The Economic Event: Innovation, Action, History — an argument
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This somewhat impertinent essay sets out to trace a homology across very different disciplines, with widely divergent vernaculars, in order to invite us to think about the world behind and beneath these institutional boundaries, and to enrich the idea of innovation, or the event, by considering its several articulations together. Surprise: business, philosophy, and economic history can be made not only to speak to one another, but also to gain deeper access to the world of ideas and events thereby.

Entrepreneurs

“Innovation” is something that blackboard economics can’t really handle: an exception, a bump, a hiccup—because mathematics doesn’t allow for little rebellions like surprises. (eg Greico 2012). The Austrians, on the other hand, were happy to take it up as the central trait of the “entrepreneur” (by now the subject of a dozen academic journals and a couple dozen doctoral programs). The founding figure here—the one economic historian discussed on the hugely-popular The West Wing—is Schumpeter, who died in 1950, but whose ideas are still influential. Schumpeter’s entrepreneur, to quote from Israel Kirzner, probably the dominant present-day theorist of entrepreneurship

does not passively operate in a given world, rather he creates a world different from that which he finds. He introduces hitherto undreamt of products; he pioneers hitherto unthought of methods of production; he opens up a new market in hitherto undiscovered territory. In so doing the entrepreneur is, in the Schumpeterian view, pushing (what might otherwise have been) an equilibrium market away from equilibrium. (Kirzner, 2009: 146)

Schumpeter’s entrepreneur innovates—that is, introduces new things, practices, uses, bundles (it hardly matters) so as to alter the game itself; its rules, routines, expectations, normal practices and productions. This entrepreneur acts: takes risky leaps, makes risky plans, under uncertain conditions, guided by novel or creative ideas. Action (as Hannah Arendt has so elegantly explained) is always a wager, whose outcomes rely and wait on the actions of others (Arendt, 1958). The point, however, is that the Schumpeterian entrepreneur, when she succeeds, changes the game such that other players must decide, plan, allocate, and reason differently. Innovations create ruptures and rethinks in an ‘industry’ —they are events, in the proper sense: in economic jargon, they create ‘disequilibria’.

Apple’s “iPod” entered a world in which people lugged around portable CD players, and still thought of music in terms of discrete, materialized, “album”–like packets. Digitized portable music fundamentally altered listening habits, along with the terms and means of storage, delivery, and marketing. The world that has since unfolded could not, of course, have been predicted in 2001: the changed situation has spawned a scramble for improvements, refinements and further innovations (many by Apple itself).
The Schumpeterian entrepreneur receives high rents initially—being both ‘cool’ and scarce—which, of course, moves other players to play differently, which competition drives rents and costs down, increasing supply, normalizing and banalizing the innovation back towards an inert equilibrium. But—and this is key—the Schumpeterian model never allows the system to relax back into equilibrium, because other innovations intervene, and then others, which streams cross and fertilize unpredictably (iPod to iPad)—thus the new ‘normal’ is more complex, more productive, more efficient than its predecessor.

At ‘equilibrium’, there is no profit, hence no incentive to activity, only a deep and general banality. The spring of economic vitality is disequilibrium: both the rents it creates, and the scramble for further improvement and innovation that it inspires in its wake. The innovations themselves—be they products, processes, combinations, design-ideas—are really new, unexpected, unaccounted-for, by other players. In a real sense, then, a Schumpeterian game is made by the players, and has no underlying fixed rules or laws: it is not the size of the board, or the number of pieces that alters over time, but the rules, the strategies, even the ends: the game itself, the “business idea” (Hagedoorn, 1996; Holcombe, 2006; Phelan, 2016). In replacing one game with a new game, the entrepreneur engages in ‘creative destruction’: innovation causes the collapse of one world, and inaugurates the unfolding, via scramble and adjustment, of a new one whose contours cannot be theorized—ahead, but only worked-out.

Schumpeter’s view, while still influential, has been either challenged or refined (depending on one’s perspective) by Israel Kirzner, for whom (in his own words)

the entrepreneur is not seen as disturbing any existing or prospective states of equilibrium. Rather he is seen as driving the process of equilibration. In this process the market is, as it were, gravitating (through entrepreneurial activity) towards the hypothetical state of equilibrium ... My emphasis on the entrepreneur as the agent driving the competitive-equilibrative forces of the market focuses attention on the entrepreneur not as a creator, but as being merely alert. His equilibrative role stemmed not from his autonomously introducing change into existing market relationships, but from his ability to notice, earlier than others, the changes that have already occurred, rendering existing relationships inconsistent with the conditions for equilibrium. (Kirzner, 2009: 147-8)

The entrepreneur here, in leaping upon inefficiencies—price differentials, process bottlenecks—is engaged in filling cracks and gaps, plugging leaks, and drawing rents from imperfections. The alert entrepreneur can both infer and detect, as well as improvise solutions to these cracks: Kirzner calls this process *arbitrage*, and its function is to pull the market back towards equilibrium (Ricketts, 2002; Sautet, 2000). In this model, it is the market itself that presents cracks and leaks to the alert actor; and while he does not deny the existence of Schumpeterian entrepreneurs, Kirzner frames carefully what they do. The paradigm changes (to borrow from Kuhn) that Schumpeter sees as the result of creative thinking are, for Kirzner, ‘opportunities’ that appear as price differentials. That is, the ‘opportunities’ are endogenous, already implicitly present: there is no new game, there are only novel moves suggested by, and based upon, the game itself. (Kirzner, 2009: 149-50; see also Bostaph 2013; Priem et al 2012).

“Equilibrium” is a (neoclassical) metaphor for a static state “market” (also a metaphor) in which all players are stuck, because everything is known, everything is efficiently priced, net profit
is zero—perfect inertia, nobody moves, and there are only ratios defined by rules—a General Linear Model which, as Abbott (2001) and Chiles et al (2007) have argued, gets substantialized as a ‘general linear reality’, a peripetia in which the model is reified, and therefore in which the normal becomes normative, and epistemology (now a self-contained world) is summoned to govern the world it was designed initially to describe. Disequilibrium is ruled out, not because it doesn’t happen in the world of commercial action, but because it is anathema to the world of proof and logico-legal veridiction. In this epistemological set-up, worldly phenomena (in their flux and richness) are controlled and flattened to suit narrow counting criteria, rendering them datable, as data.

The homology of ‘equilibrium’ and what is called in the social sciences ‘structure’ is pretty obvious: a static, tightly-imbricated, self-sustaining, self-regulating machine whose workings are not only described, but (therefore) governed (by ‘Laws’). Again, there is no agency, no exogenous interpositions, only the occasional slippage or crack, which is filled and fixed in a brief flurry. In both cases—equilibrium and structure—epistemology is made to govern ontology: routines are remade as rules, the normal becomes normative, models fold themselves into monads. Thus (for example) Althusserian Marxism, and to some extent also Butlerian feminism (though also see Butler, 2015).

The sleight-of-hand in the word ‘opportunity’ is revealing here. It only appears as an ‘opportunity’ after it has succeeded: before this, it is a guess and wager, and contains the possibility of failure. An ‘opportunity’ only appears after itself, in its own wake: it becomes prospective only in retrospect, since a failed prospect appears (retrospectively), as a ‘chimera’ or a ‘bubble’—never as an ‘opportunity’. Thus, while Kirzner’s entrepreneur seems to be an actor—one who responds alertly to opportunities—she is really a function, a perfect winner and sure bet. The simple truth is that structures and equilibria, in exiling failures and dead-ends, detach themselves radically from the world of action and of temporality (past, present, and future present themselves to action; models conceal these behind the unthematized eternal present of analysis and narrative). They make the world an effect, an epiphenomenon, of themselves: and whenever something in the world appears not to fit, there is a flurry to fix the leak, to fill the crack.

Some theorists of entrepreneurship, a little bored with the fetish for equilibria, have taken up the ‘radical subjectivist’ critique of Ludwig Lachmann. Here, entrepreneurs are subjective agents, acting under uncertainty, who vary greatly in their preferences and proclivities; in the degree and kind of their imagination and creativity; and in their interpretation of (past) knowledge. Thus the plans and projects they form will diverge, and so interfere with each other in both success and failure. These divergences will, over time, interact in increasingly unpredictable ways:

The market process consists of a sequence of individual interactions, each denoting the encounter (and sometimes collision) of a number of plans which, while coherent individually and reflecting the individual equilibrium of the actor, are incoherent as a group. The process would not go on otherwise. (Lachmann 1976a: 131)

For Lachmann, there is no substance in the metaphor ‘market’: there is no here here. Rather, there is a myriad of individual actors bumping up against one another, aligning, detaching, and projecting in a chaotic mess. He calls this a ‘kaleidic society’, in which ‘equilibrating forces’ operate only slowly and incompletely, and in fact are always (already) overtaken by ‘unexpected
change’ (Chiles et al, 2007). For Lachmann, uncertainty about the future is the product of projects and plans about the future, together with the irreducible plurality (one is reminded again of Arendt) of the planners and projectors. In this view, according to Keyhani (2016: 69) “every act of choice is creative because it constructs the future in a unique way... creative decisions are unpredictable, rendering the future unknowable.” The ‘market’ cannot coordinate imaginative and interpretive acts, nor experiences and situations that are irreducibly particulate, ‘subjective’. To Lachmann, ‘market’ and ‘game’ are metaphors that simplify and streamline a process so complex as to be beyond the capacity of language or models to encompass it (see also, for a thorough theoretical development along similar lines, Latour, 2013).

Failure is key to the theory: because ‘the market’ is really a chaotic, anarchic field of plans and projects, mistakes and errors provide information to players that is at least as valuable as successes. ‘Blind alleys’ and ‘opportunities’ are of at least equal import—since, here, knowledge serves action-in-the-world, rather than the other way round.

Matthews (2010: 227) puts the case succinctly thus:

If we pose a strategic framework as one that insists that firms will invest in an industry only if that industry reaches a certain level of profitability ... then we are eliminating the very topic of our enquiry, namely how entrepreneurs reach and make subjective strategic decisions regarding their firms. A Lachmannian perspective on this process invites us to view the investment choices in terms of entrepreneurial imagination, creativity, the framing of expectations and the making of judgements—rather than as making choices from a well-defined set of technical and production options, where everything is clear and certain, as in the neoclassical fantasy world.

Lachmann stresses that motivations, like world-views, are subjective: and this problematizes the ‘rationality’ presumed by both economics and economic history. What is the end of commercial action? Is it ‘pecuniary’ or ‘materialistic’? No, because the desire and impulsion is not for coin (or cattle, the meaning of the Latin root ‘pecu’) or matter, but for a life-style, for fetish-and meaning-bearing things and traits: a certain kind of appearance. The desire is not for wealth, but for the ends to which wealth is put. These are social, psychological, interpersonal—to revert again to Arendt, political—appearing to one’s polis, to one’s others, as a certain figure, in a certain light, as a success, a winner, etc. The aura of things is defined by the meaning that others bestow on them: and their desirability is based on this particular kind of utility.

Events

Innovation leads, via ‘disequilibrium’, to a scramble to adjust to a changed situation, that unfolds in a sort of penumbra built on multiple wagers. This basic schematic rhymes, in a sort of deep algorithm, with the phenomenological theory of the ‘event’—a rhyme that crosses, and invites us to reconnect, disciplinary vernaculars. Event-phenomenology insists that the event makes us, rather than the other way around: wherever its origin—genius, creativity, etc.—the effect of innovation and the event are identical, as much for the innovator as for other players. ‘Genius’ is also a metaphor for ‘event’: an origin-cause that cannot be thematized or generalized, only noted and named. Like an event, it is its own cause and origin: it is a place-holder for the wacky and influential. As such, like any event, it appears afterward, in its own wake: a wacky unsuccessful
idea—that is, one that did not remake a world in its image—is merely crazy, and does not count as either.

For the phenomenology of the event, we can glance briefly at two contemporary French philosophers, Jean-Luc Marion and Claude Romano. To start, take Marion’s *In Excess: Studies of Saturated Phenomena* (2002). There are degrees of givenness, of eventicity: some barely register, some are new births (consider the impact of pregnancy, death, ‘falling in love’). The *significant* event—an ‘innovation’, in the sense we have been using it here, certainly counts—is given from nowhere, since it has no frame of reference that can explain or anticipate it. Rather, it bears its own criterion, as a surprise that upends an existing *world*(its meanings, practices, sense, horizons) and unfolds another in its own wake, under its own light. A significant event is blinding, overwhelming, unruly: coming to grips with, getting a handle on, making—sense of it requires 1) a *frame*, to winnow, flatten, and reduce it to a representable shape; and 2) patient, repetitive *effort*. Over time and with effort, in the event’s wake, its meaning and implications present and play themselves out, which tame and cool the event, settling it into a paradigm whose meaning and structure brought under language, normalized, explained.

‘Market’ is a general frame that winnows a dizzying panoply of purposeful effort down to a manageable set of representations and rule-bound interactions: ‘price’ (which, as I have argued elsewhere (Custer, 2014), is not a simple thing) ‘supply’, ‘demand’, ‘capital’, etc.. Thus ‘blackboard’ or ‘mathematical’ economics, and the reversal by which the model becomes the world, and the world a phantasm. Market *events*—‘bubble’, ‘crash’, ‘boom’, ‘GFC’—can only be explained *after* they exist, that is, are experienced. Prediction remains a matter of the wager, the creative and uncertain (entrepreneurial) action. ‘Innovation’ and ‘creative destruction’, along with the unruly pluralities and paths they present, are species of event; and the drift in the ‘market’ from novel scarcity, via the competitive scramble, to plenty, banality, and torpor, constitutes the event’s *wake*.

‘l’*adonné*’ is Marion’s term for the recipient of an event that destroys one world as it creates another: the more ‘resistance’ offered by the recipient to the event’s unruly surplus, the more one is overwhelmed, the more thoroughly one is remade by it; the more thoroughly one is remade, the better—and, crucially for our purposes, *sooner*—one is able to cope, deal, act in the new world as it unfolds. Commercial action rewards early entry (greater rents), which also involves less data (greater risk): in an event-frame, this means a willingness to forget, and to hold oneself open to the new and uncertain, to embracing new paradigms before they are understood—before other more cautious players get involved. This is aleatory, risky, and so (viz. Lachmann) involves the intersection of *imagination* and *personality*: the first presents a future with little information (unlike a ‘plan’, which has more); the second presents a willingness to risk failure and disappointment—a matter of preference, not ‘rationality’. This robust alertness, both to small events (cracks, leaks) and to big ones (paradigm-shifts) Marion calls *anamorphosis*, a disposition to register and comport one’s self to events—to take them up, and be taken-up by them—*just so*—skillfully, aptly.

That ‘innovation’ and ‘event’ are kindred ideas is one thing: but, can they learn from, enrich each other? I think they can. Claude Romano’s (2009, 2014) theorization of the event is still more radical, systematic, uncompromising: I would argue that it adds to Marion’s picture the following aspects. To Romano, one is *implicated* in the event: because it strikes one’s world in its totality—think again of a death, a pregnancy, a love affair—it involves a call and summons to a new adventure, the meaning and horizon of which are unclear at first. Understanding, sense,
representation—including the appearance of the event itself as an ‘event’—come later: because the event scrambles one’s horizons and possibilities, one’s new self unfolds as it is carried along in the wake. Put it another way: the scramble to cope with, and adjust to the event involves choices and decisions that are wager-like, uncertain both in their grounds and in their outcomes; they only come to seem ‘rational’ and path-guided afterwards; and so, they gain sense, meaning, understanding also in the event’s wake. Events enter knowledge precisely as they cease to matter, as they retreat from experience: and so, one’s who appears only in its own wake, as a retrospective construction. Sense and meaning appear as the event’s novelty and urgency fade—which, again, rhymes with the banalization that occurs to a new product, process, or design-idea, copied, multiplied, and played out. Throughout, the event has the initiative. A Schumpeterian innovation creates a disequilibrium that imposes, in its wake, a scramble on the part of players to rethink and remake themselves, which scramble nudges the market back towards equilibrium—which movement will, of course, soon be disrupted by other innovations, which will concatenate in unpredictable ways. The firms that remain are different creatures.

The journey from iPod to the iPad has remade Apple, us, and more than one ‘industry’; it has given birth to births, piled events upon events in a dizzying adventure that continues, and that might well pull us in directions we cannot now predict or imagine.

Innovation, as an event—along with the entrepreneur, as an actor—requires the resources of many disciplines, multiple metaphors, and a rich hermeneutics. Likewise the ‘market’, inasmuch as it adumbrates so much purposive human action, deserves to be taken very seriously indeed by historians, philosophers, theologians. That is, ‘entrepreneurship’ summons—entrepreneurs.

**Harmonics**

Clearly, events are spanned: there are longer-run and shorter-run varieties. In either case, openness to innovation offer rents to apt and early reception. Events with short penumbras, say a successful novel, are to some extent susceptible to plans, projects, agency. Over the longer run, for example the so-called ‘discovery’ of the ‘new world’, events unfold over centuries, giving to individuals a set of process and incentives into which they are thrown, and over which they have little control. Joel Mokyr, in his *The Culture of Growth* (2016), offers an analysis of ‘culture’ along these lines. ‘The proposition I put forward,’ Mokyr writes,

> is that the explosion of technological progress in the West was made possible by cultural changes. ‘Culture’ affected technology both directly, by changing attitudes toward the natural world, and indirectly, by creating and nurturing institutions that stimulated and supported the accumulation and diffusion of ‘useful knowledge’. (Mokyr 2016: 7)

This is study of, and argument about, cultural attitudes toward (and constructions of) ‘nature’, novelty, material, time, ‘Indians’ and so on. The argument, in a nutshell, is that by the eighteenth century, Western Europe had developed a uniquely open and instrumental comportment towards strange ideas, techniques and things, especially where these improved selling, making, doing. These attitudes were ‘cultural’ given, developed over generations: ‘menus’
presented to individuals that framed both epistemic grounds and (dis)incentives (Mokyr, 2016: 14, 36–8) This openness was institutionalized in the ‘Republic of Letters’, which functioned as an efficient ‘market of ideas’ that crossed national (and doctrinal) boundaries. Its practice of submitting claims to new knowledge to its ‘public’ developed, over time, into an ethos:

The main rules governing the Republic of Letters were freedom of entry, contestability, that is, the right to challenge any form of knowledge, transnationality, and a commitment to placing new knowledge in the public domain. The last rule is the key to what we now call open science... (Mokyr, 2016: 189)

An openness that applied equally and simultaneously to new propositions and new names: it linked veridiction with incentives, epistemology with payoffs: “the rules were of a game where the payoff was academic success, fame, and reputation, correlated with some material payoffs and enhanced social status.” (Mokyr, 2016: 189) The RoL both comported itself towards new knowledge in a way that stuck (its ‘daughter’ was the 19th century Republic of Science), and forged a link between novelty and standing among one’s peers: a reputation, a name, and (what is the same thing, as it enables the purchase of an appearance), riches. Mokyr argues that this attitude could cope even with heterodox or wacky ideas, including ‘hopeful monstrosities’, the ‘discrete leaps in technology’ which, especially in concatenation (‘ideas having sex’, in Matt Ridley’s phrase), might yield the sort of cascade of events that has been named ‘Industrial revolution’. (Mokyr 2016: 26–8, 183)

Mokyr stresses that persuasion is kin to selling, and convincing kin to buying—indeed, throughout his book, the republic of commerce works in the background, in narrative and explanatory harmony. For an open market is an efficient market, just as a plural environment yields better results than a scant one does: the normative and the positive mingle. The same goes for the homologies between ‘equilibrium’ and ‘structure, on the one hand, and ‘disequilibrium’ and ‘event’, on the other. Suasion and selling constitute the wake of intellectual and commercial innovation, which unfolds along with new rules, even new games, and alongside rivalries, personalities, egos. All of this to show that in Western Europe, ‘culture’ developed in such a way as to comport itself in a friendly, receptive, and instrumental way towards innovation: whatever both worked, and did work, counted—and paid.

This link between the republic of commerce and the Republic of Letters was forged in the so-called ‘discovery’ of a ‘new world’, which knocked received epistemes and tastes sideways, creating and destroying in its wake:

As new facts and data surfaced, in part through the expansion of geographical horizons and in part through more careful observations and better instruments, Europeans began to see the flaws of the canonical works of antiquity... New and unimagined lands, fauna, and flora shook the familiar world Europeans had hitherto lived in... merchants, sailors, and explorers and the writers who disseminated their new information acquired a more prominent voice in society, and these were the very people who would be more friendly to new idea and techniques, no matter whether they came from China or from Cambridge. (Mokyr, 2016: 162–3)
An instrumental attitude held that ‘knowledge’ gained by sailors, artisans, wheelwrights, tinkerers, farmers, and ‘gentlemen’ was—if *shown* to work via public trial of ‘experiment’—all of a piece (whatever its social origin). Classical learning cleaved class from class, useful knowledge did not. By the early 18th century, the ‘commons’ of the Republic of Letters combined a unitary cultural institution (across fragmentary states), an efficient market for knowledge, an incentive structure, and a culturally-endorsed and articulated copula between knowledge and use, between innovation and application (Mokyr, 2016: 201-15).

One can be comported to innovation by one’s culture, and one may plan for it: the organism that is most adaptable, as everybody knows, flourishes. Among some species, adaptation can also be intentional, strategic, planned: most particularly in organizations—organisms which are planned into existence. Take, to illustrate innovation-as-action, Peter Drucker’s (1986) entrepreneurial firm.

The seven sources of ‘opportunity’—disequilbria into which firms should design and prepare themselves to take up before their rivals—are, for Drucker, seven areas of constant, purposeful surveillance, searching both for cracks and leaks and for ways to depart from settled practice. Innovation here is a matter of an optimal architecture for a certain kind of purposive action: it is about optimizing a firm’s comportment to events (small and large) by combining search and research. If done well, Drucker argues, ‘innovation’ becomes a name for the firm itself, which becomes, through purposive activity, the source and origin of events in the market.

Using myriad case-studies, Drucker identifies four sources of ‘opportunity’ within the enterprise: events proper (‘the unexpected’), incongruities; bottlenecks (‘process needs’), and structural shifts in one’s market. External changes, to which the firm also remain attuned, include demographics, ‘taste’ and opinion (distinct data sets); and new knowledge. Each of these implies an architectural arrangement of expertise and research; investment; incentives (payoffs for innovation) and pressures (eg systematically dispensing with ‘old’ materials and practices); all intended to spot, analyze, test, and deploy innovations that start—or seem at first—‘small’, but which may unfold into something much larger, making one a ‘leader’, again after.

From the perspective of design and planning, then, of course innovation is a matter of work rather than genius: and here the firm and the individual are very much alike. Imagination must be operationalized by a structure of research, investment, and analysis: the purpose of the firm is commercial action, and knowledge matters only to the extent that is serves and animates this. Drucker is therefore skeptical about waiting around for the “bright idea”—the truly revolutionary event—because there is no time to wait for it: from the perspective of action, waiting is anathema; and from the perspective of commercial action, waiting is simply death.

So what? What if the innovation and the event, and the scholarly and theoretical work that follows them around (and grows as they go on), really point to the same phenomenon, a sort of deep algorithm that pops up in hermeneutic economics, philosophy, biology, and history? Two things might follow: first, perhaps to reconceptualize (and reprioritize) epistemology, especially in its relation to action-in-the-world; and second, from this—a sort of radical empiricism that only makes use of models as a last resort.
References


