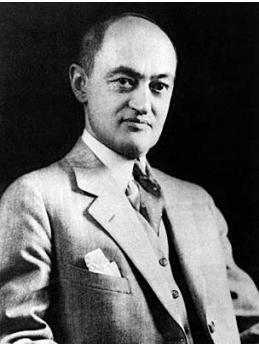


Joseph Schumpeter

Joseph Schumpeter

| | |
|---|---|
|  | |
| Birth | 8 February 1883 Třešť, Moravia, Austria–Hungary (now Czech Republic) |
| Death | 8 January 1950 (aged 66) Taconic, Connecticut, U.S. |
| Institution | Harvard University 1932-50 University of Bonn 1925-32 Biedermann Bank 1921-24 University of Graz 1912-14 University of Czernowitz 1909-11 |
| Field | Economics |
| Alma mater | University of Vienna |
| Influences | Böhm-Bawerk, Wieser, Menger, Walras, Juglar |
| Opposed | Karl Marx |
| Influenced | Friedman, Samuelson, Tobin, Williams, Bergson, Georgescu-Roegen, Heilbroner |
| Contributions | Business cycles Economic development Entrepreneurship Evolutionary economics |

Joseph Alois Schumpeter (8 February 1883 – 8 January 1950)^[1] was an Austrian-American economist and political scientist. He popularized the term "creative destruction" in economics.^[2]

Life

Born in Třešť, Moravia (now Czech Republic, then part of Austria-Hungary) in 1883 to Catholic ethnic German parents, Schumpeter began his career studying law at the University of Vienna under the Austrian capital theorist Eugen von Böhm-Bawerk, taking his PhD in 1906. In 1909, after some study trips, he became a professor of economics and government at the University of Czernowitz. In 1911 he joined the University of Graz, where he remained until World War I. In 1919-1920, he served as the Austrian Minister of Finance, with some success, and in 1920-1924, as president of the private Biedermann Bank. That bank, along with a great part of that regional economy, collapsed in 1924 leaving Schumpeter bankrupt.

From 1925-1932, he held a chair at the University of Bonn, Germany. He lectured at Harvard in 1927-1928 and 1930. Because of the rise of Nazism in Germany he moved to the United States where he would teach from 1932 until his death in 1950.

During his Harvard years he was not generally considered a good classroom teacher, but he acquired a school of loyal followers. His prestige among colleagues was likewise not very high because his views seemed outdated and not in synch with the then-fashionable Keynesianism. This period of his life was characterized by hard work but little recognition of his core ideas.

Although Schumpeter encouraged some young mathematical economists and was even the president of the Econometric Society (1940–41), Schumpeter was not a mathematician but rather an economist and tried instead to integrate sociological understanding into his economic theories. From current thought it has been argued that Schumpeter's ideas on business cycles and economic development could not be captured in the mathematics of his day - they need the language of non-linear dynamical systems to be partially formalized.

Schumpeter claimed that he had set himself three goals in life: to be the greatest economist in the world, to be the best horseman in all of Austria and the greatest lover in all of Vienna. He said he had reached two of his goals, but he never said which two.^[3] ^[4] Although, he is reported to have said that there were too many fine horsemen in Austria for him to succeed in all his aspirations! (P.A. Samuelson and W.D. Nordhaus, *Economics* (1998, p. 178)

Most important work

History of Economic Analysis

Schumpeter's scholarship is apparent in his posthumous *History of Economic Analysis*, although some of his judgments seem idiosyncratic and sometimes cavalier. For instance, Schumpeter thought that the greatest 18th century economist was Turgot, not Adam Smith, as many consider, and he considered Léon Walras to be the "greatest of all economists", beside whom other economists' theories were "like inadequate attempts to catch some particular aspects of Walrasian truth".^[5] Schumpeter criticized John Maynard Keynes and David Ricardo for the "Ricardian vice." According to Schumpeter, Ricardo and Keynes reasoned in terms of abstract models, where they would freeze all but a few variables. Then they could argue that one caused the other in a simple monotonic fashion. This led to the belief that one could easily deduce policy conclusions directly from a highly abstract theoretical model.

Business cycles

Schumpeter's relationships with the ideas of other economists were quite complex in his most important contributions to economic analysis - the theory of business cycles and development. Following neither Walras nor Keynes, Schumpeter starts in *The Theory of Economic Development*^[6] with a treatise of circular flow which, excluding any innovations and innovative activities, leads to a stationary state. The stationary state is, according to Schumpeter, described by Walrasian equilibrium. The hero of his story, though, is, in fine Austrian fashion, the entrepreneur.

| Economic Waves series (see Business cycles) | |
|--|-------|
| Cycle/Wave Name | Years |
| Kitchin inventory | 3–5 |
| Juglar fixed investment | 7–11 |
| Kuznets infrastructural investment | 15–25 |
| Kondratiev wave | 45–60 |

The entrepreneur disturbs this equilibrium and is the prime cause of economic development, which proceeds in cyclic fashion along several time scales. In fashioning this theory connecting innovations, cycles, and development, Schumpeter kept alive the Russian Nikolai Kondratiev's ideas on 50-year cycles, Kondratiev waves.

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. See "Business Cycle" for further information.) A Kondratiev wave could consist of three lower degree Kuznets waves.^[7] Each Kuznets wave could, itself, be made up of two Juglar 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 and Keynesianism

Unlike Keynes, in Schumpeter's theory, Walrasian equilibrium is not adequate to capture the key mechanisms of economic development. Schumpeter also thought that the institution enabling the entrepreneur to purchase 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. Nevertheless, Schumpeter rejected Keynesianism[8].

Schumpeter and capitalism's demise

Schumpeter's most popular book in English is probably *Capitalism, Socialism and Democracy*. This book opens with a treatment of Karl Marx. While he is sympathetic to Marx's theory that capitalism will collapse and will be replaced by socialism, Schumpeter concludes that this will not come about in the way Marx predicted. To describe it he borrowed the phrase "creative destruction", and made it famous by using it to describe a process in which the old ways of doing things are endogenously destroyed and replaced by new ways.

Schumpeter's theory is that the success of capitalism will lead to a form of corporatism and a fostering of values hostile to capitalism, especially among intellectuals. The intellectual and social climate needed to allow entrepreneurship to thrive will not exist in advanced capitalism; it will be replaced by socialism in some form. There will not be a revolution, but merely a trend in parliaments to elect social democratic parties of one stripe or another. He argued that capitalism's collapse from within will come about as democratic majorities vote for restrictions upon entrepreneurship that will burden and destroy the capitalist structure, but also emphasizes non-political, evolutionary processes in society where "liberal capitalism" was evolving into democratic socialism because of the growth of workers' self-management, industrial democracy and regulatory institutions.^[9] Schumpeter emphasizes throughout this book that he is analyzing trends, not engaging in political advocacy. In his vision, the intellectual class will play an important role in capitalism's demise. The term "intellectuals" denotes a class of persons in a position to develop critiques of societal matters for which they are not directly responsible and able to stand up for the interests of strata to which they themselves do not belong. One of the great advantages of capitalism, he argues, is that as compared with pre-capitalist periods, when education was a privilege of the few, more and more people acquire (higher) education. The availability of fulfilling work is however limited and this, coupled with the experience of unemployment, produces discontent. The intellectual class is then able to organize protest and develop critical ideas.

Schumpeter and democratic theory

In the same book, Schumpeter expounded a theory of democracy which sought to challenge what he called the "classical doctrine". He disputed the idea that democracy was a process by which the electorate identified the common good, and politicians carried this out for them. He argued this was unrealistic, and that people's ignorance and superficiality meant that in fact they were largely manipulated by politicians, who set the agenda. This made a 'rule by the people' concept both unlikely and undesirable. 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.

Schumpeter and entrepreneurship

The research of entrepreneurship owes a lot to his contributions. He was probably the first scholar to develop its theories. He gave two theories, sometimes called Mark I and Mark II. In the first one, the early one, Schumpeter argued that the innovation and technological change of a nation comes from the entrepreneurs, or wild spirits. He coined the word *Unternehmergeist*, German for *entrepreneur-spirit*. He believed that these individuals are the ones who make things work in the economy of the country. In Mark II, expanded as professor at Harvard, he asserted that the actors that drive innovation and the economy are big companies which have the resources and capital to invest in research and development. Both arguments might be complementary today.

The English literature uses the term entrepreneurship, from the French "entreprendre", a compound verb which can be rendered as 'to take in hand' or 'undertake' some activity. The German terms used by Schumpeter - Unternehmen / Unternehmergeist - are literal translations of the original French terms.

Schumpeter and Innovation

Schumpeter identified innovation as the critical dimension of economic change.^[10] He argued that economic change revolves around innovation, entrepreneurial activities and market power and sought to prove that innovation-originated market power could provide better results than the invisible hand & price competition. He argues that technological innovation often creates temporary monopolies, allowing abnormal profits that would soon be competed away by rivals and imitators. He said that these temporary monopolies were necessary to provide the incentive necessary for firms to develop new products and processes.^[10]

Schumpeter and the Gold Standard

Joseph Schumpeter recognized the implication of a gold monetary standard compared to a fiat monetary standard. In *History of Economic Analysis* he stated the following:

An 'automatic' gold currency is part and parcel of a laissez-faire and free-trade economy. It links every nation's money rates and price levels with the money-rates and price levels of all the other nations that are 'on gold.' It is extremely sensitive to government expenditure and even to attitudes or policies that do not involve expenditure directly, for example, to foreign policy, to certain policies of taxation, and, in general, to precisely all those policies that violate the principles of [classical] liberalism. *This* is the reason why gold is so unpopular now and also why it was so popular in a bourgeois era. It imposes restrictions upon governments or bureaucracies that are much more powerful than is parliamentary criticism. It is both the badge and the guarantee of bourgeois freedom—of freedom not simply of the bourgeois *interest*, but of freedom in the bourgeois *sense*. From this standpoint a man may quite rationally fight for it, even if fully convinced of the validity of all that has ever been urged against it on economic grounds. From the standpoint of *etatisme* and planning, a man may not less rationally condemn it, even if fully convinced of the validity of all that has ever been urged for it on economic grounds.

—Schumpeter, *History of Economic Analysis*^[11]

His legacy

For some time after his death, Schumpeter's views were most influential among various heterodox economists, especially European, who were interested in industrial organization, evolutionary theory, and economic development, and who tended to be on the other end of the political spectrum from Schumpeter and were also often influenced by Keynes, Karl Marx, and Thorstein Veblen. Robert Heilbroner was one of Schumpeter's most renowned pupils, who wrote extensively about him in *The Worldly Philosophers*. In the journal *Monthly Review* John Bellamy Foster wrote of that journal's founder Paul Sweezy, one of the leading Marxist economists in the United States and a graduate assistant of Schumpeter's at Harvard, that Schumpeter "played a formative role in his development as a thinker".^[12] Other outstanding students of Schumpeter's include the economists Nicholas Georgescu-Roegen and Hyman Minsky and former chairman of the Federal Reserve, Alan Greenspan.^[13] Robert Solow, Nobel Prize in Economics, was his student at Harvard, and he expanded on Schumpeter's theory.^[14]

Today, Schumpeter has a following outside of standard textbook economics, in areas such as in economic policy, management studies, industrial policy, and the study of innovation. Schumpeter was probably the first scholar to develop theories about entrepreneurship. For instance, the European Union's innovation program, and its main development plan, the Lisbon Strategy, are influenced by Schumpeter. The International Joseph A. Schumpeter Society awards the Schumpeter Prize.

On 17 September 2009, *The Economist* inaugurated a column on business and management named "Schumpeter."^[15] The publication has a history of naming columns after significant figures or symbols in the covered field, including naming its British affairs column after former editor Walter Bagehot and its European affairs column after Charlemagne. 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 far ahead of its time.

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- *Vergangenheit und Zukunft der Sozialwissenschaft*, 1915.
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Joseph Alois Schumpeter (February 8, 1883 – January 8, 1950) was an Austrian Economist (but not a member of the Austrian School of economists) and political scientist, who is best known for his idea of innovation as creative destruction. He is generally seen as one of the most influential economists of the 20th century. In the desperate period after the first world war in 1919 he was briefly Minister of finance of Austria. Joseph Alois Schumpeter (February 8, 1883 – January 8, 1950) was an economist from Austria and a giant in the history of economic thought. His work initially received little acclaim, the work of his contemporary John Maynard Keynes garnering all the attention. Schumpeter's view of economic health was radically different from that of Keynes, regarding innovation by entrepreneurs and investment into the development of new technologies as the essence of healthy, dynamic disequilibrium. He coined the term Joseph Schumpeter, Moravian-born American economist and sociologist known for his theories of capitalist development and business cycles. Schumpeter was educated in Vienna and taught at the universities of Czernowitz, Graz, and Bonn before joining the faculty of Harvard University (1932–50). In the Encyclopaedia Britannica's editors oversee subject areas in which they have extensive knowledge, whether from years of experience gained by working on that content or via study for an advanced degree.