Schumpeter on How to Come out of the 2011 Crisis: A Possible Turning Point: Examples and Theories in a Country like Italy

Manuela Ciani Scarnicci*
Università degli Studi E-Campus
Via Isimbardi,10 – 22060 Novedrate (Co) Italy

Abstract

After 2008 a lot of economists of the past made a comeback. Indeed, after this phase everybody acclaimed John Maynard Keynes’s theories (1883-1946). The crisis of 2011, with strong budgetary deficits of different countries, neglected Keynes’s theories, not because these ones are wrong, but only because at the moment, they are lacking in applicability. In today’s world, we need pragmatism. An author, on the other hand, who should be considered to urge economy during this new crisis is Joseph Alois Schumpeter (1883-1950). The experiences examined such as those of Furpile S.p.a. and Rohan S.r.l. or those of Professor Annalisa Romani’s Research Centre at the University of Florence showed how Schumpeter’s theories on innovation can delineate one of the keys to resolve the crisis.

Keywords: Keynes’s theories; Schumpeter’s theories; crisis 2008; crisis 2011; innovation; credits; SME; innovative entrepreneur

JEL Codes: O - Economic Development, Technological Change, and Growth > O1 - Economic Development > O14 - Industrialization; Manufacturing and Service Industries; Choice of Technology

Premise

After 2008 a lot of economists of the past made a comeback. Mankind always tends to seek the answer to what he already knows and so, given the similarities with the crisis of 1929, it was impossible not to draw on authors of the past for the 2008 crisis. Indeed, after this phase everybody acclaimed John Maynard Keynes’s theories (1883-1946). Yet, the worsening of the public debt in 2011 and the flaring up of the economic depression, in particular for countries like Italy, led to a progressive estrangement from the ‘deficit spending’ theory of Keynes. An author, on the other hand, who should be considered to urge economy during this new crisis is Joseph Alois Schumpeter (1883-1950).

There is a significant difference between the two authors, but they both advanced theories on the boost of economy. Since those theories are totally opposite, they help us understand the causes of the criticism that Schumpeter directed to Keynes’s theories in the ‘Review of Keynes’s General Theory’, divulged in the ‘Journal of the American Statistical Association’ in 1936. As a matter of fact, while for Keynes the economic push has to arise from the State, Schumpeter overlooks into a capitalist frame, where the boosting factor are innovations created by the trendsetter entrepreneur. This theory would obviate the further weight of public finances.

Nowadays, several governments touched by problems of public finances are applying a restrictive fiscal policy. This may obviously restore a part of the public debt, but in so doing, without including new efforts, another crisis is on the way. Hence, new solutions have to be provided related to past theories, too; the one of Schumpeter, so to say, could be regarded ad hoc not only for the Italian position but also for other countries. Moreover, if we consider that Italy has a plurality of SME with innovative features, the pre-condition is established automatically, because the Italian innovation is there, and represents a strong boost for economy although not yet adequate. That is why innovation should be guaranteed and encouraged.
1. What do we mean by new combinations and how these ones might create not only economic growth but also economic development.

Economic life always tends to a balance, even if this isn’t the predicted one. This applies both to Schumpeter’s theories\(^1\) and to Keynes’s ones\(^2\) where, for the latter it is mentioned the equilibrium of under employment. According to Keynes it is possible to come out from this situation thanks to the State ‘deficit spending’ intervention.; as for Schumpeter this balance could be modified thanks to various interventions; modifications, such as changes of natural and political conditions, wars or alteration in consumers’ taste, are part of the static analysis of an economic system.

Schumpeter’s theory actually concerns discontinuous changes, in relation to a productive revolution or incidents that arise in such situations. Revolutionary changes are the basis for the problem of economic development, since an adaptation to continuing economic changes might lead to economic growth yet not to development. Economic development is not growth because qualitatively new phenomena are not incorporated.

When we mention economic development\(^3\) and economic growth we talk about two different phenomena. Economic development not only considers the wealth of a nation, as does the economic growth instead, but overlooks the wealth of a country on the basis of its inhabitants welfare. Indeed, considering the economic policy, economic development can be defined as the efforts to improve the wealth and quality of life of a country. Clearly, this is linked to the labour market and to the allocation of monetary income. There are also substantial differences with measurement between economic growth and economic development: the first is measured by observing the progress of the real GDP or the GDP per capita; the second, with indicators such as literacy rate, life expectancy up to birth etc. The economic development\(^4\) according to Schumpeter depends on previous developments too, and therefore any situation would have been different if it had started from a different basis.

Referring back to what has been previously stated on the economic trend, it can be said that spontaneous and discontinuous shifts do occur in the industrial and commercial sphere, and not in that of the consumers’ needs. Indeed, if the consumers’ demand varies, firms will therefore adjust gradually without changing their course of action, though. This does not apply for innovations, as they do not answer the need of the consumer, and these are the discontinuous shifts which produce not only growth but also new economic development.

As we have said, the events which create growth are innovations and these, according to Schumpeter’s definition (1947)\(^5\) concern:

- **new asset**, in terms of an asset not yet familiar to consumers or an asset already familiar but with a different quality. This is a phenomenon, which to date, could allow an economic growth but also an economic development. As for the first, we need only think of the new technologies, one of the few markets which still boast a strong growth rate. New products, not yet suffering from Chinese competition are allowing companies to be maintained in industrial districts in crisis, notably that of the chair of Manzano, Friuli (Italy)\(^6\).

Specifically, in the same district to this day, 400 companies have been closed, and in the last few years, the turnover dropped of 200 million euro in the cost-effective area of Friuli; yet in this economic slump there are those that survive like Gianni Urbancig, inventor of the ‘scented chair’, which being a new product still doesn’t fear the Chinese competition.\(^7\) As regards the improvement of the quality of life let us think to new health products which lead to the improvement of citizens’ health.

---

2. Ciani Scarnicci M.; *J. M. Keynes – Dal passato al presente…Un economista senza tempo*; Quaderni di Economia Facoltà di Economia Università degli studi e-Campus; Ed Cesd S.r.l.
5. Osservatorio Imprese e Cultura, Cultura e competitività. Per un nuovo agire imprenditoriale, Ed. Rubbettino 2003
In the latter event, it is interesting to see the case of Rohan Italia srl, which thanks to the collaboration with the Research Group directed by Professor Annalisa Romani studies new products such as natural extracts for prevention and cardiovascular health market; or the Furpile Idea S.p.a., company, which also thanks to the collaboration with the above-mentioned Research Centre, studies new synthetic fabrics to compete with Chinese producers, that are one of the causes of the crisis of the district of Prato. New products not only saved a few companies of the aforesaid district, but also the silky production of Como in the 90's. In order to compete against Chinese silky shirts they responded offering the market mixed-silk shirts, of higher quality than the Chinese ones, but lower-priced compared to the previous pure-silk ones of Como.

- new method, meant as a system of production which had never been experimented before for the production of an already existing asset in the market. New methods enable not only to reduce costs, but also to make companies more flexible, as what happened in the production market of the Jacquard textiles of Como. In the 90's an information technology application was introduced in the production of the Jacquard textile loom, which outstripped China for a period of time. Indeed, a new life of the market of the Jacquard textile of ties appeared, and due to computerized technology, it allowed short length production and consequent higher flexibility of it. A new innovation in the method can also be considered as a new attitude that includes within companies an ethical code or ethical certifications. These systems authorize the change of the productive system improving its relationship with Stakeholders.

- new market, meant as a new exit for existing assets, both for an existing market and for new openings. Let's consider the new ‘Fast Fashion’ market. A lot of buyers addressed the companies of Como to have a lot of “metro-moda” in a short time. Just think at Zara and H&M where new shop windows are demanded at competitive prices in short time.

- new sources of supply of raw materials or semi-manufactured ones, even if such a source was already extant in the market, yet it had never been used for that type of production. For this type of innovation you may think about the use of secondary raw materials, deriving from the rejections of their production.

A case in point is the research project of the Phenofarm society, which uses the ENEA patent for the treatment of waters for pressing the paste of olives. Massimo Pizzichini, researcher of ENEA, author of the patent with Claudio Russo explains that: “it has been deposited a patent first in Italy and then at a European level furthermore widespread in Australia, and this is a totally new patent regarding the international panorama which has got relevant characteristics: it retrieves polyphenols, and with other important chemicals such as water, it clears up the problem of processing these wastes”. What just said allows to create a new raw material that not only beats down costs of production, but solves the problem of waste processing in the sector of oil mills.

---

8 At the Department of Pharmaceutical Sciences, Responsible for the Research of the Laboratories of: Merceologia e Qualità delle Risorse e Laboratori di Qualità delle risorse e Affidabilità di Prodotto dell’Università degli Studi di Firenze
9 Convegno “La Strategia per vincere la Crisi- L’imprenditore innovatore- da Schumpeter ai giorni nostri” 31 maggio 2011 Presso Università degli Studi e-Campus; http://www.uniecampus.it/index.php?id=772
10 Convegno “La convenzione Unesco per la salvaguardia del patrimonio culturale intangibile” 29 aprile 2011. Presso Università degli Studi e-Campus; http://www.uniecampus.it/index.php?id=756
11 Ibidem
12 Laino A.; I codici etici come soluzione alle esternalità negative; http://mpra.ub.uni-muenchen.de/35233/
13 Ciani Scarnicci M.; Etica ed Economia, un binomio possibile ed auspicabile.; http://mpra.ub.uni-muenchen.de/35126/
14 A. Luraschi; L’evoluzione recente del distretto serico comasco: una reinterpretazione 2010/2012; Università dell’Insubria Facoltà di Economia 2010
15 http://www.uniecampus.it/fileadmin/public/eventi/A_RomaniOleaSIMXXIV.pdf
new organization, meant as creation or destruction of the monopolistic power. In this case, it is possible to refer to the creation of business networks too, which allow small businesses, as happens in Tuscany for instance, to survive the crisis and in spite of their size seek the advantages of bigger companies\textsuperscript{17}.

In a competitive context companies which don’t create new combinations are destined to lapse, because following innovations will supersede pre-existing situations. Evidently, new combinations, generally speaking, may also not rise from companies still extant. Moreover, they do not necessarily come up from not expended resources, such as for example jobless or raw material supplies, rather, they often come up just depriving of means previous combinations.

For this final reason we clarify that new combinations are realized in a different way by using existing supplies of the economic system. When we speak about development we consider that resources already used for different usages are to be employed, without considering the fact that these ones have changed their substance\textsuperscript{18}.

What already said on the relationship existing between innovation, basis for the economic development, and its dual relationship with the labour market, is the constituent element of differences which are evident between Schumpeter and Keynes. The qualms in the application of new combinations is determined from the fact that it’s not possible to self-financing with proceeds of previous manufacture and this leads to the need of complying with credit\textsuperscript{19}.

For a company which uses old combinations, credit might not be an essential element, yet for the new ones it’s the basic prerequisite. The link between financing, banks hence, and innovative activity can be ascertained in the threshold of the first banking services like the German ones. Indeed, German joint banks were started with business activities. It’s the expertise of banks that provides new buying power which enable to yield development. The bank is in between those who want to introduce new combinations and whoever owns the means of production. Today, as in the period when Schumpeter theorized the relationship among banks, it still remains an ultimate element for new combinations. This topic remains so far, especially for the new rules of the banking system and with the doubtfulness of solvency, a minefield among companies and banks. A few small realities near the area succeed in overcoming these limits in a certain manner. An example is given ever since it has been discussed during the conference ‘the strategy to win the crisis- the innovative entrepreneur – from Schumpeter until this day’, May 31\textsuperscript{st} 2011 at the E-campus University.

‘To better study this relationship, Rag. Angelo Porro, President of the Cassa Rurale e Artigiana di Cantù- BCC was invited at the conference. In his comments, he emphasized on the history of the Bank he represents as well as on its link to the land. As a matter of fact, the system of Credit Unions is a system which tries to maintain a strong relationship with the companies of the region. In this way they allow small and medium-sized enterprises to obtain financing for innovations, besides developing the usual activity of the company. The President wants to point out how the financing of innovation is a tradition of the Cassa Rurale, as they have always been particularly observant of new ideas outlined by companies, thereby facilitating the fulfillment for their financing. Today, a relevant source for innovative companies isn’t only bank financing, but also the ability of retrieving credit by undertaking relationships with high –level solvency’s costumers. For this reason, Dr. Milène Sicca holder of the GIB Italia Service S.r.l. of Como, joined the convention. Dr. Sicca illustrated different cases where companies were inhibited in their research and innovation due to the fact that they aren’t able to get back credits or are linked to insolvent customers. Indeed, the last point is one of the GIB Italia Service’s main asset, that is, an anticipative survey of the market so as to allow companies to get customers financially reliable to prevent default problems\textsuperscript{20}.'

\textsuperscript{17} http://www.uniecampus.it/fileadmin/public/eventi/Abstract_RETI_Camilli.pdf
\textsuperscript{20} Convegno“La Strategia per vincere la Crisi- L’imprenditore innovatore- da Schumpeter ai giorni nostri” 31 maggio 2011 Presso Università degli Studi e-Campus ; http://www.uniecampus.it/index.php?id=772

286
From these experiences, we refer to the easiest way to attain funds from the banking system so far, by banks particularly linked to their surrounding territory, and on how societies can help SMEs to avoid the risk of insolvent customers and debt collection. All this might help companies which decide to carry out new combinations.

2. The innovative entrepreneur who acts out-of routine

What we said so far, justifies the reason why innovations must be preserved and encouraged. To know how to preserve and encourage them we have to evaluate where they originate; according to Schumpeter it is ‘the innovative entrepreneur’. The theory that the innovative entrepreneur is the man who undertakes innovations isn’t only a theory. In fact, considering the aforesaid, we can comprehend how, for university researches too, the entrepreneur is able to implement the project of the new combination or to call for new research centers to find innovation. But being an innovative entrepreneur has got criticality, and it is necessary to work on them to protect and encourage innovation. In this case Schumpeter’s theory seems topical. The importance of defining the author’s theories is determined by the fact that an entrepreneur who creates innovation isn’t only a businessman. The definition of innovative entrepreneur is broader than the traditional one, indeed entrepreneurs are all those people that reach new combinations. This allows to term this way managers or members of the Board of Directors and also individuals that do not have an enduring relationship with a single company. From another perspective, Schumpeter’s definition of entrepreneur might also be restrictive. As a matter of fact, Heads of a company, Executives or businessmen are not considered entrepreneurs if they don’t achieve new entrepreneurial initiatives and limit themselves quite simply to manage the company.

Hence we can state that in Schumpeter’s definition of entrepreneur the mere ownership of a company is not a decisive factor. Moreover, there is a contrast between the person who actuates the action of renewing and the risk holder. Think of a shareholder, he is owner and risk holder, yet he isn’t an entrepreneur as his will generally isn’t leading concerning the pronouncement of the company. On the latter peculiarity, we can see differences with other authors of the history, in particular Jean-Baptiste Say and John Stuart Mill. The definition of entrepreneur made in 1834 by J.B. Say’s in his work is: “the entrepreneurial office consists in combining, grouping cost-effective factors.” This agrees with that one of Schumpeter when we refer to unusual combinations but not when we talk of routine work. On a deeper level we note a great difference with the above-mentioned Schumpeter’s definition, as according to Say, the entrepreneur is a chief of a company that produces on his own, both in small and large companies, who needs capital and tangible skills so as to perform his leading role. Hence according to Say the link between entrepreneur and ownership creates a strong distinction with Schumpeter’s theory.

Relating to the link between entrepreneur and entrepreneurial risks we can emphasize the theories of J.S.Mill who in his essay in 1848 imagines the entrepreneur as a founder who bears all entrepreneurial risks and has the task of organizing the company and provide capital. Here again, we ascertain how this definition is absolutely contrasting to the peculiarities of Schumpeter’s entrepreneur. Echoing Schumpeter’s theory which creates a distinction between the entrepreneur and the owner of the means of production, this upsets what is his financial compensation, too. Indeed, the compensation of Schumpeter’s entrepreneur is provided by the transitional surplus caused by the introduction of innovation, once all inputs have been compensated, including the entrepreneur’s work itself, his interests and the entrepreneurial premium risk.

As previously said, these two compensations as for Schumpeter might not be set aside to the entrepreneur not being the owner of the capital. Evidently, also in Schumpeter’s theories we are aware that the ideal innovative entrepreneur is both a capitalist and a manager. Yet history teaches us that a lot of outstanding innovative entrepreneurs were not so. In order to understand what has been said we need only think of Thomas Watson of IBM and Ray Kroc of MacDonald’s who are not founders of their companies, but are fully credited as innovative entrepreneurs.

21 Schumpeter J. A; L’imprenditore e la storia dell’impresa. Scritti 1927-1949; A cura di A. Salsano; Ed Bollati Boringhieri Torino 1993
22 Petretto L.; Imprenditore ed Università nello start-up di impresa. Ruoli e relazioni critiche; Ed Firenze University Press 2009
23 Ibidem
24 Torrisi S.; Imprenditorialità e distretti ad alta tecnologia. Teoria ed evidenza empirica; Ed Franco Angeli 2002
Following Schumpeter’s information, we consider entrepreneur the person who actually fulfils a new combination and looses this definition as soon as he develops his own activity and complies with the circular free cash flow.

The distinctive difficulty in being an innovative entrepreneur is determined by the fact that he acts out-of-routine unlike others. If he were within routine, he wouldn’t need special skills above the average, as he would be part of a routinely work like the others and his task would only be that of correcting those who divert from the system. What we said is suitable for the economic life. Therefore, the effort is not being part of the routinely work but acting out-of-it.

Difficulties, as was said, are specifically determined by the absence of routine. In fact, people are deprived of exact data and codes of conduct. The elements available are doubtful or verified after a time period or even only supposed. Statistical expectancies too, might not help, as there isn’t any historical series to be analyzed; hence problems of expectancies arise. This applies even more when expected market demand is evaluated, as it isn’t possible to realize how the market will respond to innovation. All this obviously doesn’t help the banking system, which today in particular, needs more than ever, exact data to decide whether to finance a project or not. In order to understand what we are talking about, let’s consider that taking action pursuing innovation or conforming with custom is like building a new way or walking along a well-trodden one. Also the entrepreneur’s mind doesn’t help, given the factual difficulties of undertaking new pathways, he prefers to follow walked ones earlier. Moreover, the social environment doesn’t help since it stands out against those who act out of schemes. This implies obstacles which might also be political and legal ones, difficulties in finding cooperation or simply in persuading consumers. Moreover, we can undergo resistances on the part of a more or less strong community on the basis of the evidence that the same one is more or less used to switches.

The more a society is primitive, the greater is its reticence towards changes. Yet this doesn’t imply that in evolved societies contentions are not extant. The amazement facing change exerts a strain on an individual. Therefore, the innovative entrepreneur must fight against this kind of complications when he acts out-of-routine. This difficulty in making others accept the innovative entrepreneur’s role is found in other economists such as Adam Smith. In fact, in his theory too, the blame by the others is noticeable and we might compare them to the witnesses of Smith’s theory. The issues which the innovative entrepreneur might face could also be different, and they are the basis of those ones which according to Schumpeter might represent the failure of capitalism, such as for example an excessive bureaucratiization of the function of the entrepreneur, the loss of emphasis on capital accumulation or the creation of monopolies. These issues so far, can be considered outdated since SMEs can count for innovation on University Research Centres, which allow, although with reduced funds, studying new combinations.

Conclusion

The crisis of 2011, with strong budgetary deficits of different countries, neglected Keynes’s theories, not because these ones are wrong, but only because at the moment, they are lacking in applicability. In today’s world, we need pragmatism. But as it has been underlined, other past theories can provide support. The experiences examined such as those of Furpile S.p.a. and Rohan S.r.l. or those of Professor Annalisa Romani’s Research Centre at the University of Florence showed how Schumpeter’s theories on innovation can delineate one of the keys to resolve the crisis. Since we cannot rely on the forces of the State now, it’s the moment for drawing strength in ourselves in setting up new products enticing for the market, even though of niche, or new processes which allow a cost reduction and create a new economic development. Causing new needs we might actuate the theory of Keynes’s multiplier even without the intervention of the State. But how can we safeguard all that? It would be enough to give new credit and trust to SMEs, observing far better the necessities of small units and single markets instead of the aggregates. We should take a step back to the days when the study on macroeconomics found its starting point on microeconomics.

25 Schumpeter J. A; L’imprenditore e la storia dell’impresa. Scritti 1927-1949; A cura di A. Salsano; Ed Bollati Boringhieri Torino 1993
26 ibidem
28 Laino A.; Innovation and monopoly: The position of Schumpeter; http://mpra.ub.uni-muenchen.de/35321/
References

Ciani Scarnicci M.; Etica ed Economia, un binomio possibile ed auspicabile.; http://mpra.ub.uni-muenchen.de/35126/
Ciani Scarnicci M.; The return of Keynes; http://mpra.ub.uni-muenchen.de/35128/
Corriere della Sera; 7 marzo 2011 pagina 32
Gatelli J. A. Schumpeter e l’eterno ritorno dell’accumulazione originaria; Studi Storici Anno 11, n. 2 (Apr – Jun 1970); Published by Fondazione Istituto Gramsci
Keynes J. M.; Come uscire dalla crisi; Sabbatini P.; Edizione Laterza 2004
Keynes J. M.; Teoria generale dell’occupazione dell’interesse e della moneta; Cozzi T.; Campolongo; Utet (collana classici dell’economia) 2006;
Keynes J. M.; The New Deal, lettera a Roosevelt Edizione Laterza 2004
Laino A.; I codici etici come soluzione alle esternalità negative; http://mpra.ub.uni-muenchen.de/35233
Laino A.; Innovation and monopoly: The position of Schumpeter; http://mpra.ub.uni-muenchen.de/35321/
Lombardi R.; Sostenibilità ambientale e crescita economica. Verso una nuova economia, Ed Maggioli, San Marino 2011
Luraschi A.; L’evoluzione recente del distretto serico comasco: una reinterpretazione 2010/2012; Università dell’Insubria Facoltà di Economia 2010
Osservatorio Imprese e Cultura, Cultura e competitività. Per un nuovo agire imprenditoriale, Ed. Rubbettino 2003
Petretto L.; Imprenditore ed Università nello start-up di impresa. Ruoli e relazioni critiche; Ed Firenze University Press 2009
Roncaglia A.; Schumpeter. È possibile una teoria dello sviluppo economico?; Collana Banca Popolare dell’Etruria/Studi e Ricerche 1988
Schumpeter J. A.; L’imprenditore e la storia dell’impresa. Scritti 1927-1949; A cura di A. Salsano; Ed Bollati Boringhieri Torino 1993
Schumpeter J. A.; Storia dell’analisi economica. Vol. 3: Dal 1870 a Keynes; Traduttore Sylos Labini, L. Occhionero; Ed Bollati Boringhieri 1990
Skidelsky R.; Keynes The return of the Master, Allen Lane, Penguin Books 2009
Talele C. J.; Keynes and Schumpeter: New Perspectives; Published By Avebury, Academic Publishing Group

Conventions

Convegno“La Strategia per vincere la Crisi- L’imprenditore innovatore- da Schumpeter ai giorni nostri” 31 maggio 2011 Presso Università degli Studi e-Campus; http://www.uniecampus.it/index.php?id=772
Convegno “La convenzione Unesco per la salvaguardia del patrimonio culturale intangibile” 29 aprile 2011. Presso Università degli Studi e-Campus; http://www.uniecampus.it/index.php?id=756

Websites

http://areadocenti.eco.unicas.it/nistico/NAP-RAN%20SECONDO%20CICLO.pdf
http://www.austria-facile.com/joseph-schumpeter.html
http://www.reflettiestrategie.it/2010/11/05/schumpeter-dallo-sviluppo-economico-al-credito-finanziario/
http://www.filosofico.net/schumpeter.htm
http://www.unipa.it/aispe/papers/Patalano.doc
http://www.webalice.it/fabio.ruini/eco_inno/Ruini.doc
http://www.ifriliuni.it/il/top-news/65569/
http://www.uniecampus.it/fileadmin/public/eventi/A_RomaniOleaSIMXXIV.pdf

289