2014

Number 5

Innovative Economy as the Subject of Investigation in Theoretical Economics

By ODED STARK

Reprinted from

EKONOMISTA

Innovative Economy as the Subject of Investigation in Theoretical Economics, edited by Andrzej Malawski, Cracow University of Economics Press, Cracow 2013, 168 pp.

The main message of this book is that modern economic theory and present-day economic reality can be usefully researched by following two of Schumpeter's (1934, 1939, 1942) perspectives of economic life: circularity, and economic development. Circularity stands for periodicity or cyclicity, which is an outcome of the routine behavior of economic agents; economic development stands for creative innovation and the displacement of old products and organizational forms with new ones. These two perspectives prompt the authors of the book to study a variety of economic variables, in particular credit as a device that enables firms to undertake innovative projects and equip consumers who are innovative-minded with financial muscle (share holdings) to push for such projects. This is a nice angle because it highlights the role that individuals play in stimulating innovations other than as users (adopters) of new products. However, missing is an elaboration in what ways firm-led innovations differ systematically from consumer-fed innovations, and how the two types of stimuli interact. Because innovation as an evolution is "time-intensive" (it stretches over several periods), it is clouded by uncertainty. Not surprisingly, then, the book also deals with the minimization of aggregate risk.

The book is rich in innovative mathematical structures and modeling strategies. More often than not, it is highly abstract and requires painstaking study before grasping a result: as, for example, when the reader is led through eleven definitions to a theorem that provides conditions under which an economy with a financial market is considered to be more just in a future state $s = 1, \ldots, S$ than in the current state $s = 0$. Again not surprisingly, here, on adopting a Rawlsian stance, the social improvement occurs when the situation of the worst off individual improves, but if it does not (and if, implicitly, it does not deteriorate), an economy is considered more just when the situation of the next worse off individual improves, and so on.

It seems that the comparative strength of the book is in providing a mathematical infrastructure for linking Schumpeterian analysis with mainstream economics in general, and with financial markets in particular. When concrete results are reported, as, for example, when capital accumulation (an engine of innovation) and capital aging are linked with economic growth, they are more a relaxed version of known propositions than novel claims.

All in all, the book is true to the Schumpeterian spirit: it invites creative research innovations, which depend on students of modern economic theory having "pro-innovative preferences" (a term eloquently coined by the authors).

Oded Stark
Universities of Bonn, Navarra, Vienna,
and Warsaw; Georgetown University

References

Schumpeter J.A., *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest and the Business Cycle*, Harvard University Press, Cambridge, MA 1934.

Schumpeter J.A., *Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process*, McGraw-Hill Book Company Inc., New York 1939.

Schumpeter J.A., *Capitalism, Socialism and Democracy*, Harper and Row, New York 1942.