Globalisierung und Weltwirtschaft

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No other theme of economic inquiry has occupied the minds of economists and social scientists as much as the quest for economic development – the factors that make economies grow. Scholarly it is not a resolved issue. Nor is there a political consensus. Yet few would dispute putting the Scottish moral philosopher Adam Smith and the maverick Austrian economist Joseph Schumpeter at the centre of the accomplished understanding economic growth. Indeed, they have given names to schools of economic growth: Smithian and Schumpeterian growth, with the former underlying the welfare gains emerging from increased specialization (free trade) and the latter emphasising the crucial role of innovation.

When and where did the epoch of Smithian growth and free trade take root in politics? For lack of a better date and place: 29 June 1846 in the British Parliament. Events that day also led to the decline and fall of the Prime Minister, Robert Peel.

Douglas Hurd, the former Tory politician, published last year the intriguing *Robert Peel: A Biography* about the two-times British Prime Minister, often neglected in the annals of British 19th century politics, always overshadowed by Benjamin Disraeli and William Gladstone. Yet Peel's rise to power and the reforms he carried through in various capacities are in many ways more interesting than those of his two more famous successors. Hurd gives a detailed account of Peel's political career, also of his duller private life. He puts many of the political realities at that age in a modern suit, and reminds readers, often with examples from his own career, of how similar conflicts persists today.

Born in a family of textile manufacturers, Peel moved at an early age into politics and became a Member of Parliament, for an Irish rotten borough, at the age of 21. Irish politics invariably followed Peel through his career. Some of his greatest achievements concerned the fate of the impoverished Northerners of the island kingdom. A critic of Catholic emancipation until a by-election in 1828, Peel engineered the repeal of one of the acts that put restrictions on Catholics (to hold a position in the Parliament or the civil service, for example) and managed to avoid the political crisis many had feared such a move would entail. Peel set up a modern police force in Ireland, and transferred this reform to London, where he introduced the Metropolitan police while he was Home Secretary. And Peel, a representative of the protectionist Tory party, repealed the tariffs on corn at the time of the Irish famine between 1845 and 1849.

This act, the famous repeal of the Corn Laws in 1846, was supported by radicals, such as Richard Cobden and the Whig party, but not by his own Tory colleagues, whose farms and estates often profited from the protection against foreign corn. Benjamin Disraeli, Peel's long-time foe, aroused opposition in the Tory party and formed the Protectionist Society. The act that repealed the tariffs on corn took a long time to process in Parliament. On June 29, 1846, the act was approved after a fierce debate, dominated by an agitated Disraeli who talked for three hours. Peel relied on a different strategy, more sober in tone, based on facts and statistics. He was victorious yet defeated. Peel won the Parliament vote, but soon had to resign as Prime Minister, brought down by members of his own party.

Joseph Schumpeter had little patience for politics (he had a short tenure as the Finance Minister in Austria) but a great understanding for economic development and economic policy. He should be famous for his wit, but he has primarily gone down in history as the economist originating the term "creative destruction".

Harvard Professor Thomas K McCraw has written a fascinating biography of Schumpeter: *Prophet of Innovation: Joseph Schumpeter and Creative Destruction*. Creative destruction could be a description of his life as much as a keyword for innovation and growth. Schumpeter was an appreciated, yet demanding teacher, and he had a close circle of economist friends in several parts of the world. But he had the ability of making enemies (he fought a duel with an economist colleague), and his life – and private economy – was often in ruinous conditions. Born in Moravia, he was raised by a single, social-climbing mother. He married early, but the First World War separated him from his wife. Upon assuming a new chair in Bonn he remarried, but the second wife soon passed away due to an illness.

As many economists at that time, Schumpeter can not be folded into a special field of economics. He wrote masterpieces on economic history, history of economic thought, business cycles, economic policy, and political ideas. He was a man for grand theories and even grander tomes.

Schumpeter disliked socialism, and in style and nature belonged to the liberal bourgeoisie, but did not have an equivocal relation to capitalism. While Smith and fellow Scottish philosophers considered capitalism as a stabilising force that calmed the passions of men, Schumpeter took the opposite view. He identified in free markets "a perennial gale of creative destruction", and his analysis resembled the Marxian version of capitalism in which "all solid melts into air". Capitalism was successful. Capitalism created growth. But capitalism could not survive. It prospered at the expense of its own future.

Schumpeterian growth is the Holy Grail of modern economic policy. Every developed country has a grand strategy for how to become an originator of new ideas, new knowledge, and new innovations. Innovations are keys to prosperity but the merits of armchair strategy documents by governments are disputed. Yet a strategy for innovation is what United States, the free-market innovation machine, needs to stay on top of global welfare. That is the chief conclusion in a new book on innovation strategy – *Innovation Nation: How America is Losing its Innovation Edge, why it Matters and what can be Done to get it Back* – by the renaissance man John Kao (entrepreneur, government adviser, business professor, military historian, and accomplished jazz musician).

This is not a book for people with an interest for details, nuances, statistics and thorough analysis. Kao is a storyteller. He binds together anecdotes and fragments of scholarly knowledge. He spins a narrative of historical glory and current gloom. At the centre of his story is the Golden, post-War era of U.S. growth – nurtured by grand ideas of innovation and a "can-do-nothing-is-impossible" attitude. It is that bygone spirit that denotes the perishing US innovation empire, and Kao see no other solution than a radical overhaul of the innovation framework and to design new institutions for innovations, nurtured by a new "we-are-in-it-together" feeling.

The back cover of the book has a quote from The Economist saying "If Orson Welles and Peter Drucker were somehow to mate, the resulting progeny might be something like Mr.

Kao”. I am not convinced this should be interpreted as an endorsement of Mr. Kao’s arguments and views.

A much different book – in tone, substance and humility – is the biography of Alan Greenspan, the financial oracle who chaired the U.S. Federal Reserve for two decades. The title, *The Age of Turbulence*, says all about high finance during his tenure.

Greenspan’s book is rich in details, and readers get an account of many financial events. Yet what is more interesting about the book, and about Greenspan, is his reflective mind and his interest for philosophy, midwifed in the 1950s by the Russian libertarian philosopher Ayn Rand. Greenspan mixes high and low, micro details with sketches of broad economic development – from current-account calculations over the role of property rights in Latin America to the rise of China. Yet he invariably returns to Ayn Rand, a much-despised thinker by people on the left, and philosophical considerations.

Greenspan chaired the Fed through a period of high volatility. He had just assumed his position when the financial exuberance of the 1980s came to an end. Then came a period of reforms, led by the Clinton administration, which Greenspan holds in high regard, to reduce budget deficits and introduce sound macroeconomics. Then came the “new economy” upswing, the unprecedented productivity growth, a domestic hedge-fund crisis, and all of the emerging market financial crisis. And then came the technology bubble, followed by 9/11 and a period of deteriorating fiscal and current-account balances. One gets exhausted just by reading about all of the crises and periods of concern Greenspan had to live through.

He has two particular Gods, two economists that are especially close to his heart (and mind): Adam Smith and Joseph Schumpeter. Greenspan refers to them time and again, and the period of finance and macro economics he closely followed from the Fed was characterized by the two. The last two decades have witnessed a financial integration in the world never seen of before. Barriers to movement of capital have been reduced, and investment liberalization has been a much stronger force of change than trade liberalization ever was. Furthermore, the financial markets have been revolutionized by new financial innovations, making the financial markets more sophisticated and more difficult to understand for non economists.

Greenspan, though, is humble and not shy of revealing that expert economists like himself often have trouble understanding financial markets too.

Fredrik Erixon is a Director of the European Centre for International Political Economy (ECIPE), a world economy think tank based in Brussels

Reviewed literature:

Douglas Hurd, *Robert Peel: A Biography*. London: Weidenfeld & Nicolson, 2007

Thomas K. McCraw, *Prophet of Innovation: Joseph Schumpeter and Creative Destruction*. Cambridge: Harvard University Press, 2007

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Alan Greenspan, *The Age of Turbulence: Adventures in a New World*. New York: Penguin Press, 2007