Innovation and monopoly: The position of Schumpeter

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THE SCHUMPETERIAN THEORY: INTRODUCTION

The capitalistic economy it is a dynamic process, in which able leaders operate to develop innovation, that they allow to increase the market shares and to enjoy temporary monopolistic profits: such perspective is the greater incentive to the development of the innovation (Schumpeter 1934).
In the contemporary economic literature makes reference to the schumpeterian hypothesis referring to the existing correlation between being able of market and innovative ability to the enterprise. (Hammond 1984)
The Schumpeterian hypothesis tells us that there is a close relationship between innovation and market structure: only companies that have market power, at the best the monopolist, can support the costs related to innovation, indeed, is the innovation itself determines that a monopoly position, the defense of which brings further innovation a virtuous circle.
In fact, once a company, through innovation, achieves a monopoly position, tends to reinforce this position, controlling and extending the period of benefit due to agreements with innovation and patents. Therefore, only the large firms are induced to seek innovation to increase and strengthen its market power, which is why the monopoly is more rewarding for the purpose of economic growth compared to the competitive market. (Schumpeter 1942)
The creative destruction, highly creative entrepreneur and innovator, change the static equilibrium of the market and promotes the opening of new scenarios: this entrepreneur innovator, who manages to provide a product or a new process, it can operate for a period of time under conditions of monopoly making extra profits.
In standard growth model of creative destruction growth is stimulated by technical progress, which consists of product innovations and process. (Caballero, Jaffe 1993). Any innovations, in fact, introduces a qualitative improvement and/o a decrease in cost of production, and this is the necessary condition for the next innovation

At every stage of the innovation process, the innovative entrepreneur of success exploits the competitive advantage and monopolize the market. (Anhion, Howitt, 1996) In other words, Schumpeter contradicts the position of the classical economists according to which competition stimulates performance, arguing that the prospect of achieving a monopoly rent induces firms to invest in R & D and promotes, as well, dynamic efficiency, i.e. ability of the economic system to generate innovation. (Schumpeter 1934)

By extending the interpretation of the initial positions of Schumpeter it can get to support that innovation is the only factor that allows the firm to exit the competitive balance of long period, where the profit is zero, obtaining temporary monopoly positions.

In the 1940s Schumpeter partially change its positions, going to argue that the monopoly created by innovation tends to be transitory, but permanent, as businesses are encouraged to strengthen its monopolistic position, controlling the innovative application with oligopolistic arrangements, and/or patent protection and other barriers to entry. In addition, through the internalization of the research activity, generate further innovation that excludes others from access to technology.(Malerba 2000)

In other words, the monopoly encourages innovation and provides the ability to implement dynamic efficiency: that this condition is more rewarding favors for economic development when compared to static efficiency of perfect competition. Ultimately, according to the approach of creative destruction, dynamic efficiency is highest with a competitive market ' dynamic ' where, at least in the short run, the entrepreneur has market power.(Basile 2001)

INNOVATION AND PROFIT

When you decide to tackle the risk inherent in the introduction of a new production process, it proceeds in the idea that the entrepreneur can rely, at least for a short period of time, on obtaining a extraprofit before the imitators ' reach ' : in other words, boost innovation derives from the existence of rigidities which slow down the spread of new technologies; delete such rigidity is tantamount to destroying every incentive to innovate.(Schumpeter 1949).

It is precisely the competitive dynamics of the process of 'creative destruction' that is lost when the innovation is reduced to a routine process. In this regard, Schumpeter argues that the profit is attributable to the normal return of a factor of production, but it is a premium paid transitional entrepreneur innovator award that 'disappeared' occurs when the effect of imitation. (Roncaglia, 1987)

FINANCING AND INNOVATION

It is not disputed the fact that research is a source of economic growth: empirical studies also show a high correlation between the extent of expenditure on research and development and productivity growth. (Gilbert, 2006). This is where you insert the Schumpeterian position that research, necessitating large amounts of capital can best be conducted by companies that have, or may enjoy with the innovation, market power.

Innovation produces profits and surplus remain unchanged until the contractor maintains a monopoly position, in other words, the temporary monopoly of the firm exists and is a cause and effect of innovation. (Chaitram,)

When you define a new method of production, for example, the aim is to reduce the unit cost of production, maximizing output: this is especially true if you think the manufacturing sector where, unlike in the agricultural sector, there exists the possibility to expand production through the Division of labour, thereby increasing scale efficiencies.(Schumpeter 1964)

A cumulative process of concentration of market power at enterprises continually at the forefront in technological change can be an element which promotes the financing innovations arising from internal sources, as mentioned, but also from sources from the banking system, prone to finance enterprises large and solid.(Sylos Labini, 1970). Moreover, if we admit the possibility of financing with internal resources, innovations and if we consider the financial market is not perfectly competitive, since it is less costly internal financing than outside, we can get to argue that market power can be a decisive element for the realization of innovation and, therefore, to consolidate in time a position of competitive advantage.

INNOVATION AND MARKET STRUCTURE,

There are at least three aspects of Schumpeter's thoughts that make us understand how the shape of the market is essential for the development process (Schumpeter 1984)

-the dynamic nature of the competitive process, which the author explicitly opposed to the static conception of competition developed by traditional marginalist theory

-the dynamic nature of market imperfections: these arise from the fact that the person who first introduces an innovationfor some time may be able to control it hindering the spread

-the transitional nature of market imperfections

In line with what argued, Schumpeter is strongly hostile to antitrust policies, involving an ideological attitude towards hate an essential quality of entrepreneur innovator, i.e. its ability to evade, albeit temporarily, the competition through innovation.(Egidi 1981)

The essence of the entrepreneur finds himself in search of new: only the profit that derives from innovation is the real benefit that it is for the entrepreneur. For this reason the incentive to innovation must come from a timely protection of same through patents and other similar rights in order to push the subject to address the risk of significant investment that requires research. In particular, the strength of protection of intellectual property, determines the extent of the exploitation of the potential of the discovery by the inventor. Patent protection, therefore, essential to promote innovation, although this does not guarantee a pension is perpetual, and increases forever, the common heritage of knowledge.(Bronwyn, Ziedonis, 2001)

We can go so far as to argue that to achieve the benefits associated with optimal firm size in order to encourage innovation, we should set up policies that promote the development of an industrial structure that fosters the creation of large ensembles, such as policies to support mergers.

An element in support of the schumpeterianb thesis lies in the fact that large firm, or they can rely on significant market power, are more likely to support investments in R&D through self-financing (Kamien Schwatrz, 1982), resulting from extraprofit who perform compared to firm operating in perfect competition, and through easier access to alternative channels of financing from third parties.(Cohen, Levin, 1989)

Recently, the model Dasgupta - Stiglitz, in accordance with the Schumpeterian view, argues that imperfect competition promotes technological progress: the research, in fact, is greatest in more concentrated markets, where large companies compete to grab the patent application, also because large firms can more quickly than others to turn innovation into product. (Dasgupa and Stiglitz, 1980)

Still, Nelson-Winter model, used to study the relationship between progress and the market structure, confirms the hypothesis schumpeteriana that the market structure is not only cause, but also effect of innovative phenomenon. In a nutshell, the model in question arrives that the rate of productivity growth latent, the difficulty to imitate and the uncertainty of the results of innovation activity, affect the structure of the market. The model confirms the hypothesis that a given market structure is not only because of a high rate of innovation, but it is also a consequence of successful innovations. The model tells us that innovation is a cumulative process that requires intense interaction and that, therefore, it is more efficient if it develops within the same organization (for example a single company) or a highly concentrated network (an oligopolistic market).(Nelson and Winter, 1982)

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