



JOSEPH SCHUMPETER (1883-1950)

Background – Influenced by – Contributions – Impact - Critique

- ⦿ An Austrian economist, political scientist and banker.
- ⦿ Born in Triesch, Moravia on Feb. 8, 1883
- ⦿ The only son of Alois Schumpeter, a clothing manufacturer, died when Joseph was 4 years old.
- ⦿ Raised in the manner traditional to the Austrian aristocracy because of his mother's remarriage to the commanding general.
- ⦿ 3 marriages: Gladys Ricards Seaven, Anna Josifina Reisinger, and Elizabeth Boody.
- ⦿ Died in his sleep on Jan. 8, 1950.

Background – Influenced by – Contributions – Impact - Critique

- ⦿ Received Doctor of Law at University of Vienna in 1906, in the age of 23.
- ⦿ One of the youngest doctor laureates, the youngest private docent, and the youngest professor in Austria.
- ⦿ Taught in several European universities before joined the faculty of Harvard University (1932-50)
 - 1909-11 University of Chernovtsy
 - 1911-14 University of Graz-Professor of Political Economics
 - 1925-32 University of Bonn - Chairman

Background – Influenced by – Contributions – Impact - Critique

- ⦿ Not an Marxian (ideas of capitalism), but acknowledged the power of Marx's vision of historical change.
- ⦿ Failed as banker and carried over long time high personal debts during the economic crisis in 1924.
- ⦿ Schumpeter's work, published in 15 books and pamphlets, over 200 articles, book review, and review articles, defies classification by school of thought or by methodology.

Background – **Influenced by** – Contributions – Impact - Critique



Carl Menger



William Stanley Jevons



Leon Walras



Vilfredo Pareto



Francis Edgeworth

Background – Influenced by – Contributions – Impact - Critique

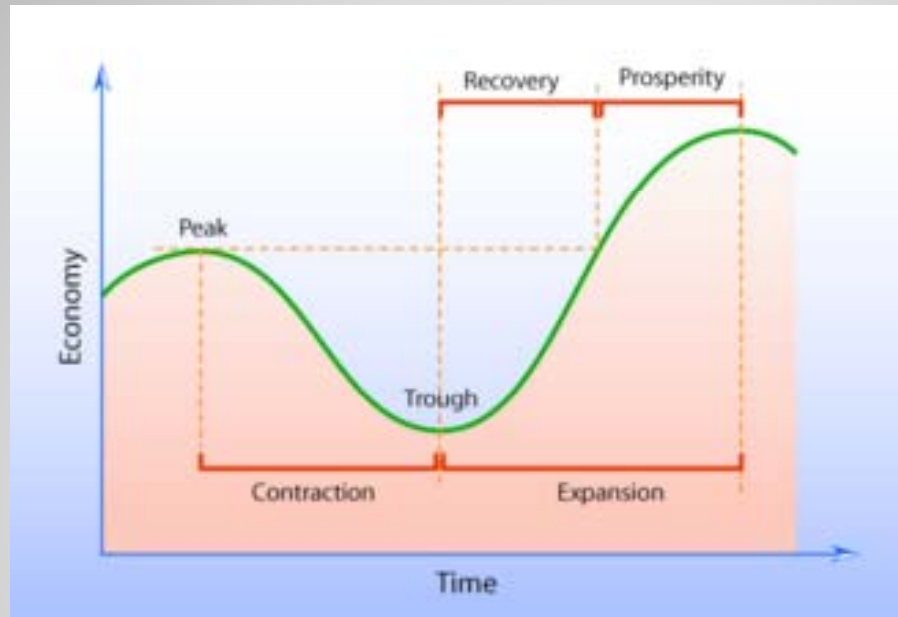
- ⦿ *Theory of Economic Development* (1912)
 - an inquiry into profits, capital, credit, interest, and the business cycle
- ⦿ *Business Cycles* (1939)
 - demonstrate his interest in and capacity for statistical and econometric research
- ⦿ *Capitalism, Socialism and Democracy* (1942)
 - most popular; argued that capitalism would eventually perish of its own success.
- ⦿ *History of Economic Analysis* (1954)
 - an exhaustive study of the development of analytic methods in economics

Background – Influenced by – **Contributions** – Impact - Critique

Major contributions:

- ◆ Study of Business Cycles
- ◆ Theory of Economic Development of Capitalism

Background – Influenced by – **Contributions** – Impact - Critique



- A **business cycle** or economic cycle refers to the ups and downs of economic activity during its long term growth trend
 - Five stages: growth (expansion), peak, recession (contraction), trough and recovery
- The fluctuations are often measured in the real GDP

Business Cycle

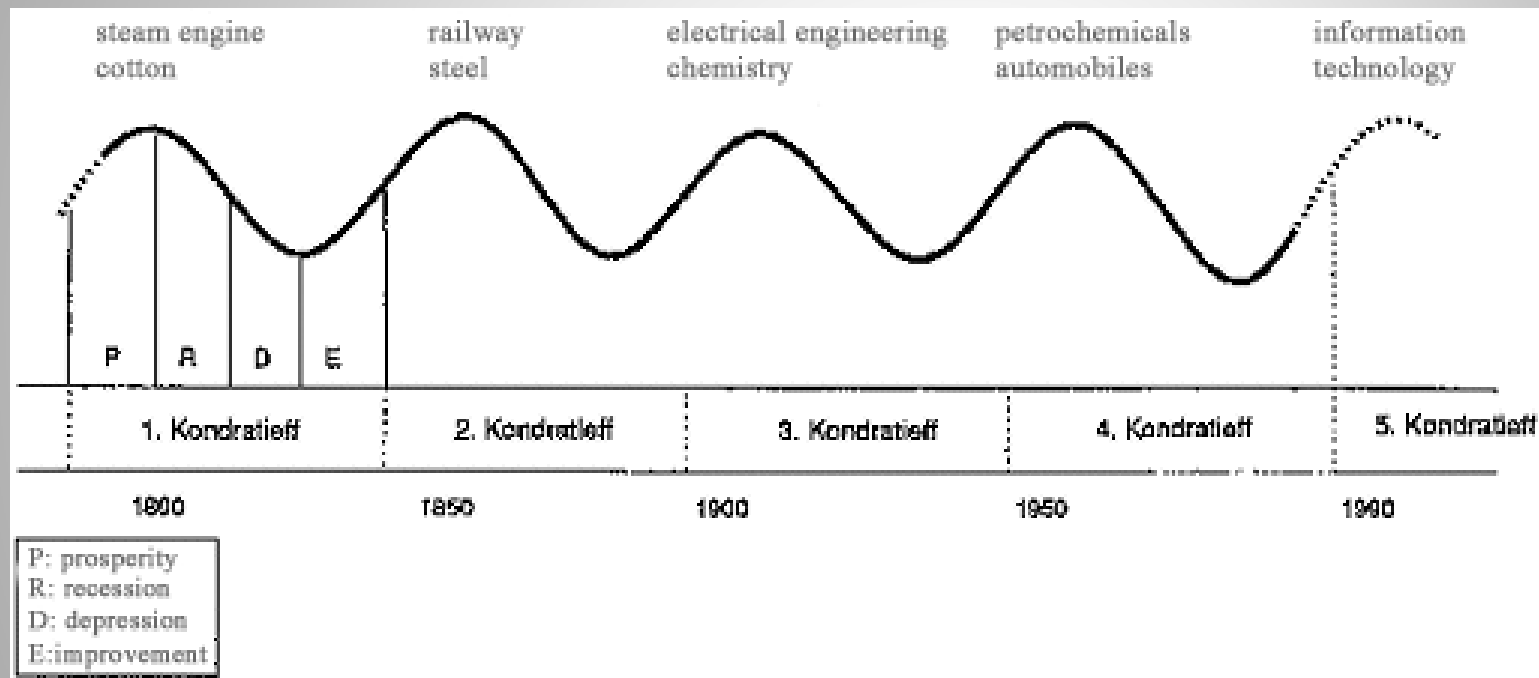
According to Schumpeter:

- Entrepreneur is a dynamic factor in fostering the business cycle
 - New technologies, new sources of supply, inventions, consumer demand
 - Take basic concept and develop them into a demanding product.

- Related upswings in the business cycle to new inventions, which stimulate investment in capital-goods industries. Because new inventions develop unevenly, business conditions alternate between expansion (growth) and contraction (recession).

Background – Influenced by – **Contributions** – Impact - Critique

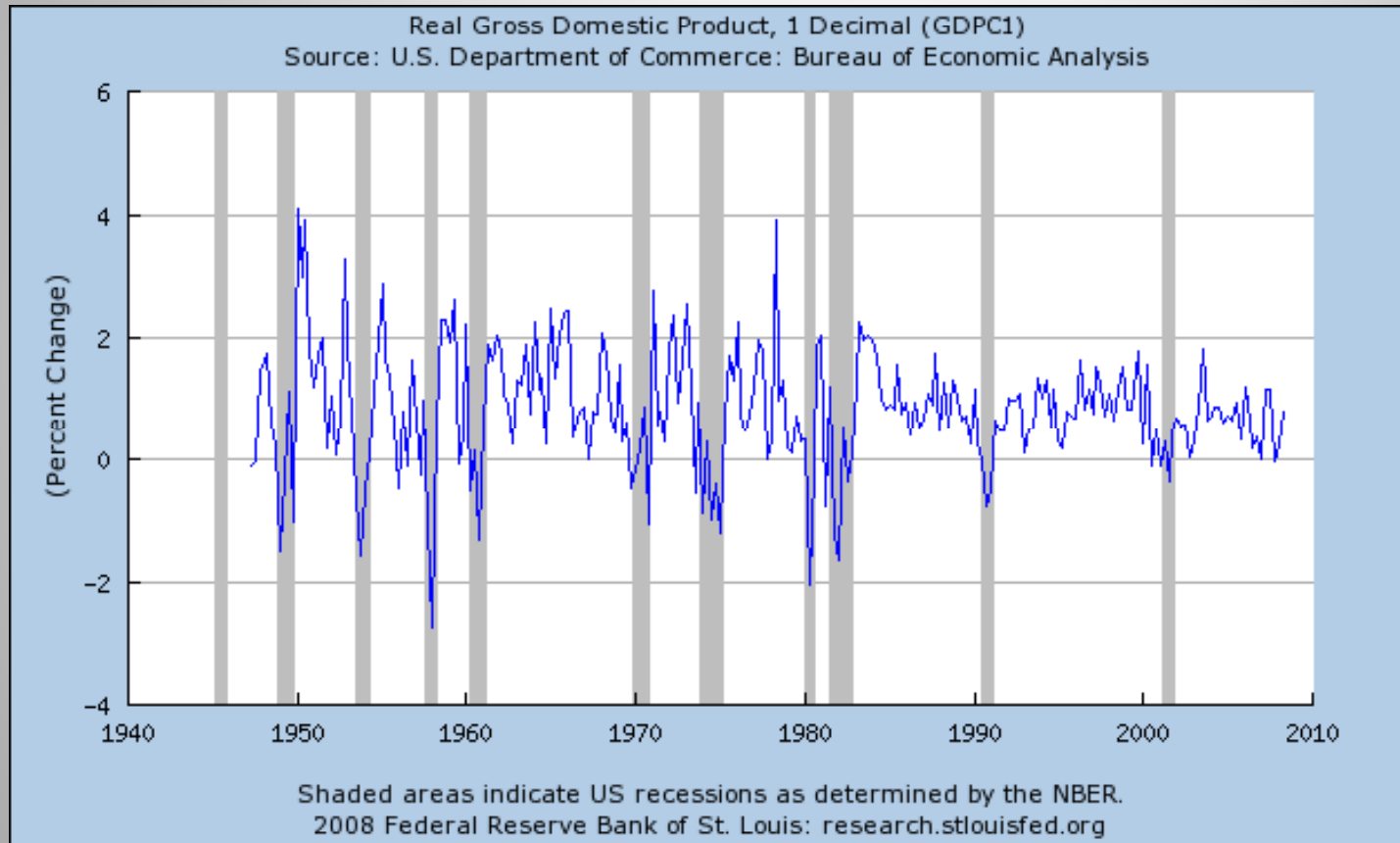
Kondratiev Wave(50-year Cycle)



Rough drawing showing the "World Economy" over time according to the Kondratiev theory

Background – Influenced by – **Contributions** – Impact - Critique

Business Cycles in the U.S.



Today, we know the business cycles are irregular and unpredictable.

Theory of Capitalist Development

- Marx believed that capitalism will collapse because of its **failures** (conflict between workers and capitalists).
- Schumpeter believed that capitalism would be destroyed by its successes.
 - The successes in capitalism would spawn a large **intellectual class** that made its living by attacking the very bourgeois system of private property and freedom so necessary for the intellectual class's existence.
 - Innovations by the entrepreneur leads to creative destruction- a process in which the old ways of doing things are destroyed and replaced by new ways
- ◆ Schumpeter believed that the creative destruction causes continuous progress and improves the standards of living for everyone & innovative entry by entrepreneurs was the force that sustained long-term economic growth

Background – Influenced by – **Contributions** – Impact - Critique

Example of Creative Destruction:



◆ innovations cause old inventories, ideas, technologies, skills, and equipment to become obsolete

Background – Influenced by – **Contributions** – Impact - Critique

Other important works:

- ◆ **Democratic Theory**
- ◆ **Entrepreneurship**

Schumpeter and Democratic Theory

- Disputed the idea that democracy was a process by which the electorate identified the common good, and politicians carried this out for them.
 - Democracy was unrealistic due to the fact that people were largely manipulated by politicians- who set the agenda. This made a 'rule by the people' concept both unlikely and undesirable.
- Although periodical votes from 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 severely limited.

Democratic Theory

- Schumpeter's account of the classical theory of democracy
 - “The people” hold a definite and rational opinion about every individual question
 - They give effect to this opinion - in a democracy –by choosing “representatives”
 - These representatives ‘carry out’ that opinion
 - The choosing of representatives is secondary; the primary purpose is to give the power of deciding political issues in the electorate
- Schumpeter's alternative model:
 - Reversing these two elements - the deciding of issues by the electorate is secondary to the election of the men who are to do the deciding
- Thus: the democratic method- “institutional arrangement for arriving at political decisions in which individuals acquire the power to decide by means of a competitive struggle for the people's vote”

Schumpeter and Entrepreneurship

- ⦿ Two Theories: **Mark I and Mark II**
 - Mark I → Argued that the innovation and technological change of a nation comes from the entrepreneurs, or wild spirits; believed that these individuals are the ones who really make things work in the economy of the country
 - Mark II → pointed out that the ones who really move the innovation and economy are the big companies which have the resources and capital to invest in research and development.
- ⦿ Both arguments might be complementary today.

Background – Influenced by – Contributions – **Impact** - Critique

- Advocated the view that business cycles are an integral part of process of economic development in a capitalist economy.
- The first scholar to develop theories about entrepreneurship and its concept can not be fully understood without his contributions. For instance, the European Union's innovation program, and its main development plan are based on Schumpeter.
- Schumpeter influenced 20th century's economic thought by promoting a strict theoretical approach in economics, a basic discussion of dynamics and statics and an introduction of innovation as source of economic dynamics.

- ⦿ One of the most famous economists of this century with an ambivalent personality; too individualistic and cavalier.
- ⦿ Schumpeter had a brilliant analytical mind but his skills in mathematics were rather limited.

Questions

- ① What was Schumpeter's view on the business cycle?
- ① Did Schumpeter and Karl have the same ideas on capitalism? What are the difference?