



Research Working Papers

Money, Growth, and Welfare in a Schumpeterian Model with the Spirit of Capitalism

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A new model incorporating the spirit of capitalism shows higher nominal interest rates could promote economic growth in the long run.

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According to Schumpeter (1934), entrepreneurs are driven to innovate not only for the fruits of success but for success itself. This description of entrepreneurship echoes Weber's (1958) description of the "spirit of capitalism," which states that people enjoy the accumulation of wealth irrespective of its effect on smoothing consumption. This paper explores the implications of the spirit of capitalism on monetary policy, growth, and welfare in a Schumpeterian growth model. Different from the existing literature, we show that money is not superneutral in the long run and could promote economic growth when the spirit of capitalism is strong. Furthermore, we show that the optimal nominal interest rate decreases with the strength of the spirit of capitalism, potentially supporting a negative interest rate. Finally, our calibrated model suggests that the spirit of capitalism explains an important share (about one-third) of long-run growth in the United States.

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