

CREATING AND SUSTAINING LOCAL ENTREPRENEURS: A SCHUMPETERIAN VIEW OF ECONOMIC GROWTH

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ABSTRACT

In his Theory of economic development and Business cycles Joseph Schumpeter explained the long and short-run importance of an economy's credit system to the vitality of entrepreneurship. Famously, the entrepreneur is the key figure in the process of innovating the structure of an economy, according to Schumpeter, which is the secret to the long term growth record of capitalist economies. In this project we use Schumpeter's ideas about the relationship between credit, innovation, and growth in order to evaluate the current state of this relationship in the Mediterranean region, using Sicily as a case study. Based on the case of Sicily we then suggest ways in which local, as opposed to global credit institutions can be changed and made a better partner in the entrepreneur's struggle to create new economic opportunities. The project is timely in that it provides economic insight into the steps that will be needed in order to use the energy that brought about President Barak Obama's recent summit on entrepreneurship, which included many representatives from EMUNI's focal region, to construct a sustainable culture of entrepreneurship.

Keyword: Entrepreneurship, Marginality, Mediterranean Region, Sicily

1 THE GOAL

Joseph Schumpeter once remarked that one consequence of the advent of market economies is the development of a more pacifist sentiment among people. It would be easy to challenge the historical accuracy of such a broad generalization about the geo-political consequences of commercial interests. Yet the hope behind his claim is echoed, in a way, in the theme of this conference: "Living together in the multi-cultural society." As societies become more multi-cultural, due in part to the globalizing effects of commercial growth, it is useful to remember Schumpeter's view that once a region's or a nation's sovereignty and survival are based on the ability to sustain high rates of economic growth through commercial ties to other nations, a desire for peace or peaceable solutions to conflict often takes hold.

The goal of this research project is to examine the relevance of Schumpeter's ideas about the sources of economic growth for creating sustainable regional economic growth in places like the Mediterranean basin. In particular, we will show that the focus of economic growth policies should be shifted from an exclusive concern with global and national economies to local and regional economies where the key goal should be the development of an entrepreneurial culture. Several participants at President Barack Obama's recent Presidential Summit on Entrepreneurship, which included participants from a number of countries in EMUNI's focal region, spoke to the theme of our project. Jerry Yang, co-founder of Yahoo!, told participants that in order for entrepreneurs to flourish their needs to be "an entire ecosystem" that includes "education, capital, and research and development (*New York Times*, 2010)." Ehab Abdou, from the Brookings Institution's Middle East Youth Initiative, echoed Yang's view of what it means to create a culture of entrepreneurship and outlined the work to be done in a series of questions: "What kind of networks does it establish? What kinds of funds will come out of it? What kind of ... concrete recommendations for legal reforms need to take place (*ibid.*)?"

A related goal of this project is to outline a series of concrete steps that could be taken in order to create the type of entrepreneurial culture implied by Schumpeter's theory of creative destruction and called for by Yang and Abdou. Using the University of Palermo as an example, we discuss the idea of creating Centers for Mediterranean Entrepreneurship and Innovation throughout the Mediterranean basin. The goal of these centers would be to facilitate and promote the growth of new and existing ventures of innovative enterprise throughout the region. We focus on the university as a home for the Center because of its unique ability to bring together students and the industrial, governmental, and financial communities with the aim of developing innovative enterprises. In addition, since the creation of an entrepreneurial network requires a wide range of expertise, universities are the

logical setting for these Centers because they already offer a rich mix of experts from a variety of fields.

2 THE THEORY

Schumpeter bases his theory of economic growth on the rise and fall of a creative personality type, which he calls the entrepreneur. While acknowledging the central place of static general equilibrium analysis in conventional economic thought, his theoretical goal is to explain the dynamic historical growth rates in market economies. Schumpeter's theoretical contribution is a theory of creative destruction that explains the dynamic economic growth performance of market economies in terms of three things: the creative personality of the entrepreneur, his creative function of innovation, and his use of credit as a creative medium (Schumpeter, 1934).

In order to understand better the interdisciplinary implications of Schumpeter's theory of creative destruction for the study of entrepreneurship and innovation it is important to identify a fundamental difference between the way a conventional economist and Schumpeter define economic behavior. In traditional economics rational choice is the defining quality of economic behavior. A narrow concept of economic rationality, where costs are minimized and benefits maximized, defines economic action for the conventional economist. In other words, most economists interpret economic action as the behavioral reflection of a rational ordering of costs and preferences. In Schumpeter, the defining characteristic of economic life in a market economy is human willfulness. While acknowledging that the motivational structure of a market society reinforces a kind of individualistic rationality in making economic choices, the important long-run rhythm of such an economy comes from the willfulness of entrepreneurs who see beyond current economic realities and will new economic facts into existence (Schumpeter, 1951). Clearly, Schumpeter's definition of the fundamental reality in a market economy implies a different set of questions for economic inquiry, like, for example, how do social conditions encourage the production of creative personalities like entrepreneurs and what are the unique institutional requirements for sustaining entrepreneurs in different social and historical settings.

The theory of creative destruction includes variables that range beyond the typical specialized inquiries of modern social sciences. In particular, because of the importance of creative personalities in the process of economic growth a good deal of psychological insight is needed in order to understand the motivation of entrepreneurs. One psychologist who has written extensively about creative personalities is Otto Rank (see Rank, 1958, 1968, 1978). Rank provides important depth to Schumpeter's central economic character, the entrepreneur, by giving us a rich notion of creativity. Not only does Rank position the will and creativity at the core of psychological understanding, he also studies individual creativity in relation to social conditions and examines creativity in both its productive and unproductive

manifestations. Through Rank, one can understand Schumpeter's theory of creative destruction as a unique cultural gestalt of creativity.

For Rank, there are three basic personality types which can be distinguished by the way each reconciles their willfulness with the conventional ideals of society (Rank, 1968, p. 129). The normal type manages to satisfy his will within the ideals and practices of his society. The neurotic and creative types, however, experience their willfulness as dissatisfaction within the conventional boundaries of truth, right, and beauty. The difference between a neurotic and an artist is that the former is unable to "externalize" his dissatisfaction and articulate his own ideals by creating an object that embodies them, while the artist can. The neurotic is reduced to re-creating himself, but never able to put an end to the conflict he feels with society (and himself). Rank neatly summarizes the "bad art" of the neurotic when he says: "the individual perceives the external commands and norms as compulsion which he must continually oppose, but cannot affirm [as the artist does] the ideals which correspond to his own self" (Rank, 1978, p. 50, and 1958, p. 57).

It is easy to identify the Rankian nature of Schumpeter's entrepreneur. Entrepreneurs, in Schumpeter's view, possess the Rankian qualities of a strong will, dissatisfaction with the contemporary practices through which an existing social ideology (in this case economic production) is expressed, and the ability to alter external reality to better reflect their vision of this ideology. Listen to Schumpeter,

[T]he function of entrepreneurs is to reform or revolutionize the pattern of production....To undertake such new things is difficult and constitutes a distinct economic function, first, because they lie outside of the routine tasks which everybody understands and, second, because the environment resists in many ways To act with confidence beyond the range of familiar beacons and to overcome that resistance requires aptitudes that are present in only a small fraction of the population (Schumpeter, 1975, p. 132).

Schumpeter has drawn a close analogy here between the character of the entrepreneur as the spark in the process of economic growth and Rank's general description of the artist's character. Entrepreneurs are creative personality types who cannot abide the conventional satisfaction with existing products, forms of industrial organization, and market patterns. Creativity in this context is a declaration of self, a process through which one succeeds in standing on the reality of the self. In other words, entrepreneurs are creative, as opposed to neurotic, willful types who "revolutionize the economic structure **from within**, incessantly destroying the old one, incessantly creating a new one (ibid., p. 83)." Though Schumpeter acknowledges that profits are a goal of entrepreneurial acts, he makes it clear that the characteristic psychological feature of entrepreneurs is their creativity.

3 THE WORK

There are many examples of plans for economic development, conceived and financed on a national level, that have not produced sustainable local economic growth. We contend that one reason for this is the failure of national models of development to stimulate the growth of local entrepreneurial culture. A vivid example of this is the case of Fiat in Sicily. After forty years of public financing in order to maintain a production facility in Sicily, every indication is that the Fiat-Group will close the plant in 2011 due to dwindling public funds supplied to them through regional and national agencies. In part, the failure of Fiat in Sicily is a result of the limited capacity of national and global standards of financial success to comprehend local culture and, thus, to cultivate local entrepreneurs. The example of Fiat in Sicily shows the need for a new model of economic development based on economic localism, which has been described as, "a movement in support of government policies and economic practices oriented towards local democracy and local ownership of the economy in a historical context of corporate-led globalization" (Hess, 2009).

The goal of establishing Centers for Entrepreneurship and Innovation is to create an environment that will assist in identifying and sustaining local entrepreneurs as a way of stimulating locally based economic development throughout the Mediterranean basin. What is required is an institution that can bring together the various factors needed to support local entrepreneurial activities in a world of global economic enterprise and modern technologies. For example, the internet has already begun to change business models in a number of industries. In the United States a good example of the impact of this technology are the dramatic and ongoing changes in the newspaper industry. While these technological developments create new pressures on existing businesses they also open new opportunities for entrepreneurs in peripheral or "marginal" regions. Use of the internet greatly expands the range of potential customers a new enterprise can attract while at the same time encouraging local entrepreneurs to think beyond their immediate local markets.

In order to integrate evolving business models, fast developing technologies, and local entrepreneurial talent universities play a unique role. In fact, the university is a natural setting for the creation and nurturing of a modern entrepreneurial culture. Because the network required for cultivating entrepreneurship calls on the expertise of so many disciplines the university is the obvious setting for combining experts from economics, finance, engineering, information systems technology, and quantitative analysis in order to identify, test, and launch new ideas. Finally, as the ultimate educational institution in a community the university is the obvious choice for designing and operating classes and competitions through which entrepreneurial talent can be identified, given the necessary skills to translate their ideas into practical goods and services, and rewarded with the relatively small amounts of capital

required to establish small businesses. The latter, as Schumpeter reminds us, are the necessary local building blocks of regional and national economic growth.

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