

A Time for Action and a Time to Lead: Democratic Capitalism and a New "New Deal" for the US and the World in the Twenty-first Century

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Societal Challenges of the Twenty-first Century

There are specific approaches that need to be considered across regions, sectors, and technologies in order to help us all transform global and precipitous threats into real opportunities for peace and prosperity around the globe.

On November 4, 2008, a level of participation by US voters in a presidential election unseen since 1908 shone a new ray of hope on a world full of gloom and doom; this indeed may be a major part of the solution required to tip the world onto a better path away from despair and decline.

The key concept that leaders in politics, the economy, society, and science need to endorse and make the conscience and mantra of us all as citizens and economic agents is the systemic inter-connectedness of the world. Therefore, to address challenges and opportunities today, sectors of priority where sustained action and inspired democratic leadership are needed must be empowered by both top-down policies and bottom-up, grass-roots initiatives and the intelligent use of technology. These sectors are as follows:

1. The financial/economic system
2. Environmental challenges

3. Feeding and healing the world
4. Energy challenges
5. Educational challenges
6. Political democratic reform across the world
7. Transformative government across the world
8. Equity and security across the world
9. Technology innovation and entrepreneurship as drivers of knowledge-based societies

These challenges are themselves logically and systemically interlinked in many and complex ways.

Complexity of Knowledge Societies

Current local, regional, and global economic and financial conditions and trends make the need to trigger, catalyze, and accelerate high-quantity and high-quality entrepreneurial initiatives that are based on high-quality and high-quantity innovations (low-, medium-, and high-tech) even more clear and present, as such initiatives are one of the major ways and means of targeting and achieving real, sustainable GNP growth that can eventually be accelerated.

Creative destruction is the "powerful mechanism" transforming and

adjusting not only economies, but also societies, into new techno-economic regimes, and has profound implications on societal equilibrium and status quo. The systemic socioeconomic and cultural impacts of technology and innovation-driven creative destruction must therefore be better understood and politically managed. Instead of being a wild force, creative destruction can and must be steered and put into the service of democratic societies.

In doing so, policies should become not only global but also holistic and more sophisticated, thereby overcoming their traditional sectoral boundaries (i.e. research, innovation, education, the labor market, transportation, and health).

The holistic policy perspective should support and leverage creativity in the entire society, while losses due to the destructive powers of (radical) innovation and entrepreneurship should be alleviated at the level of the individual as opposed to the level of firms or sectors, irrespective of how big and important these firms or sectors are for the nation. If not, inequality, bitterness, defiance, distrust of democratic institutions, and violence will only increase and worsen throughout the world.

Hence economic growth may come from new and qualitatively different

and superior initiatives in "sunrise" industries, as well as from the revival of existing industries, as it may be strategically more prudent to invest scarce and precious resources in carefully calculated strategic "bets" against main societal threats, rather than continuing to throw them at waning industrial sectors and declining firms. In that sense, it may be best to provide incentives and possibilities for retraining, reinsertion, and/or early retirement programs in order to allow real growth strategies to be implemented.

The so-called low-tech sectors are constantly revitalized and revolutionized with the help of generic technologies and innovative management practices. One need only think of the green revolution with the tremendous effect it still has on societies, including urbanization. Textiles, the food industry, and construction are but a few examples of areas where innovation and entrepreneurship are already making a difference. From a sector-specific perspective, one could assert that high-tech growth is a myth. In fact, structural change is actually a very slow process in all national economies, and the high-tech sectors still represent a very low share of these economies. The truth is that more often than not, old industries adopt

new technologies and breed new solutions, since expertise and know-how can usually migrate and capitalize on closely interlinked activities and technologies.

Hence, already we are discerning a dilemma regarding targets in the modern innovation policies we need most. Hidden innovation practices must be better understood and supported, and it should not be just the new and high-tech areas of industrial development that benefit from the public policy support and R&D funding of more or less the same prioritized areas across the globe; that is, biotechnology, nanotechnology, ICT, and most recently, clean-tech.

The Nordic Model

The secret to the success of the Nordic countries and economies is that policies address and balance the needs of the many, not the few, and that they do so without hampering personal development paths. The majority of citizens are included in multi-local decision-making webs, and early on they learn to trust and manage the basic rules of distributed power. It follows that innovation cannot exist without trusting the individual and without individuals trusting the state and the public sphere.

Let us briefly consider what are the main achievements of these societies:

- The level of corruption is low, and there is a system of checks and balances and transparency that makes the public trustful and willing to contribute to common goods and to societal investments in education, training, health, public infrastructures, etc. There is always scope for improvement, but the fundamental challenge for these societies is to preserve these qualities intact.
- Flexicurity systems enable the forces of creative destruction in the economy to freely unfold and develop while the individual (the ordinary employee) is protected from the adverse consequences of these forces, and they also increase mobility in the labor market. Hence, incentives to try and fail and to innovate and experiment at the individual level are amply present, and risk-taking costs are clearly lower in Nordic countries compared to other areas of the world, where individuals are more worried about job security since the consequences of becoming unemployed are enormous,

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affecting the education and status of their children, etc. Again the main challenge is the problem of "moral hazard," where individuals are tempted to lavishly misuse societal benefits. This is why empowerment through allocating responsibilities, articulating expectations, and integration is a major policy and cultural issue in Scandinavia.

- Developing individual competencies and focusing on high-quality education for all, as well as on lifelong learning policies, seems to be an additional major advantage of the Nordic knowledge-based economies. Lifelong learning in this respect is a key issue, as is trust in, quality of, and effectiveness of public services at all levels. Hence, the lessons learned from the Nordic countries are that innovation in the broad domains of economic life, investment in human capital, development of democratic processes, and constant innovation in the public sector are fundamental aspects of future prosperity.

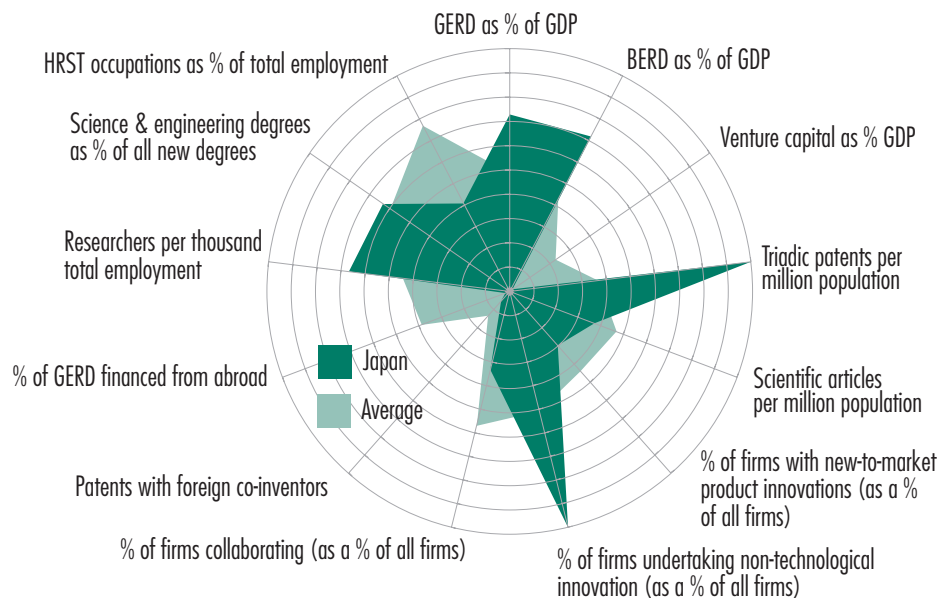
From this follows the direct derivative of a collection of top-down policies as well as bottom-up initiatives. Specifically, the concepts of *robust competitiveness* and *sustainable entrepreneurship* are pillars of a regime that we call "democratic capitalism" (as opposed to "popular or casino capitalism"), in which real opportunities for education and economic prosperity are available to all, especially—but not only—younger people. These are the direct derivative of a collection of top-down policies as well as bottom-up initiatives (including strong R&D policies and funding, but going beyond these to include the development of innovation networks and knowledge clusters across regions and sectors).

- We define *sustainable entrepreneurship* as the creation of viable, profitable, and scalable firms. Such firms engender the formation of self-replicating and mutually enhancing innovation networks and knowledge clusters (innovation ecosystems), leading toward robust competitiveness.
- We understand *robust competitiveness* to be a state of economic being and becoming that avails systematic and defensible "unfair advantages" to the entities that are

part of the economy. Such competitiveness is built on mutually complementary and reinforcing low-, medium-, and high-technology and public and private sector entities (government agencies, private firms, universities, and nongovernmental organizations).

First, existing and new small and medium enterprises (SMEs) that can provide better solutions for less and are more environmental friendly will always be winners—even and perhaps especially in down markets and recessionary economic cycle stages. This is an area where fiscal, monetary, institutional, intellectual property rights (IPR)-related, and other public-private sector programs and initiatives are needed to help unlock, capture, and fully leverage the value-adding potential of the world's knowledge creation infrastructure (i.e. universities, research institutions, and private sector R&D facilities) by providing incentives and establishing a large number, scale, and scope of pilots connecting organically and effectively all stages of the value-adding knowledge chain (from the lab to the market via world-class SMEs that are both locally as well as globally oriented by design and new ones from their inception).

Figure 1. Science and Innovation Profile of Japan



Source: OECD Science, Technology and Industry: Outlook 2008- OECD © 2008 - ISBN 9789264049918

Second, the role of a public sector that is ever-innovating—not only toward greater levels of efficiency and effectiveness, but also toward new ways of organizing and addressing newly emerging issues with the objective of providing framework conditions for socio-economic development and empowering and attributing responsibility to citizens—is fundamental. The more complex the world, the more important it is to develop the intelligent, robust, responsive, progressive, and flexible organization of public services and policies.

The Japanese Context

Japan is a country that, according to many indicators, is at the forefront of global knowledge production. The *OECD STI Outlook 2008* states: "... R&D outputs have not always appeared commensurate with the substantial investment in R&D. ... Strengthening the efficiency of the innovation system will be essential to increasing growth" (see figure 1).

Yet, strengthening the efficiency of the innovation system implies that greater efforts should be invested in making Japanese society even more responsive and flexible to the needs of future knowledge societies and even more open to innovation and entrepreneurship by focusing on individual skills and empowerment.

In particular we would like to point out the following challenges:

- **Low levels of international R&D linkages, including a relatively low level of high-skill mobility.** For example, there is very little R&D funded from abroad in Japan.
- **Career paths open to women.** Generous maternal leave schemes and greater inclusion of women in highly skilled professions is still a considerable challenge for a society that has one of the most rapidly aging populations in the world.
- **Job mobility is very low.** This is probably a reflection of the low structural change in Japanese society, a result partly due to excessive regulation in the most dynamic segments of all modern societies—that is, the service sector—and partly due to a low degree of entrepreneurship and venture capital investment and low numbers of new entrants in a number of key economic sectors. Instead of securing jobs, Japanese society should pay more attention to increasing job mobility rates

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through ambitious and bold flexicurity and lifelong learning policies, as in the Scandinavian countries. This does not mean, however, that Japan should pursue a high-tech policy of economic restructuring.

- **Innovation in the public sector** should be prioritized as a key area of policy focus.

The fundamental point to be made here is that all these issues are areas where several policies intermingle. These are also areas that are closely related to the final performance and direction of the Japanese economy and society. Therefore, they should also be regarded as societal and economic challenges requiring considerable and more encompassing

policy reforms than the ones already announced in the narrower domain of present research and innovation policies. Again, the ultimate aim is that policies contribute to the empowerment and innovativeness of responsible citizens in a democratic and prosperous society.

The challenge and opportunity is to engage on a large enough scale to convert the past failures of courage and imagination into future successes, and to learn to convert counter-productive cynicism into empowering dreams grounded in reality.

A further challenge will be to identify and outline clearly and convincingly to all citizens in the US and the world a vision for the future and a strategy for change that is comprehensive, feasible,

and compelling enough to overcome the "cynicism premium" that politics has to pay to atone for prior failures of omission and commission.

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