



From Bust to
Boom:

New Chances for
the Lisbon
Strategy

The Crisis as an
unique Window
of Opportunity

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

From Bust to Boom: New Chances for the Lisbon Strategy -
The Crisis as an unique Window of Opportunity

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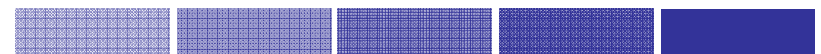
LCF-President

From Bust to Boom: New Chances for the Lisbon Strategy

- The Crisis as an unique Window of Opportunity



- From Bust to Boom - a rather dynamic and complex idea which leads us far away from equilibrium considerations;
- New chances for the Lisbon strategy - knowledge as a decisive input factor?
- and finally crisis and window of opportunity - conceptions which hardly can be connected to the invisible hand of perfect markets.



The Lisbon Civic Forum



- www.lisboncivicforum.org
- The Lisbon Civic Forum (LCF) is a European public policy research organisation, or think tank, a platform for research, study and analysis, publication and dissemination of results, information and considered views with the objective of supporting and promoting the aims and objectives of the Lisbon Strategy for growth and jobs. The plan to found the Lisbon Civic Forum (LCF) was born in Lisbon in February 2005 by a small group of distinguished scholars and professionals from different EU member states. Its work so far has been financed on a voluntary basis with individual members and institutions sharing the expenses of six meetings so far, including meetings with the Cabinet of President Barroso and senior officials of the Commission in Brussels at the end of 2005. After the necessary steps were taken, it was established as a registered Verein (a legal form of a non-profit organization) in Augsburg, Germany, in June 2006.
- The LCF includes members from all fields: academics, policymakers, diplomats, bankers, journalists and practitioners - qualified citizens actively involved in the process of further European integration. They are cooperating as citizens, organisations and institutions from six Member States, building bridges with two of the new Member States, developing their own ideas in a European environment going beyond national horizons and respecting diversity. Meetings have already been held in both “old” and “new” Member States.



First reactions:

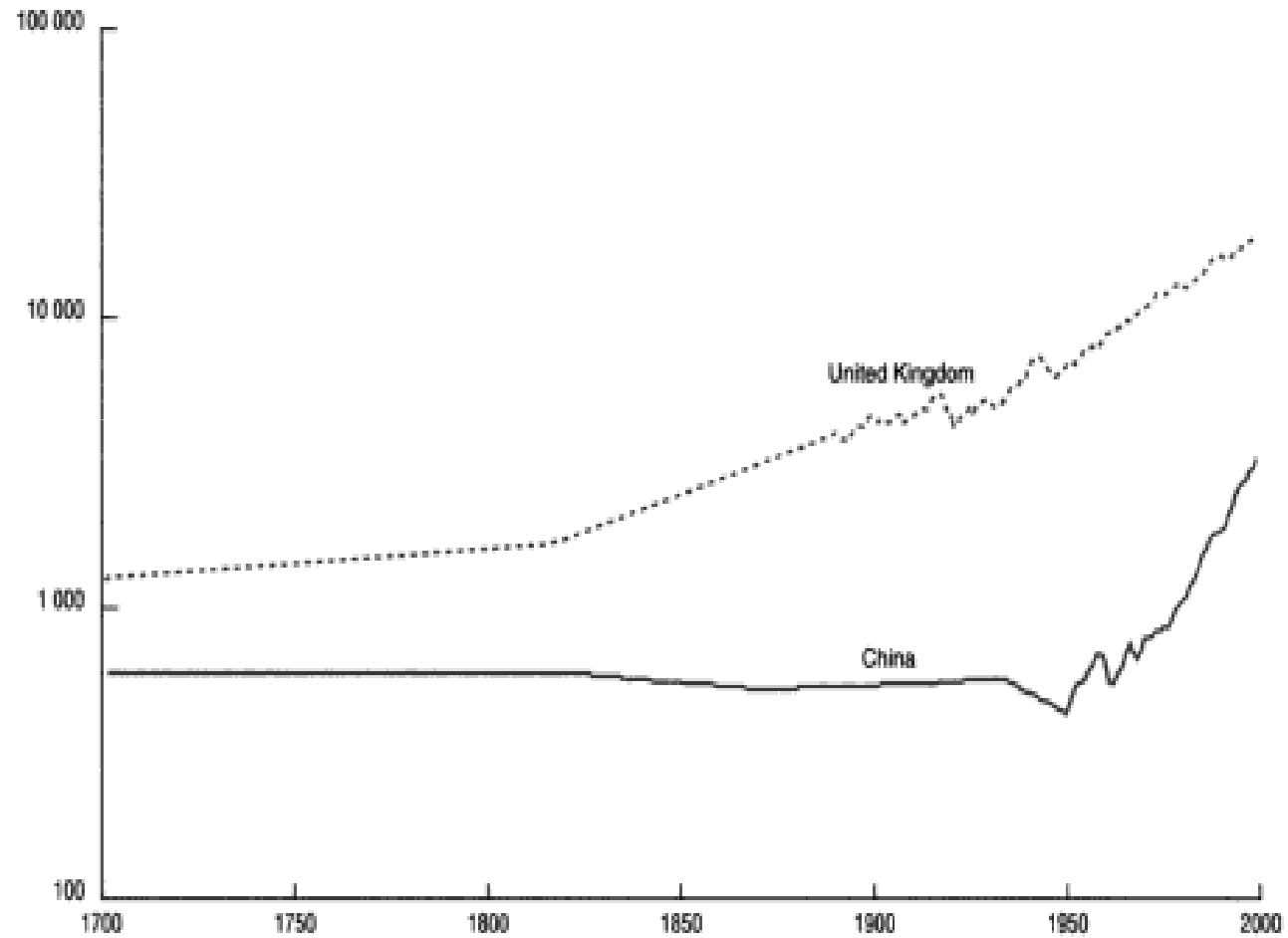
As an immediate consequence, not only a few voices

- proclaim the end of the capitalistic market organization,
- accused (mainstream) economics of failure.
- and ask for a strong state.



The performance of capitalistic market organization

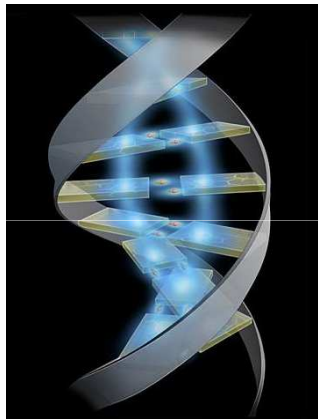
Figure 1-5. Comparative Levels of GDP Per Capita, China and the United Kingdom, 1700-1998



Source: Maddison 2001

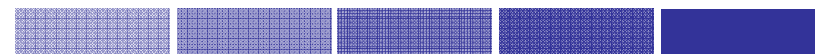


The performance of capitalistic market organization



The developments of the last 25 years

- The emergence of ICTs has significantly changed 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 have virtually shrunk distances between the continents allowing for trade and division of labor on a world wide scale.



The answers of Economics



E. von Böhm-Bawerk

- Economics in the early 20th century was the science of crisis; e.g. Eugen von Böhm-Bawerk stated that an economic theory of crisis is the accomplishment of economics.



J. A. Schumpeter

- Joseph Alois Schumpeter published in 1910 an article entitled „Über das Wesen der Wirtschaftskrisen“ (On the nature of economic crisis).



The answers of Economics



Schumpeter on economic crisis:

- economic occurrences are either static or dynamic
- economic development is triggered by dynamic processes only
- economic development is the disruption of equilibrium
- the disruption of equilibrium is followed by adaptation processes
- the re-organization of an economy (= adaptation processes) is strongly connected to a general liquidation which causes collapses we then call an economic crisis.



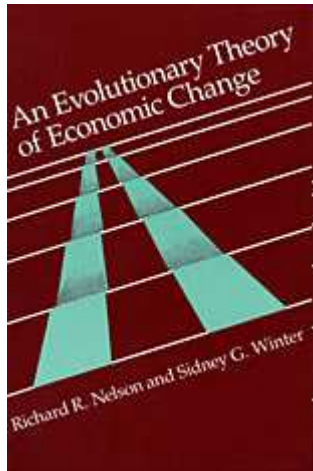
However

Mainstream neoclassical economics has forgotten all these insights. Latest since the 1950s economic growth theory in a neoclassical fashion has abstracted from the cyclical phenomena of economic development and instead focuses on growth trajectories in equilibrium and steady states.

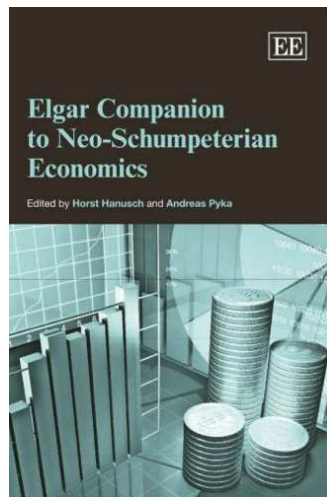
Structural change, adaptation processes and with it economic crisis are not within the scope of these theories. Simply spoken, these approaches are blind to the possibility of crisis, they are not helpful at the moment.



The answers of Economics



- Schumpeterian thinking survived.



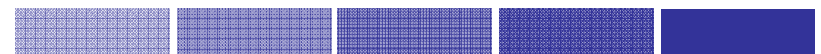
- Today, so-called Neo-Schumpeterian Economics and evolutionary economics apply and develop further the ideas of a dynamic economic theory.



The answers of Economics

- Economic development is always characterized by up- and downswings.
- Every upswing entails the prerequisites of the subsequent downswing because of an overburdening of prevailing economic structures.
- Capitalistic organized systems endogenously provide ways out of crisis.
- Window of opportunity for new paths.
- Structures tend to changes more easily in situations of crisis.
- However, structural changes need time.

Broad understanding of structures: sectoral, institutional, financial ...



The Diagnosis of Neo-Schumpeterian Economics:

The scaling up of the capitalist engine to a global dimension in the last 25 years is incompatible with the way we have organized production in the past.



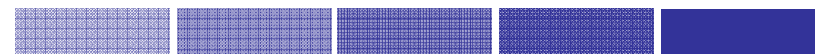
The demand for a strong public sector

This is where the claim for a strong state comes in:

- Traditional economic stimulus plans tend to cement existing structures.
- A substantial long-run orientation is necessary.

The current situation asks for an increased public activity and at the same time the current structural conditions do not allow for simply proceeding along the old 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?



The demand for a strong public sector

What are the most severe structural problems?

The prolific developments of the last decades went along a global economic structure which emerged in the industrialized world since the time of the industrial revolution. These structures are no longer suited for the large scale world developments.

E.g.

- The energy intensity of GDP growth,
- and related sky-rocketing carbon dioxide emissions,
- the demographic changes in the richer economies,
- the large scale displacement of manufacturing industries
- and conditions not supportive for the emergence of new industries like e.g. the extreme short-run orientation of financial markets

can easily be detected as the major obstacles.



The demand for a strong public sector



- Policy needs a long-run orientation.
- In Schumpeterian thinking: **A bust includes the way out to the boom.**
- The turnouts of an economy can be newly switched: innovative ideas can achieve their breakthrough.



The demand for a strong public sector



John Maynard Keynes

- This is where Keynes comes in.
- Keeping in mind the pressure to adapt economic structures for prolific and welfare creating future-oriented development and to help economies out of their recent and severe financial and economic crises 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.



The demand for a strong public sector



- The amalgam of Schumpeterian ideas with Keynesian flavors entails the institutional rules and structures shaping international financial markets.
- The architectural design of financial markets has to do the splits between a Keynesian short-run provision of capital for economic activities and the Schumpeterian long-run requirement for sustainable, entrepreneurial as well as innovative economic development.



Conclusion

- The demand for a strong public sector (better: a new understanding) is supported by Neo-Schumpeterian thinking.
 - The public sector needs a pronounced **future-orientation**.
 - The design of policy has to consider some Keynesian elements:
 - This does not mean that the major motive of public spending is closing short-run demand gaps.
 - But the immense public spending needs short-run coordination, e.g. provision of capital for entrepreneurial activities.
- Keeping and strengthening the ideas of the Lisbon-Agenda is the adequate guideline for the creation of a future-oriented Europe.

