

The APDC-LCF-conference in Lisbon 2009:

## **From Bust to Boom: New Chances for the Lisbon Strategy**

On Friday, 27<sup>th</sup> March 2009, economists, physicists, chemical engineers, journalists, politicians and representatives of the private industry from all across Europe met in Lisbon to discuss the way out of the current financial and economic crisis. Several of the speakers stressed that this crisis offers an enormous window of opportunity allowing us Europeans to implement structural changes and to reposition the global economies in order to start out of the crisis on a more sustainable way.

The event took place in the premises of the Gulbenkian Foundation and its chairman explained the predominant role of foundations in such difficult times by stressing that foundations have to be risk-takers. Therefore, they will pursue their mission even when others might find it outdated, too difficult or a waste of resources. In the long run, this pursuit of a precise goal might prove to have been a crucial step in reaching overarching societal goals.

One of those goals is that the system of the market economy be stabilized and improved, but – and all speakers agreed on that point – under no circumstances be abolished, since there is no better system we know of. Only through the innovation driven capitalistic system can we improve our standard of living but most importantly also cope with the enormous challenges ahead of us in domains such as the environment, climate change or an aging society. With so many known issues and the unique opportunity of being able to redefine and improve common structures and *modi operandi* because of this crisis, the speakers pointed out that this is the high time for intervention by the state. Nevertheless, as soon as the call for the state was out, the second part of the sentence included the warning that the governmental influence has to be careful as to avoid cementing old structures that might hinder or limit innovation in the future.

Our culture and the way we live have changed considerably during the last years. The Internet and Communication industry was described as a now critical social infrastructure and several times, speakers warned that the importance of the underlying relations was overlooked. The question of resources and metals as well as energy concerns are just as important to be answered in a sustainable way, as the challenges arising from an aging society are to be met and faced in a socially responsible fashion. Concerning energy and matter, we cannot simply estimate a certain influence on our daily routines because without energy public life is completely brought to a halt. Still, there are many possibilities to reduce energy consumption without renouncing at any comfort. Political actors have to bear in mind the long term commitment innate in many energy investments. If you build a power plant today it will run for 30 to 60 years. In order to stimulate environmentally aware research and future-oriented, sustainable investments, we also need credible commitments from the public sector.

A similar problem lies in the use of raw materials such as copper, zinc or lithium. All of them are important for devices we regularly use, but the recycling processes are not yet efficient or in some aspects not even there at all. This may not only raise ecological concerns but also

limits the possibilities of progress. If a material, such as indium, is crucial for LCDs and solar cells and if we cannot recycle it, then we unavoidably have to find substitutes in order to preserve our standard of living.

Innovation is the key driver in this context and this is also the reason, why governmental intervention has to be extremely careful not to block future innovation paths that may not yet be discernible. Public measures designed to secure jobs may not be the right approach in this situation because there is an important difference between “job security” and “employment security” and it is the latter that should be in the political focus of the future. An increased flexibility in the labor market was looked at from two different perspectives and with counter-running conclusions. From a European perspective, the stability criteria introduced in the EMU (European Monetary Union) now limit the possibilities of its member states to react monetarily to the crisis. For countries like Portugal, more subtle possibilities to react could help find an easier way out of the turmoil. The same argument was given when talking about those who are unemployed and at an age above 50. Their chances to find a new job are minimal and the inflexibility of the labor market may serve as a barrier to entry for that generation.

Nevertheless, the simple call for more flexibility in the labor market may not be the ‘one-size-fits-all’-solution. Depending on the industry, the loss of innovation in tacit knowledge and worker’s loyalty might more than offset potential positive effects on job growth. The underlying argument is once again stressed, that the government has to be careful with its cures for the crisis. In this case, measures aiming at increasing static efficiency may be counter-productive when it comes to the dynamic efficiency and therefore the ability of a system to successfully cope with the future. The same is true for the financial integration and globalization. Even though there are many risks and disadvantages linked to them, their positive effects are highly visible in the impressive increases in the standard of living in Europe and around the world during the last decades.

In that respect, Europe can get a head-start and achieve an advantage over other regions, if we manage to make Europeans ready for radical innovations. Besides, we need reforms in the educational system and need to teach students not only practical skills but the ability to think for themselves. This will also help coping with the difficulties awaiting us in all the other fields not linked to pure economics such as climate change, social developments or technological challenges. The call was out to a society in which all three sectors, the industrial, the financial and the public sector, assume their roles in a responsible and sustainable way such that managers return to become entrepreneurs, financial engineers re-focus to be bankers and the political sphere aims at providing the relevant framework for keeping the economy within a so called Neo-Schumpeterian Corridor in order to smoothen as good as possible the future development. This concept traces the success of a system over time and calls for a rate of progress that is neither too low nor too high, but lies within a corridor that can guarantee that the system as a whole can advance on a viable path. Only a future-oriented interaction of the three sectors can support an economy in times when it risks falling out of this corridor and decelerate it before it attains a speed of development that might be unsupportable for the less dynamic members.

In any case, we must not forget that crises are an unavoidable element of economic development. A system that would not incur crises from time to time would most likely be less *good* in a broader sense because the crisis also leads to a necessary process of cleansing and allows the system to be recalibrated to a better and more promising configuration. The important thing is to use the opportunity a crisis offers to correct the direction of the system by adapting the structures and linkages in a future-oriented way and to thus take a first sustainable and promising step from the bust out towards the next boom.

The APDC-LCF-conference has shown in a remarkably productive and non-simplistic way the issues to be addressed by politicians and by the society. The speakers have not only been able to point to difficulties in the current system, but also to show and elaborate on promising, future-oriented alternatives. We will continue to offer our input to the most relevant challenges of our times.