

APDC-LCF-Conference in Lisbon March, 27th 2009:

From Bust to Boom: New Chances for the Lisbon Strategy

The current financial and economic crisis without doubt has an extreme impact on all economies worldwide. Many opponents already proclaim the end of the capitalistic engine and some of the policy suggestions emphasize a much stronger role of the state and regulatory policies.

Is this really the end of the market driven capitalistic development which since the industrial revolution has led to an incredible increase in incomes and welfare in the industrialized world, which has changed the living styles and allows for high quality of life?

One has not to go back to the early periods of the industrial revolution to find evidence. The developments of the last 25 years overwhelmingly demonstrate the power of an innovation driven capitalistic development. The emergence of information and communication technologies significantly changed the economic opportunities and has enriched almost all industries with large potentials for productivity increases. The same holds for the techno-economic opportunities stemming from molecular biology and the biotech industries which are emerging around the globe. The exhausted opportunities of the pharmaceutical industries seem to replenish in a so far unknown dimension. Container shipping and new logistic technologies led to virtually shrinking distances between the different continents allowing for trade and labour division on a world wide scale.

Keeping in mind these developments one has to state that the last 25 years are characterized more by Schumpeterian dynamics than any period before in human history. Of course, these developments have by far been non linear and severe downswings like the new economy bubble in the year 2000 has paved their way; all in all economic development has to be characterized as very positive. Taking as a benchmark world income, most recent developments in globalisation – also triggered by information and communication technologies – have led billions of people around the globe out of poverty and starving.

Where then do the current immense problems come from? Schumpeterian developments are always characterized by up- and downswings caused by the euphoric interplay between financial and real sectors. Capitalistic organized systems provide the means for an endogenous way out of the crises. Generally, the crisis is seen as an opportunity to open up new paths for economic as well as technological development. However, history also tells us that these new paths are neither discovered nor used instantaneously but need a long period to exert their positive influences. This holds even more for an economic crisis like the current one where large parts of the economic structures developed in the past seem not to foster further development but constitute additional and strong bottlenecks. Very literally one can state that the scaling up of the capitalist engine to a global dimension is incompatible with the way we have organized industrial production in the past.

The problems the economies are confronted with are not solvable with traditional economic stimulus programmes which would bear the prerequisites for the next crisis to come. Not short-run business stimuli show a sustainable way out, but substantial long-run oriented structural adaptations are a condition-sine-qua-non. Obviously, the sheer size of the current recession and the high speed with which the recession affects all economies also asks for policy instruments showing their impact rather quickly. *“In the long run we are all dead”* The famous quote of John Maynard Keynes - almost forgotten in the last period of innovation driven dynamics - pops up again. However, referring to the international experiences from the 1960s to the 1970s shows that Keynesian policy design alone will not contribute to the improvement of the current situation. The very likely increase in public debts instead will make the situation even more difficult in the future. The way out of the current crises asks for a creative approach taking the best out of Keynesian policy design and combine it with

Schumpeterian thinking, which is so powerful for the explanation of innovation-driven growth and structural development.

The current situation asks for an increased public activity and at the same time the current structural conditions do not allow a simple proceeding along the past ways. How then can a future-oriented policy be designed which allows to overcome the old structures and at the same time to trigger the business cycle?

To answer this question, one has to be clear on the structural problems and the developments of the last decade which aggravated the problems. The source of the crisis has to be seen not in the failure of the capitalistic engine, but in its enormous success. These prolific developments, however, went along a global economic structure which emerged in the industrialized world since the industrial revolution, and which is not suited for the large scale world developments we can observe latest since a decade. Energy intensity of GDP growth, and related sky rocketing carbon dioxide emissions, the demographic change in the richer economies, the large scale displacement of manufacturing industries and conditions not supportive for the emergence of new industries can easily be detected as the major bottlenecks. These issues are far beyond to be changed in the short run and ask for a long run orientation of policy instruments. To change the resource and energy intensity of GDP growth, to develop strategies in social policy against the thrilling effects of an aging society and to create new industries, all demands for innovation and new knowledge. Therefore, one immediately is in the realm of Neo-Schumpeterian thinking, focussing on innovation driven structural change. Neo-Schumpeterian thinking also foresees a *window of opportunity* in every critical development. **A bust includes the way out to the boom.** A crisis is the period where the turnouts of an economy can be newly switched, where innovative ideas which so far were suppressed by the prevailing economic structures will have their breakthrough.

Keeping in mind the pressure to adapt economic structures for a prolific and welfare creating development in the future and to help the economies out of the recent and severe problems of the financial and economic crises, necessarily leads to the intellectual fusion of Neo-Schumpeterian thinking with Keynesian policies. A future-oriented policy design has to consider the requirements of short-run underemployment as well as long-run creative structural change.

Central to our workshop are the European endeavours to transform Europe towards a knowledge-based service oriented economy manifested almost 10 years ago in the so-called Lisbon Agenda and the need to adapt this future-oriented programme. Our workshop deals with the structural problems identified for Europe in the realm of resources and energy, aging societies and the conditions for entrepreneurship which have to be improved as well as with innovative policy answers to this most severe crisis of modern capitalistic organization, we are now witnessing.