

Chapter 1 : Joseph Schumpeter - Infogalactic: the planetary knowledge core

The Theory of Economic Development, tenth printing , Transaction Publishers, New Brunswick, New Jersey KAROL ÅŚLEDZIK 95 Schumpeter's view on innovation and entrepreneurship [3] SCHUMPETER, J.A.

According to Schumpeter, the cyclical process is almost exclusively the result of innovation in the organization, both industrial and commercial. By innovation he means, the changes in the methods of production and transportation, production of a new product, change in the industrial organization, opening up of a new market, etc. The innovation does not mean invention rather it refers to the commercial applications of new technology, new material, new methods and new sources of energy. Schumpeter has developed a model in two stages, i. The first approximation lays emphasis on the primary impact of innovatory ideas while the secondary approximation deals with the subsequent responses obtained from the application of the innovations. In the situation of complete equilibrium in the economy, if the firm decides to undertake a new technique of production, then the same needs to be financed through bank credit. Since the economy is in equilibrium, there are no surplus funds to finance the new venture. With the additional funds from the banking system, the firm keeps on bidding higher prices for the inputs with a view to withdrawing them from the other less important uses. With an increased expenditure in the economy, the price begins to rise. This process further expands, when other firms try to imitate the innovation and raise additional funds from the banking system. As the innovation gets widely adapted the output begins to flow in the market. This marks the beginning of prosperity and expansion. But after a certain level, with an increase in the level of output the price and profitability decreases. This is because the further innovation does not come by quickly and thus, there will be no additional demand for the funds. Instead, the firms which borrowed the funds from the bank start paying it back. This results in the contraction in money supply and hence the prices fall further. The process of recession begins and remains until the equilibrium in the economy is restored. The second approximation deals with the waves generated by the first approximation. The speculation is the main element of second approximation. As the primary wave of expansion begins, the investor, particularly in capital goods industries, expects this upswing to remain permanent and hence borrows heavily. Even the consumers expecting the prices to increase in future go into debt to acquire durable consumer goods. This heavy indebtedness turns out to be havoc when prices begin to fall. Both the investors and consumers find it difficult to meet their obligations, and this situation leads to a panic and then depression. Like other theories of the business cycle, this theory also leaves out other factors that cause fluctuations in the economic activities. Innovation is not the sole factor, rather is only one of the factors that cause fluctuations in the economy.

Chapter 2 : Joseph Schumpeter

Schumpeter's Theory of Innovation Definition: Schumpeter's Theory of Innovation is in line with the other investment theories of the business cycle, which asserts that the change in investment accompanied by monetary expansion are the major factors behind the business fluctuations, but however, Schumpeter's Theory posits that innovation in business is the major reason for increased.

Introduction Joseph Alois Schumpeter is regarded as one of the greatest economists of the first half of the twentieth century. At that time he took part in the most important economic debates. After his death, he had been more or less forgotten for around three decades. In the early s Schumpeterian economics were considered extremely broad after a period when traditional economic approaches were increasingly criticized. Despite the fact that Schumpeter was among the first who lay out the clear concept of innovation his views on the topic changed over time. In his earlier view emphasized in *The Theory of Economic Development*, originally published in [2], Schumpeter highlighted the function of entrepreneurs who is carrying out new combinations. According to him, consumer preferences are already given and do not undergo spontaneously. It means that they cannot be cause of the economic change. Moreover, consumers in the process of economic development play a passive role. In *Theory of economic development* [4] and further work [5],[3], Schumpeter described development as historical process of structural changes, substantially driven by innovation which was divided by him into five types [4]: Schumpeter argued that anyone seeking profits must innovate. Schumpeter believed that innovation is considered as an essential driver of competitiveness [6] and economic dynamics [7]. According to Schumpeter innovation is a "process of industrial mutation, that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one". Schumpeter described development as historical process of structural changes, substantially driven by innovation[2],[5],[9]. He divided the innovation process into four dimensions: Then he puts the dynamic entrepreneur in the middle of his analysis [2]. The macroeconomic effects of any basic innovation are hardly noticeable in the first few years and often even longer. It is worth noting that according to Schumpeter invention is not the cause: It is not the power of ideas but the power that gets things done. Whereas a stationary feudal economy would still be a feudal economy, and a stationary socialist economy would still be a socialist economy, stationary capitalism is a contradiction in terms [9]. Absent creative destruction, what remains would be perpetual imitation and thus not the essence of capitalism at all. Typical characteristics of entrepreneurs are: Entrepreneurship is innovation and the actualization of innovation. In this point it has to be clearly marked that entrepreneurship cannot be confused with the four complementary functions of invention: He buys and produces goods for a certain price to sell it later on at a yet unknown price. His disposition to face risks makes him an entrepreneur. In Jean-Baptiste Say developed the most comprehensive concept of entrepreneurship at that time. The entrepreneur uses the ideas of a philosopher, that is new knowledge, which has not yet been applied in the economy to produce a new product. To do this the entrepreneur employs workers, capital and natural resources to actualize the new knowledge into a tradable good [14]. The Authors of a combination of new production or innovation are the "leaders-new people. What is important the administrators of the means of production, in addition to companies manufacturing, are those units which took bank loan for the purchase of these measures about to comply with the new combination[5]. In all these theoretical concepts entrepreneur was simply the organizer and manager of production or trade. Most often it was the employer and the owner of a capital. At the same time the entrepreneur may be a person who is not the owner of a capital. Schumpeter in his early work presents the following entrepreneurship definition: It would shut down lasting until today confusion associated with different semantic meaning of commonly used word. However, the entrepreneur is the only one who indeed carries out new combinations. That is why there are no people who are lifelong entrepreneurs, and also there are no businessman who even for a while was not an entrepreneur. Entrepreneur does not even have guarantee that it will remain entrepreneur in future. Everything depends only on his talent and the will to act. Besides that Schumpeter finds for entrepreneur three more motives to act, there are: Entrepreneur can realize his wish to fight, to

compete, to showing his superiority over others, winning for the sake of winning. Indeed, it can be seen for example in: *Capitalism, socialism and democracy*. In presented theory of the development of capitalism, Schumpeter put a much smaller emphasis on the entrepreneur as defined in the *Theory of economic development* from and reformulated edition in *What more can be seen that in the Business Cycles*, Schumpeter put much greater emphasis on innovation in the strict sense, than on the entrepreneurship. The new second Entrepreneurship theory has been outlined by Schumpeter in four articles: Schumpeter says explicitly, that entrepreneur does not have to be one person which is a radical departure from his earlier recognition entrepreneur as an outstanding individualist. Schumpeter even states that the country itself, or its agenda, can act as an entrepreneur. In the new theory, Schumpeter does not make the entrepreneur right axis to all other concepts. Relationship between the entrepreneur and banker was considered differently too. Under the influence of the American experience, Schumpeter has abandon unilateral inclusion formed on the basis of observations in Central Europe in the early twentieth century. One reason for this reaction was the fact, that in these texts Schumpeter started to the displeasure of American economists clearly presented thesis of the need to approach from the theoretical economics to economic history. Moreover, in his recent speeches, Schumpeter also claimed that the use of mathematical models in the study of the business cycles is rather barren cognitive, and among the three methods of cycle research: These statements shocked contemporary American economists such as Paul Samuelson, who at that time were fully convinced that the development of economic science is completely linked to the continued expansion in the use of mathematical methods. These words of the economist who co-founded the first in the world econometric society and for almost half of his life emphasized the need to use mathematical methods seemed to be astonishing. What is important Schumpeter categorically rejected the other extreme which is reduction of the economy to the abstract mathematical models, with total disregard for the institutional analysis and empirical studies, and history. In one of the articles published in the last years of his life, Schumpeter said bitterly that "due to human weakness

i. Conclusions The increasing complication of modern economies causes the necessity a higher rate of economic interaction. The generation of innovation no longer depends on individual personalities but involves the cooperation of many different actors. This requires cognitive capabilities that increase the diffusion and thus the understanding of innovation leading to entrepreneurship. *Capitalism, Socialism and Democracy*, 3rd edition, London: *The life and Work of Joseph Schumpeter*, Vol. *Management Trends in Theory and Practice*, ed.

Chapter 3 : Creative destruction - Wikipedia

The first part will be dedicated to the Austrian economist Joseph Schumpeter, a pioneer when we talk about innovation management. Around the s Schumpeter started studying how the capitalist system was affected by market innovations.

Schumpeter also thought that the institution enabling the entrepreneur to buy the resources needed to realize his vision was a well-developed capitalist financial system, including a whole range of institutions for granting credit. One could divide economists among 1 those who emphasized "real" analysis and regarded money as merely a "veil" and 2 those who thought monetary institutions are important and money could be a separate driving force. Both Schumpeter and Keynes were among the latter. While he agrees with Karl Marx that capitalism will collapse and be replaced by socialism, Schumpeter predicts a different way this will come about. While Marx predicted that capitalism would be overthrown by a violent proletarian revolution, which actually occurred in the least capitalist countries, Schumpeter believed that capitalism would gradually weaken by itself and eventually collapse. Specifically, the success of capitalism would lead to corporatism and to values hostile to capitalism, especially among intellectuals. Intellectuals tend to have a negative outlook of capitalism, even while relying on it for prestige, because their professions rely on antagonism toward it. The growing number of people with higher education is a great advantage of capitalism, according to Schumpeter. Yet, unemployment and a lack of fulfilling work will cause intellectual critique, discontent and protests. Parliaments will increasingly elect social democratic parties, and democratic majorities will vote for restrictions on entrepreneurship. Thus, the intellectual and social climate needed for thriving entrepreneurship will be replaced by some form of "laborism". This will exacerbate "creative destruction" a borrowed phrase to denote an endogenous replacement of old ways of doing things by new ways, which will ultimately undermine and destroy the capitalist structure. Schumpeter emphasizes throughout this book that he is analyzing trends, not engaging in political advocacy. He disputed the idea that democracy was a process by which the electorate identified the common good, and politicians carried this out for them. Furthermore, he claimed that even if the common good was possible to find, it would still not make clear the means needed to reach its end, since citizens do not have the requisite knowledge to design government policy. Instead he advocated a minimalist model, much influenced by Max Weber, whereby democracy is the mechanism for competition between leaders, much like a market structure. Although periodic votes by the general public legitimize governments and keep them accountable, the policy program is very much seen as their own and not that of the people, and the participatory role for individuals is usually severely limited. Entrepreneurship[edit] Schumpeter was probably the first scholar to theorize about entrepreneurship, and the field owed much to his contributions. In Mark I, Schumpeter argued that the innovation and technological change of a nation come from the entrepreneurs, or wild spirits. He coined the word *Unternehmergeist*, German for "entrepreneur-spirit", and asserted that "Schumpeter developed Mark II while a professor at Harvard. Many social economists and popular authors of the day argued that large businesses had a negative effect on the standard of living of ordinary people. Contrary to this prevailing opinion, Schumpeter argued that the agents that drive innovation and the economy are large companies which have the capital to invest in research and development of new products and services and to deliver them to customers more cheaply, thus raising their standard of living. In one of his seminal works, *Capitalism, Socialism and Democracy*, Schumpeter wrote: As soon as we go into details and inquire into the individual items in which progress was most conspicuous, the trail leads not to the doors of those firms that work under conditions of comparatively free competition but precisely to the door of the large concerns " which, as in the case of agricultural machinery, also account for much of the progress in the competitive sector " and a shocking suspicion dawns upon us that big business may have had more to do with creating that standard of life than with keeping it down. Kondratiev fused important elements that Schumpeter missed. Yet, the Schumpeterian variant of long-cycles hypothesis, stressing the initiating role of innovations, commands the widest attention today. Fluctuations in innovation cause fluctuation in investment and those cause cycles in economic growth. Schumpeter sees innovations as clustering around certain points in time periods that he refers to as "neighborhoods of equilibrium", when

entrepreneurs perceive that risk and returns warrant innovative commitments. These clusters lead to long cycles by generating periods of acceleration in aggregate growth. The process of technological innovation involves extremely complex relations among a set of key variables: The impact of technological innovation on aggregate output is mediated through a succession of relationships that have yet to be explored systematically in the context of long wave. New inventions are typically primitive, their performance is usually poorer than existing technologies and the cost of their production is high. A production technology may not yet exist, as is often the case in major chemical inventions, pharmaceutical inventions. The speed with which inventions are transformed into innovations and diffused depends on actual and expected trajectory of performance improvement and cost reduction. He sought to prove that innovation-originated market power can provide better results than the invisible hand and price competition. He argued that technological innovation often creates temporary monopolies, allowing abnormal profits that would soon be competed away by rivals and imitators. These temporary monopolies were necessary to provide the incentive for firms to develop new products and processes. His best man at his wedding was his friend and Austrian jurist Hans Kelsen. His second was Anna Reisinger, 20 years his junior and daughter of the concierge of the apartment where he grew up. As a divorced man, he and his bride converted to Lutheranism in order to marry. In , Schumpeter married the American economic historian Elizabeth Boody, who helped him popularize his work and edited what became their magnum opus, the posthumously published History of Economic Analysis. Schumpeter was probably the first scholar to develop theories about entrepreneurship. The International Joseph A. Schumpeter Society awards the Schumpeter Prize. Koch, "Schumpeter will not only be the name of the Faculty of Management and Economics, but this is also a research and teaching programme related to Joseph A. The initial Schumpeter column praised him as a "champion of innovation and entrepreneurship" whose writing showed an understanding of the benefits and dangers of business that proved to be far ahead of its time. Das Rentenprinzip in der Verteilungslehre. The nature and essence of economic theory. New Brunswick, New Jersey: McDaniel Schumpeter, Joseph A. Pdf of preface by F. Hayek and first eight pages. Wie studiert man Sozialwissenschaft. The theory of economic development: Translated from the original German, Theorie der wirtschaftlichen Entwicklung. Economic doctrine and method: Translated from the original German, Epochen der dogmen " und Methodengeschichte. Reprinted in hardback as: Reprinted in paperback as: Vergangenheit und Zukunft der Sozialwissenschaft. The crisis of the tax state. Princeton University Press, pp. The sociology of imperialisms. Imperialism and social classes. Social classes in an ethnically homogeneous environment. Can we learn from past experience? Taussig, New York, New York: Capitalism, socialism and democracy 2nd ed. Association Professionnelle des Industriels, pp. History of Political Economy. Rudimentary mathematics for economists and statisticians. New York, New York London: University of Chicago Schumpeter, Joseph A. United States Chamber of Commerce. Archived from the original on Essays on economic topics of J. Port Washington, New York: History of economic analysis. Edited from a manuscript by Elizabeth Boody Schumpeter. Das wesen des geldes. The economics and sociology of capitalism.

Chapter 4 : Schumpeters "Innovation comes from the outside"

Joseph Alois Schumpeter (German: [ˈʃʊmpɛtɐ]; 8 February - 8 January) was an Austrian political economist. He was born in Moravia, he briefly served as Finance Minister of Austria in

In The Communist Manifesto of , Karl Marx and Friedrich Engels described the crisis tendencies of capitalism in terms of "the enforced destruction of a mass of productive forces": Modern bourgeois society, with its relations of production, of exchange and of property, a society that has conjured up such gigantic means of production and of exchange, is like the sorcerer who is no longer able to control the powers of the nether world whom he has called up by his spells. In these crises, a great part not only of existing production, but also of previously created productive forces, are periodically destroyed. In these crises, there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity – the epidemic of over-production. Society suddenly finds itself put back into a state of momentary barbarism; it appears as if a famine, a universal war of devastation, had cut off the supply of every means of subsistence; industry and commerce seem to be destroyed; and why? Because there is too much civilisation, too much means of subsistence, too much industry, too much commerce. The productive forces at the disposal of society no longer tend to further the development of the conditions of bourgeois property; on the contrary, they have become too powerful for these conditions. On the one hand by enforced destruction of a mass of productive forces; on the other, by the conquest of new markets, and by the more thorough exploitation of the old ones. That is to say, by paving the way for more extensive and more destructive crises, and by diminishing the means whereby crises are prevented. These contradictions lead to explosions, cataclysms, crises, in which [This is the ruinous effect of the fall in the prices of commodities. It does not cause the destruction of any use-values. What one loses, the other gains. Values used as capital are prevented from acting again as capital in the hands of the same person. The old capitalists go bankrupt. This is also the period during which moneyed interest enriches itself at the cost of industrial interest. In this case creation was the consequence, rather than the cause, of destruction. Nietzsche represented the creative destruction of modernity through the mythical figure of Dionysus , a figure whom he saw as at one and the same time "destructively creative" and "creatively destructive". But have you ever asked yourselves sufficiently how much the erection of every ideal on earth has cost? How much reality has had to be misunderstood and slandered, how many lies have had to be sanctified, how many consciences disturbed, how much "God" sacrificed every time? If a temple is to be erected a temple must be destroyed: Association with Joseph Schumpeter[edit] The expression "creative destruction" was popularized by and is most associated with Joseph Schumpeter, particularly in his book *Capitalism, Socialism and Democracy* , first published in 1943. Already in his book *Business Cycles*, he attempted to refine the innovative ideas of Nikolai Kondratieff and his long-wave cycle which Schumpeter believed was driven by technological innovation. Steel illustrate the process of industrial mutation that 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. It is what capitalism consists in and what every capitalist concern has got to live in. Capitalism requires] the perennial gale of Creative Destruction. In breaking down the pre-capitalist framework of society, capitalism thus broke not only barriers that impeded its progress but also flying buttresses that prevented its collapse. That process, impressive in its relentless necessity, was not merely a matter of removing institutional deadwood, but of removing partners of the capitalist stratum, symbiosis with whom was an essential element of the capitalist schema. The capitalist process in much the same way in which it destroyed the institutional framework of feudal society also undermines its own. Only to return once again in with new cameras and films, as consumer fetishists went too far underestimating the demand for the instant photo. Schumpeter in one of his examples used "the railroadization of the Middle West as it was initiated by the Illinois Central. In technology, the cassette tape replaced the 8-track , only to be replaced in turn by the compact disc , which was undercut by downloads to MP3 players, which is now being usurped by web-based streaming services. One such example is the way in which online ad-supported news sites such as The Huffington Post are leading to creative destruction of the traditional newspaper. The

Christian Science Monitor announced in January [24] that it would no longer continue to publish a daily paper edition, but would be available online daily and provide a weekly print edition. The Seattle Post-Intelligencer became online-only in March. Over that same period, employment in internet publishing and broadcasting grew from 29, to , Creative destruction is a powerful economic concept because it can explain many of the dynamics or kinetics of industrial change: As the critics of the market economy nowadays prefer to take their stand on "social" grounds, it may be not inappropriate here to elucidate the true social results of the market process. We have already spoken of it as a leveling process. More aptly, we may now describe these results as an instance of what Pareto called "the circulation of elites. It passes from hand to hand as unforeseen change confers value, now on this, now on that specific resource, engendering capital gains and losses. The owners of wealth, we might say with Schumpeter, are like the guests at a hotel or the passengers in a train: They are always there but are never for long the same people. He developed the notion that capitalism finds a "spatial fix" [38] for its periodic crises of overaccumulation through investment in fixed assets of infrastructure, buildings, etc.: Urbanization is one way to absorb the capital surplus". Such innovation, however, is a double-edged sword: The effect of continuous innovation [Creative destruction is embedded within the circulation of capital itself. Innovation exacerbates instability, insecurity, and in the end, becomes the prime force pushing capitalism into periodic paroxysms of crisis. New product lines are opened up, and that means the creation of new wants and needs. Capitalists are forced to redouble their efforts to create new needs in others [The result is to exacerbate insecurity and instability, as masses of capital and workers shift from one line of production to another, leaving whole sectors devastated [The drive to relocate to more advantageous places the geographical movement of both capital and labour periodically revolutionizes the international and territorial division of labour, adding a vital geographical dimension to the insecurity. The resultant transformation in the experience of space and place is matched by revolutions in the time dimension, as capitalists strive to reduce the turnover time of their capital to "the twinkling of an eye". Hence, in this continual process of creative destruction, capitalism does not resolve its contradictions and crises, but merely "moves them around geographically". The Experience of Modernity, [9] particularly in the chapter entitled "Innovative Self-Destruction" pp. The title of the book is taken from a well-known passage from The Communist Manifesto. Berman elaborates this into something of a Zeitgeist which has profound social and cultural consequences: The truth of the matter, as Marx sees, is that everything that bourgeois society builds is built to be torn down. The pathos of all bourgeois monuments is that their material strength and solidity actually count for nothing and carry no weight at all, that they are blown away like frail reeds by the very forces of capitalist development that they celebrate. Even the most beautiful and impressive bourgeois buildings and public works are disposable, capitalized for fast depreciation and planned to be obsolete, closer in their social functions to tents and encampments than to "Egyptian pyramids, Roman aqueducts, Gothic cathedrals". Economy, Society and Culture the first volume of which, The Rise of the Network Society , appeared in , [10] reinterpreted the processes by which capitalism invests in certain regions of the globe, while divesting from others, using the new paradigm of "informational networks". In the era of globalization, capitalism is characterized by near-instantaneous flow, creating a new spatial dimension, "the space of flows ". Indeed, the new spatial form of the mega-city or megalopolis, is defined by Castells as having the contradictory quality of being "globally connected and locally disconnected, physically and socially". The "spirit of informationalism" is the culture of "creative destruction" accelerated to the speed of the optoelectronic circuits that process its signals. Schumpeter meets Weber in the cyberspace of the network enterprise. Chris Freeman and Carlota Perez have developed these insights. But, on the contrary, none of those in the field of Biotech have been fully commercialized. A new economic recovery will occur when some key technological opportunities will be identified and sustained. We should be able to envisage new forms of organization associated with emerging technology. ICTs have already changed our lifestyle even more than our economic life: Biotech could bring about even more radical social transformations at the core of our life. Why have these not yet been delivered? What can be done to unleash their potential? There are a few basic questions that need to be addressed.

Chapter 5 : 4 Main Features of Schumpeter's Theory of Economic Development

Schumpeter's hero, of course, was the entrepreneur, "the agent of innovation," and, Schumpeter said, "the pivot on which everything turns" (7). Schumpeter's now famous theory of.

Role of Entrepreneur 3. Cyclical Process or Business Cycle and 4. Schumpeter starts his analysis of development process with the concept of circular flow. It implies a condition where economic activity produces itself continuously at constant rate through time. Thus, it means a continuous activity and no destruction. It is the characteristic of an economy in stationary state. The circular flow is similar to circulation in blood in an animal organism. Circular flow is based upon a state of perfect competitive equilibrium in which costs are equal to receipts and prices to average costs. The main features of circular flow are as under: This means demand and supply are in equilibrium at each point of time. Theory of Economic Development: The above stated features imply that circular flow is used in a static setting. To make it dynamic and consistent with development, changes must take place in flow system. These changes can be brought through innovations. Innovation may be defined as a change in existing production system to be introduced by the entrepreneur with a view to make profits and reduce costs. The innovation is closely linked with Schumpeterian concept of development. When changes take place in the economy, circular flow is disturbed and the development process starts. He assumed that change is the basic element of dynamic process, and those changes come in the form of innovations. Any innovation may consist of: The new combinations of these factors are essential for the development process to start. It is to be energised by the development agents and such agents are innovators or entrepreneurs. The entrepreneur is considered as the hero in the Schumpeterian development. Role of the Entrepreneur: Entrepreneur or innovator is the key figure in Schumpeter analysis of the process of development. He occupies the central place in the development process because he initiates development in a society and carries it forward. Entrepreneurship is different from managerial activity. A manager simply directs production under existing techniques but entrepreneurship, requires the introduction of something new. An entrepreneur is also different from a capitalist. The capitalist simply furnishes the funds while the entrepreneur directs the use of these funds. As in economic system, there is high degree of risk, thus entrepreneur is motivated: Three things are necessary for the performance of the entrepreneurial function: For this, he needs purchasing power in the form of credit and capital which he can borrow from banks and other financial institutions. Thus, credit and bank plays a vital role in economic development. The invention in one field of the economic activity will induce inventions in the related fields. Thus, credit creation becomes an important part of the development model. An entrepreneur innovates to earn profits. Profits arise due to dynamic changes resulting from an innovation. They continue to exist till the innovation becomes general. Breaking the Circular Flow: Schumpeter regards economic development as a dynamic and discontinuous process. The society progresses through trade cycles. In order to break the circular flow, the innovating entrepreneurs are financed by bank credit expansion. Since investment in innovation is risky, they must be paid bank interest on it. Innovations in one field may induce other innovations in related fields. For example, the emergence of a motor car industry, may in turn, stimulated a wave of new investments in the construction of highways, rubber tyres and petroleum products etc. But the spread is never cent percent. The spread of innovation can be explained with the help of a figure. The curve OL represents that firms adopt an innovation slowly to start but soon the adoption of innovation gains momentum but it never reaches percent adoption by firms. Business Cycle or Cyclical Process: The next component of development according to Schumpeter is the business cycle. He believes that business cycle or crisis is not merely the result of economic factors but also of non-economic factors. How booms and depression appear and collapse? According to Schumpeter, the creation of bank credit is assumed to accelerate money incomes and prices in the economy. It creates a cumulative expansion throughout the economy. With the increase in the purchasing power of the consumers, the demand for the products increases in relation to supply. The rising prices and the high rates of profits stimulate producers to raise investments by borrowing from the banks. The credit inflation starts with the entrance of new entrepreneurs in the field of production, which superimposes on the primary wave of

innovations. This may be called boom or prosperity period. In this stage, the economic activities reach their maximum heights and the idle or unemployed resources are minimised. During the boom period, the new products start appearing in the market with the entrance of new entrepreneurs. These products displace the old ones and thus decrease their demand in the market. Consequently, the prices of old products fall. With a view to liquidating their stocks, the old firms start selling their goods at a low price and hence most of the firms incur losses and some firms are even forced to run into loss. Investment declines and unemployment starts, leading to a fall in the aggregate demand. As the entrepreneurs start repaying bank loans, the quantity of money in circulation is reduced and prices start falling. Profits too decline and come to zero point. Uncertainty and risk increase. A wave of pessimism sweeps the entire economy and the boom period ends with the appearance of the phase of depression. Schumpeter believes in the existence of the long wave of upswings or boom and downswings or depression. The economic forces of recovery come into operation and ultimately bring about a revival. Once again the economy comes across the equilibrium, and the new boom period starts with a new set of innovations. In the prosperity period, as the above figure reveals, the economic development proceeds more rapidly due to over optimism and speculation. The business cycle continues to fall below the level of equilibrium with the beginning of the recession and ultimately reaches the point of depression. In the end, the retake of economic activities leads to revival of the economy. In the Schumpeterian analysis of development entrepreneurs have to play the central role in business cycles. They initiate the economic development in the spontaneous and discontinuous manner. The cyclical swings are the cost of economic development under capitalism. The Decay of Capitalism: The continuous technical progress results in an unbounded increase in total and per capita output. As long as technological progress takes place, the rate of profit is positive. Hence, there can be no drying up of sources of investible funds nor any vanishing of investment opportunities. The very success of capitalism undermines the social institutions which protect it and inevitably creates conditions in which it will not be able to live and which strongly point to socialism as the heir apparent. Capitalism can maintain itself only so long as entrepreneurs behave like knights and pioneers. Schumpeter holds a very pessimistic view about the survival of capitalism. He advocated capitalist system of production yet he was not unaware of the weakness of this system. Due to its drawbacks, capitalism disintegrates and yields place to socialism, Schumpeter gives the following reasons for the disintegration of capitalism: Schumpeter observes that the success of early captains of industry have made innovation a routine activity. It tends to degenerate into a dis-personalised, routine activity carried on in a big business through highly trained managers. The new lords of business are managers, depersonalised owners and private bureaucrats. Another factor responsible for weakening the foundations of capitalism is the destruction of its institutional frame work. The entrepreneur by his own success tends to destroy not only his economic and social functions but also the institutional framework within which he works. The tendency towards concentration and increase in the size of production units destroy capitalistic institutions like private property and freedom of contract. In case of big concerns, the proprietors are small and large shareholders who are dematerialised and de-functionalised by professional and salaried managers and thus, the proprietary interest is replaced by large and small stock holders. These changes tend to weaken the concept of private property and free individual contract. The destruction of protecting political strata will administer the last blow to capitalist system. With the progress of capitalism, not only the functions of the entrepreneur and the institutional frame work of capitalism crumble but the group that protected early capitalism politically is also destroyed. The very success of capitalism is destroyed by the royal power. The progress of capitalism makes industrialists and merchants economically powerful and they begin to dominate in political field.

Chapter 6 : Schumpeterian Theory | Entrepreneurship

Joseph Alois Schumpeter (-) was an economist and one of the 20th century's greatest intellectuals. He is best known for his book "Capitalism, Socialism, and Democracy," as well.

Schumpeter suggested a model in which the four main cycles, Kondratiev 54 years , Kuznets 18 years , Juglar 9 years and Kitchin about 4 years can be added together to form a composite waveform. Actually there was considerable professional rivalry between Schumpeter and Kuznets. The wave form suggested here did not include the Kuznets Cycle simply because Schumpeter did not recognize it as a valid cycle. A Kondratiev wave could consist of three lower degree Kuznets waves. Similarly two or three Kitchin waves could form a higher degree Juglar wave. If each of these were in phase, more importantly if the downward arc of each was simultaneous so that the nadir of each was coincident it would explain disastrous slumps and consequent depressions. As far as the segmentation of the Kondratiev Wave, Schumpeter never proposed such a fixed model. He saw these cycles varying in time " although in a tight time frame by coincidence " and for each to serve a specific purpose. Schumpeter also thought that the institution enabling the entrepreneur to buy the resources needed to realize his or her vision was a well-developed capitalist financial system, including a whole range of institutions for granting credit. One could divide economists among 1 those who emphasized "real" analysis and regarded money as merely a "veil" and 2 those who thought monetary institutions are important and money could be a separate driving force. Both Schumpeter and Keynes were among the latter. While he agrees with Karl Marx that capitalism will collapse and be replaced by socialism , Schumpeter predicts a different way this will come about. While Marx predicted that capitalism would be overthrown by a violent proletarian revolution, which actually occurred in the least capitalist countries, Schumpeter believed that capitalism would gradually weaken by itself and eventually collapse. Specifically, the success of capitalism would lead to corporatism and to values hostile to capitalism, especially among intellectuals. Intellectuals tend to have a negative outlook of capitalism, even while relying on it for prestige, because their professions rely on antagonism toward it. The growing number of people with higher education is a great advantage of capitalism, according to Schumpeter. Yet, unemployment and a lack of fulfilling work will cause intellectual critique, discontent and protests. Parliaments will increasingly elect social democratic parties, and democratic majorities will vote for restrictions on entrepreneurship. Thus, the intellectual and social climate needed for thriving entrepreneurship will be replaced by some form of "laborism". This will restrict " creative destruction " a borrowed phrase to denote an endogenous replacement of which old ways of doing things by new ways and so will burden and destroy the capitalist structure. Schumpeter emphasizes throughout this book that he is analyzing trends, not engaging in political advocacy. He disputed the idea that democracy was a process by which the electorate identified the common good, and politicians carried this out for them. Instead he advocated a minimalist model, much influenced by Max Weber , whereby democracy is the mechanism for competition between leaders, much like a market structure. Although periodic votes by the general public legitimize governments and keep them accountable, the policy program is very much seen as their own and not that of the people, and the participatory role for individuals is usually severely limited. Entrepreneurship Schumpeter was probably the first scholar to theorize about entrepreneurship , and the field owed much to his contributions. In the first, Schumpeter argued that the innovation and technological change of a nation come from the entrepreneurs, or wild spirits. He coined the word *Unternehmergeist*, German for "entrepreneur-spirit", and asserted that " Mark II was developed when Schumpeter was a professor at Harvard. Many social economists and popular authors of the day argued that large businesses had a negative effect on the standard of living of ordinary people. Contrary to this prevailing opinion, Schumpeter argued that the agents that drive innovation and the economy are large companies which have the capital to invest in research and development of new products and services and to deliver them to customers cheaper, thus raising their standard of living. In one of his seminal works, "Capitalism, Socialism and Democracy", Schumpeter wrote: As soon as we go into details and inquire into the individual items in which progress was most conspicuous, the trail leads not to the doors of those firms that work under conditions of comparatively free competition but

precisely to the door of the large concerns--which, as in the case of agricultural machinery, also account for much of the progress in the competitive sector--and a shocking suspicion dawns upon us that big business may have had more to do with creating that standard of life than with keeping it down. Cycles and long wave theory Schumpeter was the most influential thinker to argue that long cycles are caused by innovation, and are an incident of it. Kondratiev fused important elements that Schumpeter missed. Yet, the Schumpeterian variant of long-cycles hypothesis, stressing the initiating role of innovations, commands the widest attention today. Fluctuations in innovation cause fluctuation in investment and those cause cycles in economic growth. Schumpeter sees innovations as clustering around certain points in time periods that he refers to as "neighborhoods of equilibrium", when entrepreneurs perceive that risk and returns warrant innovative commitments. These clusters lead to long cycles by generating periods of acceleration in aggregate growth. The process of technological innovation involves extremely complex relations among a set of key variables: The impact of technological innovation on aggregate output is mediated through a succession of relationships that have yet to be explored systematically in the context of long wave. New inventions are typically primitive, their performance is usually poorer than existing technologies and the cost of their production is high. A production technology may not yet exist, as is often the case in major chemical inventions, pharmaceutical inventions. The speed with which inventions are transformed into innovations and diffused depends on actual and expected trajectory of performance improvement and cost reduction. He sought to prove that innovation-originated market power can provide better results than the invisible hand and price competition. He argues that technological innovation often creates temporary monopolies, allowing abnormal profits that would soon be competed away by rivals and imitators. These temporary monopolies were necessary to provide the incentive for firms to develop new products and processes. Schumpeter was probably the first scholar to develop theories about entrepreneurship. The International Joseph A. Schumpeter Society awards the Schumpeter Prize. Koch, "Schumpeter will not only be the name of the Faculty of Management and Economics, but this is also a research and teaching programme related to Joseph A. The initial Schumpeter column praised him as a "champion of innovation and entrepreneurship" whose writing showed an understanding of the benefits and dangers of business that proved to be far ahead of its time. Das rentenprinzip in der verteilungslehre. The nature and essence of economic theory. New Brunswick, New Jersey: McDaniel Lua error in Module: Pdf of preface by F. Hayek and first eight pages. Lua error in Module: The theory of economic development: Translated from the original German, Epochen der dogmen - und Methodengeschichte. Reprinted in hardback as: Economic doctrine and method: Vergangenheit und Zukunft der Sozialwissenschaft. Princeton University Press, pp. The sociology of imperialisms. Imperialism and social classes. Taussig, New York, New York: Capitalism, socialism and democracy 2nd ed. See also the English translation: Essays on economic topics of J. Port Washington, New York: History of economic analysis. Das wesen des geldes. The economics and sociology of capitalism. Translated from a speech given in German by Schumpeter, Wie studiert man Sozialwissenschaft. Memoriams Lua error in Module: Reviews Lua error in Module:

Chapter 7 : Creative Destruction

The purpose of this paper is the analysis of the Schumpeter's innovation concept in a context of "first" and "second" Entrepreneurship theory. Discover the world's research 15+ million.

Chapter 8 : What is Schumpeter's Innovation Theory of Profit? definition and meaning - Business Jargons

Schumpeter, Joseph () A giant among 20th-century economists, Joseph Schumpeter is best known for his path-breaking work on capitalism, innovation, entrepreneurship, and growth. He coined the phrase creative destruction to describe capitalistic growth as the ceaseless killing off of old ways of doing business by the new.

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Schumpeter's cyclical process of economic development has been illustrated in the above diagram where the secondary wave is superimposed on the primary wave of innovation. In the prosperity period, as the above figure reveals, the economic development proceeds more rapidly due to over optimism and speculation.