

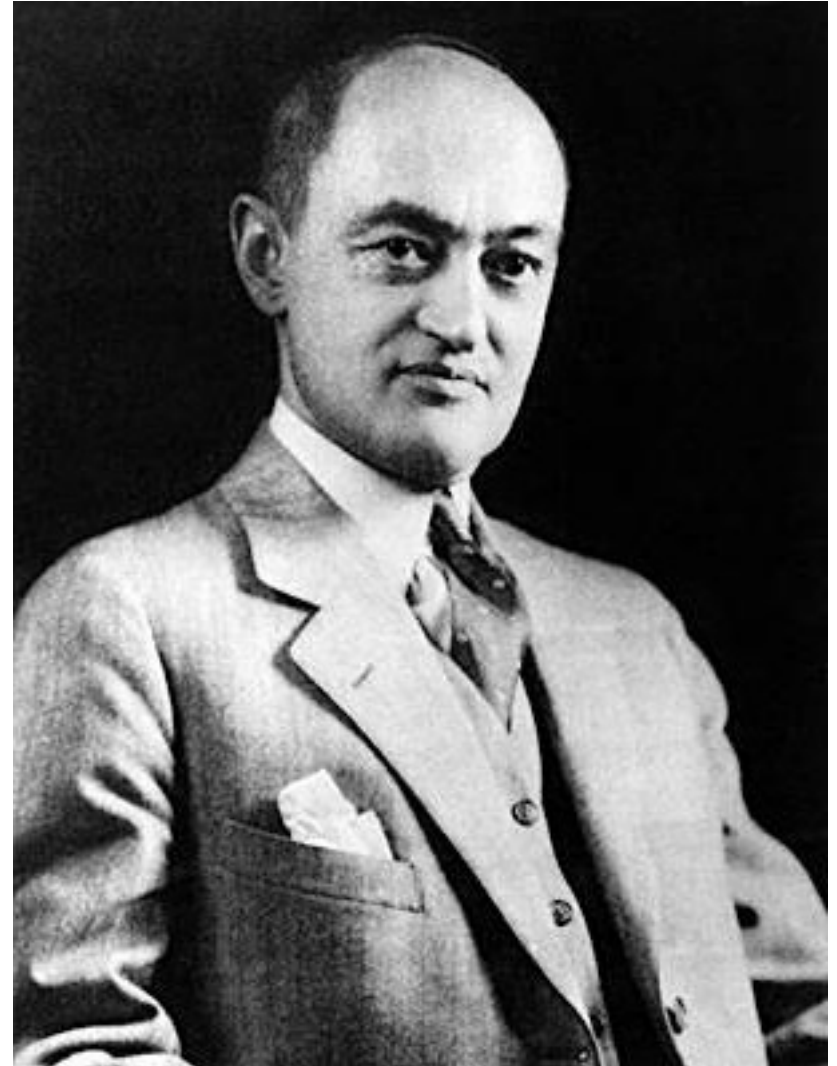
# **Ciclos e crises económicas**

Aula 17 e 18

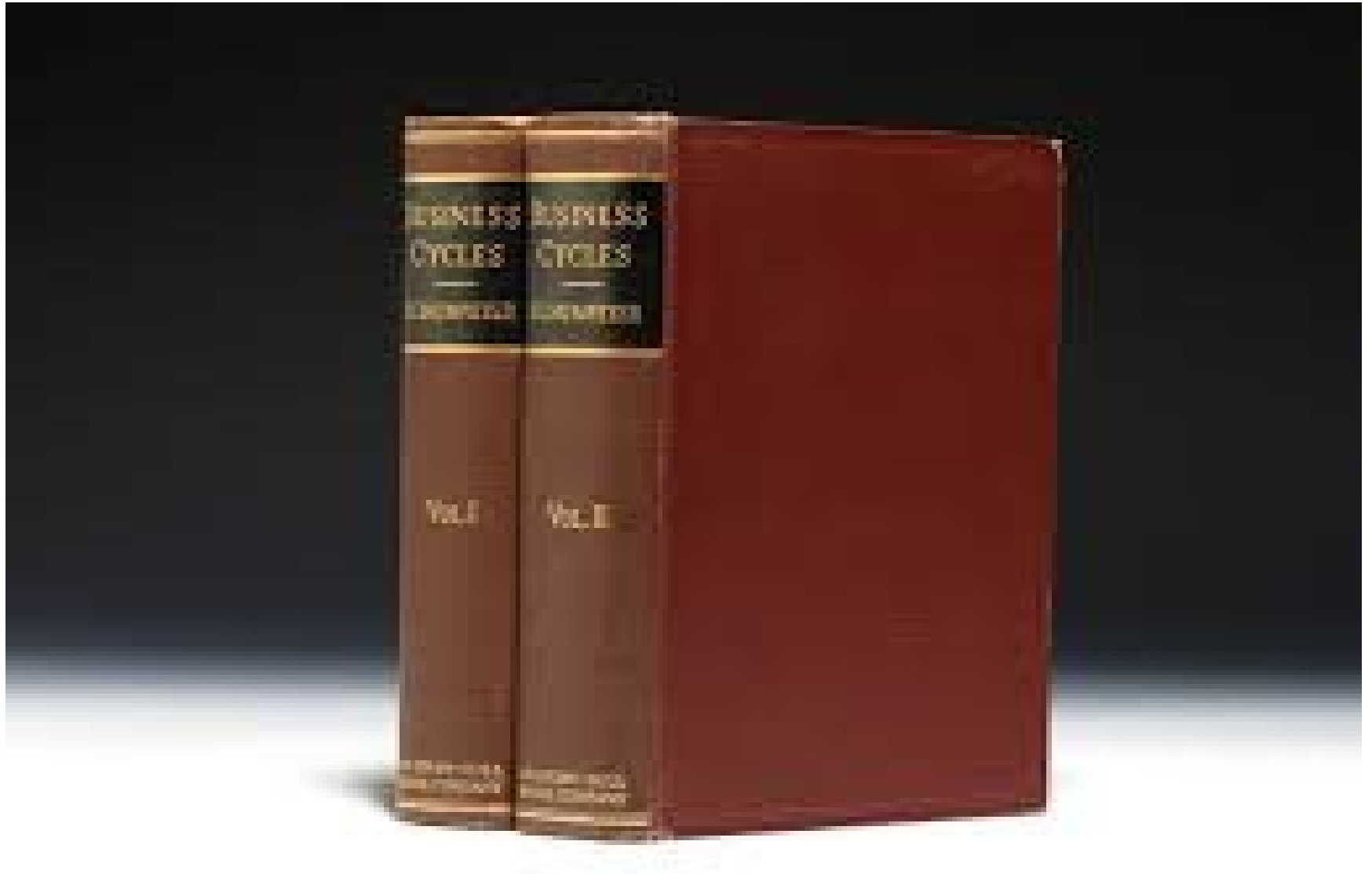
Schumpeter

# Joseph Schumpeter (1883-1950)

1. From the *crisis problem* to *business cycle theory*
2. Credit and Innovations in Schumpeter's BC
3. The Business Cycle as a Superposition of Different Waves



# ***Business Cycles (1939)***



# Different waves and cycles

“if innovations are at the root of cyclical fluctuations, these **cannot be expected to form a single wavelike movement**, because the periods of gestation and of absorption of effects by the economic system will not, in general, be equal for all the innovations that are undertaken at any time” (BC, 1939)

# Schumpeter: the Business Cycle as a Superposition of Different Waves

In his *Business Cycles*, Schumpeter (1939) distinguishes four phases of economic fluctuations:

**prosperity, recession, depression and recovery**

and presents a **three-cycle schema**, in which **Kondratieff long-waves** combine the classical **Juglar** and the shorter **Kitchin** cycles:

*"I took it for granted that there was a single wave-like movement, viz. that discovered by Juglar. I am convinced now that there are at least **three such movements**, and that the **most important problem which at present faces theorists of the cycle consists precisely in isolating them and in describing the phenomena incident to their interaction.**" (1934).*

Schumpeter: business cycles are superimpositions of Juglar and Kondratiev



# The Business Cycle as a Superposition of Different Waves

- **Business Cycles**

- *Kitchin* cycle      Length: 3-5 years  
**Inventory investment**

- *Juglar* cycle      Length: 7-11 years  
**Machinery equipment**

- **Growth Cycles**

- *Kuznets* cycle      Length: 15-25 years  
**Investment in buildings**

- *Kondratieff* cycle      Length: 45-60 years  
**Basic capital innovations**

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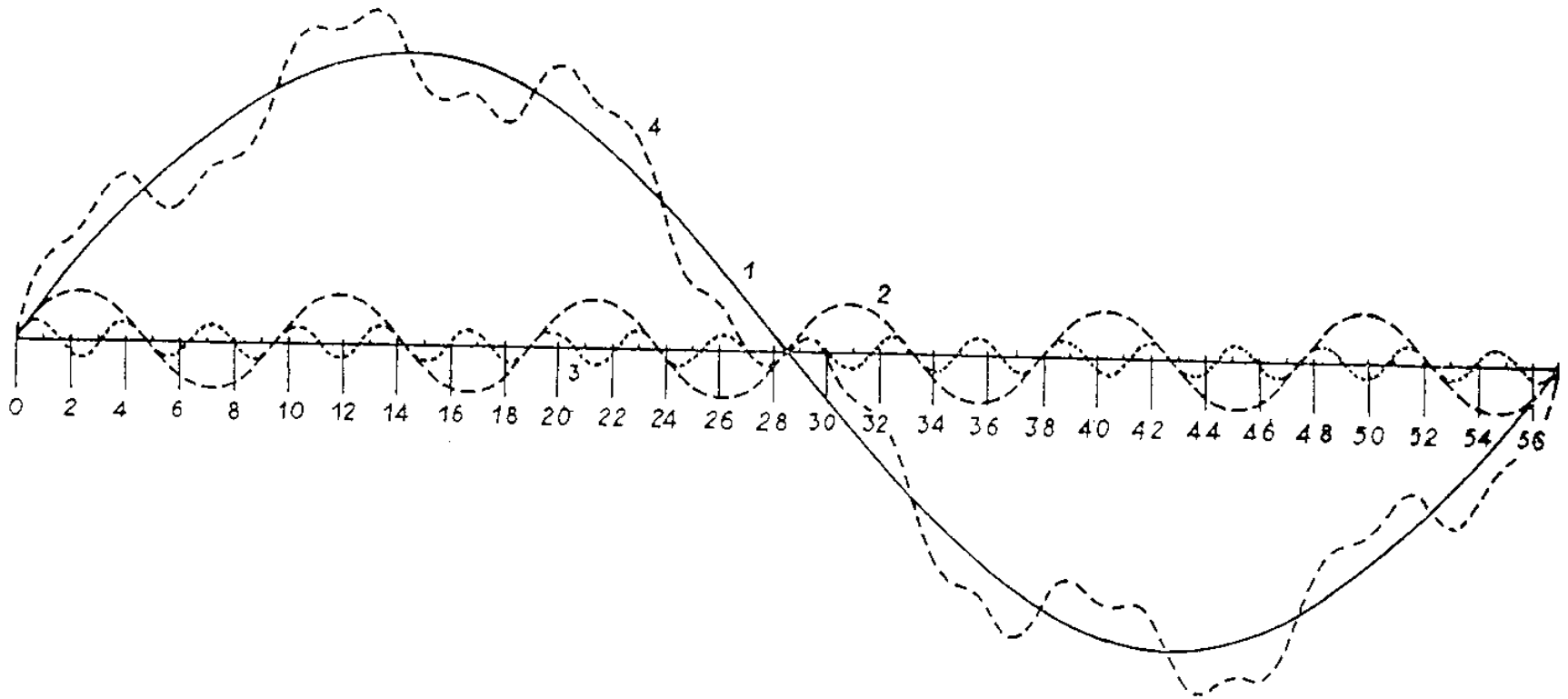
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# The Business Cycle as a Superposition of Different Waves



Source: Schumpeter (1939), p. 213

# Schumpeter: endogenous change

Schumpeter emphasises the fact that development represents a **disruption** of familiar and traditional processes of **stationary circulation**, arousing resistances and hurting established interests.

***“By development we shall understand only such changes in economic life as are not forced upon it from without but arise by its own initiative, from within”***

# Schumpeter on capitalism

**“industrial mutation – if I may use the biological term – that incessantly revolutionises 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.*”** (CSD, 1942)

# Innovation

“**Technological change** in the production of commodities already in use, the opening of new markets or of new sources of supply, Taylorisation of work, improved handling of material, the setting up of new business organizations such as department stores – in short, ‘**doing things differently**’ in the realm of economic life – all these are instances of what we shall refer to by the term Innovation” (BC, 84)

# Definition of innovation

“By **innovations** I understand such changes of the combinations of the factors of production **as cannot be affected by infinitesimal steps of variations in the margin.** (...) The recurring periods of prosperity of the cyclical movement are the form progress takes in a capitalistic society” (1927)

# Evolution through leaps

“Therefore, the problem of causation of the cycles reduces itself to the question; Why is it that industrial and commercial change is not continuous but distributed in time, **but proceeds by leaps?**” (1927)

# The Schumpeterian concept of innovation

Schumpeter's economic dynamics deals with the changing of the data of the static system, or the **destruction of the circular flow** by the carrying out of new combinations that includes five cases:

- **introduction of new methods of production,**
- **new products,**
- **the opening of new markets,**
- **new sources of supply,**
- **and new forms of organization.**

The main carrier of economic development is the **pioneering entrepreneur**, who is an *endogenous* force in capitalistic change.

# Following Schumpeter, three Long Waves until early the 20th century

(BC, 1939)

- 1. Industrial revolution, until 1842**
- 2. Steam and steel, 1842-1897**
- 3. Electricity, chemicals and motors 1898-...**

p.189: as Marx, waves explained by replacement of capital



# Innovation and credit: the explanation of crises

# Credit and Innovations in Schumpeter's BC Theory (1)

The importance of innovations and credit is at the very center of Schumpeter's theory.

It were not the figure of the **pioneering entrepreneur** and the importance of bank credit for economic development that were new in Schumpeter but rather the **idea of creative destruction by innovations** and the **notion that bank credit was the prerequisite of innovations** and of the foundation of new enterprises.

# Credit and Innovations in Schumpeter's BC Theory (2)

The innovating **entrepreneurs** need financial means for their investment activity which is given to them in form of credit by the banking system.

Schumpeter argues that the disturbance of economic equilibrium primarily emerges because of an enlargement of profitable investment options, leading to an increase of the **rate of interest**.

# Credit and Innovations in Schumpeter's BC Theory (3)

Schumpeter's assumption that available resources are fully utilized in the stationary circular flow implies that the carrying out of new combinations requires a **different employment** of these resources.

The entrepreneur must resort to credit if (s)he wishes to carry out **new combinations** since they cannot be financed by the returns from established production activities.

The financing of innovations by means of credit is the function of the banking system. In Schumpeter's view **the banker is not the trader but the producer of purchasing power**. “[C]redit is essentially the creation of purchasing power for the purpose of transferring it to the entrepreneur, but not simply the transfer of existing purchasing power” (Schumpeter 1934).

# Credit and Innovations in Schumpeter's BC Theory (4)

However, *the creation of money and credit for Schumpeter is an essential condition for the financing of innovational activities and thus development in competitive capitalism.*

Moreover, “the credit system is no very active factor in the mechanism of cycles. It adapts itself to the demand which comes from entrepreneurs and submits to contraction by their repayment of loans. In both cases its role is rather a passive one” (Schumpeter 1931, p. 17).

➔ **idea of endogeneity**

Leitura recomendada:

Louçã, F (2001), “Intriguing Pendula”,  
*Cambridge Journal of Economics*, 25:  
25-55

(nas secções opcionais do Aquila e no Teams=