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Journal of Small Business Management ›

Volume 51, 2013 - Issue 2

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Neo-Marshellian Equilibrium versus Schumpeterian Creative Destruction: Its Impact on Business Research and Economic Policy

Bruce A. Kirchhoff, Jonathan D. Linton & Steven T. Walsh

Pages 159-166 | Published online: 19 Nov 2019

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Abstract

A cold war exists in faculties of business and economics. It is fought between the neo-Marshellians that advocate the elegant simplifying assumption of equilibrium and the Schumpeterians that believe that economic growth is driven by the recognition of new opportunities and the capture of associated benefits through innovation. This fundamental disagreement is referred to as a cold war because the battles are fought indirectly with discussions of wealth transfer (instead of wealth creation), big firms versus small firms (instead of innovative firms versus noninnovative), and stability and

managed earnings versus Sarbanes-Oxley and full disclosure. This note points out that this conflict does in fact exist and then provides a review of the literature and support for the Schumpeterian position as it relates to small business and associated economic policy. The literature is provided by one of the pioneers in this field, Professor Bruce Kirchhoff, as his last direct contribution to the field that he championed for decades.

Additional information

Notes on contributors

Bruce A. Kirchhoff

Bruce A. Kirchhoff was a Distinguished Professor at New Jersey Institute of Technology, School of Management, University Heights.

Jonathan D. Linton

Jonathan D. Linton is the Power Corporation Professor for the Management of Technological Enterprises at University of Ottawa.

Steven T. Walsh

Steven T. Walsh is the Regents Professor, Anderson School of Management at University of New Mexico.

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Stuart L. Hart
Research-Technology Management
Published online: 22 Dec 2015

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