


ECONOMIC AND BUSINESS HISTORY 22/23

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LECTURE 5 – THE ROLE OF THE ENTREPRENEUR



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The Role of The Entrepreneur



The Schumpeterian Innovator



Innovation and Business Cycle



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1. The Schumpeterian Innovator



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## Cycles and Growth

- Since 1820, Advanced Economies underwent MEG, econ growth, higher than their past record and than their contemporaries
- This Modern Economic Growth was **substantial** and **sustained**
- But, **Constant** it was not
  - It underwent fluctuations:
    - Recessions
    - lower or higher growth periods
- How to understand these fluctuations?
  - Do recessions and higher/lower growth periods occur regularly?
  - Do they occur in cycles?

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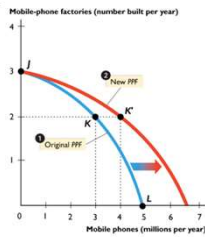
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## MEG: Why so irregular?

- In the long run, growth implies that technological and organizational innovations expand the PPF
- This process, however, is not constant or smooth
- As seen, it is stimulated (or not) by wages, interest rates and changes in the institutional conditions
- Moreover, it depends on the success of the innovators



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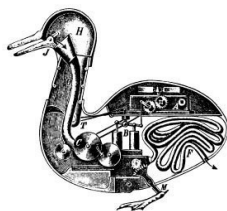
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## The success of the Innovators is contingent



Vaucanson's duck 1740. Walked (M), ate (I), "digested" (B and F) and expelled "food" (F) by means of clockwork mechanism.



Spinning engine by Arkwright. Water powered. Research by Arkwright and his team of clockworkers from 1767 to 1771. Patented.



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# The Role of the Entrepreneur

- The innovator Entrepreneur is the key agent in the process of creative destruction
- He devises:
  1. New products
  2. New production methods and processes
  3. New Markets
  4. New raw materials
  5. New Organizational solutions
- IF there is a market mechanism, with competition,
- The Innovative Entrepreneur and his innovations are rivalled, copied, adapted and improved
- As such, through other businesses the original innovation expands its simultaneous CREATIVE and DESTRUCTIVE effects

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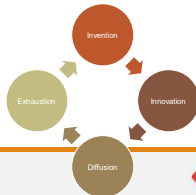
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# Innovation is stimulated

"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." (Schumpeter, 1942)



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# 2. Business Cycle



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## Cyclical Theories

- One explanation for fluctuations is that economic activity is intrinsically cyclical
- Cycles are fluctuations that follow a regular pattern
- Ultimately, they are predictable:

Kitchin ( 3-5 yrs)

Juglar ( 6-11 yrs)

**Konratieff ( 45-60 yrs)**

Schumpeter waves of innovation

- Konratieff-Cycle
- Juglar-Cycle
- Kitchin-Cycle
- Composite Function

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## Structure of a K cycle (also K 'wave')

- 1 – Prosperity
- 2 – Recession
- 3 – Depression
- 4 – Recovery

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## MEG and Innovations

- Thus, Kondratieff waves are successions of technological 'revolutions', starting with steam engines in the mid 18<sup>th</sup> century and continuing up to the present days.
- Each of these revolutions starts with a 'general purpose technology' (like steam, computing or electricity)
- For a time, a set of innovations are exploited, allowing for high returns and rapid productivity (A)

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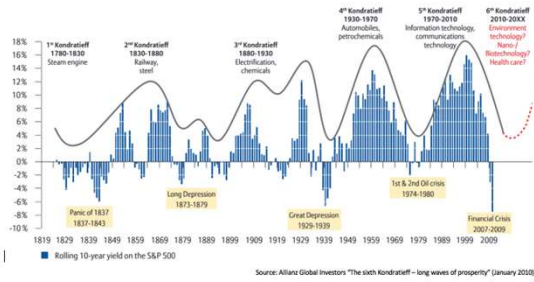
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## K Cycles, perspective from the Capital Markets



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