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Keeping the Economy in the Neo-Schumpeterian Corridor

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27.03.2009



- Economic crisis
 - bundled with challenges arising from
- Climate Change
- Energy and resources
- Aging population



- Cause for the crisis is the enormous success of the capitalistic system
- It is a “Schumpeterian Crisis”



- The capitalistic system is made up of
 - creative entrepreneurs and
 - bankers

- ready to
 - assume risks,
 - act in a future-oriented way and
 - aim at creating new forms of doing business



- Linked to uncertainty and insecurity
- Can generate the most impressive performances
- Can cause most painful collapses
- Schumpeterian cycle of “Boom and Bust”



Phase I:

- Fundamental causes in US economic boom related to ICT general purpose industries spurred by
 - readiness of creative entrepreneurs
 - sufficient risk capital
 - overly supporting governmental framework
 - overly supporting role of the central banks

Phase II:

- Boom on the stock markets
 - an inflationary development of asset values in the new economy (firm sector).

- Interdependence of
 - Greed
 - Short-term focus and
 - Exaggerated optimism

- Central banks' interest rate hike

- Burst of the dot.com-bubble

Phase III:

- Panic reaction of central banks
 - by lowering interest rates and
 - adding new liquidity into the circular flow
- The new money flows into new fields of investments
 - households' real estate sector
- Interdependence
 - greed,
 - short-term focus and
 - exaggerated optimism
- Rapid increases of the interest rate by the Fed
 - to tame the enormous volumes of liquidity
- Burst of the real estate bubble



Phase IV:

- International spill-over effects
- Global financial crisis
- Emerging global economic crisis



- The whole cycle from “boom to bust” characterized by its four phases of development should be called a

“Schumpeterian crisis”.



- Schumpeter would probably trust in the self-healing mechanism of capitalistic market economies
- But, political dangers are too high
- Therefore, the present crisis needs the policies of the government and the central banks



- Risk of over-reacting
 - the government cannot be the repair garage of last resort
- Too many possible cures proposed
- Risk of “piecemeal engineering”

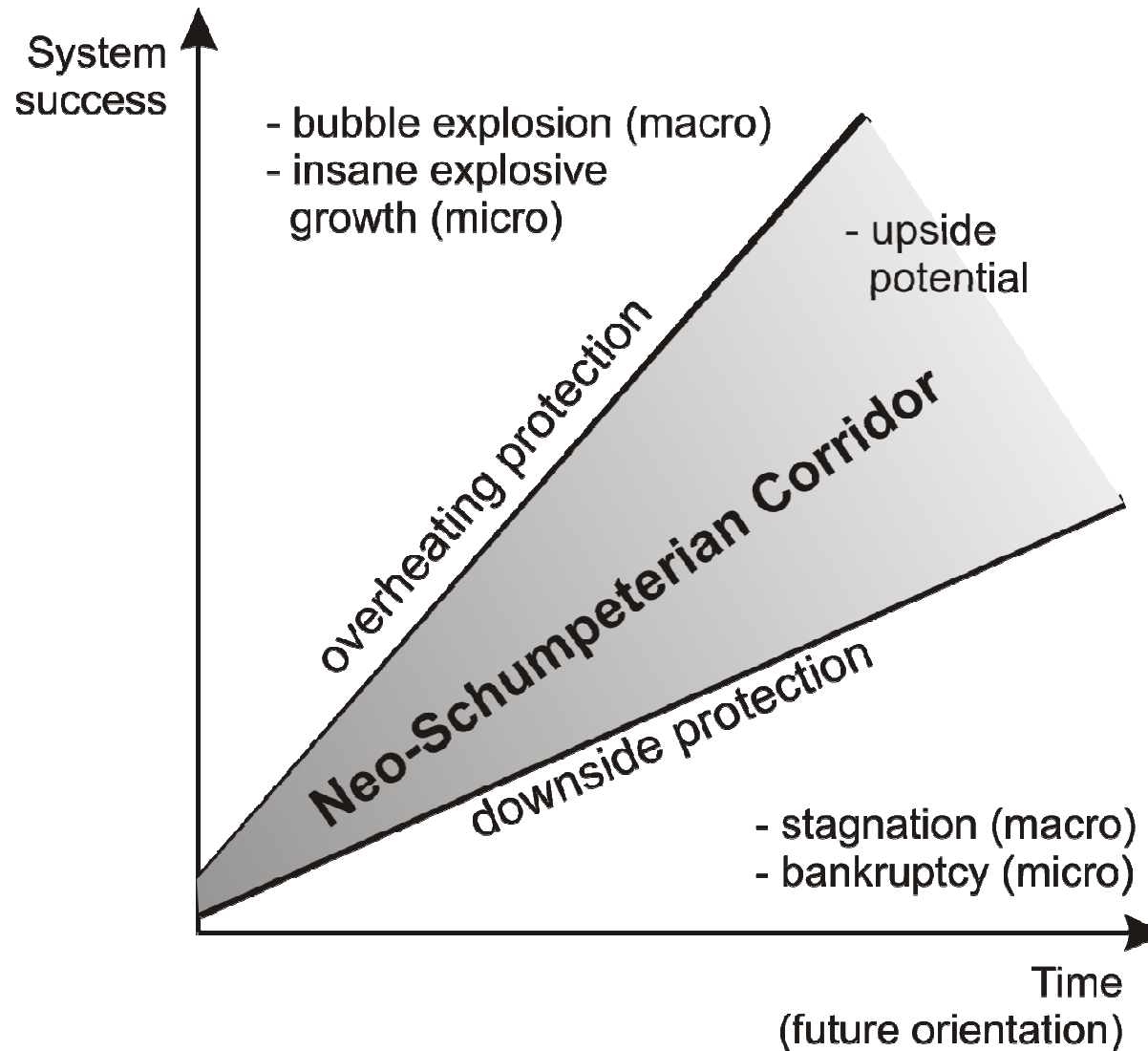


- A certain amount of regulation is needed
- The government has a moderating and stabilizing role in modern market economies
- Analytical framework for such a sustainable policy:
Neo-Schumpeterian Corridor

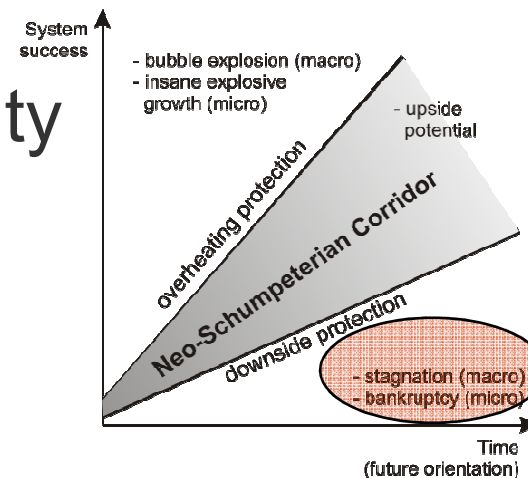
The Neo-Schumpeterian Corridor



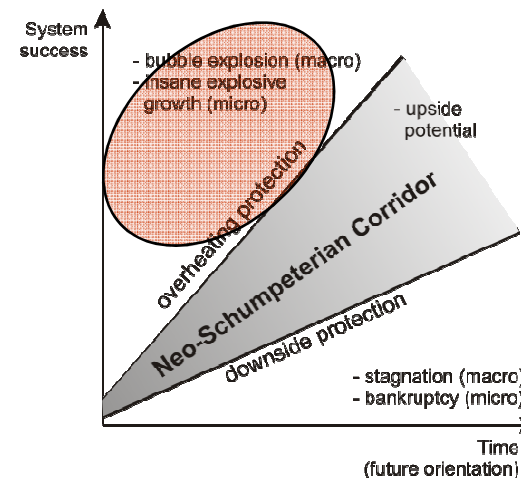
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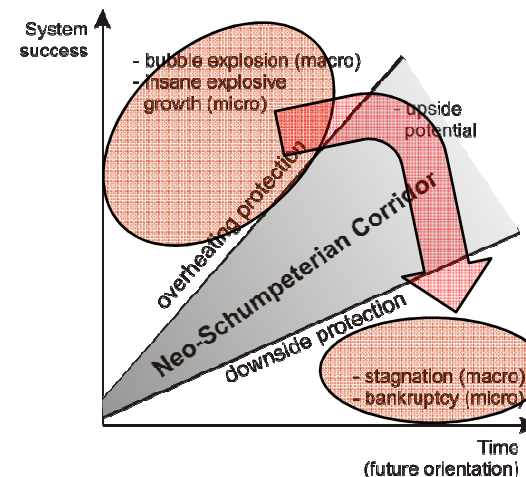
- Too little success (i.e. growth)
 - ➔
 - (relative) decrease in the standard of living
 - insufficient investments
 - resistance to innovation and
 - decreasing risk propensity



- Too high success (i.e. growth)
 - ➔
 - accelerated process of change in structures
 - slow-growing sectors cannot keep up
 - two velocities:
 - innovative sectors
 - sectors of low growth



- Too high success (i.e. growth)
 - ➔
 - if slow growing sectors serve as a natural brake
 - ➔ economically most successful situation
 - if not ➔ complete breakdown of the system possible
 - due to failing harmonization and adaptation in
 - infrastructure,
 - training of employees,
 - customers' wants or
 - suppliers' conditions
 - due to overheating of asset markets



- Monitored, moderate and sustainable overall growth

- Balance between
 - “Fast” and “Slow”
 - “Dynamic” and “Static”
 - “New” and “Old”

- through public sector regulation and intervention
 - help shouldering present hardships
 - help stimulating successful future oriented developments

- Bring the Neo-Schumpeterian Corridor to life
- Comprehensive strategy taking three pillars into account
 - real economy
 - financial sector
 - public sector
- Future design of society and economy according to proper roles of the three pillars



- Foster at all times the knowledge-oriented progress and the profit situation of companies through
 - Innovation
 - Parallel investments

- Generate wealth and welfare for the society



- Symbiotic relationship with the real sector
- No short-term decoupling from the real economy spurred by speculation, but
- Medium- and long-term oriented strategy
- Sustainable financial accompaniment of the real sector
- Encouragement of innovative and successful companies and sectors

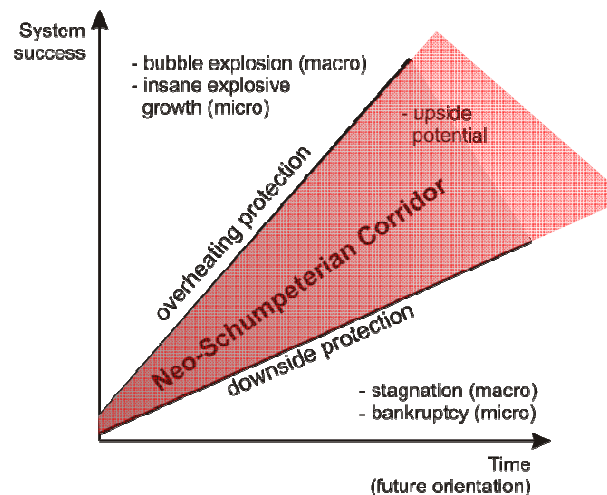
- Monitor the future-oriented, long-term symbiosis of the real and the financial sectors
- Establish an adequate intelligence system for that purpose
- Support the co-evolutionary development of the sectors through governmental instruments
 - Revenue side (e.g. growth and progress oriented tax system)
 - Expenditure side (e.g. investments in education and research)
 - Institutional side (e.g. standardization, patents and intellectual property rights)
 - Regulatory measures
- Avoid trends of exaggerating or overheating in time (two-sided countercyclical strategy)
- Overcome a period of stagnation as quickly as possible

The Neo-Schumpeterian Corridor and the “boom-bust”-story



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- Inside the corridor
 - **Relevance of Schumpeterian theory**
 - sustainable and successful capitalistic development process through innovative entrepreneurs and technological progress
 - risk of “boom-bust”-story

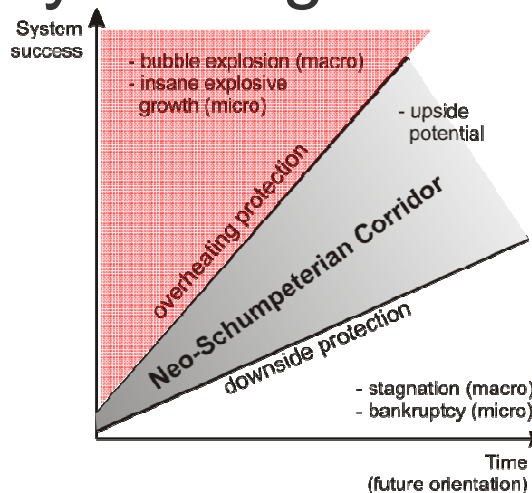


The Neo-Schumpeterian Corridor and the “boom-bust”-story



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- Above the corridor
 - **Relevance of chaotic dynamics**
 - lessen psychological over-reactions and herd behavior
 - calm exaggerated optimism
 - watch the diffusion dynamics of technology and innovation
 - monitor liquidity and fight asset inflation

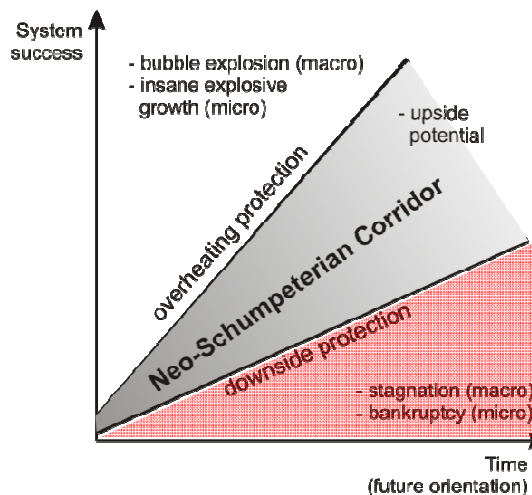


The Neo-Schumpeterian Corridor and the “boom-bust”-story



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- Below the corridor
 - relevance of Keynesian theory
 - stimulate demand
 - cure deflationary processes
 - restart from bust





- European Union
 - economic conglomerate and
 - political body of independent member states
- Single Market as strong and supportive link
- Selective political integration
- Detrimental or beneficial effects?

- Disadvantages
 - Non concerted stimulus measures
 - Krugman critique
 - Less effective stimuli than US
 - might lead to stronger recession
- Advantages
 - Concerted vow to secure banking system
 - Support for smaller countries in trouble



- Faster implementation of measures
- Measures can be better targeted to individual needs
- Concerted action possible in critical fields of banking



- Europeans have to act as Europeans
- The challenge is to get all countries back on track, not just a region
- Influential position for EU realizable



- The way from Bust towards Boom is our way
- The APDC, the LCF and you:
 - Thank you for being part of those who advance on this way allowing others to follow

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