Foreword

Economics is a study that consciously, but usually unconsciously, devotes a very large amount of time to recovering the ideas of past thinkers. This is because economists spend too much time in ignorance of what Keynes called ‘the history of opinion’ that, in his view, ‘is a necessary preliminary to the emancipation of the mind’. In the so-called ‘mainstream’, technique and current events distract from the systematic consideration of theory that is necessary to give substance to technique, and illuminate current events. At the same time, with distinguished exceptions, heterodox economists, affixed to their respective schools of thought, tend to disengage from ideas or theoretical history that they find uncongenial or just boring, while immersing themselves in the minutiae of past opinion that accords with their preferences. Thus many economists astonish themselves, and their ignorant fellows, with insights of spurious originality, rediscovering the ideas of forgotten thinkers, often never realizing that their ‘discovery’ may in fact be found in the works of some ‘defunct economist’.

Schumpeter and Kalecki represent contrasting approaches to ‘the history of opinion’ in economics. Both stand out as seminal figures in twentieth-century economics. But they could not be more different. Schumpeter seems to have read everything in economics and tried to synthesize it all. At the other extreme, Kalecki read only what was necessary to develop his next idea. However, his extraordinary ability to identify and think through the central economic problems of his (and our) time produced a body of theory in which elements of previous ideas may be found (most notably, Marxian political economy, or even the monetary doctrines of the nineteenth-century Banking School), but whose substance, structure and insights remain deeply original.

In their theoretical work, Schumpeter and Kalecki had in common a preoccupation with the business cycle as a process involving change in markets that was both an approach to applied economics, in the sense of the study of particular conjunctures in markets, and an explanation of how these conjunctures succeed each other through time. (The German word *konjunktur* really has no equivalent in the English language, and English language economics is impoverished by its absence). For both of them the theory is supposed to show how one market conjuncture gives way to another one, in a manner that is not possible in general equilibrium theory, whose theorists have to resort to 'shocks' or changes in taste and technology to recreate change in their analysis.

Schumpeter and Kalecki, however, differed in their approach to the business cycle. Schumpeter, in his classic 1939 study *Business Cycles*, portrays them as statistical phenomena driven by supply or stock adjustments, investment in fixed capital and, in the case of the longest business cycles, technological change. Kalecki, however, while accepting that technological change may affect long-term trends in the economy, was sceptical of a systematic connection between new technologies becoming available and investment and growth. Behind these differences lay a fundamental divergence between the two theorists over their respective visions of the driving force behind capitalist development. For Schumpeter it was the personality of the entrepreneur, seized with the commercial possibilities of new technology, who then raises capital to realize those possibilities. Emulation by more timid capitalists sets off a long boom of investment in new equipment. Kalecki, the son of a failed industrial capitalist, had fewer illusions about the ability of the capital market to supply finance for such imaginative entrepreneurs. In his view, the ownership of capital is the precondition for becoming an entrepreneur – hence his view that only under socialism can there be systematic investment in new technology. For Kalecki, capitalism is driven not by personalities, but by firms with balance sheets, calculating the liquidity and profitability of those balance sheets.

The two theorists also diverged in their view of business organizations and how these would approach new technological possibilities. Schumpeter believed that large corporations would invest in new technology with greater financial security. Kalecki was more sceptical because he thought large firms would be inhibited in their investment in new technology by unused capacity in their existing productive equipment. After Kalecki's death, his friend, Josef Steindl, working within the framework of the Kalecki business theory, came to realize that the notion that new technology merely determined the technology embodied in new industrial investment, was not really tenable. To some extent, innovations in technology affect the amount of investment that firms are willing to undertake, given firms' calculations about their respective liquidity and profitability.

Reflection on the 'history of opinion', and its application to our contemporary world and controversies over technology and our environmental difficulties, is the distinguishing feature of the thoughtful economist. If the reader of this book is moved to reflect on the work of Schumpeter and Kalecki, the author of this book will have succeeded. Even more important than this, if the reader of this book comes to a changed and deeper understanding of how technology changes in our faltering capitalist economies, and of how the environment is affected by production and may be improved with better ways of satisfying our personal and productive needs, then the author will have done an even greater service to his profession and humanity.

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The world economy is undergoing one of its periodic crises of structural change. Symptoms include the meltdown of the US subprime mortgage market, the collapse of Lehman Brothers, the bankruptcy of General Motors and austerity regimes of unprecedented magnitude in Europe and elsewhere. At the same time there are repeated warnings of impending ecological disaster due to climate change. Why are these things happening and, more importantly, what can be done to achieve stability and sustainability?

Jerry Courvisanos provides us with a timely analysis of the forces behind the crises of capitalism and the tendency towards ecologically unsustainable growth. He draws on the work of two of the most creative, if not most recognized, economists of the twentieth century, Michał Kalecki and Joseph Schumpeter. In place of mainstream analysis with its emphasis on marginal conditions for optimization around well-defined equilibrium, we have a world of innovation, structural change, creative destruction, business cycles, financial crises, changing income distribution and many other inconvenient developments that plague modern economies.

Courvisanos takes the work of Kalecki and Schumpeter forward into the twenty-first century by incorporating the impact of the information and communication technology revolution, the rise of the high-tech service economy, the extension of globalization and the increasing rate of destruction of the ecosystem among other features of structural change in the world economy. What emerges is an analysis that points to the centrality of the use and abuse of power in shaping the future. Courvisanos thus concludes that tackling the problems of the present and preparing for the future requires a political economy perspective that is lacking in the discussion of short-term palliatives in mainstream economics.

In addition to shifting towards a political economy approach, Courvisanos argues there is need for a methodology that has a critical realist focus, examining the real social world as it negotiates an open system of social structures and agents. With this approach and method, Courvisanos then examines the innovation process in its various institutional settings from individual small entrepreneurs, to publicly funded science research, and then on to intrapreneurship (entrepreneurship within the large and complex corporation). The political economy dimension clearly emerges through the influence of business cycles, infrastructure, and industry policy. In the final chapter, there emerges a blueprint for dealing with ecological sustainable development, regional disparities, technological obsolescence and complexity.

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