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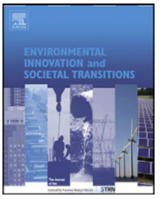

Unleashing a golden age after the financial collapse: Drawing lessons from history☆

Carlota Perez[a,b,*]

[a] LSE, Cambridge and Sussex Universities, UK
[b] Technological University of Tallinn, Estonia

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ABSTRACT

The current crisis is not a "black swan" but a recurrent historical event midway along the successive technological revolutions. In contrast with other crises, the ones that follow the major technology bubbles install a vast innovation potential that can be unleashed with adequate government policies. The so-called golden ages in the past two centuries (the Victorian boom, the Belle Époque, the post war golden age) have followed post-bubble recessions. After governments save the banks and jump-start the economy, they need to regulate and reorient finance toward the real economy while fostering synergistic growth in agreed directions. The article holds that the possibility is there for unleashing a golden age – national and global – by tilting the playing field in favor of "green growth". The question is whether the conditions for government to become proactive again are as favorable as after WWII.

1. Introduction

There are few people left who doubt that the crisis ensuing from the 2008 meltdown is serious, is global, may be prolonged and requires decisive government intervention of some sort. However, there is a long way to go yet to reach agreement on the need for far-reaching institutional changes as the way toward a stable solution.

☆ This article is based on "How to make the economic crisis creative", published on the web in *Open Democracy* (2009b) under the Creative Commons License.

* Corresponding author.
URL: www.carlotaperez.org.

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The frequent comparisons with the 1930s and the calls for a new Bretton Woods are the intuitive recognition of a structural similarity between those times and these and between the actions taken then and the actions needed now. What this article will hold is that the capitalist economy has lived through four previous situations equivalent to the current crisis and that these occur regularly – and perhaps inevitably – midway along the diffusion of each of the technological transformations experienced since the first industrial revolution at the end of the 18th Century. Seen in that framework, this crisis of the fifth such revolution requires the return of an active State to provide the stage for the convergent and synergistic actions that will lead markets and society to the next golden age. The specific conditions provided by the new wealth creating potential suggest that such a golden age would be enabled by the ICT revolution, would be unavoidably global and necessarily sustainable. In fact, it would seem that only through massive "green" innovation radically transforming lifestyles can the incorporation of hundreds of millions of new global consumers become feasible.

The following section locates the current crisis in historical perspective, following the theory presented by the author about the long-term dynamics of bubbles and golden ages (Perez, 2002). Section 3 outlines the three tasks required of governments in confronting these once-in-a half-Century crises. Section 4 describes some of the actions needed to tilt the playing field to redirect innovation and investment in order to unleash a potential golden age. The final section compares the current conditions with those prevailing after WWII when the post-war boom was enabled by setting up the Welfare State and discusses whether the socio-political conditions are favorable to governments adopting equivalent proactive measures.

2. Not a "black swan": the historical recurrence of bubbles and crises

Growth in the world economy takes place by successive surges of about half a century,[1] each driven by a technological revolution (Perez, 2002). The massive changes that this brings each time around, not only in technology but also in production systems and organization, in means of communication, transport and distribution, in patterns of consumption and styles of living involve great behavioral upheavals in the economy and society.[2] For this reason, the difficult process of unlearning the old and absorbing the new takes twenty or thirty turbulent years of "creative destruction". It is after the massive paradigm shift has been basically achieved, that the fruits of the new technologies in higher productivity and widespread innovation can be reaped and socially shared. And this is when the two or three decades of well being, usually recognized as the golden ages, have occurred.

Historically, the first half of each great surge – or what can be called "the Installation period" – has been the time when financial capital shapes the economy, while the ideology of *laissez faire* shapes the behavior of governments. It is a grand experiment when unrestrained finance can override the power of the old production giants and fund the new entrepreneurs in testing the vast new potential. Finance then provides the stage and the funds for a massive process of ferocious competition, where many disappear, others survive and the new giants emerge. At the same time, since each revolution brings with it a new techno-economic and organizational paradigm, finance also enables and funds the modernization of the mature industries.

But what is perhaps the crucial role of the financial bubble is to facilitate the unavoidable overinvestment in the new infrastructures. The nature of these networks is such that they cannot provide enough service to be profitable unless they reach enough coverage for widespread usage. The bubble provides the necessary asset inflation for investors to expect capital gains, even if there are no profits or dividends yet. Thus the extreme "free market" ideology and the major bubbles have a role to play in the early decades of each great surge (Perez, 2002). As Bill Janeway (2012) puts it, technology bubbles are the instruments of what he calls "Schumpeterian waste", which is essential for the market selection of the innovations that will drive the economy.

[1] The use of the concept of "great surges of development" is a break with the long wave tradition of identifying them as upswings and downswings in GDP. Instead, the surges refer to the emergence and process of diffusion and socio-economic assimilation of successive (and overlapping) technological revolutions (Perez, 2002, pp. 60–61).

[2] This feedback relationship between the socio-institutional sphere and the techno-economic one is akin to Foxon's (2011) notion of co-evolution. In neither case are we claiming a deterministic view of the role of technology in relation to social change.