

An Analysis on Neoclassical and Schumpeterian Approaches: Competition and Human Behavior

(Research Article)

Neoklasik ve Schumpeterci Yaklaşımlara İlişkin Bir Analiz: Rekabet ve İnsan Davranışı

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ABSTRACT

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The aim of this study is to scrutinize the close relationship between the type of competition and the conceptualization of human behavior by taking into consideration neoclassical and Schumpeterian competition approaches. To this end, the linkages between static competition and methodological individualism, and dynamic competition and institutional individualism are discussed. While methodological individualism is embraced by the neoclassical approach in parallel to the static analysis of perfect competition, Schumpeter analyzes human behavior within the framework of institutional individualism, and embraces dynamic competition. This study shows that perfect competition of the neoclassical approach does not take into consideration the very crucial characteristics of capitalism, and its conceptualization of human behavior falls short of explaining real world phenomena and cannot link social, historical and economic reality. Most importantly, the human being with his/her real incentives and motives are absent from the analysis in the neoclassical approach. Since economic reality cannot be analyzed independent of society, history and social individual, Schumpeter's institutional individualism provides a richer analytical framework. To our knowledge, the relationship established in this study

between competition and human behavior is a novel approach and contribution.

ÖZET

Anahtar kelimeler:

*İnsan Davranışı,
Metodolojik
Bireycilik, Kurumsal
Bireycilik, Statik
Rekabet, Dinamik
Rekabet*

Bu çalışmanın amacı, rekabetin türü ile insan davranışının kavramsallaştırılması arasındaki yakın ilişkiyi neoklasik ve Schumpeterci rekabet teorilerini dikkate alarak incelemektir. Bu amaçla, bir yandan statik rekabet ve metodolojik bireycilik, diğer yandan ise, dinamik rekabet ve kurumsal bireycilik arasındaki bağlantılar tartışılmaktadır. Tam rekabetin statik analizine paralel olarak, neoklasik yaklaşım, metodolojik bireyciliği benimserken, Schumpeter insan davranışını kurumsal bireycilik çerçevesinde inceler ve dinamik rekabeti benimser. Bu çalışma, neoklasik yaklaşımın tam rekabet analizinin, kapitalizmin çok önemli özelliklerini dikkate almadığını ve insan davranışını kavramsallaştırmasının gerçek dünya olaylarını açıklamakta yetersiz kaldığını ve sosyal, tarihsel ve iktisadi gerçekliği birbirine bağlayamadığını göstermektedir. En önemlisi, neoklasik yaklaşımda, gerçek eğilim ve güdülerini insan analizinde yer almamaktadır. İktisadi gerçeklik toplumdan, tarihten ve sosyal bireyden bağımsız olarak analiz edilemeyeceği için Schumpeter'in kurumsal bireyciliği daha zengin bir analitik çerçeveye sağlamaktadır. Bildiğimiz kadarıyla, bu çalışmada rekabet ve insan davranışı arasında kurulan bu ilişki yeni bir yaklaşım ve katkıdır.

1. INTRODUCTION

In economic theories, human behavior can be categorized in two ways on the basis of methodological individualism and holism. While the individualist argues that the social and historical phases occur due to the individuals' actions, the holist asserts that the collection of individuals cannot form society. Against this claim, the individualist puts forth that the society is indeed a collection of individuals since the interaction between them shapes it. This interaction stems from the fact that in the rational action of any individual, the aims and interests of the other individuals are also taken into consideration. The holist responds to this claim by stating that the individualist does not grasp the argument that the aims and interests of individuals are influenced by society rather than forming it. In this way, the interests and aims of individuals vary in different societies. The individualist, in response, puts forward that the holist considers the social environment as provided by God and does not take it as understandable from the viewpoint of human behavior. The holist, in response, propounds that social environment controls human behavior rather than being determined by it (probably, since an individual is much weaker than social forces) (Agassi, 1960: 244). Accordingly, it can be argued that although individuals disappear, there are still institutions, because of this reason, the ontological presence of the social structure is not taken into account in the explanations on the individual and the relationship between individuals. That is to say, there are social structures even if the individual does not exist or individuals are born into a certain social structure, they change it and when the individual passes away, the structure continues to exist.

According to methodological individualism, it is the individuals, who have aims and interests, and the social set-up is subject to change due to the actions of the individuals. Methodological individualism is adopted by the neoclassical approach, which considers the individual as rational. This rationality principle forms the basis of methodological individualism. A static analysis is undertaken, where all variables are stable, and are taken as given in the neoclassical approach. In this static framework, the individual aims either utility or profit maximization, and he/she is a human design. The static framework under the neoclassical approach also comprises perfect competition, which is the most typical example of static competition theories. An

abstract logical time is taken into consideration in such an analysis, and it only focuses on exchange relations. Accordingly, variables such as technology and institutional structure are external to the analysis, that is, they are taken as given. It's only natural that such a setting falls short of explaining real world phenomena, and cannot link social, historical and economic reality. Most importantly, the human being with his/her real incentives and motives are absent from the analysis.

In contrast to this understanding of the neoclassical approach, Schumpeter analyzes human behavior within the framework of institutional individualism, which is a sub-category of methodological holism. The behavior of the individual is not only influenced but is also constrained by the social-set up in institutional individualism. Different than the static approach of the neoclassical analysis, Schumpeter embraces a dynamic framework, where concrete historical time is adopted. In this dynamic framework, competition also becomes dynamic and it is a *process*, which includes changes in markets, technology, and the structure of the economy. Institutional structure is internal in this analysis. The entrepreneur in Schumpeter's analysis takes real action, and these innovative actions cause structural, social and economic changes. Because of this reason, Schumpeter considers capitalism as an evolutionary process. Hence, the conceptualization of human behavior in Schumpeter under this dynamic setting makes it possible to link economic reality with history, society and institutional framework.

With the aim of understanding human behavior, which is a neglected area of study in economic analyses, this study is structured so as to establish a link between competition and human behavior by taking into consideration the neoclassical and Schumpeterian approaches. To our knowledge, this is a novel approach, which is centered on human behavior. By building the analysis on the aforementioned methodological and analytical frameworks, this study shows that the dynamic competition analysis of Schumpeter and the institutional individualism approach, which we believe to be related to it, are crucial analytical tools and are able to explain reality within the context of the social relational link of economic reality. In other words, this study contributes to the explanation and understanding of economic and social reality through the close but neglected relationship between dynamic competition and institutional individualism.

2. BASIC METHODOLOGICAL AND ANALYTICAL TOOLS

Methodological individualism, institutional individualism, and human behavior and competition in Neoclassical and Schumpeterian approaches are briefly discussed below, which form the basis of this study.

2.1. Methodological Individualism

In this paper, two ways of methodological individualism are included in the form of narrow and broader sense. In fact, there is no commonly accepted definition of methodological individualism. Moreover, the general ways of its usage are different than how Schumpeter has defined it initially.* There are various denotations attributed to methodological individualism. Among them, the ascribed notion; “explanations in terms of individuals” can be considered as challenging as well as notable. It can be mainly conceived as challenging due to the unclarity

* Methodological individualism was first introduced by Schumpeter in 1908 in a chapter entitled “Methodologischer individualismus (Methodological individualism)” in his book entitled “Das wesen und der hauptinhalt der theoretischen nationalökonomie (The essence and principal content of theoretical economics)”. Later on, he extracted some of the ideas in this book and used it in his 1909 paper entitled “On the concept of social value”. This is where the term methodological individualism appeared in an English text for the first time (Andy, 2015: 2-3, Hodgson, 2007: 1).

regarding how the explanations ought to be. Should they be according to individuals and relations between individuals, or solely with reference to individuals? Approaching explanantia differently as stated above has serious implications. It is not possible to achieve narrower explanations that are only in terms of individuals. Analyses should actually start from both individuals and institutions but not from individuals alone.[†] The proponents of this methodology do not follow their own recommendation. Given elements should be the basis for all theories. Nevertheless, certain difficulties portrayed above weaken any assertion that the explanation of the evolution of institutions can be based on a collection of institution-free and rational individuals. In such a setting, it is assumed that institutions and rules need not be illuminated since they do not exist. Accordingly, it becomes difficult to shed light on institutions' evolution based on the individuals, and how the original state of nature is conceptualized, where institutions are assumed to emerge from, becomes problematic (Hodgson, 1998).

It seems that the version with the broader meaning, which advocates that elucidations need to designate both individuals and their relations, is no different than the suggestion that both individuals and social structures have a role in understanding social phenomena. When structures and individuals are treated as being equal in the explanation, it is difficult to refer to it as methodological individualism (Hodgson, 2007).

2.2. Institutional Individualism

While the most typical example of methodological individualism is the neoclassical understanding, the institutional individualism approach, which is a sub-category within methodological holism, has been adopted by Schumpeter. According to the institutional analysis[‡], the individual's behavior is both influenced and constrained by the social set-up. Conventionally, various individualists have not accepted the presence of any social entity because of their assumption that aims and interests belong only to individuals. The holists, on the other hand, have generally claimed that social groups have national aims, class-interests and destinies as well. According to the institutional approach, the holist does not accept it only when it is the society or society's aims and desires, which the individual apparently alters; the holist will not reject that the individual can transform the economic and social environment that he/she is living in, or other individuals (Agassi, 1960: 245). Institutional individualism pertains to a crucial characteristic of human behavior and the unintended social consequences that it brings. The institutional analysis demonstrates the action of individuals under certain conditions in order to secure their aims, and in this way, they affect the social structure (Agassi,

[†] As Durkheim stated: "...society is not the mere sum of individuals, but the system formed by their association represents a specific reality which has its own characteristics. Undoubtedly no collective entity can be produced if there are no individual consciousnesses: this is a necessary but not a sufficient condition. In addition, these consciousnesses must be associated and combined, but combined in a certain way. It is from this combination that social life arises and consequently it is this combination which explains it" (Durkheim, 1982: 129).

[‡] Institutional economics has been introduced at the beginning of the 19th and the end of the 20th century in the United States of America. It considers the economy as an institutionalized process and does not reduce economic relations solely to the market. In contrast to the neoclassical economics, firms and markets are considered as institutions in the institutional economics (Bas Dinar and Guler Aydin, 2010: 277-278). Samuels states that institutional economics is concerned with "the distribution of power in society; with markets as institutional complexes operating within and in interaction with other institutional complexes; with the causes and consequences of individual and collective psychology; with the formation of knowledge, or what is taken as knowledge, in a world of radical indeterminacy about the future; and, inter alia, with the determination of the four problems of resource allocation, level of aggregate income, distribution of income, and organisation and control as matters of cumulative causation in which the working out of each of the four problems has impact upon the others— and in respect to which general culture is also both a dependent and independent variable" (Samuels, 1995, 571).

1960: 264).

At the present time, the meaning that Schumpeter attributed to methodological individualism has less prominence. Schumpeter argues that methodological individualism “just means that one starts from the individual in order to describe certain economic relationships” (Schumpeter, 1908: 91, as cited in Hodgson 2007: 212-13). In Schumpeter, there is no political position in this description of methodological approach; the logical and propositional separation of methodological and political individualism is possible. Subsequent scholars have also agreed with him, however, some have got confused with analytical and normative issues in terms of explanation. As a matter of fact, Schumpeter approaches methodological individualism neither as a universal restriction nor as a methodological principle. According to him, it is rather an effort to distinguish other scientific methods from the “pure theory” of economics. Schumpeter states that in “pure theory”, “it is irrelevant why people demand certain goods: the only important point is that all things are demanded, produced, and paid for because individuals want them” (Schumpeter, 1909: 216). He entirely acknowledges that while it is possible to shape the preferences of individuals, inquiries regarding the reasons of the changes in preferences does not fall within the scope of economics. Therefore, there exists a “division of labor” between other scientific methods and the “pure theory” (Schumpeter, 1954: 889).

Schumpeter argues that within the ongoing Methodenstreit, this suggestion of the “division of labor” could serve as a reconciliation for the two sides. One side seems to focus on “pure theory”, while the other deals with wider matters such as the elucidation of individuals’ tastes. Schumpeter states that: “both sides are mostly right ... their sole difference lies in their interests in different problems.” (Schumpeter, 1908: 6–7, as cited in Hodgson 2007: 2). Therefore, as stated above, for Schumpeter, methodological individualism is neither a universal restriction nor a methodological principle.

It can be claimed that methodological individualism and static competition, and institutional individualism and dynamic competition lie in their interest in different problems, which will be touched upon briefly below.

2.3. Human Behavior and Competition in the Neoclassical and Schumpeterian Approaches

The neoclassical approach, which analyzes human behavior within the framework of methodological individualism, uses a static framework. By “static”, it is meant that all variables are stable and taken as given. The neoclassical approach also embraces perfect competition[§], which is the most typical example of static competition theories. In such theories, the *structure* of the market plays an important role in economic decisions, including pricing, capital accumulation and distribution, and the analysis does not include any changes that occurs throughout history. Hence, the determination of the prices and the quantities of goods in exchange relations remains as the only problem to be solved. For this aim, variables such as time, institutional structure and technology are taken as given in static competition theories, and the whole market can be explained methodologically by the behavior of a single firm.

In institutional economics, which also includes Schumpeter, individual behaviors are handled within the framework of institutional individualism and a dynamic framework is used. Dynamic analysis considers changes over time along with technological change. A typical example of this is Schumpeter’s understanding of dynamic competition. Dynamic competition theories

§ The main assumptions of perfect competition is given in section 3.1.

highlight the competition *process*, and emphasize variables including new products in the markets, technological innovations and improvements, and alterations in the firm's size. Therefore, dynamic competition comprises such a course that both economic rules and the economy's structure change as a result of competition (Fortman, 1966). Dynamic competition theories also take into consideration the institutional framework. The effect of social and institutional dynamics on individual and/or firm behavior is investigated methodologically within the category of institutional individualism. In other words, the basic parameters that make competition dynamic are the technology, processes and the institutional dynamics, in which human behavior is defined in methodological holism.

Although time is taken into consideration when markets reach equilibrium through the role of static competition, it is obvious that each entrepreneur aims to maximize his/her profit in the market and takes technology (economic sphere) and institutional dynamics (social sphere) as given. Nevertheless, once technological innovations and changes in technology are involved in the studies, the static nature of competition turns into dynamic and the concept of "stability" is no longer valid. Among others, mostly Schumpeter undertakes such analysis. In a framework, where the individual is a social being, and the historical, institutional and even cultural links of economic reality are taken into account, dynamic competition and Schumpeter's entrepreneur should be considered. In particular, when the motivations of the entrepreneur, who is an individual analysis tool, are taken into account, it is seen that the relationship of his/her innovation activity with the social field is quite different than the methodological individualism, which is related with the neoclassical static competition understanding.

3. STATIC COMPETITION AND METHODOLOGICAL INDIVIDUALISM

Two basic methods are used in economic theories: Static and dynamic analysis. In the method of static analysis, the relationship between the variables that are taken into account in the analysis is put forth by considering a certain moment in time. In this respect, it can be argued that the method of static analysis is timeless or that it is based on abstract logical time, not concrete historical time. The most well-known example of static theories is the general equilibrium analysis of Walras (1954 [1877]). In the general equilibrium analysis of Walras, tastes and preferences, initial amount of factors of production, distribution of factor incomes among individuals and technology level are accepted as given. It is shown that under these given conditions, producers and consumers, who act rationally can reach equilibrium prices and quantities. In a sense, the equilibrium set forth by supply and demand curves is the main result, even the main objective, encountered in the method of static analysis. In this analysis, the deviation from equilibrium is attributed to the variables that are accepted as external in the analysis, and if any disequilibrium is reached, equilibrium is reached again as a result of the change in prices and quantities. Since the time dimension of production and production-related variables does not exist, the issue of exchange is at the forefront in studies that adopt the method of static analysis (Ozer-Imer and Guler Aydin, 2020).

Production is a time-consuming process in studies that take into account the issue of production. Because of this reason, it is necessary to include concrete historical time in the analysis, instead of abstract logical time. In these studies, where distribution shares and technological change will no longer be given, there is disequilibrium and new equilibrium situations rather than convergence to equilibrium. Since the external variables of the analysis of the method of static analysis become the internal variables in the the method of dynamic analysis, the dynamic analysis does not have pure theoretical results as in the static analysis (Ozer-Imer and Guler Aydin, 2020).

3.1. Perfect Competition and Human Behavior

Perfect competition is one of the most well known examples of the static competition theories. In perfect competition, it is assumed that there are an infinite number of firms in the market. The quantity and price of factors of production are taken as given. There is perfect information in the market. A homogeneous good is produced. In addition, free entry and exit of the firms is assumed from the markets (Hunt, 1992). As long as prices are given, firms aim to maximize their profits. According to McNulty (1967), when this is the case, the firm turns into a tool, which has the sole role of steering the market towards equilibrium. In order for these assumptions of perfect competition to be realized, it is necessary that the individual behavior is conceptualized independent of the society, and that methodological individualism is adopted as a fundamental analytical category.

In fact, the methodological individualist understanding of the neoclassical economics rests on rationality, which is among the main assumptions of the neoclassical approach. The rational individual is a human design, in a static framework, whose aim is to increase utility and profit. His/her main motivation is utility maximization through consumption of individual goods if he/she's a consumer, and it is profit maximization, if he/she is the owner of the firm. Since these motivations are defined by the behavior of a single individual and firm, they are an abstract category from society. It can also be claimed that the rational, self-interest and utility/profit maximizing individual-homoeconomicus is an abstract design of the individual, rather than the real human action (Hollis and Nell, 2007).

Table 1 highlights the difference between methodological individualism, which the neoclassical approach adopts and holism, which Schumpeterian approach advocates.

Table 1. Holism versus Individualism

| Holism | Individualism |
|--|---|
| Society is the "whole" which is more than its parts (holism). | Only individuals have aims and interests (individualism). |
| "Society" affects the individual's aims (collectivism). | The individual behaves in a way adequate to his aim, given his circumstances (rationality principle). |
| The social set-up influences and constrains the individual's behaviour (institutional analysis). | The social set-up is changeable as a result of individuals' action (institutional reform). |

Source: Agassi, 1960: 244.

3.2. Behavior of the Entrepreneur in the Neoclassical Approach

Even though maximization of profit is highlighted in neoclassical analysis, only "normal" profit is reached in equilibrium (Akyüz, 1977). It is possible to define equilibrium as a "state of rest" (Ertürk, 1996). Furthermore, as each of the infinite number of firms is producing a homogeneous product, it seems that the entrepreneur is solely an organizer and he/she mainly produces homogenous products at prices that are given (Eatwell, 1982). Due to this reason, the neoclassical perfect competition excludes all behaviors of the entrepreneur. Therefore, economic change as well as innovation are left out of the analysis. When the economy has no change and profit, it is possible to consider this concept of perfect competition as an abstraction, which is comprehensive (Chipman, 1971).

3.3. Methodological Individualism and the Neoclassical Approach

In the neoclassical analysis, entrepreneur, as a result of methodological individualism, is isolated from society and takes the institutional structure as given. Hence, he/she appears in the

analysis with an equilibrating role rather than making innovation, causing technological change and structural transformations. This is so since neoclassical analysis considers expressions such as the “national interest” and “public policy” as useless or as only shorthand expressions for aggregates of interests and policies of many individuals. On the other hand, technological changes and processes are important in dynamic competition theories. In relation to this, behavior of individuals, firms and entrepreneurs cannot be dealt with independently from the social structure and institutional context. The natural result of this is the instabilities caused by the entrepreneur and competition in the economic and social structure. While methodological individualism may be a useful analytical tool, it illustrates economic reality by isolating it from social reality. Therefore, institutional individualism, as a broader sense, must be considered.

4. DYNAMIC COMPETITION AND INSTITUTIONAL INDIVIDUALISM

The variables of the economic system are also affected by the future expectations of the individuals rather than a certain moment in time. In this case, the market supply and demand equilibrium based on static analysis is not independent of the past production decisions of the producers, experiences, or even of future production expectations. Thus, the method of analysis should be expanded to take into account the past and future values of the variables under investigation, and time-dependent changes should be included in the analysis. This type of method of analysis is economic dynamics (Schumpeter, 1954).

Stating that static theories are a special form of dynamic theory, Schumpeter argues that static theories are a form of withdrawing the static level from dynamic reality. With the influence of the individual’s mental experiences, he/she starts the analysis with the concrete relativity, and he/she, then, turns to the abstract. In other words, a study that starts from dynamic reality tries to capture the static, the unchanging, steady state in this reality.

The steady state refers to a certain moment of the analyzed variable rather than the method of analysis. The steady state is the situation, in which the investigated variable reproduces itself at certain rates. Schumpeter states that the steady state is a methodological construct, but it has other meanings (Schumpeter, 1954: 964). The steady state is important in that it shows which variables are excluded as well as which facts are taken into account regarding reality. When these excluded variables are included in the analysis, the method of analysis would be dynamic.

The method of dynamic analysis is related to economic biology and evolution due to its variables that cause change. While the concept of evolution, in a narrow sense, means bringing out the constantly changing phenomena within the unchanging framework of institutions, preferences and technology, in a broad sense, it also means changing the framework of analysis. Static and dynamic, steady state and evolution differ from each other by their logical methods. However, Schumpeter states that a static process can be presented by a dynamic model and an evolutionary process by a static model. The process of reaching the steady state itself is dynamic since the past values of the variable are taken into account. The situation, where given parameters change, while a static relationship pattern is introduced, also leads to an evolutionary approach. Whatever methodological tool is chosen, it is the ever-changing nature of the unchanging economic system. Methodological preference changes depending on how and within which framework the researcher wants to present the perceived reality.

4.1. Economic Development and Schumpeter

It is necessary to scrutinize “economic development” of Schumpeter and how it relates to competition in order to grasp this structural change. The tendency towards equilibrium and the circular flow show the remarkable concept of development. In Schumpeter “Development is

spontaneous and discontinuous change in the channels of the flow, disturbance of equilibrium, which forever alters and displaces the equilibrium state previously existing” (Schumpeter, 1926: 64). The realm of production is the domain where the disorder in the center of equilibrium, and uneven and unstructured changes in the lines of circular flow occur. Production forces have to be employed by the producers so that either the same goods are produced by different techniques, in a different way or different goods are introduced (Schumpeter, 2005). Schumpeter considers innovations or “new combinations” as the basis of the notion of development: “development in our sense is then defined by the carrying out of new combinations” (Schumpeter, 1926: 66). In this way, either a new organization of any industry is performed, a new good or method of production is introduced, a new market is opened, or a new source of raw materials is supplied. Hence, the actions of the entrepreneurs result in changes in the systems’ structures. That is to say, the “creative responses” of the entrepreneurs are behind these structural, social and economic changes. It should be noted that creative response is itself a product of a historical process. Because of these characteristics, it has a texture that is socially constructed.

According to Schumpeter, due to its changing nature in both social and economic spheres, capitalism is an evolutionary process. As a result, instability takes place in all social and economic institutions (Schumpeter, 1989). Schumpeter also states that creative destruction “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” (Schumpeter, 1943: 83). The source of these instabilities is the entrepreneur and innovations he/she introduces, and as previously mentioned, these innovations are directly related to social and institutional dynamics within the context of their motivations. Undoubtedly, in such an analytical approach, it is inevitable that competition is dynamic and has a structure that includes processes.

In Schumpeter, change in capitalism does not occur instantly since considerable time is necessary for each mutable elements of transformation. Because of the evolutionary nature of capitalism, different than the neoclassical analysis, the clarification of the details of this organic process cannot be accomplished by analyzing its specific parts. Schumpeter believes that one should not focus on how the present structure is managed by capitalism, rather on this very structure is created and destroyed. According to the neoclassical approach, when the market prices are given, competition is a determinant of quantity. However, in capitalism, competition necessitates that a new source of supply, a new technology, a new commodity, and new types of organization are introduced. These occur due to the entrepreneurs’ actions (Howells, 2003).

4.2. Schumpeter’s Criticism on Perfect Competition

In Schumpeter, competition is dynamic, the details of which were given in section 2.3. Under perfect competition, optimal allocation of resources requires that there is free entry of firms into each industry. This assumption makes sense if same products are produced by conventional techniques in a few number of industries. Nevertheless, when new products and methods are introduced in a dynamic setting, free entry is not possible in such industries (Kaldor, 1972). Perfect competition takes technological changes as given, hence, it ignores the notion of “development”. Schumpeter criticizes this static structure of perfect competition (Fagerberg, 2003).

Prices are flexible in perfect competition. When there is an increase in prices in one industry, profits increase and firms choose to produce in this sector. Therefore, when production increases, the increased profit level is only temporary, and it decreases back to its previous

level. Firms gain normal profit at the static equilibrium level. Nevertheless, conventional theory also assumes profit maximization aims of firms. It seems that this assumption is not consistent with the normal level of profit. In order to maximize profit, firms ought to be searching for new technological advantages or new technologies. But along with prices, technology is taken as given by the conventional theory. Schumpeter (1943) believes because of the above mentioned insufficiencies, innovations, and, hence, the creative destruction process cannot occur in a perfectly competitive economy.

Schumpeter states that capitalism's evolutionary feature result from actions that are innovative and these actions are the reason for changes in technology. Hence, Schumpeter attaches importance to the entrepreneur and his/her creative actions or responses.

4.3. Behavior of the Entrepreneur in the Schumpeterian Approach

Schumpeter scrutinizes the behavior of the entrepreneur when examining the social and economic structure. For example, innovation paves the way for different outcomes with regard to the the social setting and the capitalist stage. In Schumpeter, the innovation activity of the entrepreneur and the leading motivations are quite different than the entrepreneur of the neoclassical analysis and its understanding of individual.

It seems that the institutional structure, the routinization of innovation** within this structure and the capitalist structure's production of hostility eliminate technological determinism from Schumpeterian analysis, or a kind of multiple equilibriums seems to be formed. Since the causality works in both directions regarding the relation between institutions and technology, technology both affects institutions and is influenced by institutions (Papageorgiou and Michaelides, 2016: 9). In addition to criticizing particular features of the neoclassical economics such as teleological theorizing and conducting static analysis, the analyses of Schumpeter are also distinct. The methodological frameworks of neoclassical and Schumpeterian analyses are rather dissimilar. Individualism and holism characterize institutional individualism, the methodological background of Schumpeter. His economic sociology characterizes institutional individualism. In addition, Schumpeter's conceptualization of human behavior elucidates the relations among collective entities and the individual behavior (Festre and Garrouste, 2008: 365, 381). According to Schumpeter, entrepreneurs introduce innovations. The "will to conquer", the "joy of creating" and "dream and will to found a private kingdom" are the basic motives of the entrepreneur. The animistic feature stems from these motives. In Schumpeter, economic changes are initiated by the individual, in other words, the individual is "the bearer of innovation". Although these motives are individualistic, they are realized in the social context. Animistic and anthropomorphic features are a result of these motives. It should be emphasized that the institutional individualism of Schumpeter is different than the methodological individualism of the neoclassical school, since it was Schumpeter who coined the term. With regard to the evolutionary terminology; it is possible to consider the individual as the unit of evolution.

Schumpeter acknowledges individualism predominantly different than the methodological individualism of the neoclassical analysis. While, in the latter, individual is considered as the initial constituent for economic phenomenon in general; in the former, it is used so as to mean

** Schumpeter (1943) argues that the creativity of the entrepreneur routinizes with the emergence of big firms, and as a result, the dynamism of the system is lost. The reason behind this is that when big firms replace small firms, the values and norms of the sociopolitical structure changes. That is, rationalized creative behavior turns into mass behavior (Guler Aydin and Ozer-Imer 2019: 478).

an analytical instrument for particular economic relations, essentially, entrepreneurship. Here, the individual is not a *homoeconomicus*, who aims utility/profit maximization, but is a real human being with both psychological and social intentions. Therefore, it is not possible to generalize the behavior of the individual to the whole society.

The final reason of the significantly different characteristic of the individualism in Schumpeter is that the motives have a social character in addition to the presence of society and social classes, which has an impact on individual behavior. Lastly, the process of routinization of innovation stresses that the institutional framework and the social context both play very important roles on entrepreneurship and hence, on the actions of individuals. When the proposition which attributes the “wholes” explicit aims and interests are not accepted, then, it would be possible to verge individualism and institutionalism (Agassi, 1960: 246–7).

4.4. Institutional Individualism and the Schumpeterian Approach

Schumpeter defines institutional individualism as “the approach in which determination of economic phenomena, for instance, values and prices, surplus value and profits can be traced to individual decisions and choices” (Schumpeter, 1954: 888-9). In this sense, in Schumpeter, an explicit distinction should be made between political and methodological individualism as they do not share anything in common. The former indicates the freedom of individuals so that they can improve themselves, participation in well-being and following practical rules, while the latter mainly refers to starting the analysis from the individual for the sake of identifying particular economic relationships (Schumpeter, 1909).

In Schumpeter, a correspondence, which is at times fragile, exists between the social and economic roles and incompatible ends of individuals. If the individuals are inclined to implement their economic and social functions, then, this correspondence is influential. According to Festre and Garrouste, human motives are at all times rooted in the historical and social context, from where these have emanated (Festre and Garrouste, 2008, 379). The institutional individualism is furthermore supported with the recognition that the addition of constituents cannot make up the whole; the whole is more than this. The more institutionalized individualism of Schumpeter is based on the decision-making role of the entrepreneur and technological change, and innovation that is solely related with his dynamic competition concept, which changes in the economic and social structure. In Schumpeter, mutation, which is a biological term, refers to this change in the structure. According to Schumpeter, industrial mutation continually transforms both the social and economic structure, thereby, the old structure is destroyed and a new one is created. It is this “creative destruction” process, which may be attributed to be the crucial dynamic laying beneath the functioning of capitalism and competition understanding of Schumpeter (O’Dennel, 1973; Schumpeter, 1943). In brief, creative destruction indicates especially qualitative changes in the economic and social structure.

5. CONCLUSION

Stationary or steadily growing economies are investigated by the neoclassical economics. In this static analysis, a given period of time is taken into account. Therefore, it is possible to claim that such an analysis is timeless since the factors such as prices and quantities are considered at certain points in time. One has to monitor quantities, which refer to various points in time. In Schumpeter, the analysis does not proceed in accordance with the approach of the perfect competition that a new equilibrium is automatically reached when the former is destroyed. In

Schumpeter, it is impossible to go back to the previous, old equilibrium, once it is destroyed and the analysis is dynamic.

Methodological individualism is the conceptualization of human behavior in the neoclassical approach and it is employed both at the micro and macro levels (Kirdina, 2015: 55). In such a setting, the rational individual is a human design, whose is far from performing real human action. When this type of conceptualization of human behavior goes along with perfect competition, which is a static approach, there is no room for the real human being/the innovator, who is the “bearer of innovation”. Accordingly, under the neoclassical analysis, entrepreneur does not have a transforming role and is isolated from the social context. In addition and inevitably, perfect competition takes technological changes as given, hence, it ignores the notion of “development” in social context in addition to entrepreneur’s role. Schumpeter criticizes such static and socially neutral structure of perfect competition (Fagerberg, 2003) and introduces institutional individualism. In institutional individualism, it is possible to explain human behavior (Kirdina, 2015, 58; Toboso, 2001, 771), and historical and social perspectives are present in human motives. When methodological individualism and institutional individualism are considered, it can be claimed that the perception of economic reality is inevitably parallel to how human behavior is determined methodologically.

In Schumpeter, competition refers to a dynamic *process* rather than a timeless analysis. In such type of competition, new products are introduced in the markets, technological innovations and improvements are present, and changes occur in the size of the firms. All these changes, stemming from dynamic competition, have an impact on the structure of the economy. Institutional framework is also taken into consideration in such an analysis. In addition, it is not a guarantee that precise, pure theoretical results are reached. Schumpeter believes that innovations, and, therefore, the creative destruction process cannot occur in a perfectly competitive economy. Thus, perfect competition does not take into consideration the very crucial characteristics of capitalism, i.e. actions that are innovative. Schumpeter states that capitalism’s evolutionary feature is indicated by innovative actions that are behind changes in technology. Hence, Schumpeter attaches importance to the entrepreneur as well as the creative actions of the entrepreneur under social and institutional context.

It can finally be concluded that the behavior of the entrepreneur should be considered within a social context. Since economic reality cannot be scrutinized independent of society, history and social individual, Schumpeter's institutional individualism provides a richer analytical framework through the link of social reality.

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