

KASPER'S SCHUMPETER LECTURE

Joseph Alois Schumpeter, who lived from 1883 to 1950, declared his lifetime ambitions to be a great economist, a great lover, and a great horseman. He was a diligent man. Though certainly not an economist who was ignored in his own time, it is only now that Keynesian demand management is failing to deliver full employment and rapidly rising living standards, that the full relevance of Schumpeterian economics to the real world has become obvious.

Wolfgang Kasper, professor of economics at the Royal Military College Duntroon, recently honoured Schumpeter's memory in an address to the Economic Society (Melbourne). Professor Kasper, as is his nature, was looking ahead - way ahead - with enthusiasm, and although he never met Schumpeter he was able to speak with apparent affection. His respect for Schumpeter and the Austrian economists, who oppose government which is too powerful and too intrusive, was forged by his teenage experience of the post-war German economic miracle under Erhard. It was however to the Australia of the 1980s and beyond that he related Schumpeter.

Schumpeter was particularly opposed to Keynes' assumption that productivity was fixed/static/ unchanging. He said Keynes' General Theory, "forcefully expresses the attitude of a decaying civilisation." and "The outstanding feature of Capitalism is that [production functions]... are incessantly being revolutionised [by entrepreneurs]. The capitalist process is essentially a process of change that is being assumed away [by Keynes]." It is to the dynamics of productive processes (not speaking of women or horses) that Schumpeter devoted much of his life, and Professor Kasper his lecture.

The change from the dynamic 1950s and 60s to the relatively stagnant 1970s and 80s is not a unique event. In fact there seem to have been previous slow-downs followed by periods of exceptional growth. These have been called Kondratieff cycles. About every fifty years or so the world goes through a burst of innovation, which affects the whole world but is concentrated in some parts of it. Since the

industrial revolution in Britain; 1842 to 1878 made the USA, Germany and France into what today we call Newly Industrialising Countries (NICs); 1897 to 1920 did the same for Russia, Japan and Australia; and more recently, 1950 to 1973 saw the rapid expansion of several East Asian Nations, Brazil and Mexico.

Nations' destinies are largely in their own hands, the process is not deterministic; but most often, after about a generation of rapid economic growth, the established vested interests, who are descended from yesterday's innovators, get hold of the productive processes. Then new innovators are stifled by monopolies including trade unions, regulations, tariffs, and capital controls; the productive process slows down. This is what Karl Marx identified as a "crisis of capitalism" but which has also affected non-capitalist communist countries. We have been experiencing such a "crisis" since about 1973.

Schumpeter and Professor Kasper are aware that economic well-being is limited by what is produced. Their concern is with the driving forces of long term economic growth and with the elasticity of supply - with ability of the productive processes and institutions to respond to changes in demand.

Australia has serious unemployment following a period when wages rose faster than productivity. This has been called the "Wage Overhang". Wolfgang Kasper makes the rather obvious point that it might be just as reasonably be called a "Productivity Underhang"; "Across the board, Australian wage rates in manufacturing do not look excessive [when compared with more competitive economies], but labour productivities here are between 20 and 40 percent below those of the US and West Germany."

"If we think in Schumpeter's system, a much less depressing and less unrealistic way of cutting wage costs than nominal wage cuts is obvious; namely to raise productivity."

"In the spirit of Schumpeter, we quickly have to conclude that low Australian productivities [which neither benefit the worker, nor the capitalist, nor the nation] have a lot to do with insufficient competition, insufficient entrepreneurship and ... small scale."

Protected industries become unenterprising and rely on lobbying skills instead of being genuine creative entrepreneurs; they lose the habit of cutting costs by 'process innovation' and creating new markets by 'product innovation'. Joseph Schumpeter saw and wrote clearly that old ways and products must give way to new and that this was the way of raising living standards and high levels of employment. He also saw quite clearly the links between competition, enterprise, innovation and economic growth. He would have understood Australia's relative decline since his death in 1950.

In the 1890s about half of the workforce in the US and Great Britain was in agriculture, domestic service and jobs to do with horse transport. By 1970 the expansion of manufactures, other service industries and other modes of transport had reduced this employment to a mere 4%; and the world was better for the change. It is in the light of changes such as these that the "deep seated malaise" which the Jackson Committee said was suffered by Australian manufacturing should be assessed. The deep seated malaise is that of the whole Australian economy and it is primarily because some manufacturing, agricultural and transport industries - the Schumpeterian industries of yesterday - have not given way to the new Schumpeterian industries or become competitive. Instead of welcoming decline of processes that are lowly productive, Australians have been encouraged to view a process, that in the end could not be entirely stopped, as a malaise and to protect old ways from innovation.

With characteristic optimism, Professor Kasper sees the world moving into the upswing stage of another Kondratieff cycle, already under way in the United States and after the usual cultural lag likely to get under way in Australia. I think Senator Button's more sensible approach to protection, and deregulation of the exchange, banking and capital markets may be taken as evidence that the process has just started here. But these changes are a world apart from " ... growth promotion by committees, enquiries, subsidy schemes, economic summits and arbitration commissions ... [which] are symbols and tools of a stagnant mercantilist economy, in which the greats of yesteryear wield influence ... [and] established interests [are] out to co-opt political and bureaucratic power to defend the status quo against the newcomer."

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