

Good bye Schumpeter!?! – Hello again Keynes?

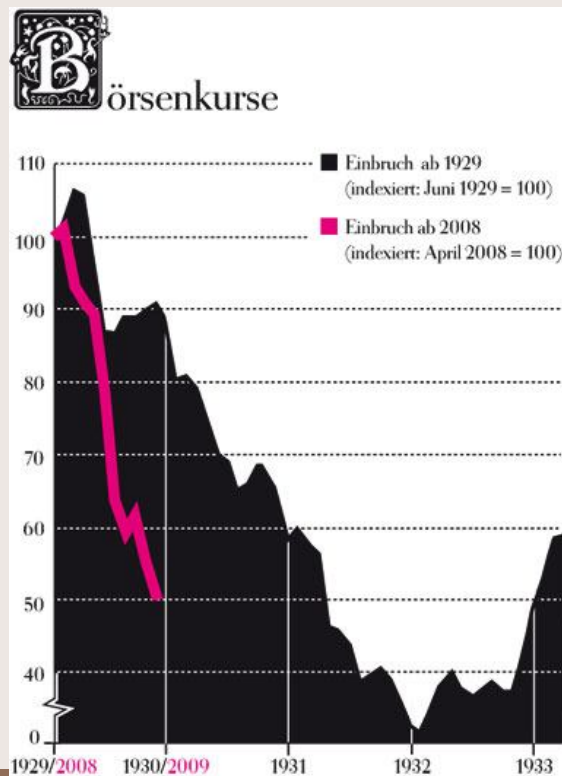
New or old strategies to cope with crisis,  
unemployment and social security

Ernst Mönnich, Hochschule Bremen



# Patterns of World-Economic-Crisis in 2008/9 I

Crisis initiated by collapse of financial systems like ‚Black Friday‘ (1929) – big losses at stock exchange – leverage effects as multiplier (source of pictures: Die Zeit 16.4.09)

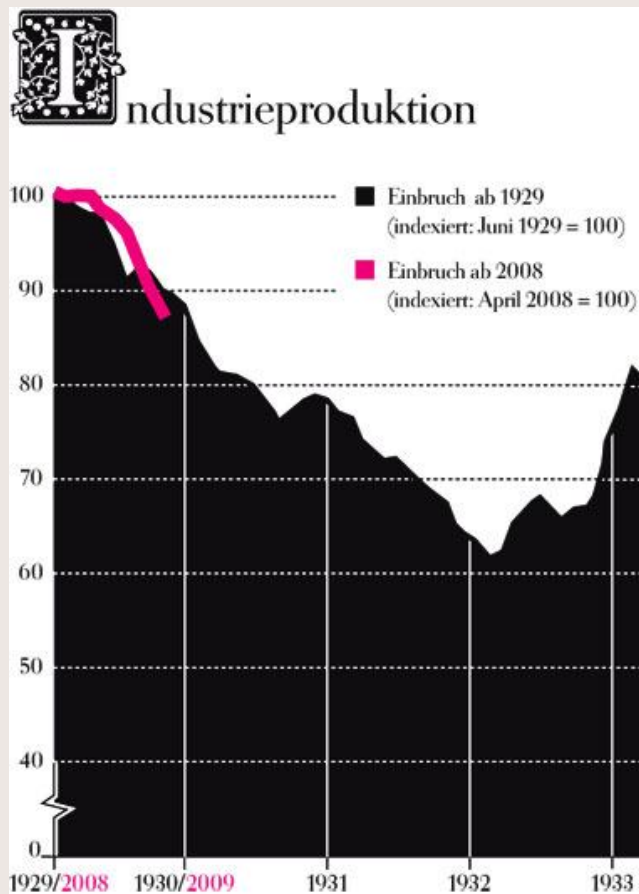


Rising risks and profits via leverage deals – an example:

- Invested own capital 100 €, profit 3€, profit rate 3 %;
- invested own capital 10 €, credit capital 90 € (interest rate 1% = 0,9€), profit = 3-0,9 = 2,1 €, profit rate 21%
- Own capital 10 €, credit capital 90 € (interest rate 1%), loss 6 € - 0,9€ = 6,9 €, profit rate = -69%,

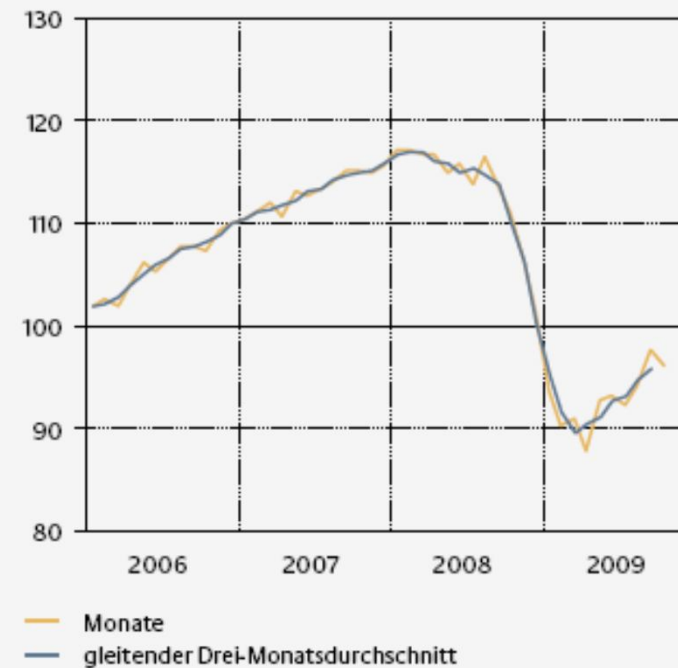
# Patterns of World-Economic-Crisis in 2008/9 II

Immediate transfer of breakdown to real economy of OECD-countries (industrial production) and – with time lags – to the labour markets



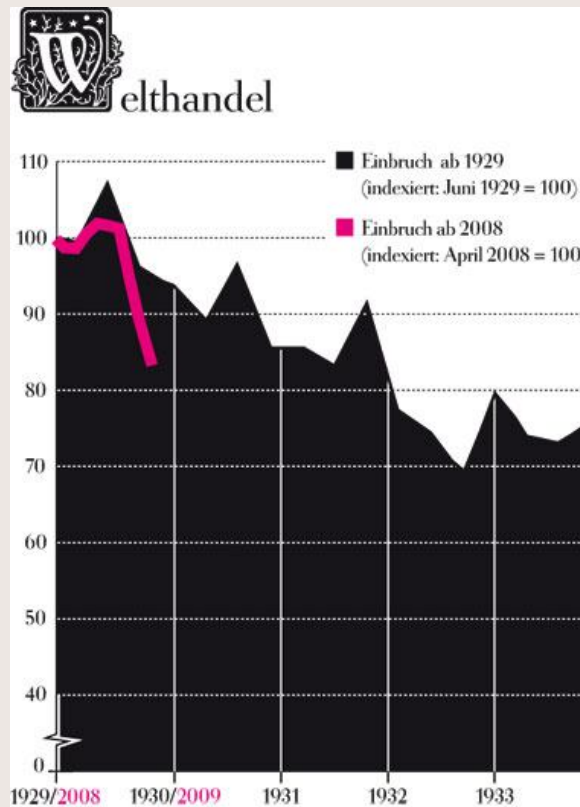
## Industrieproduktion

(Volumenindex 2005 = 100, saisonbereinigt)



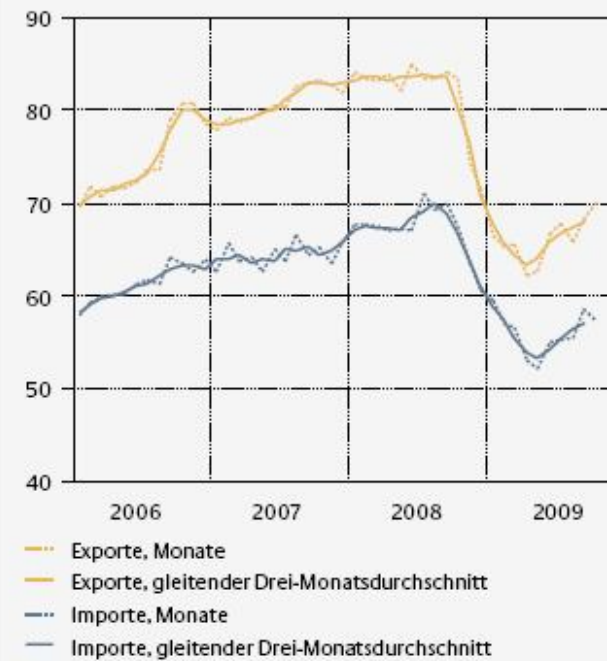
# Patterns of World-Economic-Crisis in 2008/9 III

- Massive reduction of exports (D – 10%) and imports (D – 5%) – problems for export-oriented countries (Ch, D, J)



## Außenhandel mit Waren

(Werte in Milliarden Euro, saisonbereinigt)



# Patterns of World-Economic-Crisis in 2008/9 IV

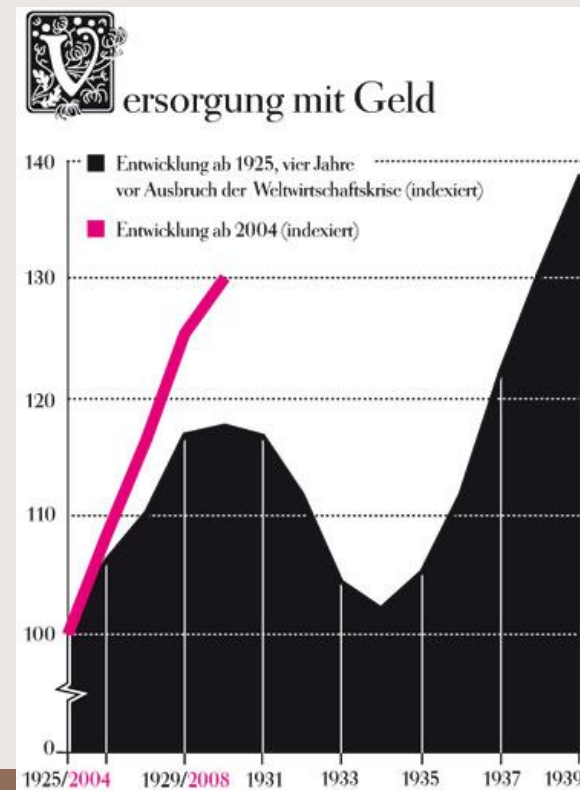
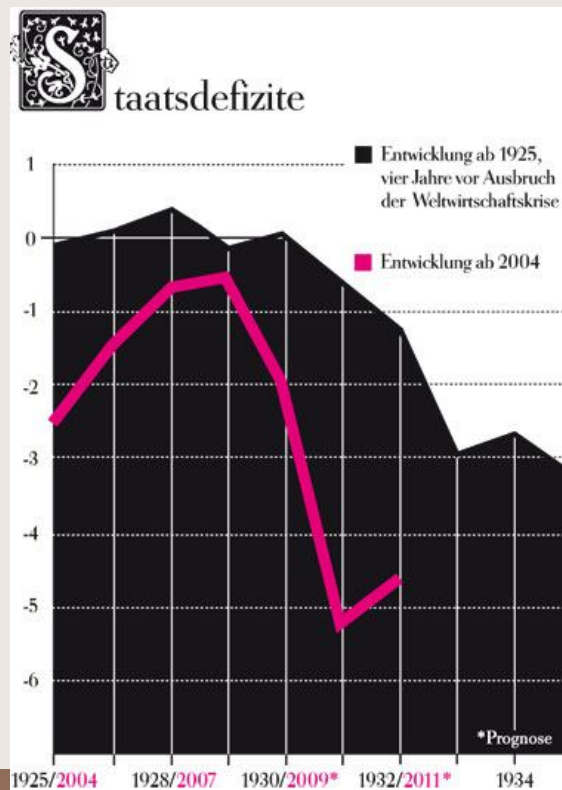
- Reduction of private investment (D - +3,1%/2008, -8,9%/09)

Quelle: BMWI, Schlaglichter der Wirtschaftspolitik

	Veränderungen gegen Vorjahreszeitraum in % <sup>6</sup>							
	2007	2008	2009	2008		2009		
				4. Vj.	1. Vj.	2. Vj.	3. Vj.	4. Vj.
<b>Bruttoinlandsprodukt und Komponenten</b>								
Bruttoinlandsprodukt (BIP)	+ 2,5	+ 1,3	- 5,0	- 1,7	- 6,4	- 7,0	- 4,7	- 1,7
Inländische Verwendung	+ 1,0	+ 1,7	- 2,1	+ 1,7	- 1,2	- 2,7	- 1,6	- 2,8
Private Konsumausgaben <sup>2</sup>	- 0,3	+ 0,4	+ 0,2	- 0,6	0,0	+ 0,8	+ 0,2	- 0,1
Konsumausgaben des Staates	+ 1,7	+ 2,1	+ 3,0	+ 2,3	+ 2,9	+ 2,7	+ 3,7	+ 2,6
Bruttoanlageinvestitionen	+ 5,0	+ 3,1	- 8,9	- 1,2	-11,3	-11,0	- 7,2	- 6,2
Ausrüstungen	+11,0	+ 3,3	-20,5	- 3,0	-20,1	-23,4	-20,8	-17,9
Bauten	0,0	+ 2,6	- 0,8	+ 0,3	- 5,7	- 2,9	+ 1,4	+ 3,3
Sonstige Anlagen	+ 6,5	+ 5,3	+ 4,9	+ 4,7	+ 4,2	+ 4,5	+ 5,3	+ 5,7
Exporte	+ 7,5	+ 2,9	-14,2	- 5,7	-17,1	-20,0	-15,2	- 3,8
Importe	+ 4,8	+ 4,3	- 8,9	+ 1,2	- 7,4	-12,6	- 9,3	- 6,5

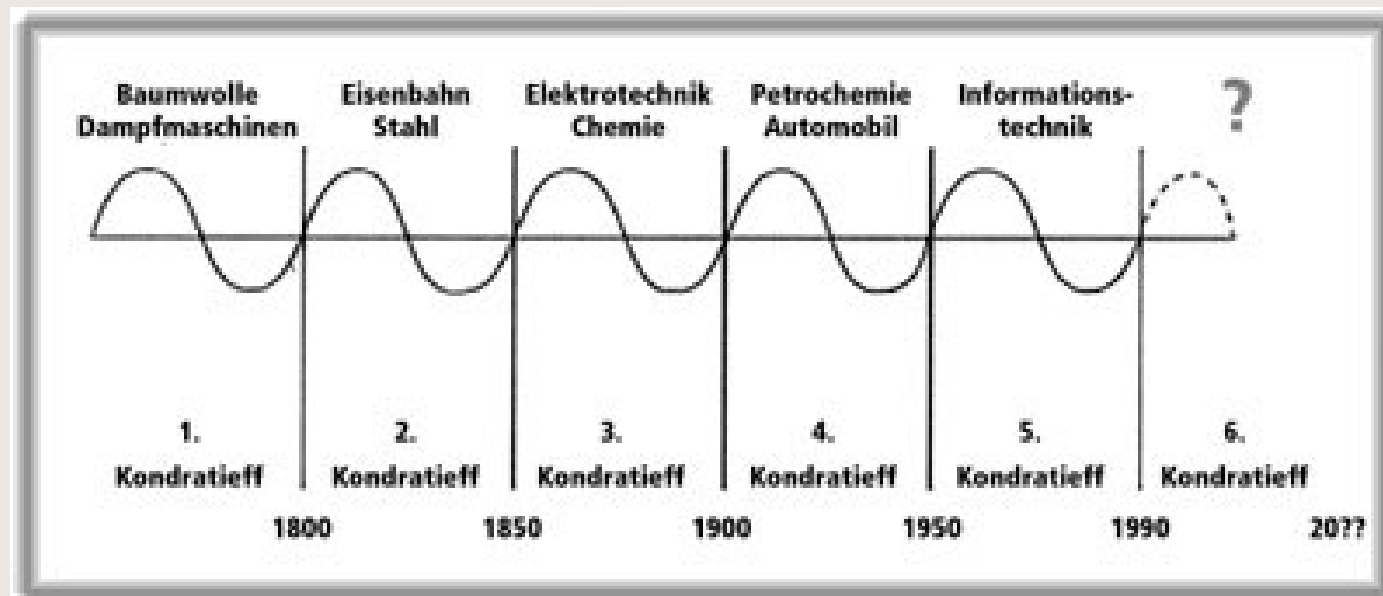
# Patterns of World-Economic-Crisis in 2008/9 V

- Renaissance of Keynesian Fiscal- and Monetary Policies in all industrialized countries (G 7/G 20):
  - first aid for „system-relevant banks,
  - expansion of money supply,
  - massive deficit spending programs without preparation



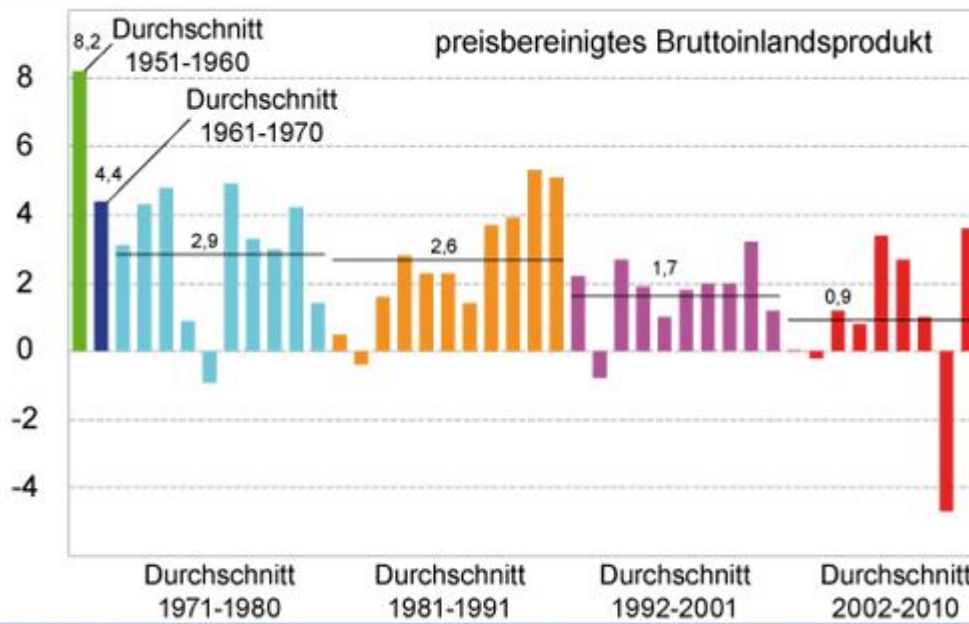
# Good bye Schumpeter?! — Experiences of Supply-Side Economics during the last 30 years I

- Schumpeter-Renaissance: technological innovation and economic growth via deregulated markets and dynamic entrepreneurs
- Service function of public institutions from „Kindergarten“ to university – technological leadership / innovation management
- No Microelektronik Kondratieff since the 80ies - fairy-tales for a Biotech Kondratieff future



# Economic Growth: the real Development:

Wirtschaftswachstum in Deutschland gegenüber Vorjahr in %

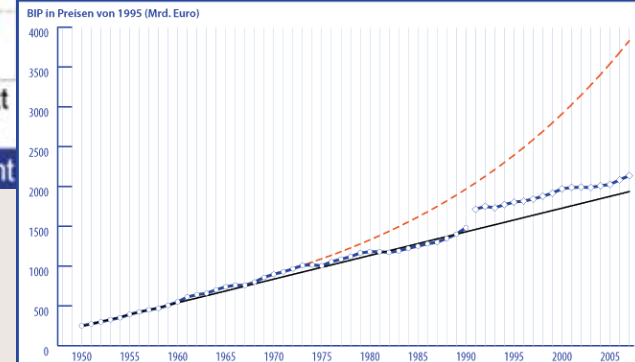


Infografik: [boerse.de](http://boerse.de)

Quelle: Statistisches Bundesamt

Grafik

## Linear statt exponentiell - Wachstum des BIP der Bundesrepublik Deutschland




Die blaue Linie mit Kreisen stellt das westdeutsche BIP der Jahre 1950 bis 1990 dar, die blaue Linie mit Rauten das westdeutsche BIP ab 1991. Die schwarze Linie entspricht dem durchschnittlichen Wachstum Westdeutschlands bis zur Wiedervereinigung (jährlich knapp 31 Mrd. €). Wie aus der Grafik zu erkennen ist, läuft das westdeutsche BIP sehr eng an dieser Geraden entlang und ist linear. Die rote, gestrichelte Linie zeigt, wie sich das BIP von 1970 an hätte entwickeln müssen, wenn es konstant entsprechend der damaligen Annahmen um jährlich 4% gewachsen wäre.

Quelle: Statistisches Bundesamt: Statistisches Jahrbuch 2002, S. 632 f.; Statistisches Jahrbuch 2003, S. 656 f.; Statistisches Jahrbuch 2004, S. 729; Statistisches Jahrbuch 2008, S. 627; eigene Berechnungen, vgl. dazu IWS-Papier Nr. 1.

[www.wachstumsstudien.de](http://www.wachstumsstudien.de)

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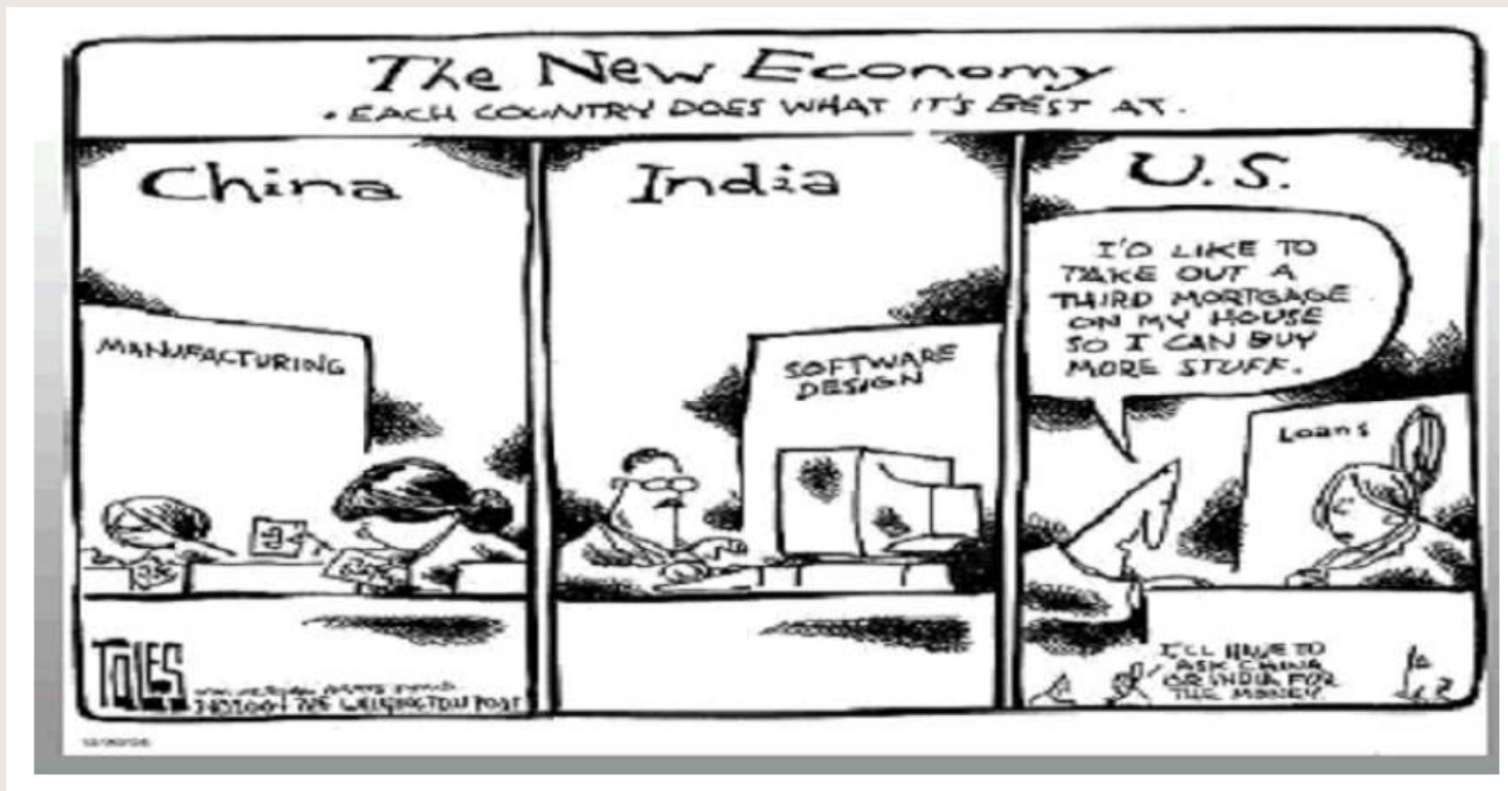
## Good bye Schumpeter?! — Experiences of Supply-Side-Economics during the last 30 years II

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- Innovation as an all including fashionable approach
- Product Innovations as schumpeterian Anti-Crisis- Key: dramatic break down of risk-capital supply after every bursting bubble
- New markets and new needs - a „dream of a new mankind“ – improvement of (environmental-)quality and fashion the last niches in the saturation trap
- USA, GB: „financial innovation“ and growth of services
- Social needs as public goods – conflict with the tax-cutting competition

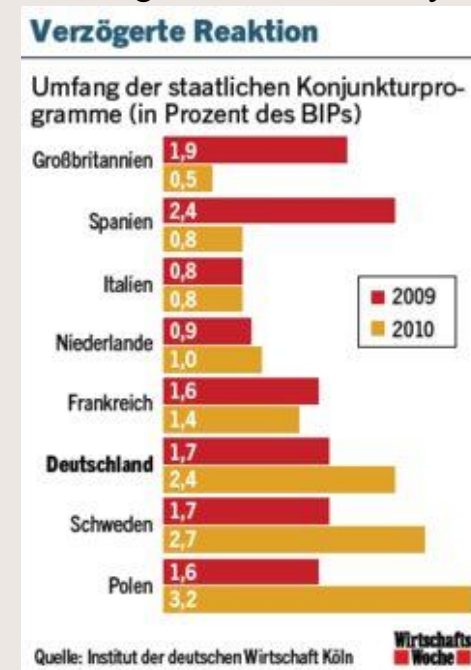
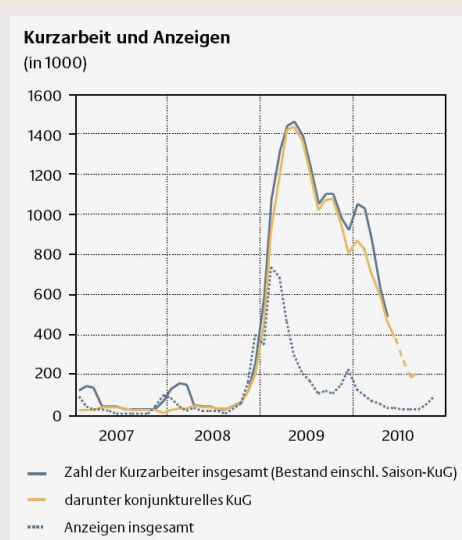
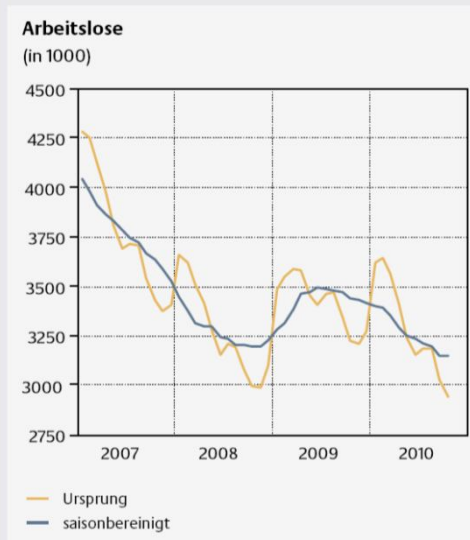
# Good bye Schumpeter?! — Experiences of Supply-Side-Economics during the last 30 years II a

USA, GB: „financial innovations“ and growth of services



# Hello again J.M. Keynes! – Are we better prepared now?

- Shift of political paradigms: Survival strategy driven by bubble economy
- G 20: International fiscal policy? – EU: Symbolic fiscal policy on macro-regional level – GER: Way back to constitutional order of fiscal policy? Symetric reduction of deficits to early (new „deficit brake“)?
- **Limits of fiscal policy today:**
  - (1) instable financial systems and currencies
  - (2) international spill overs – free rider problem
  - (3) structural crisis – limits of national interventions
- **GER: Poor quality or pre-prepared programs for deficit spending:** break-up-bonus for automobile demand, time lags of public investment – missing crisis reserve programs (medium term fiscal planning)
- **Fiscal Policy and the Labour Market:** Advantages of countries with strong social insurance systems – build in flexibility
- BMWI 1/11



## Investment in Human Capital – a long term anti-crisis strategy I

*„It was not by gold or silver, but by labour, that all the wealth of the world was originally purchased, ...“ A. Smith 1776*

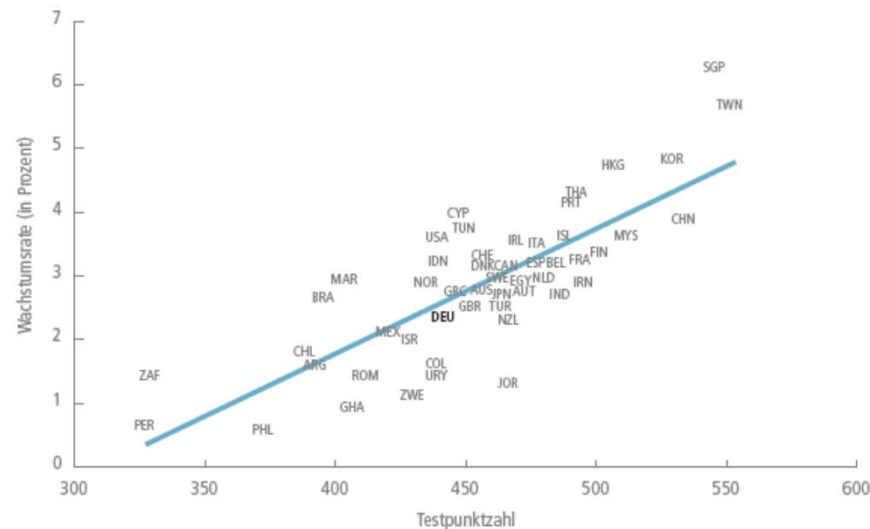
- Value of work theory  $\Rightarrow$  Bildungsökonomie / Human Capital Theory  $\Rightarrow$  Knowledge based society  $\Rightarrow$  Knowledge Management
- Value of work theory  $\Rightarrow$  not a successful price theory but a modern part of endogenous growth theories (EGT)
- Results of EGT und empirical findings: Investment in human- and social capital (strong institutional framework of a society: health, democracy, rule of law, ...) rising growth rate – high fertility – slow down of growth – („stupid“)-physical capital not the only key to welfare

Result: Stimulating private investment in physical capital (central assumption of supply-side economics and demand oriented approaches):  
Not the best way for a long term anti-crisis strategy!

## Investment in Human Capital – a long term anti-crisis strategy II

Investment in human- and social capital (strong institutional framework of a society: health, democracy, rule of law, ...) rising growth rate

Abbildung 4: Bildungskompetenzen und volkswirtschaftliches Wachstum



Zusammenhang zwischen Bildungskompetenzen (Durchschnitt aller internationalen Vergleichstests zwischen 1964 und 2003, gemessen äquivalent zu PISA-Testpunkten) und realem jährlichen Pro-Kopf-Wirtschaftswachstum (1960 bis 2000) im internationalen Ländervergleich nach Herausrechnen weiterer Einflussfaktoren.

Quelle: Eigene Berechnungen in Anlehnung an Hanushek und Woßmann (2008).

BertelsmannStiftung

# Lessons for anti-crisis and labour market policies

- **Faults since the 80ies:** ⇒ excessive deregulation; ⇒ tax cutting competition; ⇒ compulsive subsidization
- **Problematic Labour policies:**
  - ⇒ competition by labour cost cutting;
  - ⇒ income support without work;
  - ⇒ continuing education as waiting room;
  - ⇒ early retirements
- **Evaluation of recent instruments:**
  - ⇒ „Hartz IV“ / income support + help/pressure to work;
  - ⇒ subsidies for short time workers;
  - ⇒ short term interventions against demand gap and deflation;
- **Missing long term strategy:**
  - ⇒ structural change to sustainability – no additional efforts
  - ⇒ investment in human and social capital – more symbolic action than increasing inputs and reforms for efficiency
  - ⇒ Who pays for the crisis? – Readjustment of income and tax policies?