“Current Schumpeterian Growth Theory and Schumpeter's Own Ideas”

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This paper analyzes some aspects of contemporary "Schumpeterian" models of creative destruction in light of Schumpeter's own ideas about growth, development, and the business cycle.

One of the most evident discrepancies between the original approach by Joseph A. Schumpeter and that of the contemporary "Schumpeterians" lie in the former emphasis on the role of money and credit and the current neglect of it.

It is well known that Schumpeter assigned an important role to banks (better interpreted as financial institutions in general) and to credit creation in the growth process and in the business cycles. However, I emphasize that to capture his insights it is not sufficient to introduce some credit market imperfections within an otherwise standard Walrasian equilibrium setting.

The paper tries to show that Schumpeter had in mind an economy that is fundamentally monetary, and that his growth and business cycle theory cannot be read independently of his theory of money.

Creative destruction growth models have substantially enriched our understanding of the dynamics of the capitalist economy, but they work under the - explicit or implicit - Arrow-Debreu vision of the market economy. In those models – as well as in well-founded modern macroeconomics – money is inessential.

In this paper is argued that some difficulties of modern macroeconomics in understanding the role of money in general can perhaps be alleviated if we link innovation and money by incorporating more of the original Schumpeterian intuitions. I argue that this is possible even without renouncing to the contemporary individualistic rationality assumptions. In this sense this paper is basically constructive and does not intend to borrow from Schumpeter elements aimed at a destructive criticism of modern Schumpeterian growth theory.

This paper argues that Schumpeter thought can offer us illuminating contributions and help us better think about economic growth in a monetary economy. Moreover it suggests an innovation based explanation for the existence of monetary exchanges instead of a centralized market of complete contracts, thereby showing how growth theory can be useful for monetary theory.