

# **BILL WATERS ON SCHUMPETER**

**By**

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Joseph A. Schumpeter may be looked upon as having introduced Aristotelian and Christian philosophy into economic theory and, by extension, into socio-and ethico-economics (Waters 1952: 275).

In the late 1940s while still a graduate student at Georgetown University Bill Waters was strongly attracted to the work of Schumpeter who Bill describes as “the great man who restored the human person as the dynamic factor in the explanation of economic activity” (Waters 1952: 19). Bill’s dissertation *Entrepreneurship, Dualism, and Causality: An Appreciation of the Work of Joseph A. Schumpeter* reflects that attraction which continued throughout Bill’s professional career. The dissertation never was published and, although Bill often referred approvingly of Schumpeter in his courses and his professional publications, he never once taught a course focused on “the great man.”

It is instructive to take note of several facts about Waters prior to the completion of his dissertation at age 32. As an undergraduate at Loyola College in Baltimore, Bill majored in history. Following military service in World War II, Bill entered Georgetown University and was attracted to both economics and psychology. His background in history and his interest in psychology are clearly evident in his dissertation.

By causality in the title of his dissertation Waters means the Aristotelian fourfold causality: material, formal, efficient, and final. By dualism he means “the conservative, progressive element in life and history” -- the stabilizing/destabilizing forces operating in economic affairs. Bill’s dissertation

select[s] one specific aspect of economic activity, entrepreneurship, with emphasis upon the agent who performs this function, and examine[s] it with the help of the Aristotelian technique ... (Waters 1952: 17).

What is extraordinary about Bill’s dissertation is the breath of his vision which encompasses psychology, history, philosophy, business history, history of economic thought, economic development, economic history, and practical day-to-day economic affairs. It deserves a wider readership because Bill epitomizes what we expect of our best students. Consider, for example, his gift for turning a phrase. Contrasting Smith and Marx, Waters states that

Smith takes improvement for granted if man works toward economic liberty; Marx takes inventions for granted if there is an adequate supply of skilled workers (Waters 1952: 58).

Describing the entrepreneur, Waters declares

He is the agent that periodically excites the economic cosmos from its lethargy -- that arouses it from its persistent tendency toward repose and ultimate stagnation (Waters 1952: 78).

Regarding the leadership supplied by the entrepreneur, Waters says

This leadership provides the yeast without which the bread of progress does not rise (Waters 1952: 176).

Bill's dissertation is significant for two reasons. The first is clear enough from the very beginning: Schumpeter and the entrepreneur. The other comes to light through hindsight: Bill brings to bear an understanding of economic affairs which is personalist rather than individualist or collectivist in nature. In short, Bill sees as the main activating force in economic affairs not the impersonal forces of the market, not the central planning board, but the person who innovates, who acts boldly in economic affairs, the banker who creates credit, and the capitalist who supplies old funds. Thus the Waters dissertation says much not only about Schumpeter but also about Bill himself.

In my comments, I follow the organization of his dissertation, supplying replacements for the chapter headings Bill used.

#### Chapter I. Waters: Aristotelian and Historian

Bill starts with this question. What drives economic development? His answer is derived from applying the Aristotelian methodology. The material cause relates to *what* is being changed. The formal cause tells us *how* the thing that has changed differs in its before/after state. The efficient cause identifies *what* or *who* brought about the change. The final cause relates to *why* the change took place.

Bill used this Aristotelian methodology in part because Schumpeter himself was familiar with it and used it to explain economic conditions in England in the mid-19<sup>th</sup> century (Waters 1952: 5 citing Schumpeter 1949). To demonstrate its effectiveness in sorting through economic history, the Bill applies it to the eastward expansion of the Portuguese Empire in the 16<sup>th</sup> century. He also applies it to Marx's account of the collapse of the capitalist system.

Employing this method makes the investigator continually aware of the dualism in economic activity -- the progressive force and the opposing conservative force. The one is shifting and disruptive, the other stabilizing and equilibrating. Thus the use of "dualism" in the title of Waters' dissertation.

In his dissertation Waters applies this method to just one aspect of economic activity, entrepreneurship, with an emphasis on the role of the entrepreneur. Based on what he says throughout his dissertation and in his later writings, we can state with confidence that Bill is introducing us to the economic agent not as the passive individual of mainstream economics but the active person of a new economics which years later emerges as personalist economics. Indeed, Waters is telling us that the entrepreneur is the quintessential *acting person* in economic affairs. And he is introducing himself to us as a Christian personalist.

## **Chapter II. Waters: Student of the History of Economic Thought**

**Across the history of economic thought, the entrepreneur has been identified as functioning in four different roles: director, capitalist, risk-taker, and innovator. The director dominates the French literature. The capitalist which originated in the French literature reflects the thinking of 19<sup>th</sup> century British theorists. The risk-taker is closely associated with two Americans – Hawley and Knight. The innovator developed from the German historical school.**

**The concept of the entrepreneur as the director is present in the writings of the Physiocrats, culminates in Say, and develops into the no-profit entrepreneur of Walras and J.B. Clark.**

**The entrepreneur as capitalist led to confusion among the British. Smith's *Wealth of Nation* addresses the problem of economic development and identifies the innovator as the central cause of that development. Bentham on the other hand perceived the entrepreneur along the same lines as Schumpeter as someone who pursues success in some new line, aims at whatever is regarded as improvement such as a new product, improved quality, reduced cost of production. However, British economists in the 19<sup>th</sup> century turned away from economic development to the problem of distribution. Maximum production was replaced by maximum satisfaction.**

**The American Hawley offers the first clear explanation of the entrepreneur as risk-taker. The risk-taker is not the active initiator of change. Rather he is the passive bearer of risk. Cole is the one who highlighted this active/passive difference between risk-taker and agent of change.**

**The German Historical School concerned themselves with the enterprising individual. To Schmoller, the entrepreneur is the person who seizes the initiative. To Sombart, the entrepreneur is a combination of innovator and trader. Schumpeter, Waters asserts, was a great synthesizer, combining the personalistic aspect of the Historical School, Marx's theory of economic development, and the pure theory originating in Cambridge, Vienna, and Lausanne.**

## **Chapter III. Waters: Student of Psychology, Emerging Personalist**

**Classical economics in the 19<sup>th</sup> century offered a flawed final cause for economic activity – the maximization of personal net advantage. This maximization principle, along with the utility calculus, Waters traces to utilitarianism which in turn derives from rationalism.**

**The maximization principle required the removal of all active and spontaneous human action. The exact regularity of the natural world which produced a determinate theoretical system supplied the model. Guided by feelings of pleasure and pain, economic agents make decisions passively and automatically. Walras and Jevons were the ones who supplied the necessary techniques of quantification to operationalize this principle and advance economics as a modern science. Waters does not mince words condemning this development.**

... to mistake what could only be an assumption, to be used as a tool of analysis, for an actual phenomenon is unpardonably bad scholarship (Waters 1952: 89).

Opposition to the utilitarian maximizer arose not so much against the underlying utilitarianism but the presumption of the universal rational behavior of economic agents. Waters takes note of the following paradox. While those who embraced marginal utility and accepted the rational passivity of the economic agent defended free will, their opponents who stressed creativity and the irrational but active nature of the economic agent denied free will.

Taking note of the opposition to the utilitarian maximizer, Waters offers two conclusions regarding the literature on economic motivation which appeared around the end of the 19<sup>th</sup> century. First, economics must begin with the economic agent, the person who actively engages in everyday economic activity. Second, drawing on his earlier discussion of the conservative/progressive dualism in economic affairs, Waters differentiates between the capitalist and the great masses of society on the one hand, and the entrepreneur on the other.

#### Chapter IV. Waters: Disciple of Schumpeter

Waters addresses Schumpeter's "pure model" in terms of Aristotelian causality. The material cause is the stationary-flow economy in which no change takes place. The formal cause is the created credit supplying the funds necessary for innovation. The efficient cause is the entrepreneur because credit is only instrumental. Profits, however, are not sufficient as the final cause because, according to Schumpeter, the restless entrepreneur is driven by the delight of venturing and the joy of creating. In this chapter Waters examines the material cause and the formal cause. Chapter V deals with the efficient cause.

#### Chapter V. Waters on the Entrepreneur, Quintessential *Acting Person* in Economic Affairs

In addressing the issue of human initiative, Waters relies on an English physicist, an American historian, and an Austrian economist. Hatfield, the English physicist, draws a distinction between intelligence and creativity. Gras, the American historian, asserts that leadership is the key to progress in business. Unlike the Classical economists who perceived the economic agent as passive, conforming to immutable economic laws, Gras sees the economic agent as an active force, the person who *acts*, who is not constrained by such laws.

To the Austrian Schumpeter, the entrepreneur is a "new man" who is willing to take on the uncertainties and difficulties of a new enterprise when others are not. He is a new man financially in the sense that he may lose his job, his reputation, his standing in the community. Further he is a new man financially because without the credit created by the banker he would not be able to re-direct resources to his new venture.

Waters and by implication Schumpeter hold to the view that (1) man is an active force in the making of human history and (2) man's activity should be directed toward "the

good of the person.” The first, he says, is denied by the Physiocrats, the Marxists, and most other schools of thought. The second is rejected by the prevailing view among intellectuals which draws our attention away from the person and toward the collective.

#### Chapter VI. Waters on System Entrepreneurship

Chapter VI introduces Waters’ efforts to identify and characterize “system entrepreneurship” by which he means

a firm whose function and *raison d’être* it is to discover, produce, and promote public acceptance of successive innovations (Waters 1952: 216; emphasis in the original).

He cites and uses DuPont which to his knowledge is the only firm of this kind.

Bill’s account of DuPont is quite detailed. To differentiate this type of firm from the typical firm that engages in entrepreneurship, he refers to the one as the “innovation firm” and the other as the “innovating firm.” One difference is that in the innovation firm the entrepreneurial vision is personal, but entrepreneurial activity is rationalized and collectivized which boosts the number of innovations brought forth and promotes economic development.

This, to Waters, raises two questions. How are these two organizational elements -- personal entrepreneurial vision and rational-collective activity -- ultimately reconciled? How does rationalization affect profits? As to the first question, DuPont empowers its managers to be entrepreneurial by imposing only a few constraints all the while supplying them with facilities and personnel. As to the second, the firm does not seek to expand market share or maximize profits but rather to introduce a stream of new products while maintaining profits sufficient for a ten percent return on investment.

Waters identifies five characteristics with the innovation firm. It (1) is dynamically competitive, (2) produces a stream of innovations, (3) empowers its managers, (4) is an established firm which does not require created credit, and (5) encounters difficulty in closing out departments with aging product lines, in coping with a failure rate which for DuPont was 19 out of every 20 projects undertaken.

The balance of Chapter VI examines how to bring about change in the way business is organized and carried out which avoids the problems associated with extreme individualism and collectivism. Waters turns to three Catholic principles: social ordering, corporatization, subsidiarity. Following an extended discussion of these three principles, Waters returns to the DuPont case, postulating that it represents an embodiment of common good which comes from social ordering, the sense of belonging implicit in corporatization, and the independence of subsidiarity, thereby revealing to us that DuPont is a prototype of the “vocational group” referenced in *Quadragesimo Anno* and searched for so eagerly by Catholic social economists.

### **Chapter VII. Waters' Closing Message**

**What is most significant in his final chapter is that Bill points to what is perhaps Schumpeter's most important contribution – the humanizing of the entrepreneur which made possible an advance in the way we think about economic affairs. The entrepreneur is not the passive, acted upon utility-maximizing agent of conventional economics. Rather, he/she is a “new, unestablished, restless, sometimes monomaniac, and always creative person”(Waters 1952: 271).**

**The references section lists seven articles Waters published in the *Review of Social Economy* which are not cited directly in the text. All of them were published years after the completion of his dissertation and are included here for the benefit of the reader who would like to read more from Waters on economics and economic affairs. The appendix assigns Waters his place in the development of personalist economics.**

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## APPENDIX

The schematic below traces the origins of personalist economics to Aristotle and Aquinas and incorporates Adam Smith without ever embracing the individualism of the Enlightenment which continues to dominate mainstream economics today. This schematic allows us to position Waters at the birth of personalist economics.

The papal encyclical *Rerum Novarum* (1891) helped inspire the development of solidarist economics in Germany under the guidance of Heinrich Pesch who was deeply troubled by the abject poverty he observed in England in the late 1800s, rejected as seriously flawed the individualism at the center of economic thought at that time, and set out to construct economics on the foundations of the much older philosophy of the scholastics. Solidarism in turn found an important though silent outlet in the encyclical *Quadragesimo Anno* (1931). Pesch established a study group which included Goetz Briefs, Franz Mueller, and two younger Jesuits -- Gustav Gundlach, and von Nell-Breuning. Briefs and Mueller emigrated to the United States and along with the American Jesuits Dempsey and Divine established the Catholic Economics Association in 1941 (reconstituted and renamed the Association for Social Economics in 1970).

Schumpeter's economics entered the Association initially through Briefs and Dempsey. Schumpeter was Dempsey's mentor at Harvard University where Dempsey earned his doctorate in economics. Schumpeter challenged Briefs to design an economic system to replace socialism as the only alternative to the capitalist system which he regarded as in permanent decline (Waters 1961, pp.136-137). Personalist economics emerged on its own as the offspring of solidarist economics principally at the hands of Waters who was greatly influenced by the teachings of Aristotle and Schumpeter, and Danner whose work draws heavily on John Paul II and Mounier.

The schematic also provides a timeline which connects the three stages of human communication -- the oral/aural stage, the script stage, the electronic stage -- to the evolution of economics since the Enlightenment. In the oral/aural stage, human communication was strictly face to face thereby drawing humans closer together and requiring economic agents to interact face to face, underscoring their human sociality. Teachers and their students were actively engaged in a way which emphasized thinking and speaking as critical to learning.

In the script stage, especially after the invention of the printing press, interaction between economic agents could occur at great distances over an extended period of time without their ever meeting face to face, accentuating their atomistic human individuality. Under the influence of 16<sup>th</sup> century professor Peter Ramus learning became a process in which teachers lectured and students were expected to listen, take notes, and follow in the textbook (see Ong).

Virtually everyone who teaches economics employs Ramist pedagogy in the classroom, thereby reflecting and reinforcing the individualism which dominates the mainstream economics way of thinking. The Ramist pedagogy extends naturally enough to the

university library – the official depository for books rolling off the printing press assembly line -- where the cardinal rule of silence still is observed and enforced.

*Homo economicus* was a good fit in the typographical culture of the 17th-18th centuries in which inward-directedness, listening and reading, and self-reliance are esteemed and outward-directedness, thinking and speaking, and co-existence are not. The library replaced the forum or as Simon Blackburn put it, citing Schopenhauer, reading is “a mere surrogate for thinking” (Blackburn, p. 5).

In the electronic stage which began with the telegraph economic agents interact over long distances in a short period of time, making them more other-reliant in day-to-day economic affairs without suppressing their human individuality. The economic agent in the electronic stage is an individual being and a social being, no longer just an individual but a person. Ong asserts that personalism emerged in the electronic stage which enhanced human awareness of self and of others.

The individual as the basic unit of economic analysis is a creature born of the individualism which originated in the typographical culture of the script stage. The person is the new economic agent for the electronic age and the globalized economy of the 21<sup>st</sup> century.

No two members of the Association for Social Economics contributed more to rethinking economic theory on the person and the foundation of personalism than Waters and Danner. Danner adopted “personalist economics” to identify his way of thinking about economic affairs toward the end of his professional career. Waters, on the other hand, identified this way of thinking as “solidarist economics” which as mentioned already had its origins in Germany. Waters and Schumpeter are highlighted.

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# ORIGINS OF PERSONALIST ECONOMICS: Aristotle, Aquinas, Smith, Weber, Schumpeter, John Paul II

