

The “Somewhat Optimal” Attributes of Capitalist Growth: Oligopolistic Competition and Routinization of Innovation

innovations are rarely the dramatic breakthroughs that Schumpeter may have had in mind but rather small improvements in a new process or product in which genuine novelty and imitation-with-a-difference shade imperceptibly into one another.

—Blaug, 1999, p. 110

It is something of a puzzle, therefore, why the capitalist innovation system has performed so well. There certainly is nothing like the twin theorems of welfare economics around to support an argument that capitalism “can’t be beat.”

—Nelson, 1996, pp. 54–55

The phrase “somewhat optimal” appears to be an oxymoron, but actually describes the growth processes of capitalism effectively. Indeed, there is no foundation for a claim that free-enterprise economies automatically tend to satisfy the requirements of ideal economic efficiency in the growth process. Yet there are substantial reasons to conclude that the patently extraordinary growth record of the free-enterprise form of economic organization is hardly accidental, and that it is in large part attributable to the pressures of the free market upon the business firm, which force it to spend liberally and continually on the innovation process and to make its innovations available to others if those others are willing to pay an attractive price. Moreover, I will argue that the capitalist growth mechanism has welfare properties far more desirable than the literature of economics seems hitherto to have suggested.