

# Innovative Capitalism Needs Institutional Co-evolution

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## *Abstract*

The pro-active transformation of the economy through major innovative breakthroughs is the characteristic of innovative capitalism. New product and services lines and new technologies create ever new business opportunities and secure continued profitability, employment, and growth. Major innovative breakthroughs are usually complemented by pro-active institutional adaptations. Supply chains are rearranged through entrepreneurial initiative. Government agencies plan and orchestrate adaptations of systemic infrastructure. However, the repercussions of major innovative breakthroughs can also trigger structural changes that cause social crises and/or environmental damages and ecological hazards. They, in turn, call for institutional adaptations in the regulatory framework of the economy and political governance structure. These are usually re-active adaptations as the critical side effects of innovations only turn out with a delay.

Both the pro-active innovation transformation and the re-active institutional adaptations are inherent features of restless innovative capitalism that is always in search of new business opportunities. But the two features and the very causal nexus between them are not equally well researched and understood. The industrial transformations and the complementary adaptation requirements regarding supply chains and systemic infrastructure have been broadly discussed and explained as, for example, the works on the breakthrough of general purpose technologies show (see Bresnahan 2010). By comparison, the re-active institutional adaptation needs are not so well understood, and the question of how their emergence is causally connected to the innovative dynamics has gained very little attention.

For that reason the present paper is devoted to discussing the re-active institutional co-evolution needs of innovative capitalism and why they recur over and over again. The key to both phenomena can be found, it will be argued, in the fact already described by Schumpeter (1934) that innovations only temporarily raise sales and profits. When sales growth slackens and competitive pressure on profits increases, producers often seek to create new products and technological innovations so as to restore profitability and growth. However, in the case of major innovative breakthroughs a host of innovative activities occur that eventually develop an impact on the formal and informal institutions in which the economy is embedded. The result can be critical societal and/or ecological developments that are often not easily attributable to the innovations that caused them. The influence of the innovative dynamics on the emergence of institutional adaptation needs will be discussed exemplarily for two recent crises, the one related to climate change and the other to mass migration.