

"INNOVATIONS, INSTABILITY AND INSTITUTIONS."

editors

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INTRODUCTION

1. The economic performance of Western Europe and North America over the years since World War II can be characterized as dividing into two eras. The first era, which lasted until the late 1960s, was characterized by, on the whole, tranquil and rapid growth, whereas the second, which began in the mid-1960s and continues to today, is characterized by cyclical turbulence and lower rates of growth.

During the first era the United States was the acknowledged leader and stable center of the market economies. Its economic performance was characterized by vigorous expansion, rapid improvement in consumption levels, a wide distribution of the gains from the successful functioning of the economy and a robust financial structure. During the same time Europe and Japan experienced a remarkable 'catching up' of their living standards even as price stability reigned. During the second era the performance of the United States economy has been characterized by business cycles of increasing severity, a retardation of its rate of expansion, a narrowing of the beneficiaries of growth and the emergence of fragile financial structures. During the same period, Europe and Japan suffered from the same disease even though the situation has been diverging among the different countries.

2. A variety of explanations have been advanced for this major change in economic performance. The book concentrates on three of the many causal factors that have been suggested : 1) labor market behavior; 2) changing financial relations; and 3) The pace and direction of technological innovations.

The working hypothesis has been that these three causal factors are not independent : the change in economic performance is in part due to labor and financial markets adjustments to technological change and in part to autonomous developments in labor and financial markets. The overriding aim of the research has been to provide a forum in which knowledge of the three causal factors is examined, theoretical relations among the factors are explored and continuing research that focuses on the effect of institutional relations to the dynamics of market economies is fostered.

Technical change is certainly a major force in the evolution of economies. Technical change is typically, but not always, embodied in capital assets. Even if there is no such serious embodiment, technical change will lead to changes in the composition of output and in the demand for non-capital inputs to production (labor). In capitalist economies, finance deals with the valuation of capital assets and with making real resources available to investing units. Thus, technical change interacts with finance in two ways: finance is required to embody new production techniques in capital assets, and changes in the composition of output due to technical change alter profit flows among various existing capital assets.

assets.

In our economy profit flows, as earned by existing capital assets, are to a large extent, committed by contracts to the validation of debts and of equity instruments. Our economic processes take place in a system where borrowing and lending on the basis of margins of safety are essential to the system's functioning. Technical change may lead not only to large claims on available finance (as in the case of nuclear power plants) but also may lead to large changes in asset values (as in the case of the current market value of steel mills). Thus the availability and the viability of financial commitments, the willingness of "finance" to take chances, and the overall course of the profit flows available to validate capital asset prices are major determinants of whether an abstract technical dynamism is translated into economic dynamism.

In a similar way labor market dynamics - which reflect the adaptability of institutional structure - determine how financed technical changes and changing asset values will be reflected in the costs of production and employment. Labor market arrangements that are mainly protective of the status quo can be constraining factors in the adaptive power of an economy. It is therefore meaningless to study technology in the abstract as a determinant of economic performance; an integrated study of capital, labor and financial markets is necessary if a deep understanding of the impact of technology is to be achieved.

In financial markets, marked changes at an apparently accelerating pace have occurred in the structure of institutions and relations and the instruments used. These changes, which reflect an innovative process that is not primarily linked to technology, seem to be a major cause of the observed change from tranquility to turbulence. While not denying the power of financial innovation and change to disturb market economies, one aim of the study is to examine how financial changes and their impacts are affected by developments in labor markets and the thrust of technological change.

The relation between technological change and business cycles that is central to Schumpeter's theory of development and cycles has been the subject

of renewed interest. It is our intention to examine how innovation in practices, technology, and institutions affected and were affected by the tranquility of the first postwar decades and the turbulence of the past decade and a half. Without adaptable financing techniques and labor markets technical change may not be possible. Innovations in financial and labor market practices are often necessary to achieve such adaptability. The interactions and linkages in time among labor markets and financial practices may determine whether the economic impact of technical change is stability enhancing or turbulence inducing.

The problem we posit and the factors we emphasize can be summarized by three key words :

- innovations ;
- instability ;
- institutions.

These topics are dealt with by the papers presented in this book which is organized around three markets :

- product markets;
- financial markets;
- labour markets.

The dynamic nature of the problems we posit is such that the standard neo-classical theory may be of only limited relevance . To a large extent, the seminar is an attempt to integrate the focus on innovations by business firms, emphasized by Schumpeter, with the economy-wide approach of those, like Keynes, who emphasize money and finance. The relation between technological change and business cycles that is central to Schumpeter's theory of development and cycles has been the subject of renewed interest. It must be integrated with the other determinants of instability. and with the analysis of those institutions checking the process of instability from explosion. (micky)

going into details,

Caskey-Fazzari look for the interrelationships between the credit market and the macroeconomic models,

while,

Egidi, on one hand, and Dosi-Orsenigo, on the other, study two analytical aspects concerning technical change. The former deepens the relationships between technology and diffusion of information, showing also the limitation of the ne-classical model. The latter analyze the micro-macro impact of technological change.

As far as part III is concerned,

Crotty focuses these problems on the investment function. Vercelli studies the relationship between technological change, finance and structure of the firms, while Bellofiore studies these interrelationships from a history of economic thought point of view.

Finally
~~In the~~ as far as the labor market is concerned, Ferri-Greenberg analyze a kind of instability that can be generated in this market and that does not lead necessarily to chaotic behavior because of the hypothesis underlying the model or the intervention of particular institutions. Ester Fano, on the contrary, studies the impact of technological change in the historical context of the 30's.