The Economist

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Dear Loeb Judges,

Since it was started in 2010, *The Economist*'s Schumpeter column has been required reading for CEOs, management gurus, politicians, students, and indeed anyone with an interest in business and how it shapes our world.

The column, which since its inception until the end of 2016 was written by Adrian Wooldridge, ranges widely over the entire landscape of business. It takes a scalpel to business theory, separating the sense from the nonsense, the analysis from the hoopla. It provides portraits of great business leaders and business organisations. It shows how management ideas can revitalise (or retard) government. It pokes fun at fads from open plan offices to happiness consultants.

The column is relentlessly global in scope, which makes it required reading across the world: columns take you from the campuses of giant Western corporations to the back streets of Calcutta to the boardrooms of Swedish public hospitals. It demonstrates the truth of Joseph Schumpeter's great theory: that business people are heroes who can summon up vast business empires from thin air with the sheer force of ideas and will. But it also shows that some of these business heroes have feet of clay.

Too much business writing is worthy and long-winded. The Schumpeter column is the opposite: week in and week out it captures the essence of a topical business problem in a mere thousand words. It wears its learning lightly yet is the product of prodigious reading and travel. It expresses its opinions trenchantly yet is always backed up by rigorous analysis. And it manages to make the often leaden world of business sparkle with wit. Elegantly written, sharply observed, strongly opinionated, Schumpeter is the best sort of business column, required reading that you can actually look forward to.
I'd be grateful if you would consider it for a Loeb Award.

Yours sincerely,

Zanny Minton Beddoes
Editor-in-chief
The Economist

The Economist

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Names of journalists:
Adrian Wooldridge

Schumpeter | Out with the old

Management theory is becoming a compendium of dead ideas

NEXT year marks the 500th anniversary of the event which, more than any other, gave birth to the modern world: Martin Luther promulgated his 95 theses and called the Catholic church to account for its numerous theological errors and institutional sins. Revisionist historians have inevitably complicated the story (including questioning whether he did actually nail his proposals to the door of All Saints' Church in Wittenberg) but the narrative remains clear. The church was ripe for change. It was sunk in corruption and divorced from the wider life of society. And by unleashing that change, Luther brought the Christian faith, including Roman Catholicism itself, a new lease of life.

The similarities between medieval Christianity and the world of management theory may not be obvious, but seek and ye shall find. Management theorists sanctify capitalism in much the same way that clergymen of yore sanctified feudalism. Business schools are the cathedrals of capitalism. Consultants are its travelling friars. Just as the clergy in the Middle Ages spoke in Latin to give their words an air of authority, management theorists speak in mumbo-jumbo. The medieval clergy's sale of indulgences, by which believers could effectively buy forgiveness of their sins, is echoed by management theorists selling fads that will solve all your business problems. Lately, another similarity has emerged. The gurus have lost touch with the world they seek to rule. Management theory is ripe for a Reformation of its own.

Management theories are organised around four basic ideas, repeated ad nauseam in every business book you read or business conference you attend, that bear almost no relation to reality. The first idea is that business is more competitive than ever. Skim popular titles such as "The End of Competitive Advantage" (by Rita Gunther McGrath) or "The Attacker's Advantage" (by Ram Charan) and you will be left with the impression of a hyper-competitive world in which established giants are constantly being felled by the forces of disruption.

A glance at the numbers (or indeed a trip on America's increasingly oligopolistic airlines) should be enough to expose this as fiction. The most striking business trend today is not competition but consolidation. The years since 2008 have seen one of the biggest-ever bull markets in mergers and acquisitions, with an average of 30,000 deals a year worth 3% of GDP. Consolidation is particularly advanced in America, says a report in 2016 by the Council of Economic Advisers, which also showed how companies engaged in consolidation are enjoying record profits. Technology is high on the list of industries that are concentrating. In the 1990s Silicon Valley was a playground for startups. It is now the fief of a handful of behemoths.

A second, and related, dead idea is that we live in an age of entrepreneurialism. Gurus including Peter Drucker and Tom Peters have long preached the virtues of enterprise. Governments have tried to encourage it as an offset to the anticipated decline of big companies. The evidence tells a different story. In America the rate of business creation has declined since the late 1970s. In some recent years more companies died than were born. In Europe high-growth ones are still rare and most startups stay small, in part because tax systems punish outfits that employ above a certain number of workers, and also because entrepreneurs care more about work-life balance than growth for its own sake. A large number of businesspeople who were drawn in by the cult of entrepreneurship encountered only failure and now eke out marginal existences with little provision for their old age.

The theorists' third ruling idea is that business is getting faster. There is some truth in this. Internet firms can acquire hundreds of millions of customers in a few years. But in some ways this is less impressive than earlier roll-outs: well over half of American households had motor cars just two decades after Henry Ford introduced the first moving assembly line in 1913. And in many respects business is slowing down. Firms often waste months or years checking decisions with various departments (audit, legal, compliance, privacy and so on) or dealing with governments' ever-expanding bureaucracies. The internet takes away with one hand what it gives with the other. Now that it is so easy to acquire information and consult with everybody (including suppliers and customers), organisations frequently dither endlessly.

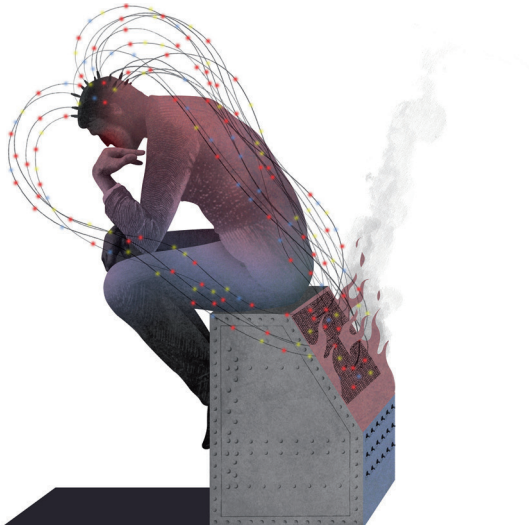
Flat Earth society

A fourth wrong notion is that globalisation is both inevitable and irreversible—the product of technological forces that mere human decisions cannot reverse. This has been repeated in a succession of bestselling books—most notably Thomas Friedman's "The World is Flat" of 2005—and propagated in corporate advertising such as HSBC's "The World's Local Bank" campaign. But a look at history shows that it is nonsense. In 1880-1914 the world was in many ways just as globalised as it is today; it still fell victim to war and autarky. Today globalisation shows signs of going into reverse. Donald Trump preaches muscular American nationalism and threatens China with tariffs. Britain is disentangling itself from the European Union. The more far-sighted multinationals are preparing for an increasingly nationalist future.

The backlash against globalisation points to a glaring underlying weakness of management theory: its naivety about politics. Modern management orthodoxies were forged in the era from 1980 to 2008, when liberalism was in the ascendant and middle-of-the-road politicians were willing to sign up to global rules. But today's world is very different. Productivity growth is dismal in the West, companies are fusing at a furious rate, entrepreneurialism is stuttering, populism is on the rise and the old rules of business are being torn up. Management theorists need to examine their church with the same clear-eyed iconoclasm with which Luther examined his. Otherwise they risk being exposed as just so many overpaid peddlers of dead ideas. ■

Schumpeter | The collaboration curse

The fashion for making employees collaborate has gone too far



IN MODERN business, collaboration is next to godliness. Firms shove their staff into open-plan offices to encourage serendipitous encounters. Managers oblige their underlings to add new collaborative tools such as Slack and Chatter to existing ones such as e-mail and telephones. Management thinkers urge workers to be good corporate citizens and help each other out all the time.

The fashion for collaboration makes some sense. The point of organisations is that people can achieve things collectively that they cannot achieve individually. Talking to your colleagues can spark valuable insights. Mixing with people from different departments can be useful. But this hardly justifies forcing people to share large noisy spaces or bombarding them with electronic messages. Oddly, the cult of collaboration has reached its apogee in the very arena where the value of uninterrupted concentration is at its height: knowledge work. Open-plan offices have become near-ubiquitous in knowledge-intensive companies. Facebook has built what is said to be the world's biggest such open space, of 430,000 square feet (40,000 square metres), for its workers.

Hitherto, knowledge workers have largely suffered in silence or grumbled in private because their chances of promotion have come to be influenced by their willingness to collaborate. But a backlash is setting in: the current *Harvard Business Review (HBR)* has a cover story on "collaborative overload"; and Cal Newport of Georgetown University has just brought out a book called "Deep Work: Rules for Focused Success in a Distracted World".

A growing body of academic evidence demonstrates just how serious the problem is. Gloria Mark of the University of California, Irvine, discovered that interruptions, even short ones, increase the total time required to complete a task by a significant amount. A succession of studies have shown that multitasking reduces the quality of work as well as dragging it out. Sophie Leroy of the University of Minnesota has added an interesting twist to this argument: jumping rapidly from one task to another also reduces efficiency because of something she calls "attention residue". The mind continues to think about the old task even as it jumps to a new one.

A second objection is that, whereas managers may notice the benefits of collaboration, they fail to measure its costs. Rob Cross and Peter Gray of the University of Virginia's business school estimate that knowledge workers spend 70-85% of their time attending meetings (virtual or face-to-face), dealing with e-mail, talking on the phone or otherwise dealing with an avalanche of requests for input or advice. Many employees are spending so much time interacting that they have to do much of their work when they get home at night. Tom Cochran, a former chief technology officer of Atlantic Media, calculated that the midsized firm was spending more than $1m a year on processing e-mails, with each one costing on average around 95 cents in labour costs. "A free and frictionless method of communication," he notes, has "soft costs equivalent to procuring a small company Learjet."

Mark Bolino of the University of Oklahoma points to a hidden cost of collaboration. Some employees are such enthusiastic collaborators that they are asked to weigh in on every issue. But it does not take long for top collaborators to become bottlenecks: nothing happens until they have had their say—and they have their say on lots of subjects that are outside their competence.

The biggest problem with collaboration is that it makes what Mr Newport calls "deep work" difficult, if not impossible. Deep work is the killer app of the knowledge economy: it is only by concentrating intensely that you can master a difficult discipline or solve a demanding problem. Many of the most productive knowledge workers go out of their way to avoid meetings and unplug electronic distractions. Peter Drucker, a management thinker, argued that you can do real work or go to meetings but you cannot do both. Jonathan Franzen, an author, unplugs from the internet when he is writing. Donald Knuth, a computer scientist, refuses to use e-mail on the ground that his job is to be "on the bottom of things" rather than "on top of things". Richard Feynman, a legendary physicist, extolled the virtues of "active irresponsibility" when it came to taking part in academic meetings.

What gets measured…

Why have organisations been so naive about collaboration? One reason is that collaboration is much easier to measure than "deep work": any fool can record how many people post messages on Slack or speak up in meetings, whereas it can take years to discover whether somebody who is sitting alone in an office is producing a breakthrough or twiddling his thumbs. The more junior the knowledge worker is, the more likely he is to spend his time doing things that are easy to measure rather than engaging in more demanding but nebulous work. A second reason is that managers often feel obliged to be seen to manage: left to their own devices they automatically fill everybody's days with meetings and memos rather than letting them get on with their work.

What can be done to restore balance in a world gone collaboration-mad? Few people have the freedom of a Franzen or a Feynman to unplug themselves from the world. But employees—particularly young ones—need to recognise the long-term costs of working in a constant state of distraction. The *HBR* article points out that there is an overlap of only 50% between "the top collaborative contributors in any organisation and those individuals deemed to be the top performers." About 20% of company stars keep themselves to themselves. So organisations need to do more to recognise that the amount of time workers have available is finite, that every request to attend a meeting or engage in an internet discussion leaves less time for focused work and that seemingly small demands on people's time can quickly compound into big demands. Helping people to collaborate is a wonderful thing. Giving them the time to think is even better. ■

Schumpeter | Shhhh!

Companies would benefit from helping introverts to thrive

MOST companies worry about discriminating against their employees on the basis of race, gender or sexual preference. But they give little thought to their shabby treatment of introverts. Carl Jung spotted the distinction between introverts and extroverts in 1921. Psychometric tests such as the Myers-Briggs Type Indicator consistently show that introverts make up between a third and a half of the population. Susan Cain's book on their plight, "Quiet: The Power of Introverts in a World that Can't Stop Talking", has sold more than 2m copies; the TED talk based on the book has been viewed just over 14m times. And yet, if anything, the corporate approach to introverts has been getting worse.

The biggest culprit is the fashion for open-plan offices and so-called "group work". Companies rightly think that the elixir of growth in a world where computers can do much of the grunt work is innovation. But they wrongly conclude that the best way to encourage creativity is to knock down office walls and to hold incessant meetings. This is ill-judged for a number of reasons. It rests on a trite analogy between intellectual and physical barriers between people. It ignores the fact that noise and interruptions make it harder to concentrate. And companies too often forget that whereas extroverts gain energy from other people, introverts need time on their own to recharge.

The recent fashion for hyper-connectedness also reinforces an ancient prejudice against introverts when it comes to promotion. Many companies unconsciously identify leadership skills with extroversion—that is, a willingness to project the ego, press the flesh and prattle on in public. This suggests that Donald Trump is the *beau idéal* of a great manager. Yet in his book "Good to Great", Jim Collins, a management guru, suggests that the chief executives who stay longest at the top of their industries tend to be quiet and self-effacing types. They are people who put their companies above their egos and frequently blend into the background.

Many of the most successful founders and chief executives in the technology industry, such as Bill Gates of Microsoft, and Mark Zuckerberg of Facebook, are introverts who might have floundered in the extroverted culture of IBM, with its company songs and strong emphasis on team-bonding. In penalising other people like them, firms are passing over or sidelining potential leaders. At all levels of company hierarchies, that means failing to take full advantage of employees' abilities.

What can companies do to make life better for introverts? At the very least, managers should provide private office space and quiet areas where they can recharge. Firms need to recognise that introverts bring distinctive skills to their jobs. They may talk less in meetings, but they tend to put more thought into what they say. Leaders should look at their organisations through the introverts' eyes. Does the company hold large meetings where the loudest voices prevail? That means that it is marginalising introverts. Does it select recruits mainly on the basis of how they acquit themselves in interviews? That could be blinding it to people who dislike performing in public.

Some of the cleverest companies are beginning to look at these problems. Amazon has radically overhauled its meetings to make them more focused. Every meeting begins in silence. Those attending must read a six-page memo on the subject of the meeting before they open their mouths. This shifts the emphasis from people's behaviour in the meeting to focused discussion of the memo's contents. Google has downplayed the importance of interviews in recruiting and put more emphasis on candidates' ability to carry out tasks like the ones that they will have to do at the firm, such as writing code or solving technical problems.

Managers cannot be on top of the very latest research on personality types. Nonetheless, they should pay more attention to the way that groups of people interact when it comes to designing teams. One study that looked at operations lower down an organisation shows that extroverts are better at managing workers if the employees are just expected to carry out orders, but those who tend towards introversion are better if the workers are expected to think for themselves.

Extrovert five times a day

Introverts must also work harder at adapting to corporate life, since work is essentially social. They could communicate over the keyboard rather than in meetings, or by arranging smaller gatherings rather than rejecting them altogether. This is important for climbing the ladder. Karl Moore of McGill University in Montreal, who has asked over 200 CEOs about introversion on the radio show he hosts, says that introverts who make it to the top usually learn how to behave like extroverts for some of the time. Claude Mongeau, the former CEO of Canadian National Railway, for example, set himself the goal of acting like an extrovert five times a day. In any case, the majority of people are on a spectrum of introversion to extroversion. Mr Moore thinks that quieter people can make as much impact as full extroverts, if they give themselves time to recharge. He sets his students the task of "networking like an introvert" or "networking like an extrovert" to broaden their perspectives.

In "Quiet", Ms Cain concludes that business has long been dominated by an "extrovert ideal", thanks to a succession of corporate fashions—whether the 1950s model of the "organisation man", who thrived by asserting himself in meetings and inside teams, or today's fad for constant communication. Fortunately, some trends do now push in the other direction. The field of technology, an industry where introverts are common, has made it easier for everyone to communicate at a distance. The aim of enlightened management is not to tilt an extrovert-oriented company rapidly towards the introverts. It is to create a new kind of firm, in which introverts, extroverts and all the in-betweeners are equally likely to flourish. Call it the ambivert organisation. ■

Schumpeter | Mafia management

The crime families of Naples are remarkably good at business

AN EASY way to revive a flagging dinner party is to ask people to name their choice of the greatest crime show. Is it "The Wire", with its intricate portrait of Baltimore's underworld? Or "The Sopranos"? Or perhaps "Breaking Bad"? Now there is a new contender for the prize—"Gomorrah", a drama about a collection of Italian gangs known as the Camorra that run a criminal empire from their base in Naples.

"Gomorrah" has been Italy's most talked-about television series since its release two years ago. It has been sold in 50 countries and the first episode premiered on America's Sundance TV this week. The series is far darker than the other three. The gangsters aren't lovable monsters like Tony Soprano, just monsters. It is more realistic. The author of the book behind the series, Roberto Saviano, has been in hiding since the Camorra issued a death warrant against him in 2006. Filming of the series in gritty Neapolitan neighbourhoods was interrupted by local violence.

One of the most striking things about the Camorra is how good they are at business. They have taken over from the Sicilian Mafia as Italy's foremost crime syndicate, partly owing to the Italian state's move to clamp down on the Cosa Nostra from the mid-1990s. The Camorra's strategy of focusing on drugs, particularly cocaine, has also paid off. The group runs much of Europe's drug trade, including the continent's largest open-air narcotics market in Secondigliano, in the north-east of Naples.

The syndicate appears to be organised like a typical corporation, with descending levels of power. There is a top tier of senior managers who determine strategy and allocate resources; a second tier of middle managers who purchase and process the product; a third level of sales chiefs who co-ordinate distribution; and a fourth grade of street salesmen who deliver the product directly to customers. The group employs all the usual supply-chain-management methods. Its leaders source drugs from around the world (cocaine from Latin America, heroin from Afghanistan and hashish from north Africa) and make sure that alternatives are in place in case of disruption.

They do some things outstandingly well. Operating outside Italy's growth-killing labour rules, the Camorra can be fleet-footed. A loose alliance of about 115 gangs, with around 500 members each and numerous associates, they can swiftly assemble a workforce of whatever size is needed, or shift from one line of business to another in a flash. They are best-in-class when it comes to renewing talent and ideas. Whenever entrenched managers balk at moving into new markets, as the older Camorra bosses did when drugs came along in the 1980s, they are replaced by a younger generation.

Paolo Di Lauro, the former head of one of the most powerful clans, and the model for Don Pietro in "Gomorrah", is arguably one of the most innovative businesspeople Italy has produced in recent years (since 2005 he has been held in solitary confinement in a maximum-security prison). As well as co-ordinating the drug trade with Colombia, he designed the group's successful franchise system, in which it treats distributors like franchisees who are responsible for their own turf rather than as mere employees. That gives them an incentive to recruit more people as well as to shift more product.

The Camorra put their own unique spin on standard management techniques. They are experts in team-building. New recruits are initiated with quasi-religious ceremonies. Rising stars are given endearing nicknames such as *Carlucciello 'o mangiavatt* ("little Charles the cat-eater") or *Urpacchiello* (a riding crop made from dried donkey's penis). They take care of the relatives of workers who die on the job. Gang members known in their role as the "submarine" deliver money and groceries to the bereaved families on Fridays. The group's efforts at corporate social responsibility (CSR) pay off. Local people invariably take the gangsters' side during police raids, forming human barricades, pelting law enforcers with rubbish and setting fire to their cars.

True, this is CSR that comes soaked in blood rather than the usual syrup. Mr Saviano calculates that the gangs were responsible for 3,600 deaths between 1979 (when he was born) and 2006 (when he published his book). They are also responsible for a widening circle of economic devastation. The trade in drugs that swells their coffers also ruins lives. Naples, one of Italy's most enjoyable cities, would be a bigger tourist attraction if it weren't for its reputation for violent crime.

They're bigger than US Steel

The Camorra themselves pay a high price, too. The street soldiers live miserable lives, typically ending up dead, injured or in prison before they reach middle age. Those at the top are constantly on their guard against being rubbed out by rivals or arrested by the police. Many of them live in permanent hiding, either in attics or underground complexes. Mr Di Lauro's business produced turnover of €200m ($250m) a year, but he didn't exactly live large: he was a recluse, protected by steel shutters and bolted gates, and also had to spend years on the run.

Nonetheless, the syndicate thrives, in part because the rewards are so huge and in part because the alternatives are so sparse. Italy's economy has been stagnant for well over a decade. The country ranks number 45 in the World Bank's ease-of-doing-business table, with southern Italy being a particularly hostile place for legitimate enterprise. On August 22nd the heads of the euro zone's three biggest economies—Angela Merkel of Germany, François Hollande of France and Matteo Renzi of Italy—met on an island off the coast of Naples to talk about relaunching the European project. To be successful, any such plan must make it easier to create legal businesses—and thus likelier that the management genius displayed by the likes of the Camorra is directed towards the creative side of creative destruction. ■

Schumpeter | Capitalism and democracy

The West confronts a future of slow growth, social division and populist revolt

IT WAS in 1942 that Joseph Schumpeter published his only best-seller, "Capitalism, Socialism and Democracy". The book was popular for good reason. It was a tour de force of economics, history and sociology. It coined memorable phrases such as "creative destruction". But it was a notably dark book. At a time when people were looking for hope during the life-and-death struggle with Nazism, Schumpeter offered only gloom. "Can capitalism survive?" he asked. "No, I do not think it can."

This column was inspired by the young Schumpeter's vision of the businessperson as hero—the *Übermensch* who dreams up a new world and brings it into being through force of intellect and will. On its debut in September 2009, we argued that Schumpeter was a perfect icon for a business column because, unlike other economists, he focused on business leaders rather than abstract forces and factors. But as Schumpeter grew older, his vision darkened. He became increasingly preoccupied not with heroism but with bureaucratisation, and not with change but with decay. The same is true of the outgoing author of this column.

It would be going too far to echo the master and warn that capitalism cannot survive. The socialist alternative that loomed large back in 1942 has imploded. The emerging world has capitalism to thank for its escape from millennia of poverty. But in the West the problems that led Schumpeter to worry have grown. And to them are appended new difficulties that he never foresaw.

His biggest worry was that capitalism was producing its own gravediggers in the form of an anti-capitalist intelligentsia. Today that very elite, snug in Los Angeles canyons and university departments, has expanded. Hollywood studios denounce the wolves of Wall Street and the environmental vandals at large in the oil industry. The liberal sort of academic (meaning the type that favours big government) far outnumbers the conservative kind, by five to one, according to one recent study.

Another of Schumpeter's concerns was that the state activism of Roosevelt's New Deal was undermining the market. But in 1938 the American government was spending only a fifth of GDP. Today it is spending 38%—and that constitutes neoliberalism of the most laissez-faire kind compared with Italy (51% of GDP) or France (57%). Big regulation has advanced more rapidly than big government. Business is getting visibly flabbier, too. European industry has been old and unfit for years and now stodge is spreading to America. The largest firms are expanding and smaller ones are withering on the vine. The share of American companies that are 11 years old or over rose from a third in 1987 to almost half in 2012.

There is nothing necessarily bad about this. One of Schumpeter's great insights, from his later years, was that big firms can be more innovative than startups if given the right incentives. But today's incentives favour stasis. Many big firms thrive because of government and regulation. The cost per employee of red tape—endless form-filling and dealing with health-and-safety rules—is multiples higher for companies that have a few dozen staff than for those with hundreds or thousands. Schumpeter called for owner-entrepreneurs to lend dynamism to economies. Today capitalism exists without capitalists—companies are "owned" by millions of shareholders who act through institutions that employ professional managers whose chief aim is to search for safe returns, not risky opportunities.

Some light flickers on the horizon. America's economy is beginning to stretch its limbs. High-tech companies are overhauling an ever wider slice of the economy, including shopping and transport, which should be good for growth (though it also means power is being concentrated in the hands of fewer big firms). But these are mere flashes in the advancing darkness. The rate of productivity growth across the rich world has been disappointing since the early 1970s, with only a brief respite in 1996-2004 in the case of America. There, and in other rich countries, populations are ageing fast. Meanwhile, the fruits of what growth there is get captured by an ever narrower section of society. And those who succeed on the basis of merit are marrying other winners and hoarding the best educational opportunities.

At the same time democracy is becoming more dysfunctional. Plato's great worry about representative government was that citizens would "live from day to day, indulging the pleasure of the moment". He was right: most democracies overspend to give citizens what they want in the short run (whether tax cuts or enhanced entitlements) and neglect long-term investments. On top of that, lobbyists and other vested interests have by now made a science of gaming the system to produce private benefits.

Storm clouds gather

The result of this toxic brew is a wave of populism that is rapidly destroying the foundations of the post-war international order and producing a far more unstable world. One of its many dangers is that it is self-reinforcing. It contains just enough truth to be plausible. It may be nonsense that "the people" are infallible repositories of common sense, but there is no doubt that liberal elites have been smug and self-serving. And populism feeds on its own failures. The more that business copes with uncertainty by delaying investment or moving money abroad, the more politicians will bully or bribe them into doing "the right thing". As economic stagnation breeds populism, so excessive regard for the popular will reinforces stagnation.

These comforting thoughts are the last that this columnist will offer you as Schumpeter, though not his last as a scribe for *The Economist*. From April he will write the Bagehot column on Britain and its politics. One of the many extraordinary things about joint-stock firms is that they are potentially immortal: the people who run them come and go but the company itself keeps going. The same is true of our columns. The Schumpeter column will return in 2017 with a new (and possibly more optimistic) author. ■