Summary

The overall effect of market structure on innovation is complex. Theory has generally supported Schumpeter's hypotheses. The empirical evidence in favor of Schumpeterian innovation dynamics, on the other hand, is weak. The relationship most likely depends on the characteristics of the industry under consideration (particularly the number of firms in the market and the level and availability of technology). Geroski(1990) has stated that the role of rivalry in stimulating innovation is considerable but is nowhere near as important as that of technological opportunity. Monopolists are capable of doing this due to higher profits and the ability to feed off past innovations. The benefits are offset by the possible negative effects of social welfare loss to consumers and the squeezing out of competitors; problems that are avoided in a competitive market. Institutions and government policy are significant. Technological change and productivity growth has been known to occur more freely when the government sets a favorable climate for change.