurs

NEEDLESS TO SAY, SCHUMPETER'S descent-into-socialism prognosis has been forestalled by an explosion of entrepreneurship. The error of Galbraith and other economists and politicians lay in their presumptive acceptance of the permanence of any given state of political economy. While Keynes provided a new explanation for a changed economic reality, Schumpeter offered an analytical theory of the process of change that is economic reality. Change is not episodic but the essence of growth. No economic state of affairs, however powerful or stable it may appear, is permanent.

Even at its peak in the 1960s, the seeds of bureaucratic capitalism's demise were being sown—by one of its strongest supporters, the military. Pentagon-funded research in the 1950s and 1960s helped create what became Silicon Valley; within a year of the first edition of *The New Industrial State*, Intel was founded out of Fairchild Semiconductor. The 1970s saw the appearance of firms such as FedEx, Microsoft, Apple, and Home Depot, and the expansion of companies such as Target and Wal-Mart, all of which became fast-growing parts of an entrepreneurial economy.

The invisible actors who had always been responsible for the regeneration of capitalism, who took risks and brought forth new firms to propagate new, better goods and services, slowly emerged from behind the edifice of economic theory that had ignored their role. Today we know of Fred Smith, Steve Jobs, Bill Gates, Michael Dell, and Sergey Brin. We use their suddenly irreplace-



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able innovations, and celebrate their ingenious creativity. Large numbers of us work in their firms or in new firms that could not exist but for FedEx or eBay. Our children aspire to be entrepreneurs who create new businesses, not middle managers who spend 40 years climbing the ranks of either corporate or public bureaucracies. This was the third focus of Schumpeter's lifework: the importance of human initiative by individuals who risked all in pursuit of personal gain, but in so doing operated for the good of the economy. These were his entrepreneurs, the "moving economic force" behind the process of creative destruction. They ignored old strictures and pushed aside the received ways of doing things and ordering markets, fearlessly setting themselves to the task of disturbing giant corporations by creating new competition. An innovation means nothing, he wrote, without the "forceful personality [and] activity of a leader" that "pushes [the innovation] through" to reality, always conscious of the risks of disgrace, bankruptcy, and failure. Without these entrepreneurs, Schumpeter's economic heroes, there could be no growth.

Behind this celebration of "leadership" and the "personality of the entrepreneur" we can detect the influence of the German tradition, particularly Nietzsche. McCraw does not fully explore this influence on Schumpeter, ignoring, for example, that German economist Werner Sombart had written in 1913 that "out of the destruction, a new creative spirit rises." It is unlikely that the encyclopedic Schumpeter would have been unaware of this strand of thought when he drew attention to the central role of "creative destruction."

Nonetheless, McCraw's book succeeds as an important work of economic history as well as biography, matching its subject in stature and insight. Its most important contribution is to restore renown to this prodigious thinker whose accomplishment was in danger of being reduced to a single phrase.

The Political Dimension

SCHUMPETER'S ECONOMIC VISION IS NOW propagating around the world. While America is the primal site of entrepreneurial capitalism, as he knew it would be, the world has in many places absorbed Schumpeter's lessons better than we have. In 1959, in the famous kitchen debate, Vice President Richard Nixon rightly pointed out to Soviet Premier Nikita Khrushchev the irony of American democracy's success in giving workers a great deal of ownership of the means of production, as well as an affluent lifestyle. The black market for American jeans behind the Iron Curtain in the 1970s and '80s bore witness to the eagerness to emulate even the mundane aspects of American life. It was no wonder that with the collapse of

the Soviet system, the American economy in the 1990s became the model for Eastern Europe. While the State Department continues to propagate Galbraith's model of capitalism, prescribing the copying of our institutions (as if growth happens because we have a means of regulating security markets), those who want to import the secret of American capitalism alongside its fruits, quickly understand that the key to our economy is the culture of entrepreneurship.

In many countries, the domestic policy apparatus is being reset to stimulate risk taking, e.g., by means of tax reductions, deregulation, encouragement of venture capital investing, and exploitation by indigenous owners of the globalization of product and labor markets. Schumpeter would be pleased to see the individual entrepreneur step into the middle of the drama.

And it is here, in seeing the importance of the individual pursuing his or her dreams in the realm of commerce, that Schumpeter became the most human of economic theorists. He restored the individual not only to economics but also to political economy. In his sweeping vision, more so than in any other modern economist's, capitalism reflected human nature. Because humans act on both intuition and reason; because uncertainty and incomplete knowledge are intrinsic to life; because risk can never be eliminated; because humans possess an impulse to create the new—we cannot achieve a stabilized economy. The avenue of entrepreneurial growth is bumpy, and it may be that precisely this economic instability, beset with the uncertainty and risk that accompany creativity, is our greatest economic strength. While economists talk in terms of neat models that will yield predictable expansion, the truth many find unsettling is that our economy is increasingly unpredictable and messy, even as it grows at faster rates and provides more, not less, security than it had in the previous two decades and as compared with other industrialized countries today.

In seeking to understand this, Schumpeter pursued for years an "exact economics" divorced from any considerations of policy. And while he never expunged empiricism from his analysis ("theory grows out of the observation of business practice"), he eventually abandoned this quest—how do you fit human creativity into a deterministic and predictive formula? As McCraw explains:

A creative response, which can never be predicted and is therefore indeterminate, shapes long-run outcomes in a country, industry, or firm. It often depends on the leadership of specific individuals, and, Schumpeter argued, it 'changes social and economic situations for good.' It creates new conditions that would never have developed without it. "This is why creative

response is an essential element in the historical process; no deterministic credo avails against this.'

Thus for Schumpeter there could be no pure economics. There was always a political dimension because the individual was central to growth and would frequently come into conflict with the controlling state, most often in the service of corporations and interest groups that found the relentless challenge of entrepreneurs disturbing.

As mandarins, Galbraith and Keynes shared a belief in the ability of enlightened administrators to manage economic affairs. Galbraith, as we have seen, took this faith to the doorstep of a planned economy. Keynes carried the belief with more insouciance, maintaining that once government increased its spending to stimulate demand, it would (and should) hold itself in check and pull back. Schumpeter skewered the shallowness of this belief in his review of *The General Theory*, pointing out with biting sarcasm that the link between the expanded government spending of the French *ancien régime* and the ensuing revolutionary misery and terror must have been only "a chance coincidence."

Toward the end of his life, at a dinner marking his retirement as editor of *Economic Journal*, Keynes offered a toast "to economists, who are the trustees, not of civilization, but of the possibility of civilization." Keynes and Schumpeter were two of the three 20th-century economists taxed with saving capitalism and its promise in a truly grand way. (Milton Friedman, whose insights and achievements deserve treatment in their own right, was the third.) Keynes helped to point the way out of capitalism's darkest hour, and in effect set the tone and conceptual vocabulary of modern macroeconomics. But it was Schumpeter who put growth and entrepreneurship at the center of economics, illuminating the way forward into the 21st century and showing how the possibility of civilization, with all its blessings and challenges, could spread across the globe. Perhaps the eradication of poverty—underway for the first time in history, and when only two countries on earth are formally committed to socialism—will serve to confirm his theory that growth happens at the hands of individual, risk-taking entrepreneurs, unmolested and lightly taxed by government, and that the more of them we have the better off everyone will be.

Carl J. Schramm is president of the Ewing Marion Kauffman Foundation and author of *The Entrepreneurial Imperative: How America's Economic Miracle Will Reshape the World* (Collins) and co-author with William Baumol and Robert E. Litan of *Good Capitalism, Bad Capitalism, and the Economics of Growth and Prosperity* (Yale University Press).