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

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Abstract
Joseph Schumpeter's economic thought is indissolubly linked to the study of entrepreneurship and innovation. In Business Cycles, the book planned to be 'the crown of his work', Schumpeter carefully crafted a theoretical framework in which both concepts are presented as the main engines of the cyclical economic evolution. This paper aims to offer a different view on this complex combination of economic theory, historical and statistical applied analyses which are today largely forgotten. Schumpeter's theories of entrepreneurship and innovation are discussed within the general framework of his main intellectual legacy. Re-reading Schumpeter's Business Cycles in the light of its scholarly reception, this study pays a special attention to some of the key reviews that critically addressed this book. The novelty of our approach lies in revealing the systematic emphasis placed upon the elements introduced by Schumpeter's Business Cycles to his theories of innovation and entrepreneurship.

Keywords
Entrepreneurship, innovation, Schumpeter, creative destruction, historic economy

Introduction: Schumpeter and his intellectual legacy

Despite the tens of years that have elapsed since he published his theories and the hundreds of fierce critics he faced, some of whom tried their best to demolish every aspect of his conceptions [e.g. Kuznets (1940)], Joseph A. Schumpeter continues to stir

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controversy in the field of economics and well beyond. Hundreds of papers are annually published about his theories, and the number of citations of his works on Google Scholar exceeds 10,000 per year. At the same time, while his view on entrepreneurship is considered dominant, and there still are papers published against the Schumpeterian mainstream a never-ending stream of papers continue to tackle critically with the Schumpeterian mainstream (Herrmann, 2010).

Planned to be 'the crown of his work' (Swedberg, 2008), *Business Cycles* occupies a special position within Schumpeter's system of theoretical thinking. At its core, this is a book about innovation and its crucial role in the capitalist system. A brief survey of Schumpeter's publication record will reveal that after an exceptionally book published in 1911 under the title of *The Theory of Economic Development* (translated into English in 1934), Schumpeter's contribution to economics and social sciences further materialized in two other significant books. In 1939, he published his massive work in two volumes on *Business Cycles*, followed three years later by a book less grounded in economic theory and oriented more towards Marxism and economic sociology, *Capitalism, Socialism and Democracy*[2].

Schumpeter's intellectual relationship with economics included two completely different dimensions. Firstly, Schumpeter was an academic virtuoso who held positions in Chernivtsi and Graz (both towns were located in Austria at that time), as well as in Bonn and at Harvard (the last 18 years of his career and life). Secondly, in parallel to his academic pursuits, Schumpeter followed a political path, and, in the aftermath of the Great War, he assumed the office of Minister of Finance in Austria. For a short period of time, he also 'had become the president of a small but respected Viennese banking house, the Biedermann Bank' (Swedberg, 2007: 67). This combination offered him a special position for understanding both the contemporary and historical economic realities brought about by the devastating war. One of his many exegetes shed intriguing light upon Schumpeter's personality when he described him as 'the prophet of innovation', whose three-fold ambitions consisted of becoming 'the greatest economist, horseman and lover in the world. Then came his punch line: things are not going well with the horses' (McCraw, 2007: 5)[3]. We will also leave aside his romantic record and intimate

[2] 'Although *Capitalism, Socialism and Democracy* became Schumpeter's most cited book and *The Theory of Economic Development* has emerged as his *magnus opus*, there is little doubt that he had planned *Cycles* to form the crown of his work' (Andersen, 2006: 109). In a different paper, the same author argues that for understanding Schumpeter's evolutionary economics one has to read a duology that consists of *Development* and *Cycles* (Andersen, 2012: 646).

[3] For readers interested not only in Schumpeter's academic accomplishments and scholarly works, the book published in 2007 by Thomas McCraw offers some valuable insights into Schumpeter's non-academic life. The book is far from resuming to this, but the first chapters present a detailed image of Schumpeter's personality and personal life.

Written in a different style, Swedberg's biographical book (2007) constitutes a fundamental reading for those interested in detailed explanations about each Schumpeterian work. Referring to the period of life spent by Schumpeter at Harvard, he notes that 'While in the United States he worked ruthlessly all the time – during days, evenings, weekends and vacations – and some even say that he died from overwork' (Swedberg, 2007: 109).

relationships and focus for the remainder of this paper only upon his intellectual identity as expressed in one of his most important economic writings.

Business Cycles is suffused with historical examples, and this richness perfectly illustrates Schumpeter's perspective on the important role played by economic history in understanding the economic system. Swedberg (2008: xxii) pointed out Schumpeter's 'famous statement that if he could relive his life as an economist and only had one specialty, he would choose economic history and not economic theory'. The same author noted that during his later period at Harvard, Schumpeter was more eager to write and engage with an audience of economic historians. From this perspective, *Business Cycles* represented a decisive movement from economic theory towards economic history, even if the transformation is nuanced by Schumpeter's constant interest in 'the economic mechanisms'. His theory of entrepreneurship benefitted from this historicization of his economic thinking mainly because a new consistent dimension was added to its analysis. Moreover, this shift towards economic history paid off in terms of conceptual clarity, since it gave him the opportunity to shed a better light on the concepts forming his theoretical heritage, which in *Business Cycles* appear in a sharper semantical condition.

An honesty note should be placed at the very outset of this study, with the risk of disappointing the reader who is expecting an exhaustive discussion on all the topics analyzed by Schumpeter in *Business Cycles*. The paper offers a general overview on the book and pays systematic attention to two of Schumpeter's concepts which survived the passage of time. In this context, the reader is invited to see the book through the conceptual lenses of *entrepreneurship* and *innovation*, keeping in mind the cyclical nature of the capitalist process. Both concepts are constantly used in Schumpeter's writings, and Swedberg (2007: 131) notes that 'Schumpeter still talks about the entrepreneur in *Business Cycles,* just as he did in his 1911 book, but it is clear that he now prefers to emphasize innovation rather than entrepreneurs'. This review pays attention to this shift from entrepreneurship to innovation in order to better understand both concepts and the relationship between them. This type of approach has several advantages. First, it allows an emphasis on the Schumpeterian view on entrepreneurship and innovation in the broader context of the capitalist system. At the same time, it offers an opportunity to conceive of these two concepts in direct relation to other important aspects of the economic system. However, the approach we advance in reviewing Schumpeter's book is not free of disadvantages which could partially distort the general logic with which Schumpeter constructed the book. In fact, by concentrating our focus specifically upon the book's key concepts – innovation and entrepreneurship – the intricate details of each business cycle will be unavoidably overshadowed.

The general theoretical picture: basic concepts, equilibrium and evolutionary perspective

The first chapters introduce the role of factors affecting the context in which an enterprise operates. The fundamental factors making up the firm's economic ecology consist of price structures and levels, credit status and consumers' budgets. Firms have to adapt to all of these factors to obtain profit in the market, and this means, in Schumpeter's terms, 'adaptive responses' to the market conditions. A different strategy can be based on 'creative responses' and, in this case, innovation and novelty are key elements for understanding successful strategies in the market. Schumpeter's classical distinction between innovation and invention is noted from the first pages of the book, and the following excerpt illustrates the limited nature of invention:

> "(…) the inventions of the antique world and the middle ages for centuries failed to affect the current of life. As soon, however, as an invention is put into business practice, we have a process which arises from, and is an element of, the economic life of its time, and not something that acts on from without. In no case, therefore, is invention an external factor." (p. 9)

From the beginning, Schumpeter emphasizes some important distinctions between the common-sense approaches and the economic theory approach on economic realities. Along with the distinction mentioned above, he carefully looks at the relationship between 'capitalistic enterprise' and 'technological progress', and in this aspect agreed with Marx that 'technological progress was of the very essence of capitalistic enterprise and hence cannot be divorced from it' (pp. 9-10). Special attention is also devoted to causality in the economic system, and causal analysis is presented as an essential part of the theoretical framework.

On one hand, for Schumpeter, the discussion about the causality of fluctuations, crises, booms and depressions allows him to argue that 'any answer in terms of a single cause is sure to be wrong' (p. 34). On the other hand, this constitutes an excellent foundation for emphasizing that the economic system has embedded elements which generate booms, crises or depressions. The state of equilibrium is a temporary one in the Schumpeterian logic of the economic system, and he is interested in analyzing what circumstances cause the transition of the system from one state to another.

The notion of 'productive combinations' describes the modality of mixing different factors to produce a good. Here, the emphasis was given to the 'freedom of choice between combinations' and to the 'substitutability' of factors. The same good can be produced using various combinations of factors, and the entrepreneurial ability of obtaining lower costs of production can represent a competitive advantage in the market.

Further in the book we can find an overview on the state of general equilibrium or Walrasian equilibrium. Here, Schumpeter craftily unpacks the elements which underpin the generation this state of the economic system. Consumers' budgets, producers' budgets and productive combinations, uncertainty and expectations, as well as imperfect competition, are elements carefully analyzed by Schumpeter before pointing out that:

> "(..) the concept of a state of equilibrium, although no such state may ever be realized, is useful and indeed indispensable for purposes of analysis and diagnosis, as a point of reference. (…) The most important of the uses we shall make of the concept of equilibrium is (…) the existence of a tendency toward equilibrium. (…) The thing that

> matters to us, is nevertheless this tendency considered as an actual force and not the mere existence of ideal equilibrium points of reference." (p. 69-70)

Business Cycles also adds elements to the classical distinction between internal and external factors which generate change in the economic system. Firstly, Schumpeter considered the internal factors of change and distinguished between 'changes in tastes, in quantity (or quality) of factors of production, and in methods of supplying commodities' (p. 73).

The role played by consumer tastes in the economic system is marginal from a Schumpeterian perspective [for extended argument on this, see also Croitoru (2012; 2013)]. This is excellently illustrated by the assertion which points out that "the great majority of changes in commodities consumed has been forced by producers on consumers who, more often than not, have resisted the change." Instead of the market adapting to the consumers' tastes, Schumpeter insists that the latter are being educated through the "elaborate psychotechnics of advertising" (p. 73).

Analyzing how changes in the quantity (or quality) of productive factors affect the economic system, Schumpeter discusses also the role of accumulation and savings. For Schumpeter, savings have to be business-oriented to be considered as part of the economic change, and, from this perspective, this dimension is intrinsically linked to production.

> "Saving and investments, as here defined, are of course distinct events. The former exerts influence of its own independently of investment and the latter can be financed, as we shall see, from sources other than saving". (p. 76)

The third internal factor, or what Schumpeter designates as 'methods of supplying commodities' is directly associated with innovation. Using a different way of doing things in a broad meaning of the term includes a variety of important elements of the process of supplying goods and services, as follows:

> "Technological change in the production of commodities already in use, the opening up of new markets or of new sources of supply, Taylorization of work, improved handling of material, the setting up of new business organizations such as department stores – in short, any 'doing things differently' in the realm of economic life – all these are instances of what we shall refer to by the term of Innovation." (p. 84)

The Theory of Innovation

In Schumpeter's vision, innovation lies at the very heart of the economic evolution. This is succinctly defined as 'the setting up of a new production function'. It can be visible in different dimensions of the production process, and Schumpeter described it using the famous term of 'new combinations'. The term is recurrent in *Business Cycles*, and it is also often used in his other papers being further developed in relation to 'creative destruction'.

On the one hand, there are numerous examples when innovations are attached to new plants or equipment. Schumpeter noted that 'not every new plant embodies an innovation', but, on the other hand:

> "In a system in which the process of evolution goes on strongly, it is presumably not very far from the truth to say that practically all new plant that is being constructed beyond replacement, and much of what is being constructed by way of replacement, either embodies some innovation or is a response to situations traceable to some innovation." (p. 94)

From this perspective, setting up a new business can usually be in direct relation to Schumpeter's perspective on innovation. We will further discuss this aspect when we consider the entrepreneur. It is in this context that Schumpeter advances his conception on the emergence of a new entrepreneurial elite, pointing out that 'innovations are always associated with the rise to leadership of New Men' (p. 96).

The evolution of the economic system is greatly dependent upon innovation, and its special features directly generate a dynamic which is 'lopsided, discontinuous, disharmonious by nature'. This state is the result of two main characteristics of innovation: firstly, what we suggest calling the *clustering principle* of innovations, since they 'tend to cluster, to come about in bunches'; secondly, another feature consists of what we call the *sectorial propensity*, as innovations are not randomly distributed within the economic system but tend to concentrate in certain sectors. Extending this line of reasoning, Schumpeter also notes that the effects of innovation 'cannot be currently and smoothly absorbed [by the economic system]' (p. 101).

The entrepreneur and his profit

The role of entrepreneur is associated to the process of innovation, and, in the Schumpeterian evolutionary system, s/he becomes the key element of economic change. First of all, in *Business Cycles* is emphasized that between innovation and entrepreneurship there is an indissoluble relationship.

> "For actions which consist in carrying out innovations we reserve the term Enterprise; the individuals who carry them out we call Entrepreneurs. This terminological decision is based on a historical fact and a theoretical proposition, namely, that carrying out innovations is the only function which is fundamental in history and essential in theory to the type usually designed by that term." (p. 102)

Further in the book, Schumpeter (p. 102-104) introduces several elements which deserve a special attention from scholars interested in entrepreneurship as a particular field of study:

- the entrepreneur performs also routinized tasks or 'nonentrepreneurial work' within the company framework;
- the entrepreneur is not necessarily 'the inventor of the good or process he introduces', but s/he is the one who imposed it in the market context;

- "the entrepreneur may, but need not, be the person who furnishes the capital. This is a very important point… It is leadership rather than ownership that matters";
- even if entrepreneurs operate in uncertain conditions, "risk bearing is no part of the entrepreneurial function. It is rather the capitalist who bears the risk."

On the other hand, Schumpeter notes that, in his interpretation, 'those who follow the pioneers are still entrepreneurs, though to a degree that continuously decreases to zero' (p. 414).

Graça Moura (2017: 117) pointed out that the Schumpeterian meaning of the innovation revolves around the entrepreneurial action which 'requires more conscious rationality'. Unpacking the rationality of the entrepreneurial action, he reveals that the subjectivity of the entrepreneur manifests itself in objective economic conditions and 'depends on the institutional framework'. At the same time, Schumpeter's meaning of subjectivity is rather different from that of Austrian economics (Croitoru, 2013; Graça Moura, 2017: 135). From this perspective, Graça Moura (2017: 118) points out that 'Schumpeter conjectures that capitalism accelerates rationalization', and this is relatively similar to Weber's approach on the relationship between capitalism and rationality (Weber, 1992)[4].

Profit shall be the outcome of the entrepreneurial activities, and the institutional pattern shapes its structure and level. For Schumpeter, profit differs from income due to the former's temporary character which is linked to carrying out an innovation until the other players from the market adapt to the new state of business[5].

Later in the book, Schumpeter looks at specific roles played by banks in the economic system. Here, he emphasized that entrepreneurial innovations should be independently evaluated by banks which can finance or refuse to support their implementation in the economic system. Their role is limited by the loan contract, and their financial outcome is not dependent on the success or failure of the entrepreneurial activity. From a different perspective, banks have to be independent not only from entrepreneurs, but also from the political spectrum of the society because this is the only perspective for assuming a critical role. This means that entrepreneurial opportunities are identified by entrepreneurs, and, after that, they have to be able to find the necessary financing to capitalize them in terms of profit. The entire pressure of innovating for

[4] Weber and Schumpeter were both of them associated with *Archiv für Sozialwissenschaft und Sozialpolitik* at the beginning of the 20th century. Swedberg (1998: 190) noted that "The three first editors were Jaffe, Weber, and Sombart; Schumpeter was brought in a later stage. Apart from Schumpeter, with whom Weber had superficial but friendly relations in the 1910's, Weber does not seem to have any friends among the Austrian economists. Most of his economist colleagues belonged to the Historical School, and Weber had a polite but distant relationship with its powerful leader, Gustav von Schmoller. Weber's own sympathies, it seems, lay somewhere in between the Historical School and Austrian economics; and usually he defended the historical economists against the Austrian and vice versa."

[5] For an extensive review on how the adaptation is produced in a Schumpeterian line of thought, see Weizsäcker (2011) and Croitoru (2011).

obtaining profit is manifested in a milieu in which there already exists a 'traditional' way of doing things. Innovation is always the difficult way to do things since it is not recognized and accepted immediately by others.

Innovation and entrepreneurship in the economic evolution

Entrepreneurial innovation shapes the logic of the economic system. This process has to be perceived, up to a point, as being gradual – 'the first entrepreneur's supply will not, in general, cause a visible disturbance or be sufficient to alter the complexion of the business situation as a whole' (p. 134). Over the long term, Schumpeter demonstrates that the transformation process is radical.

Even if this transformation is not spectacular in its first phase, it will be directly responsible for setting a new standard of production in the industry. All the relevant actors have to adapt to the 'new economic space', and, for some, the new requirements will mean 'economic death'. Schumpeter's perspective on equilibrium also includes the equilibrium of prices in the economic system, and any significant change in the individual price initiates a chain of consequences which affect the general state of equilibrium. Also, as a corollary of innovation in the economic system, there appears 'the difficulty of planning new things and the risks of failure are greatly increased'. Looking at the entire Schumpeterian system, Clemence and Doody (1966: 54) noted that the best conditions for innovation are in the state of equilibrium, 'since the risk of failure is at a minimum and the pressure to innovate at a maximum'. However, as Schumpeter himself had insisted, equilibrium is the least empirically available state of the economic system.

On the one hand, we have the disruption generated by innovation, and, on the other hand, there is the tendency towards equilibrium, which is embedded in the economic system. These aspects are strongly related to the cyclical nature of the Schumpeterian economic evolution. The economic boom is not generated by the innovation itself, but rather by the responses offered by other relevant actors in the market (and here Schumpeter builds on his previous distinction between Primary Wave and Secondary Wave).

> "(…) the phenomena of this secondary wave may be and generally are quantitatively more important than those of the primary wave. Covering as they do a much wider surface, they are also much easier to observe; in fact, they are what strikes the eye first, while it may be difficult, especially if the innovations are individually small, to find the torch responsible for the conflagration." (p. 146)

This approach to the dynamics of the economic system allows Schumpeter to differentiate among four distinct phases, as follows. The first phase is linked to innovation, while the second is given by the economic system's response to innovation. These two phases trigger a transformative cycle set in motion by innovation and the market reaction to its introduction. The third phase is described as a depressive anticipation, while the fourth is the return to 'normal quantities and values'. The economic system includes 'multiplicity of fluctuations and interference between them' (pp. 161-167). At the same time, these multitudes of economic waves have distinct features related to their duration, intensity and dispersion within industries. Schumpeter analytically distinguished among three classes: Kondratieff cycles, Juglar cycles and Kitchen cycles[6]. When he discussed how the individual entrepreneur experiences these three cycles of the economic system, Schumpeter pointed out that, in numerous cases, only Kitchen cycles are perceived by the businessman. The relationship between the process of innovation and the three-cycle scheme is more complex, and independent innovations create the necessary premises for each type of economic cycle.

> "Innovations, their immediate and ulterior effects and the response to them by the system, are the common cause of them all, although different types of innovations and different kinds of effects may play different roles in each." (p. 172)

Schumpeter's vision includes theoretical, random or stochastic and historical variables, which are conceptualized, and their relation with time is discussed in direct relation to the notion of economic cycle. The complex cyclical movement is also based on the assumption related to the absence of seasonal variation and growth.

Historical and statistical applied analysis

These chapters represent an excellent illustration of the importance of the historical approach for Schumpeter's evolutionary perspective on the economic system. The entire final part of the book aims to present 'the economic process in all its aspects' employing economic theory and economic history, as well as statistics[7].

For Schumpeter, the capitalist system is intrinsically linked to innovation and also to the availability of borrowed money, and he noted that 'we shall date capitalism as far as back as the element of credit creation' (p. 223). Schumpeter emphasized that the foundations for the creation of capitalism exist in the interior of the economic system and not in religious change or in the new 'spirit' as Weber or Sombart unrealistically proposed.

> "The type of medieval artisans, their organization and behavior, are fully accounted by the conditions of their environment and particularly of their market. The way in which they succumbed to what then was a commercially superior method, the putting out system, whilst, as will be seen, illustrating well what we mean by the process of new things competing old ones out of existence. (…) It was, not an adaptive but a creative response to changing environment. (…) All this is within the general mechanism of economic life as described by our model. But no new social, cultural, spiritual world had to emerge in order to make it possible." (pp. 228-229)

[6] Even if it is not the goal of this review to offer a detailed image on Schumpeter's three-cycle scheme. One has to know that In Business Cycles, he pointed out that even if the logical approach on innovation effects imply irregularity, there are cyclical regularities which 'produce cycles of respectively somewhat less than 60 years [Kondratieff], somewhat less than 10 years[Juglar], and somewhat less than 40 months [Kitchen]' (Schumpeter, 1939: 174).

[7] In relation to these aspects were published some of the main critics on Schumpeter's *Business Cycles*. See the final part of this review for more details.

The final part of the first volume presents two analytical examples of long cycles (Kondratieff) from 1787 to 1842 and from 1843 to 1913. The first Kondratieff cycle is the first for which Schumpeter considered that there were ‘reasonably’ statistical data for conducting his analysis. In this (criticized) applicative approach on his cyclical perspective, Schumpeter discusses the importance of several innovations from the textile, railroad construction, electricity and automobile industries. These examples are analyzed in the framework provided by the economic system. Looking at the profile of small-scale entrepreneurs at the beginning of the 20th century, Schumpeter noted that:

> “(…) the entrepreneur who was his own engineer, buyer, salesman, personnel manager, efficiency expert – counted for so much in one of the most conspicuously successful fields. It is important to visualize the type, to put him side by side with the railroad promotor and to realize that both, and all that comes between them, enter into our concept of the entrepreneur.” (p. 357)

The second volume of *Business Cycles* adds new elements to this complex approach on the evolution of the economy. Firstly, Schumpeter builds a detailed analytical framework taking into account elements such as price level, employment, expenditure, wages, rate of interest as well as central market and stock exchange. Secondly, all these elements and many others are employed in a massive comparative analysis of Germany, the United Kingdom and the United States. Economic history and economic theory are combined for illustrating how innovation shaped the postwar evolution in each of these specific contexts. Without going further into details, we can point out that this will represent a fascinating reading for those interested in seeing how private and public initiatives were combined in structuring the economic realm in these economies. Practically, innovation and entrepreneurship were spreading within various industries including motorcars, aviation, chemical, rayon, food, drink etc., but each of these economies has developed in its own logic. To take only one final example from the book, we can see that during the ‘Industrial Revolution’ of the Twenties.

> “ (…) in Germany, the term of Rationalization was used more commonly than it was used anywhere else (…) it also expresses the gist of what we mean by downgrade developments: exploitation to the utmost, partly under duress, of existing possibilities of technological and organizational innovations on lines and principles established before but steadily improved in the process; revision of the whole structure of industry in quest of increased efficiency; systematic struggle with each item of the list costs – all of which is exemplified to perfection by the postwar history of all branches of German industry.” (p. 759)

Schumpeter concluded his book on *Business Cycles* with an analysis of the world crises in the three economic contexts mentioned above. The interested reader can find more about protectionism, state-directed economy as well as recovery policies discussed in the context of the Great Depression.

Taking stock of Schumpeter's *Business cycles*

The evolutionary approach to the economic system was a constant characteristic of Schumpeterian analysis. For example, the first chapter from his seminal work *The Theory of Economic Development* (first edition in 1911) was entitled 'The Circular Flow of Economic Life as Conditioned by Given Circumstances'. *Business Cycles* offers an in-depth analysis built on carefully defined theoretical concepts as well as on multiple historical facts linked to the transformation of the economic system. Designed as 'the crown of his work', Schumpeter's *Business Cycles* never became what the author intended. Even if McCraw (2007: 270) points out that most reviews were favorable, some authors attributed the relative failure of the book to the fact that Schumpeter 'was too ambitious' (Andersen, 2006: 109). Others, regarding the negative reviews received immediately after the book was published [e.g. Kingston (2006: 105) note that 'the Kuznets review[8] did serious (perhaps even terminal) damage to *Business Cycles*'].

Reflecting on the negative reviews received by Schumpeter's *Business Cycles*, Kingston (2006) emphasizes one of the factors which led to the book's failure. He points out that Schumpeter's 'theoretical model ignored institutional change, specifically *legislative* change' (Kingston, 2006: 98). In other words, one has to pay attention to the institutional framework to understand how the innovation is clustered (technologies and ways of doing business are both in relation to the legal framework) and the evolution of the economic system. In his critical approach to *Business Cycles,* he takes, point by point, each Kondratieff cycle analyzed by Schumpeter and re-evaluates it from a perspective focused on legislative change. In the final part of the paper, he adds two new, long cycles to the scheme, and, in his view, these are linked to globalization. In brief, Kingston considers that Schumpeter's systematic lack of interest in legislative and institutional change devalued the importance of *Business Cycles*.

In a response to Kingston's article, Andersen (2006: 108) notes that '*Cycles* fully recognized the role of institutions, whether embodied in law or not. (…) However, as any analyst, he had to define the boundary of the system under study. In *Cycles*, most of law happened to be outside the analytical boundary (…).' From this perspective, Schumpeter's model of explaining the evolution of the economic system is not culpable because it was deliberately meant to be focused only on endogenous factors. At the same time, this author carefully looks at *Business Cycles* as part of an entire system of thought which pays attention to the institutional framework of other parts (e.g., in *Capitalism, Socialism and Democracy*), and emphasizes that 'if we want to understand Schumpeter's work, we must understand it as a whole' (Andersen, 2006: 115).

Some of the main ideas of *Business Cycles* are not original. Kurz (2015) presents solid arguments about similarities and differences between Schumpeter's and

[8] The negative review published in the *American Economic Review* by Simon Kuznets in 1940 is famous within the circle of scholars interested in Schumpeter's work. Anderson (2006: 108) notes that 'Kuznets was hardly an unbiased reviewer' and that from this point of view his paper has to be treated with some cautiousness. She further adds that 'Mark Perlman (2001) has shown that Kuznets had been criticizing Schumpeter from his early studies in Russia (…)' (Anderson, 2006: 109).

Spiethoff's[9] visions of business cycles and the role played by endogeneity in changing the economic system. The author also noted that both were anticipated by other scholars, but, in a Schumpeterian fashion, he pointed out that 'while each and every idea put forward by Spiethoff and Schumpeter had its (often many) precursors, it is the particular blend of them that matters and defines the specificity and original novelty of the two authors' respective contributions. What matters are new combinations of re-configured old ideas' (Kurz, 2015: 159). Some other scholars are more generous in evaluating the originality and importance of Schumpeter's theory of business cycles and emphasized that his work offered an 'answer to the question of how to integrate innovation with the study of business cycles' (Festre, 2002: 36).

Business Cycles, with 'an architecture as complex as that of a gothic cathedral' (Andersen, 2006: 110), definitely represents a valuable and challenging reading for scholars interested in entrepreneurship and innovation. Here, we can see the importance attributed by Schumpeter to the entrepreneur, and this can be understood as part of an evolutionary system. At the same time, the book constitutes an essential piece in the Schumpeterian approach on the evolution of capitalism which is considered as a solid foundation for his famous *Capitalism, Socialism and Democracy*. We think of no better conclusion for this review on *Business Cycles* than Schumpeter's own words from expressed at a Harvard seminar organized for discussing the book: 'Whether you agree or disagree is up to you, but I wish you would at least have read it.' (Schumpeter apud. McCraw, 2007: 271). Hopefully, this review will constitute a stimulus for reading such an exceptional work.

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[9] Arthur Spiethoff was a German economist who made significant contributions to the understanding of economic crises and business cycles and who was labelled as 'the towering figure of the younger German Historical School in Berlin' (Kurz, 2015: 148). His life crossed with Schumpeter at an early moment of their life and Kurz (2015: 150) notes that 'Spiethoff was Schumpeter's saviour and can be said to have become a substitute for his father' mainly due to his role in the Schumpeter's return to academia.

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