

Rethinking capitalism: The power of creative destruction

Philippe Aghion



CREATIVE DESTRUCTION...

- Process whereby new innovations displace old technologies
 - Joseph Schumpeter in *Capitalism, Socialism et Democracy* (1942)

BASIC “SCHUMPETERIAN GROWTH” PARADIGM

- Long-run growth driven by cumulative process of innovation
- Innovations result from entrepreneurial activities motivated by prospect of innovation rents
- Creative destruction: new innovations displace old technologies

CREATIVE DESTRUCTION...

- Contradiction :
 - The innovator is motivated by prospect of monopoly rents
 - But those rents can be used ex post to prevent future innovations and to block new entry
- Schumpeter was deeply pessimistic about the future of capitalism
- We advocate an « optimism of the will »

IN THIS LECTURE, WE USE THE LENS OF CREATIVE DESTRUCTION TO...

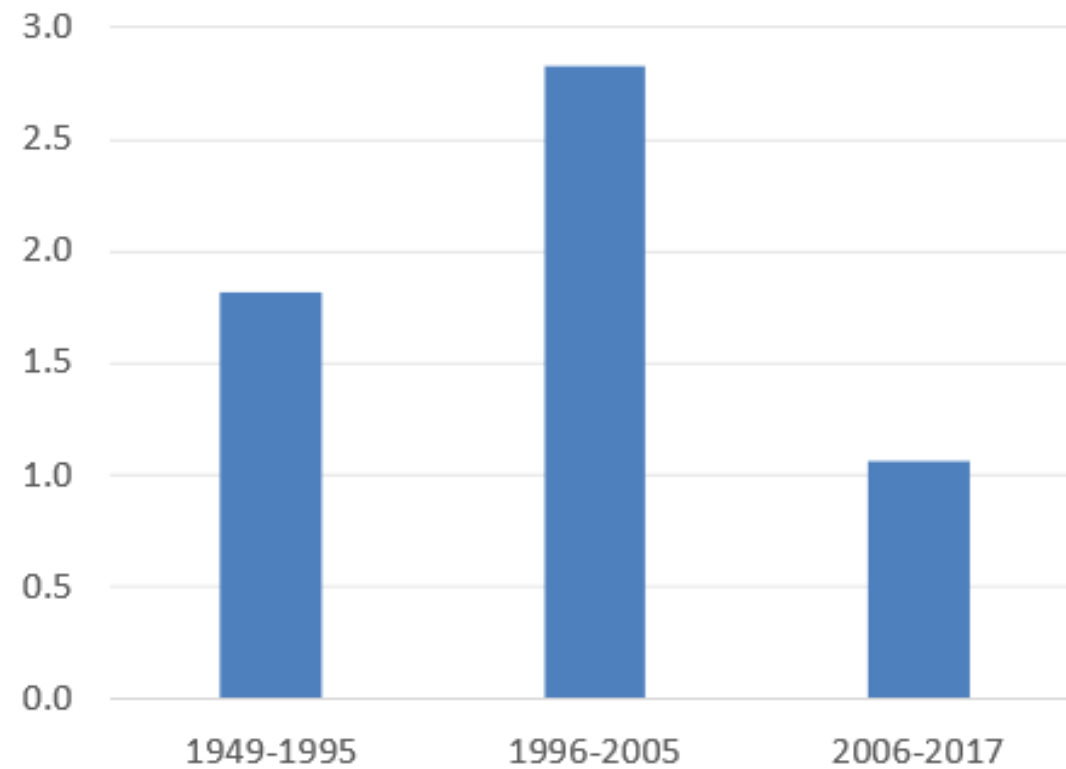
- Revisit some main *enigmas in economic history*
- Rethink *the future of capitalism*

PART 1: SOME HISTORICAL ENIGMA

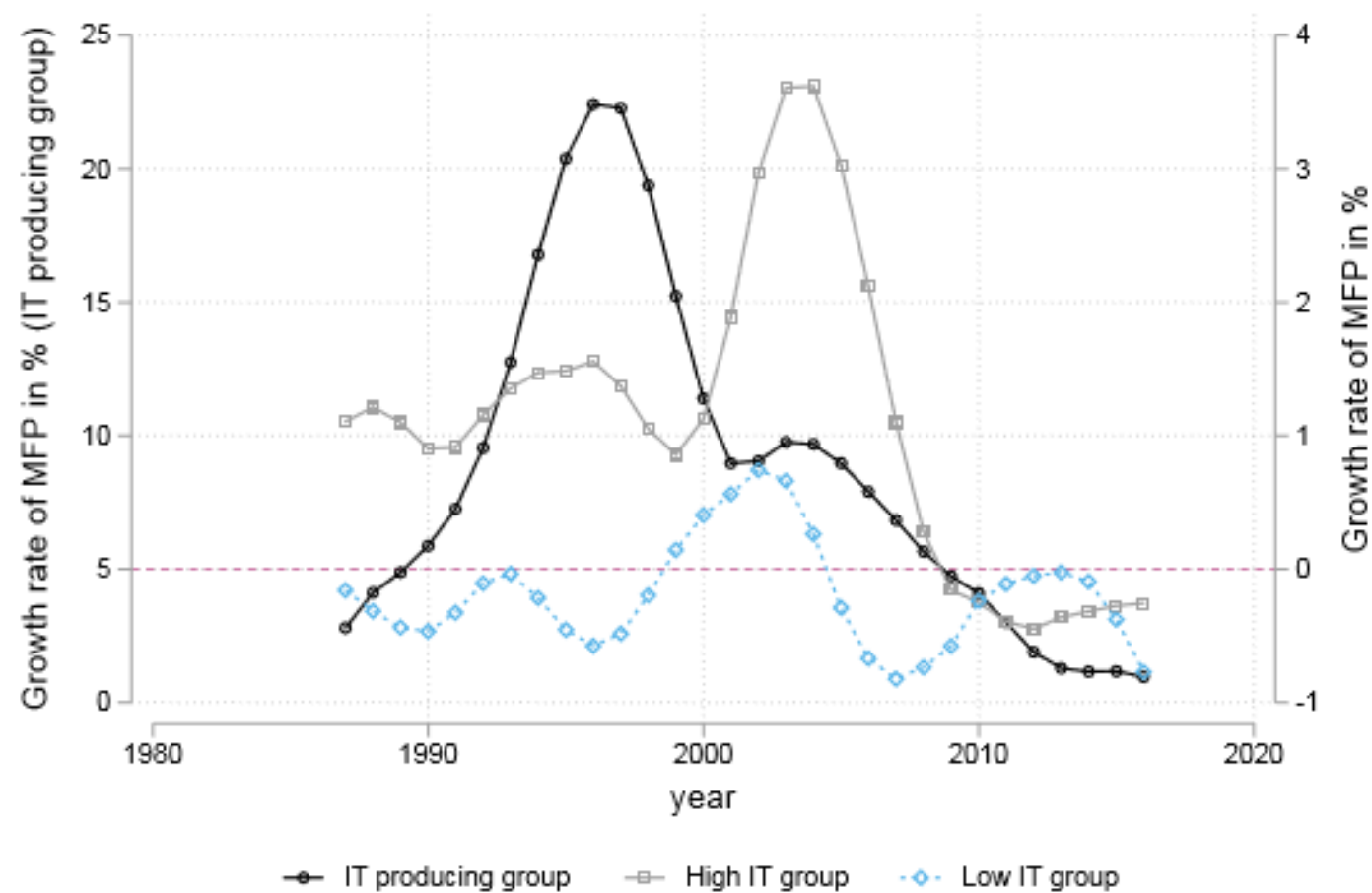
SOME HISTORICAL ENIGMA

- **Secular stagnation**
- Middle income trap

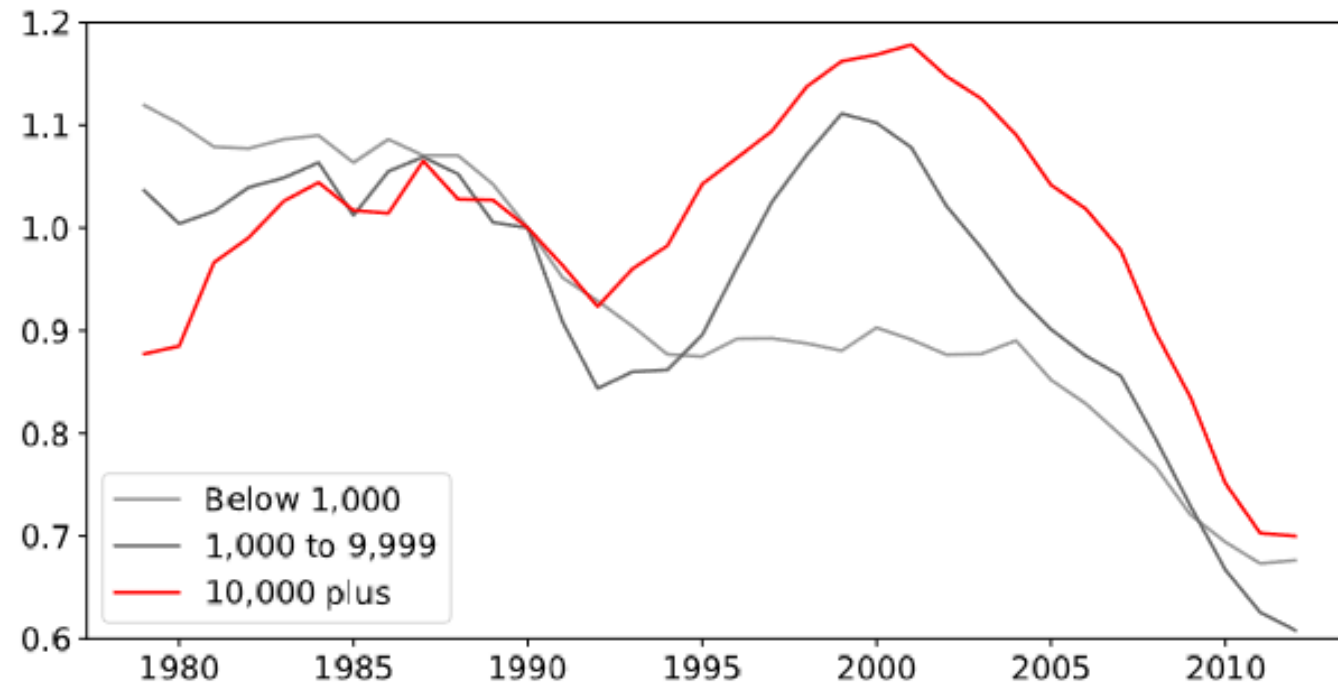
RISE AND DECLINE IN TFP GROWTH



TFP GROWTH BY IT INTENSITY



Rise and decline in employment-weighted plant entry rate

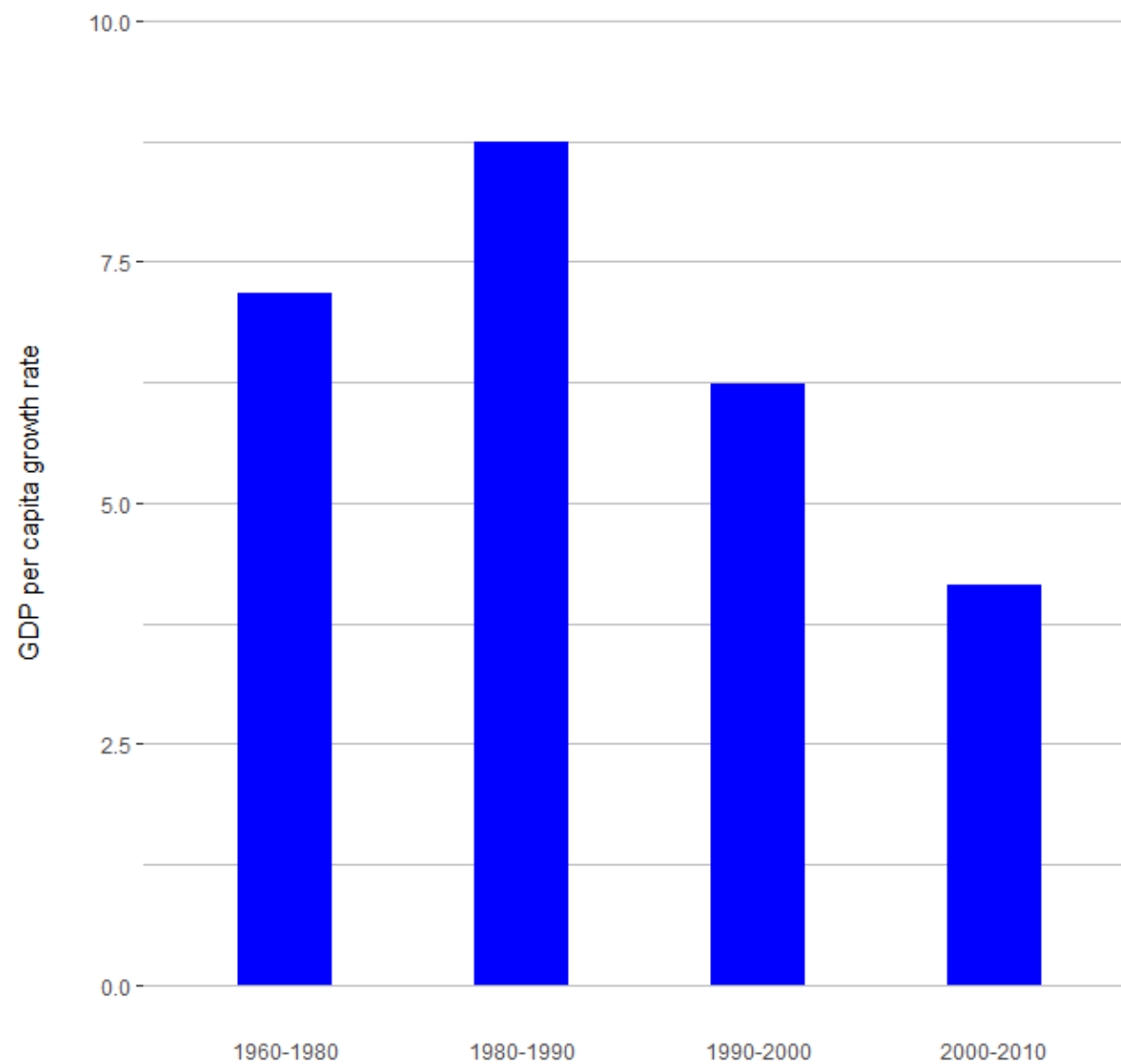


Source: U.S. Census Bureau's *Business Dynamics Statistics*. Job creation by birth over total employment by firm size bins. 5-year centered moving average.

SOME HISTORICAL ENIGMA

- Secular stagnation
- **Middle income traps**

KOREA: 1960-2010

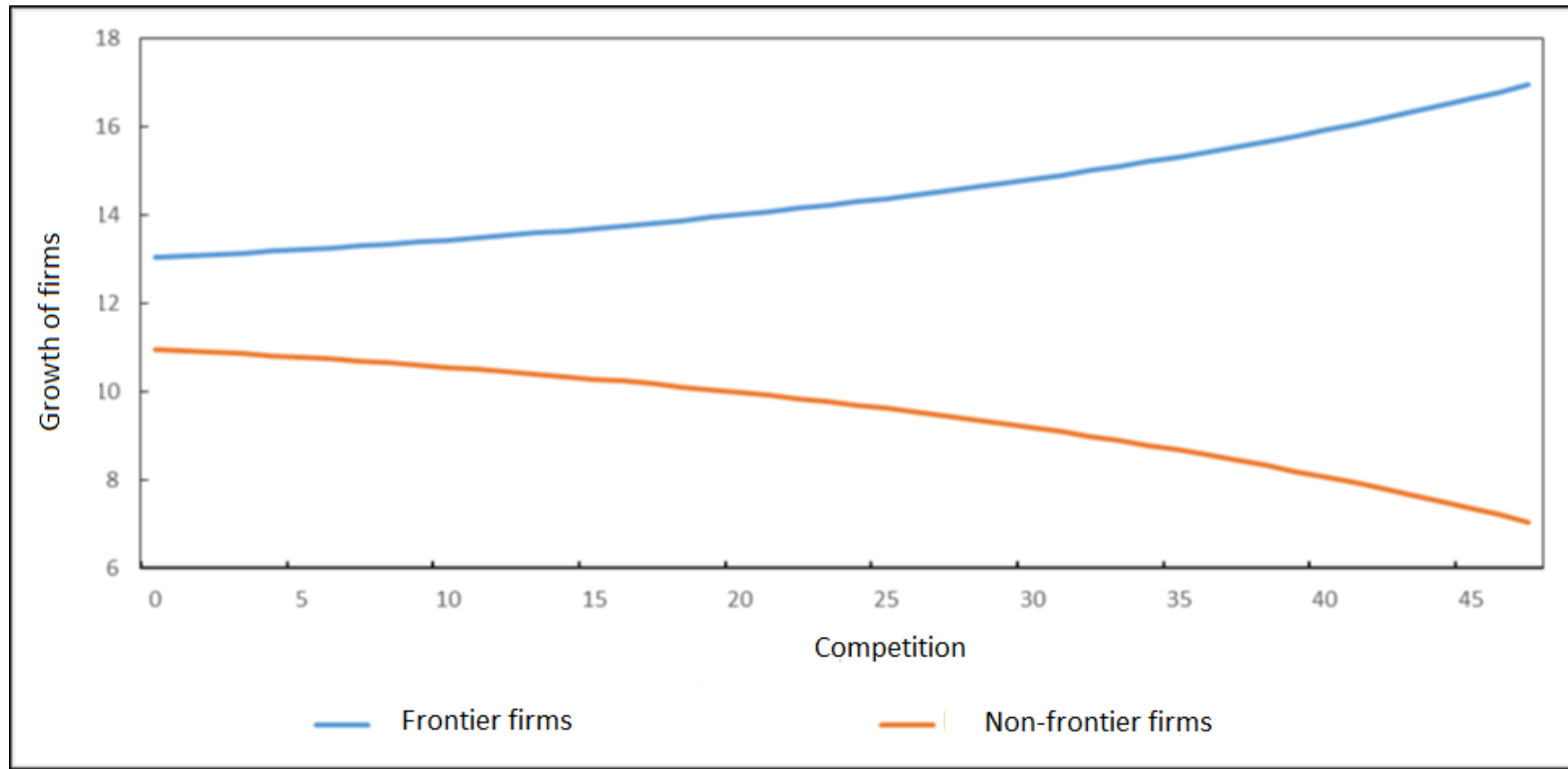


FRONTIER INNOVATION VS CATCH UP GROWTH

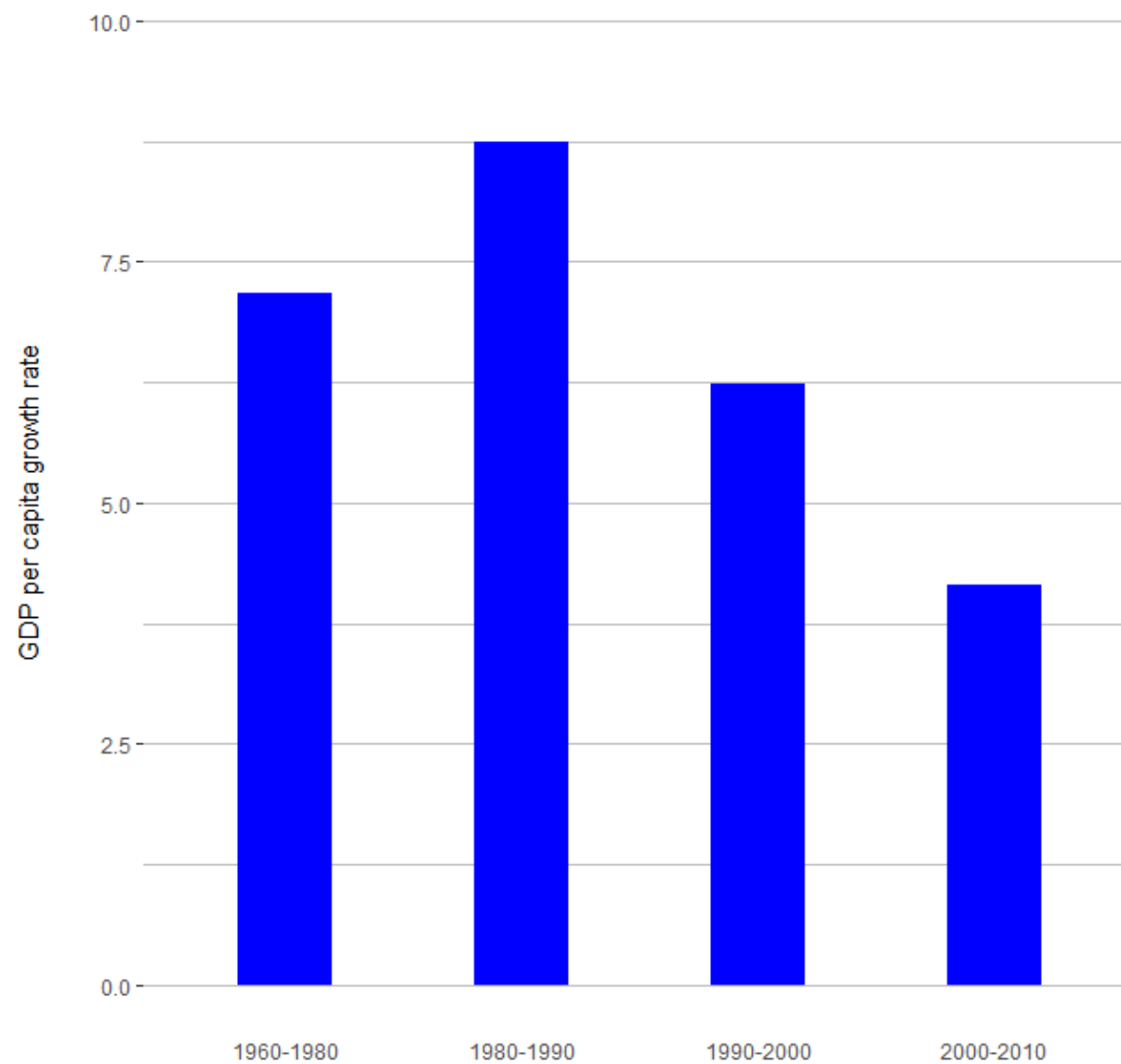
$$A_{t+1} - A_t = \mu_n(\gamma - 1)A_t + \mu_m(\bar{A}_t - A_t)$$

Thus policies aimed at influencing μ_n and μ_m will affect a country's growth performance differently depending upon its proximity to world technology frontier (Acemoglu-Aghion-Zilibotti (2006))

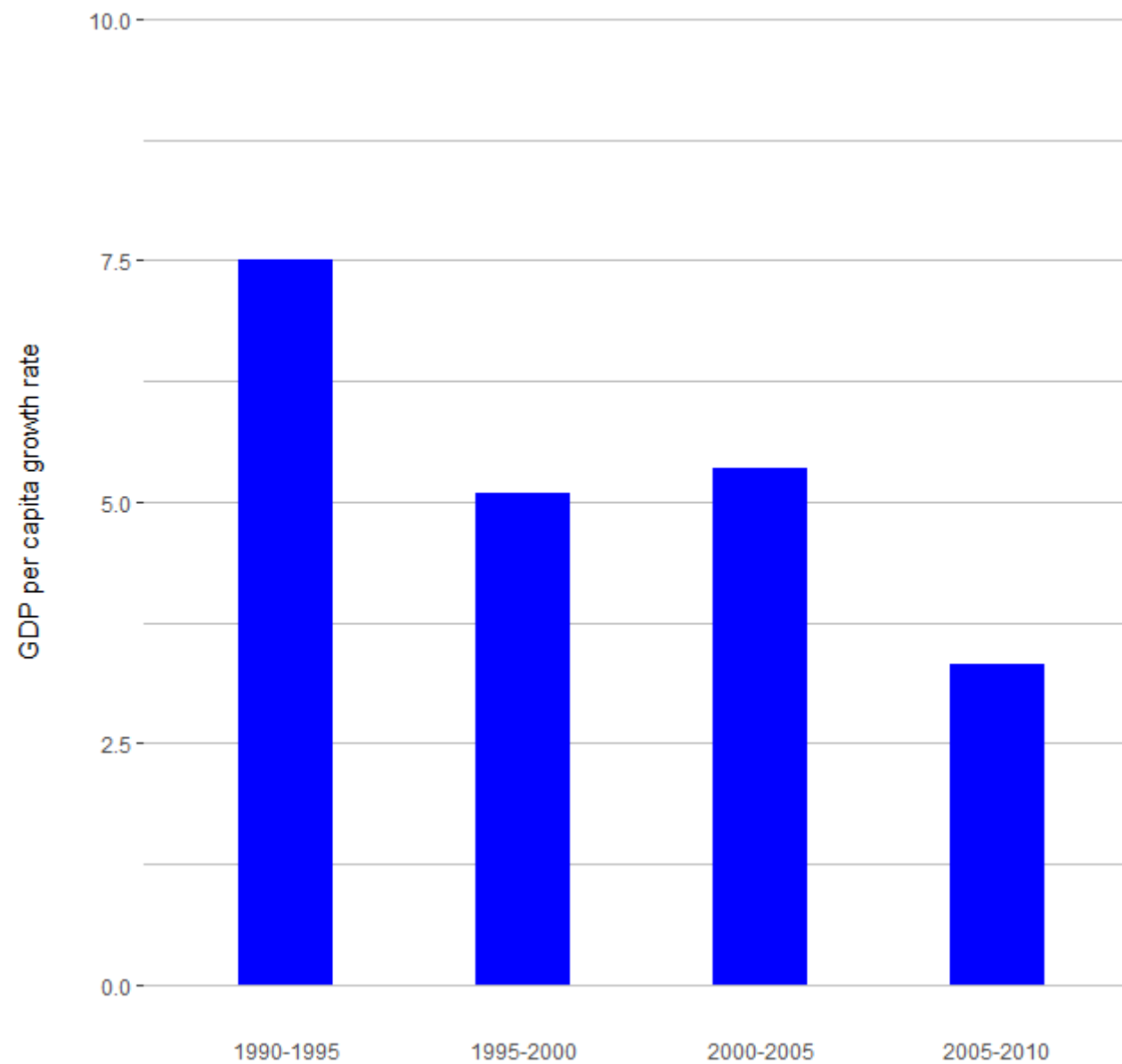
COMPETITION, GROWTH AND DISTANCE TO FRONTIER



KOREA: 1960-2010



KOREA: 1990-2010

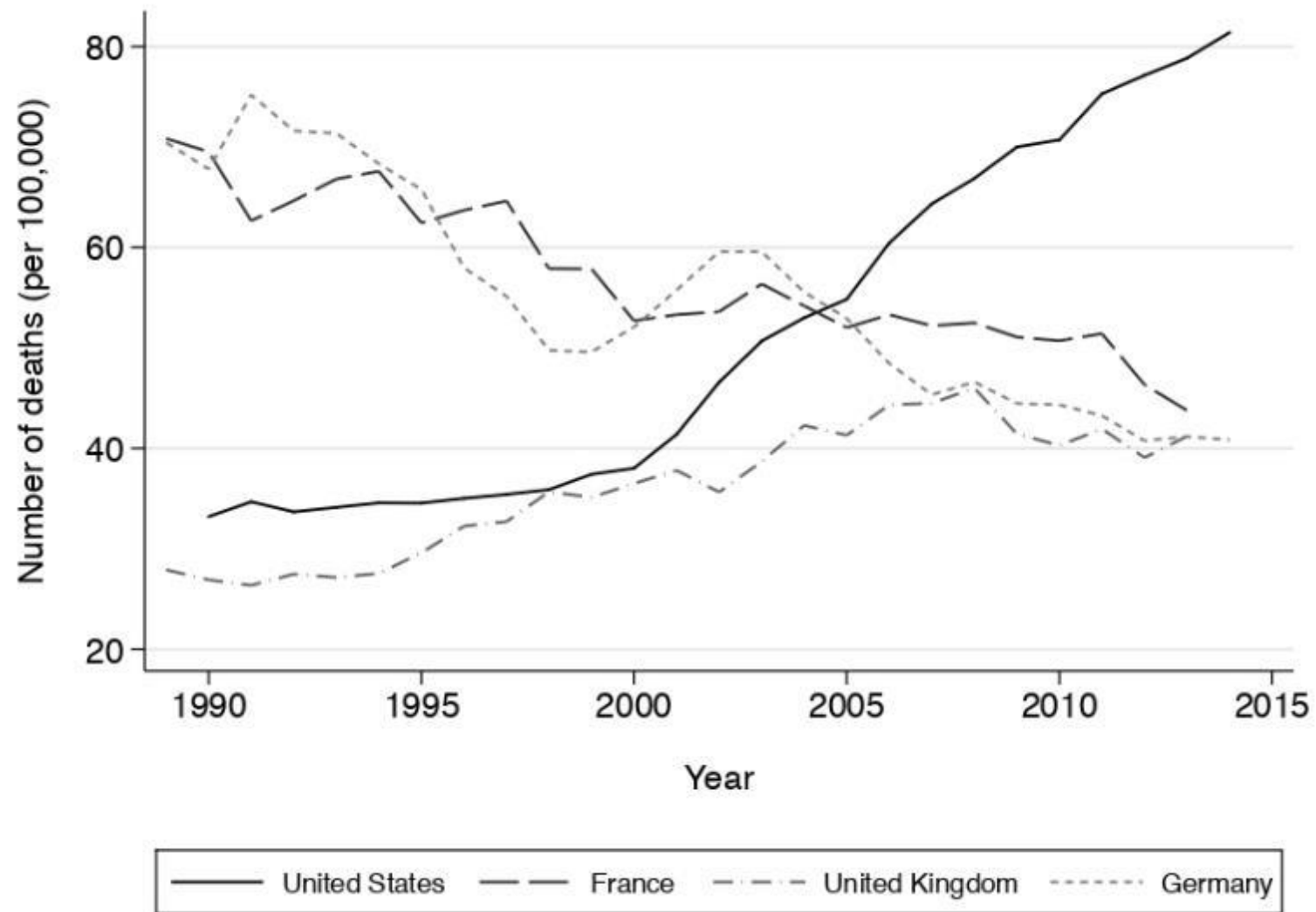


PART 2: RETHINKING CAPITALISM

RETHINK CAPITALISM : COVID AS A REVELATOR

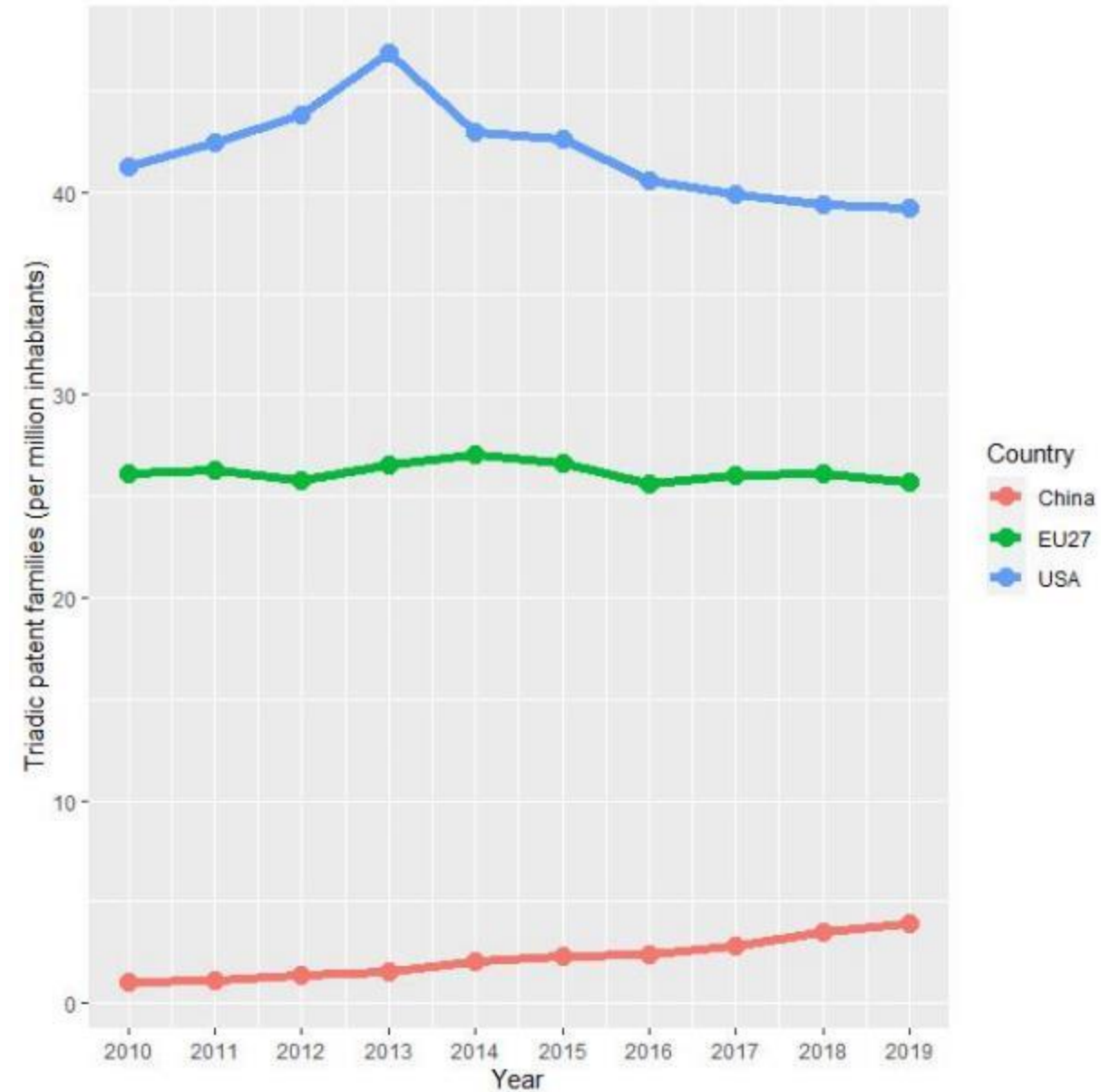
- US does poorly on inequality and social protection
- Europe does poorly on innovation

FLEXSECURITY



Source: Case and Deaton (2017).

COVID AS REVELATOR



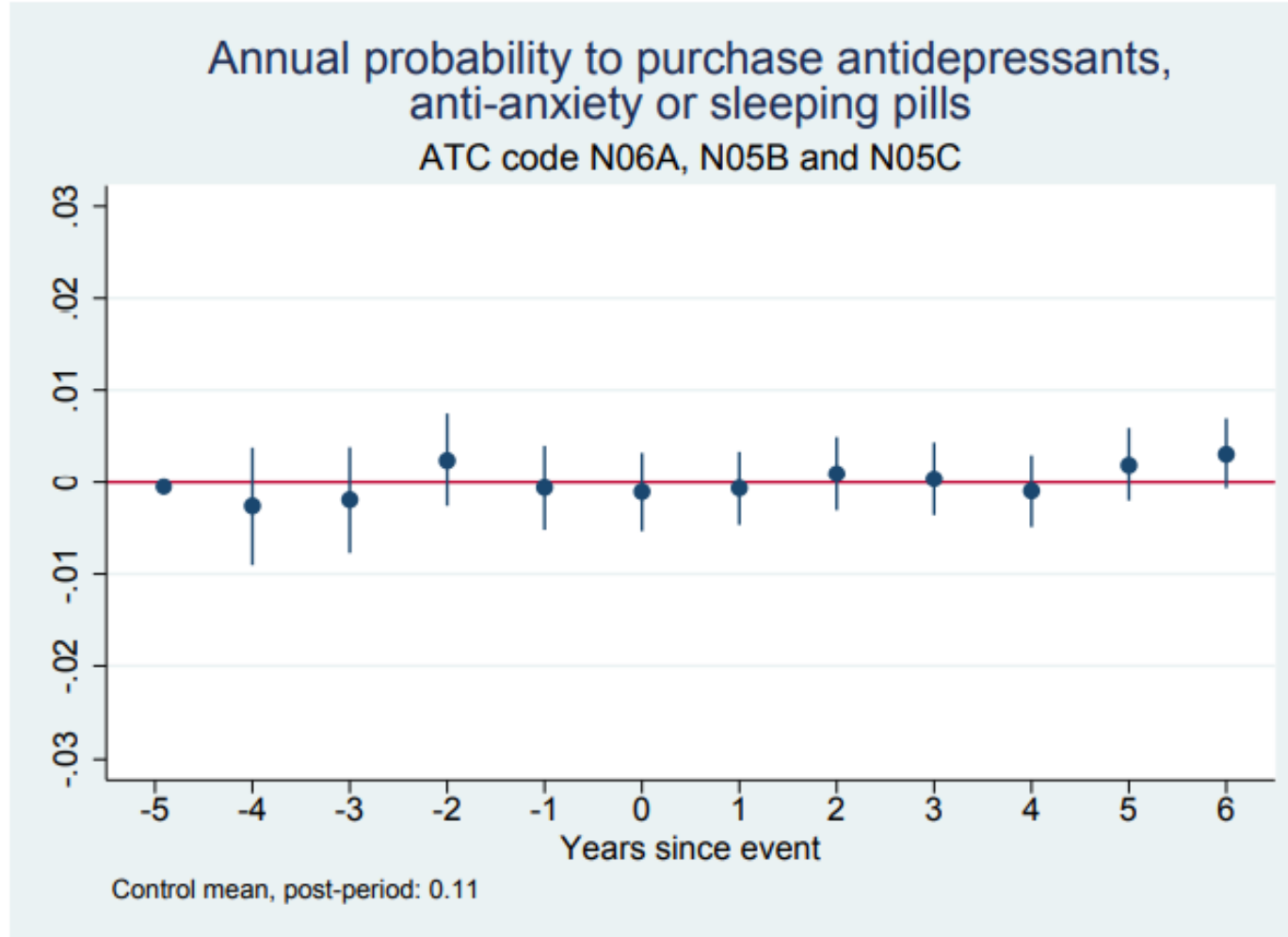
Triadic patents (per million inhabitants)

RETHINK CAPITALISM

- Combine good side of American model (innovation) with good side of European model (protection)
- No trade off, rather, complementarity!!
 - Flexsecurity
 - Education and lost Einsteins
 - Competition

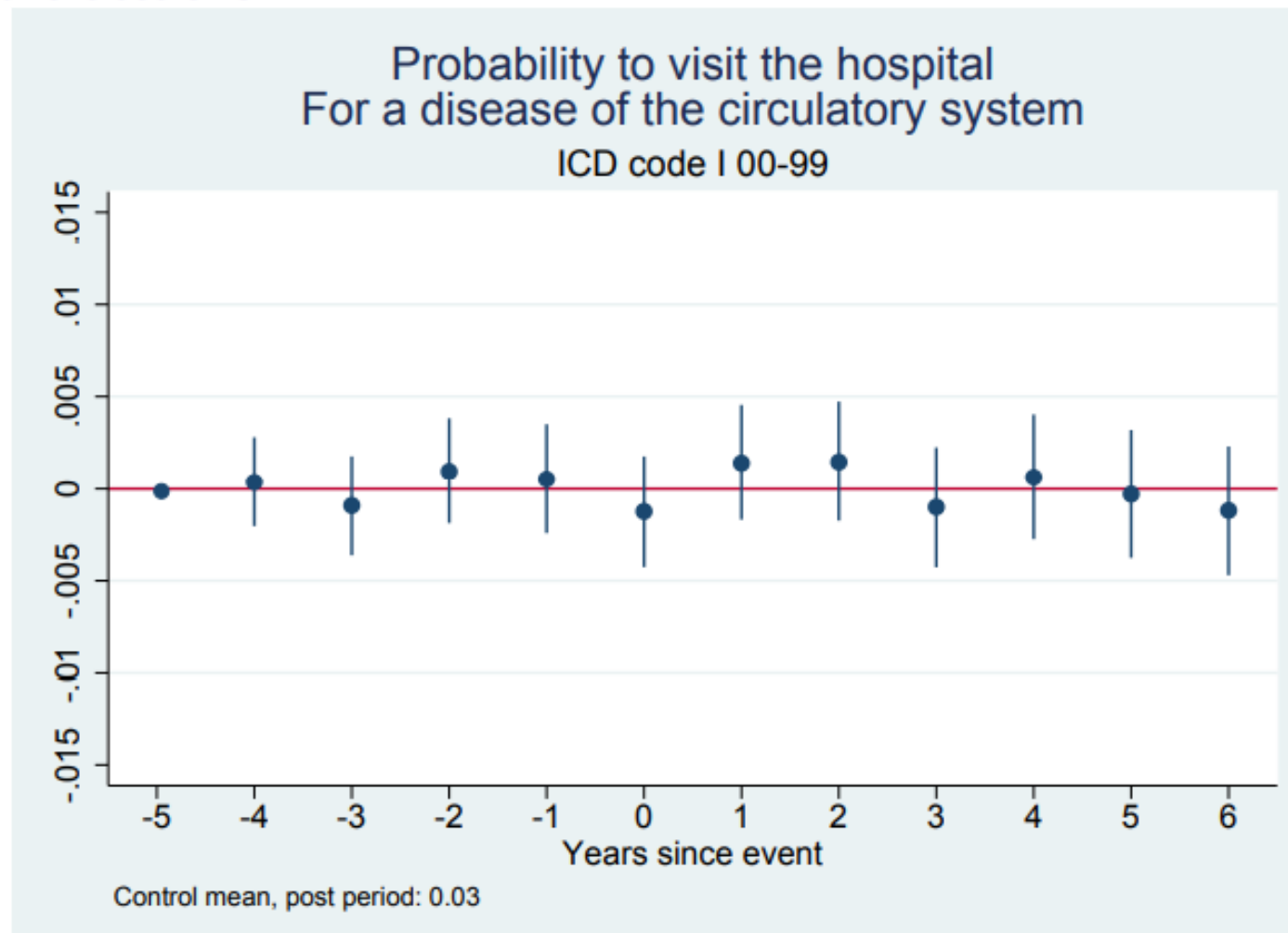
FLEXSECURITY: DENMARK

Moving to health: Antidepressants and related drugs

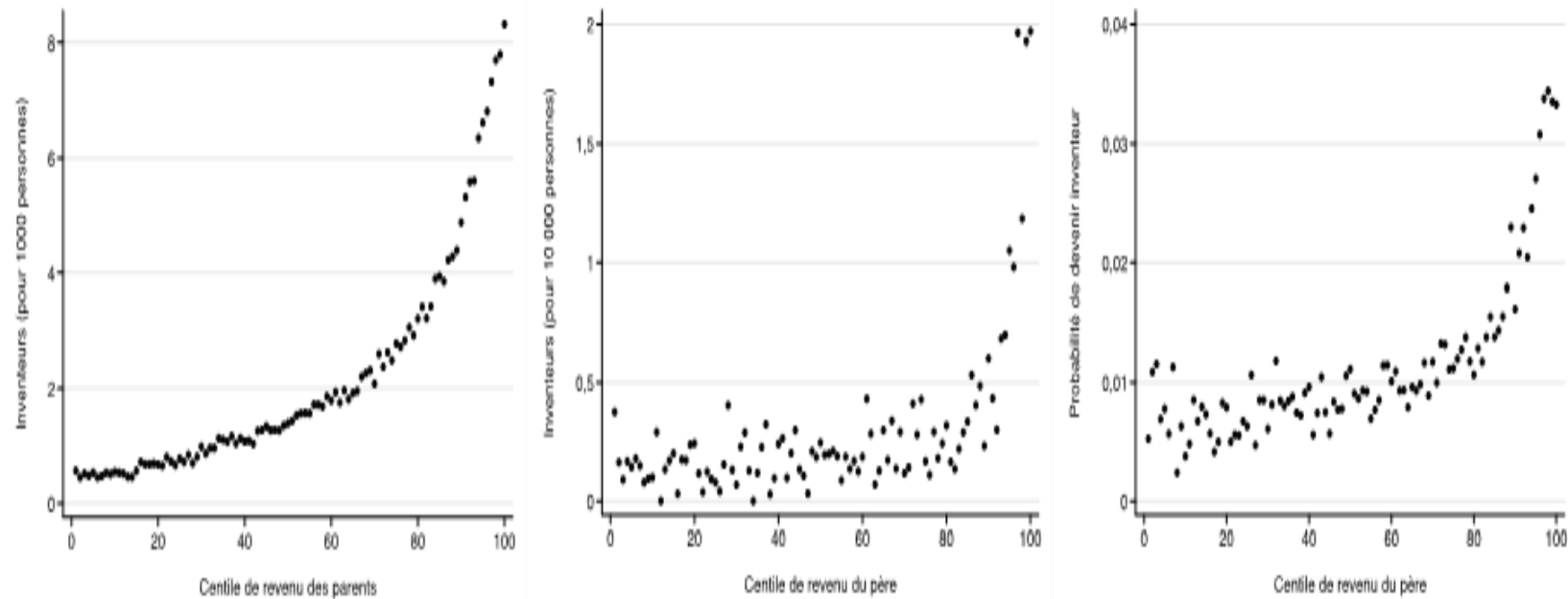


FLEXSECURITY: DENMARK

Heart attacks

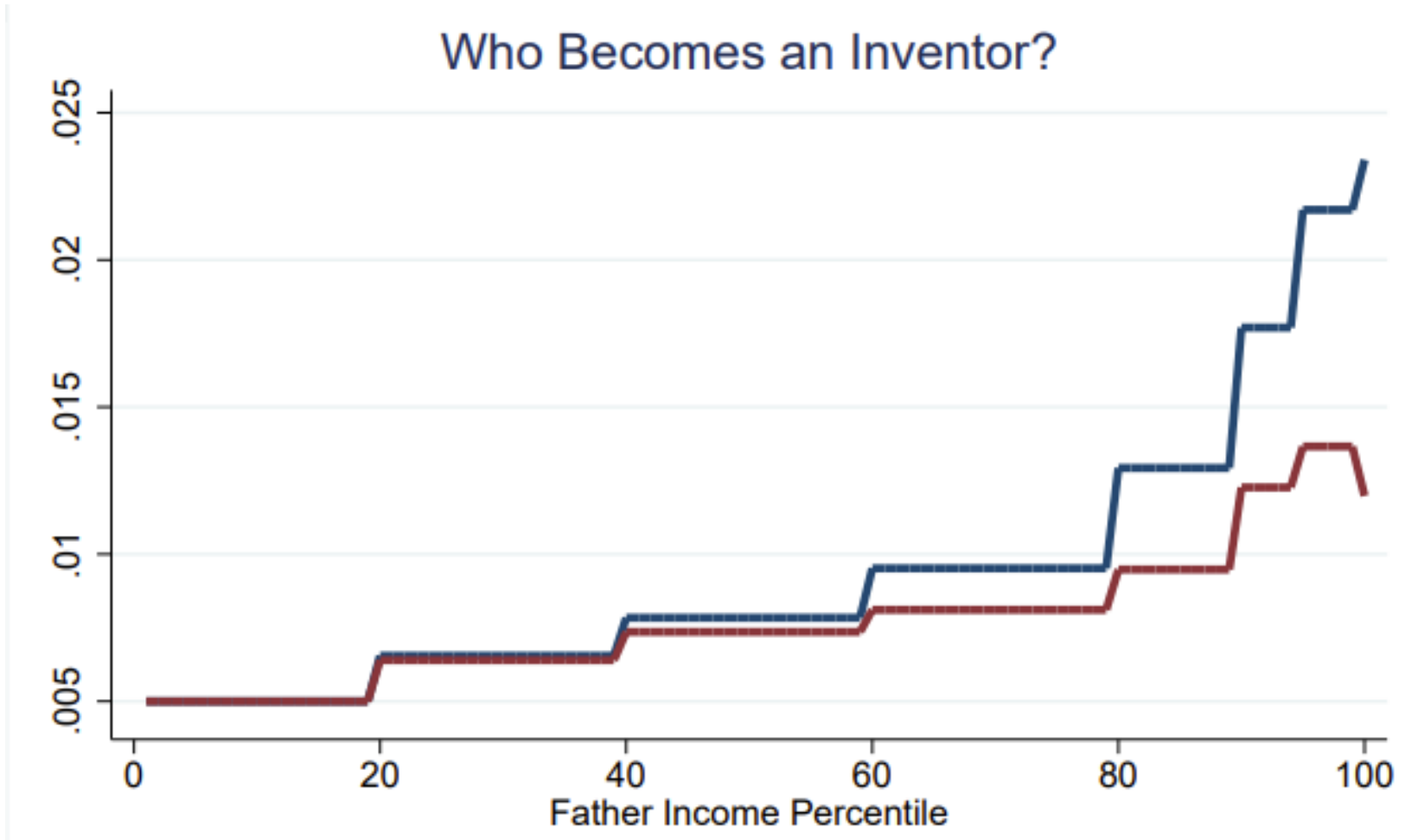


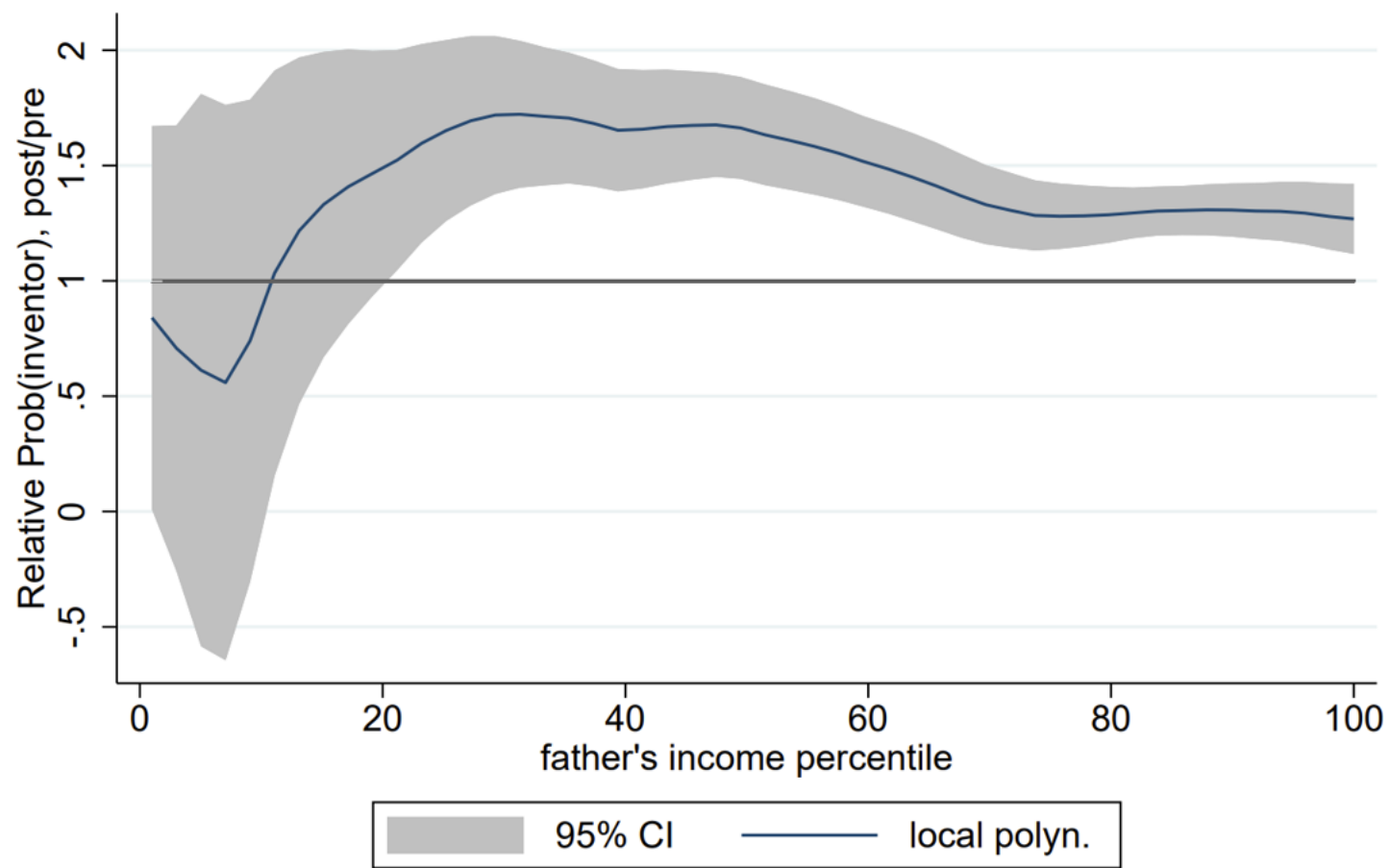
EDUCATION



Sources : Bell, Chetty, Jaravel, Petkova et Van Reenen (2019) ; Akcigit, Grigsby et Nicholas (2017) ;
Aghion, Akcigit, Hyytinen et Toivanen (2017).

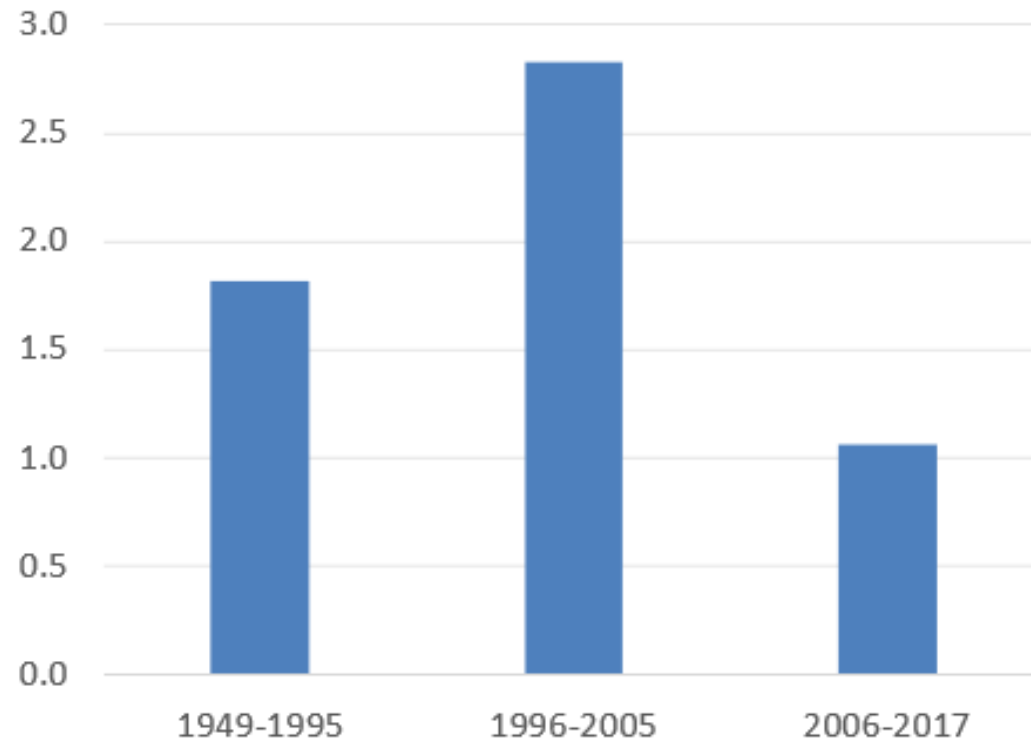
EDUCATION





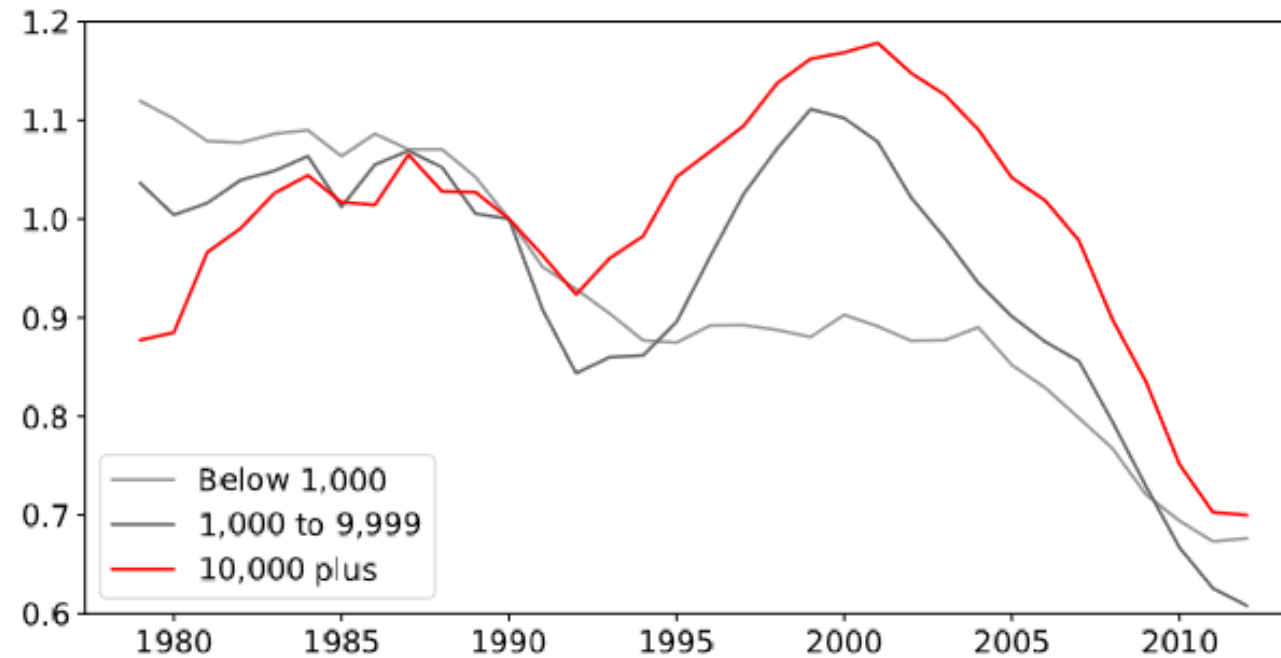
COMPETITION

RISE AND DECLINE IN TFP GROWTH



COMPETITION

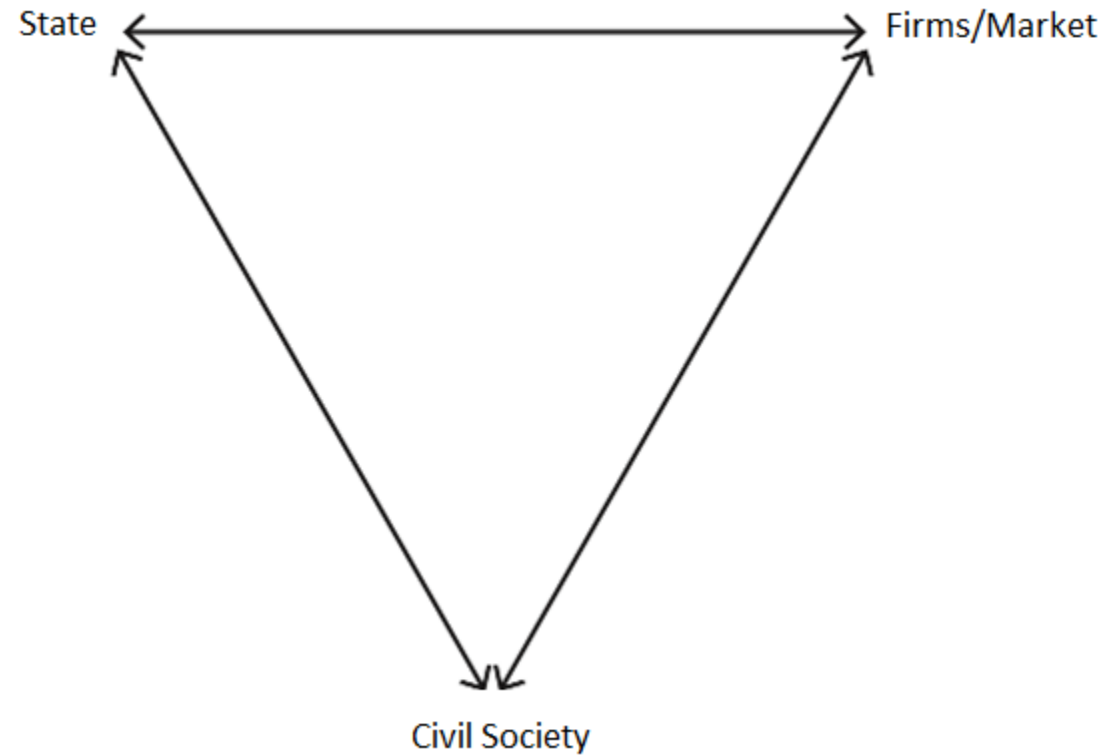
Rise and decline in employment-weighted plant entry rate



Source: U.S. Census Bureau's *Business Dynamics Statistics*. Job creation by birth over total employment by firm size bins. 5-year centered moving average.

RETHINK CAPITALISM

- Magic triangle: Firms/Market – State – Civil Society (Bowles and Carlin):



THE
POWER
— OF —
CREATIVE
DESTRUCTION

ECONOMIC UPHEAVAL
and the WEALTH OF NATIONS



PHILIPPE AGHION

▲
CÉLINE ANTONIN

▲
SIMON BUNEL



Foreword by
Emmanuel Macron

The
ECONOMICS
of
CREATIVE
DESTRUCTION

New Research on Themes from Aghion and Howitt

Edited by **UFUK AKCIGIT & JOHN VAN REENEN**

Thank you!