



The liberal entrepreneur after the 1929's crisis
Neoliberal and ordoliberal roots

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German liberal economists from the 1929's crisis to 1950

- Ordoliberalism : an offshoot of classical liberalism that sprouted during the Nazi period, when dissidents around Walter Eucken dreamed of a better economic system
- Ordoliberalism reacted against the planned economies of Nazi Germany and the Soviet Union. But it also rejected both pure laissez-faire and Keynesian demand management.
- Ordoliberalism differed from the Austrian school (F. Hayek) in believing that capitalism requires a strong government to create a framework of rules which provide the order (ordo in Latin) that free markets need to function most efficiently.
- From the original ordoliberals sprang one big idea for state intervention when cartels dominated the economy: a muscular antitrust policy.'
- (from May 9th 2015 The Economist)

Ordoliberalism, a liberal school?

- Walter Eucken (1891-1950)
- Alexander Rüstow (1885-1963)
- Wilhelm Röpke (1899-1966)
- Franz Böhm (1895-1977)
- Alfred Müller Armack (1901-1978)
- To compare with
- Joseph Schumpeter (1883-1950)

From Walter Lippman to the MSP

- The Schumpeterian entrepreneur
- Schumpeter vis-à-vis the real entrepreneurs
- Liberal distrust of entrepreneurs - Röpke
- Eucken / Schumpeter relationship
- Eucken and the entrepreneurs
- Eucken and the Monopolkommission
- Eucken /Schumpeter : a 1949 rejoinder?

The Schumpeterian entrepreneur

- 1. He is typically.. uppity and traditionless.
- 2. he is motivated by the urge for activity, the joy of doing by himself and creative forms, not by the desire to satisfy needs
- 3, he does not decide in consideration of marginal costs and marginal utility.
- 4. he does not weigh up risks and opportunities in his decisions.
- 5. he does not study all possible alternative combinations carefully, but decides unconsciously correctly.
- 6. he is 100% financed with debt.
- 7, He overcomes all external difficulties [] public opinion, authorities, law, lenders".
- 8. this entrepreneur is neither a profession nor a permanent condition

‘Economic theory and entrepreneurial history’ (1949)

- The entrepreneur stands in the midst of the bourgeois economic and intellectual world, of which he is the strongest element. He embodies and strives for ideals of bourgeois prosperity, business acumen, life form. He is the man of family spirit and the autocrat of "his" activity, with the tendency to regard any intervention of legislation and administration not only as unpleasant but also as pointless.
- His self-interest is primarily oriented towards caring for the present and future of the family and a rational love for the company, his social feeling is oriented towards the moment of voluntary "caring". These things, as well as the process of rising and sinking of the entrepreneurial personality, of the right entrepreneurial family, of this kind, we basically have a better overview today than the "science of the 19th century" and in particular the socialist one did (HWB)

Negative attitude of wide circles

- the skeptical or fundamentally negative attitude of wide circles against the capitalist economic system and its embodiment, the entrepreneur, an attitude that goes far beyond the socialist circle, is characteristic of almost all intellectuals
- it also usually implies assertions about facts and arguments that we can discuss with our means. A whole series of these - and perhaps the most important ones emotionally - simply flow out of the quite astonishing ignorance of the actual facts that we have outlined and whose presentation repeatedly arouses astonishment and contradiction. It is quite strange how little these things are known and how firmly a naive idea sits that the mass of the people comrades receives a relatively insignificant portion of the income sum, while a minority privileged against all reason rolls itself in senseless wealth

The limited cost of entrepreneurial function

- If we are to compare what the entrepreneurs and the upper classes of capitalist society as a whole cost with the significance of their services, then, it is not the sum that a misleading terminology calls their "income" that should be taken into account: not only the direct and indirect taxes to be paid from this income, but also the amounts not spent on consumption must be deducted from it, because only the actual consumption of these classes constitutes their real costs for the economy.
- If this is done, however, the result is a relatively small amount which can only have any effect as a premium as a result of its unequal distribution. I estimate it at about 2 to 3 % of national income (equal to total private incomes)

VORTRÄGE SCHUMPETERS IN DER BONNER ZEIT

- 11. Ökonomie und Psychologie des Unternehmers. Version des Vortrages, München, 22. Mai 1929 – Ed : Ulrich Hetdke
- Economy and psychology of the entrepreneur
- Tenth ordinary general meeting of the Central Association of iron and steel industry in Munich on 22 May.
- Le rôle économique et psychologique de l'employeur, Informations sociale, BIT, Geneva (July 1929, Gallica BNF)
- According to the British press in July 2002, President Bush, Britain's Prime Minister Tony Blair, and France's President Jacques Chirac were discussing economics and, in particular, the decline of the French economy. "The problem with the French," Bush afterwards confided in Blair, "is that they don't have a word for entrepreneur."
- (either a joke, or false)

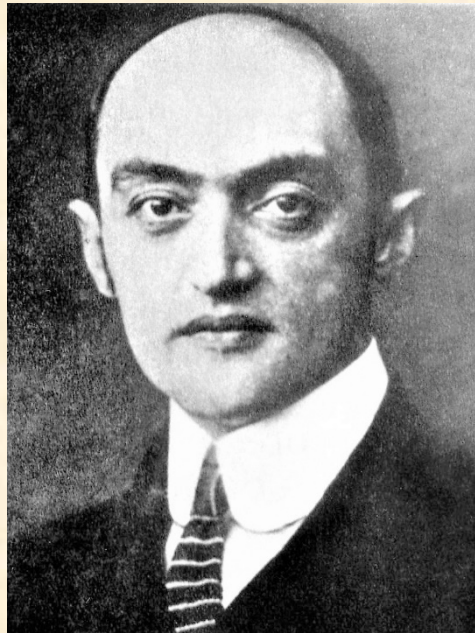
Unfortunate Schumpeterian entrepreneurs

- Despite its undoubtedly useful role, society has almost always had a hostile attitude towards entrepreneurs. We see this phenomenon in ancient Rome and whenever an industry was born from a craft. It even appeared in even older times, in the attitude of the community and government towards the merchant. The entrepreneur has always been the target of all authorities - starting with the looting barons of the Middle Ages - and, when he found support, it was usually with people still meditating to strip him, but in the longer term, it was only was only in rare places and for short periods..
- It is useless to think deeply to admire the captain haloed with military glory, just let the instinct speak. But it is essential to reason in order to do justice to the entrepreneur who safeguards national production in the guerrilla war that is the industry and who ensures the increase of national capital by accumulating his gains. And this is true, regardless of the fact that the performance of these functions is necessarily tainted with suspicion
- I have proposed to analyse here, from a particular point of view, the causes of the entrepreneur's social situation. The practical conclusions are not in my field. They also appear in a fairly obvious way

Wilhelm Röpke, Die Stellung des Unternehmers auf dem Markte (1946-7)*

- the entrepreneur as a person in his intellectual and moral wholeness
- the "crisis of capitalism" is basically a moral-spiritual one, which ultimately goes back to the fact that the wheels continue to run while people no longer understand the meaning of the civilization on which they depend.
- "However, no society, no humanity could live long without knowing why it lived and how it should live, without philosophy and without morality".
- the danger of individual entrepreneurs reaching an agreement with the specialist trade union of their sector or even their company on the back of the general public (including the other workers), thus creating a merger of an entrepreneurial monopoly with a trade union monopoly that is to be feared above all else. It should be emphasized that the social policy of the entrepreneur should be in line with his economic function in the market, but not hinder it
- *Schweizer Monatshefte : Zeitschrift für Politik, Wirtschaft, Kultur*, Bd 26 (1946-1947), Heft 11

Schumpeter- Eucken



Schumpeter and Eucken's correspondence

- Uwe Dathe & Ulrich Hedtke (Hrsg.) *Habent sua fata professores*
- In 1939 and 1940 two major works of theoretical economics appeared in short succession: Schumpeter's *Business Cycles* and Walter Eucken's *Grundlagen der Nationalökonomie*.
- Schumpeter combined his theory of economic development with his research on the long-wave course of the economy in the business cycle
- Eucken asserted : "There is no normal cycle of the economy".
- Eucken is, as it were, passing by Schumpeter's particular idea of development and did not accept Schumpeter's theory of innovation.

Schumpeter and Eucken's correspondence

- From 1925 to 1932, Schumpeter held a chair Bonn. He lectured at Harvard in 1927–1928 and 1930. In 1931, he was a visiting professor at The Tokyo College of Commerce. In 1932, Schumpeter moved to the United States, and soon began to help central European economist colleagues displaced by Nazism.
- Eucken went to Berlin University where he became a full professor in 1921. In 1925, he moved to Tübingen and in 1927 to Freiburg
- Eucken wished to provide a tenure in Freiburg to JAS and between 1925 and 1932 they discussed many recruitments.
- Both families were linked
- In his later *Principles of economic policy* Eucken, knowing Schumpeter's *Capitalism, Socialism and Democracy*, rejects the idea that the fundamental logic of economic behavior is **order-invariant** and therefore the same under socialist conditions as in the market economy.
- Rejecting Schumpeter's idea of a tendency towards the end of

Schumpeter and Eucken, a demanding friendship

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- Rejecting Schumpeter's idea of a tendency towards the end of capitalist competition, Eucken is not far from thinking of Schumpeter as an anachronistic economist.

The entrepreneur and his liberal critics

- Pre-war European capitalism, individualistic and traditional, based on savings and prudent to the point of greed, in no way threatened civilization. On the contrary, post-war capitalism based on speculation, greedy for profit, rushing blindly towards excessive production, was to lead to a serious crisis. By dint of thinking only of enrichment it managed to upset the balance between production and consumption, which produced a complete upheaval in economic life. Whose fault is that? To capitalism? No, to the capitalists. It is because of their improvidence and selfishness that the system has failed, and therefore it is not the system that must be changed, it is men.
- Lucien Romieu, *Si le capitalisme disparaissait*, 1933
- Romieu has made a career in journalism and was editor of the newspaper Le Figaro from 1925 to 1927 and from 1934 to 1942.

Wilhelm Röpke, Die Stellung des Unternehmers auf dem Markte (1946-7)*

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Walter Eucken –Foundations (1940)

- the contrast between the modern and medieval attitude to economic life is grossly exaggerated and the human qualities which pervade it not sufficiently regarded. In the text we spoke of the similarities between medieval guildsmen and modern trade-unionists, and between the long-distance traders in the Middle Ages and the modern entrepreneurs. The differences were often not those they are usually imagined to be to-day.
- "If one has studied profoundly in the sources it becomes quite obvious that the old type of business man often had an economic morality far more disreputable than the contemporary one. He profited, cheated, and perjured himself, evaded taxes and duties. He borrowed irresponsibly and tried to "do down" his creditors and make excessive profits. Such conduct simply corresponded to his still imperfectly developed economic status and is therefore scarcely to be wondered at" (Kuske).
- B. Kuske: "Die Entstehung der Kreditwirtschaft und des Kapitalverkehrs" in Kreditwirtschaft (Kolner Vortrage), 1927

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VERANSTALTET VON DER WIRTSCHAFTS- UND
SOZIALWISSENSCHAFTLICHEN FAKULTÄT DER UNIVERSITÄT KÖLN
WINTER-SEMESTER 1926-27

BAND I

DIE KREDIT- WIRTSCHAFT

ERSTER TEIL

Vorträge von
Fritz Beckmann, Karl Diehl,
Bruno Koske, Alfred Müller,
Joseph Schumpeter



G. A. Gloeckner, Verlagsbuchhandlung in Leipzig

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BAND II

DIE KREDIT- WIRTSCHAFT

ZWEITER TEIL

Vorträge von
Herbert von Beckerath, Hubert Bel,
Brij Narain, Hermann Hecht, Robert
Pferdmenges, Felix Somary,
Arthur Spielhoff



G. A. Gloeckner, Verlagsbuchhandlung in Leipzig

Walter Eucken – Competition

- Along Walter Eucken market economies only works if the intensity of competition is high enough, however the market players have a strong incentive to reduce competition. Competitors are better off, if they reach an agreement on prices. That allows both of them to put higher prices. The government must therefore intervene and impede price agreement and other measures aiming to lower the intensity of competition.

Walter Eucken – Power

- Why is the problem of economic power so important? Because it is always a tightrope walk between dangerous abuse and necessary authority. And since the Industrial Revolution we have seen a proliferation of power. Two examples of the impact of economic power: (1) On monopolistic company generates an additional return through the monopolistically inflated price, which can be used for investments (monopolists are often admired precisely because of their technical equipment - economically this makes no sense). For the consumer, however, this means a forced renunciation of consumption and a distortion of his actual preferences. (2) Power limits the freedom of others. Cartels restrict freedom of trade from the private side, central positions from the state side..

