

JANEWAY, William H.; *Doing Capitalism in the Innovation Economy: Markets, Speculation and the State*; Cambridge University Press, New York, United States of America; 2012; 329 p.; ISBN 978-1-107-03125-8

Thiago Corrêa Malafaia¹

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Development, innovation, investments, state intervention, and economic crisis have always been specially pressing themes in International Relations. Since Adam Smith, and even before him, these subjects have been addressed in heated debates, across a multitude of disciplines. These debates, however, are intensified when the most immanent moments of “tension” come: systemic economic crisis. What are the dynamics of these events? And how can one avoid them? Are there any prescriptions against the occurrence of crisis? And are crisis desirable? Janeway focuses specifically on these topics.

The author combines two ways of viewing global finance, investment, markets, and speculation: a practitioner’s insider view, and an academic’s view. With consistent practical experience in capital investment and extensive research experience on these subjects, he defends, among other things, a bigger state role in the funding of innovation, and heightened tolerance to the so called “Schumpeterian” and “Keynesian” wastes.

According to him, one should take into account the idiosyncrasies of both sides of what he terms “Innovation Economy” which “begins with discovery and culminates in speculation” (Janeway, 2014:1). Upstream, innovation is driven, mainly, by scientific discoveries of a myriad of facets, so long as they prove themselves to be economically meaningful. Downstream, and that is a striking argument, this “Innovation Economy” is directed by speculation. Naturally, this can lead, as it really did, to economic bubbles whenever and wherever liquid markets in assets exist. The book shows how the objects of speculation have changed overtime. The permissive condition for the appearance of crisis derived from speculation is the separation of the price of the financial asset from underlying cash flows.

¹ Doutorando em Relações Internacionais pela Pontifícia Universidade Católica de Minas Gerais (PUC-Minas). Endereço para correspondência: Rua Centralina, 795, Bairro Santa Inês, Belo Horizonte, Minas Gerais, Brasil. E-mail: thiagomalafaia@hotmail.com

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Not rarely speculators are able to make a profit out of the whole situation even though it can produce dire economic implications. That is when Out of occasion, it is also possible that the “product” of speculation be the financial representation of a technological innovation. The effective deployment of such technologies, in the form of “new products”, at scale, can be sufficient to open what the author labels a “new economy”. What is most staggering about this process is that the lack of market discipline is at its heart. And that is a pressing argument against the neoclassical school of thought in Economics that strives to achieve a “natural equilibrium” and economic efficiency.

In effect, drawing on the writings of List, Keynes and Schumpeter, Janeway shows us how the evolution of the “Innovation Economy” demanded a great deal of tolerance to unavoidable waste and was anything but economically efficient. And that is precisely where the state finds (or should find) its main roles: fund upstream research, leading, thus to discoveries and innovations; and preserve the market economy’s continuity at the time of “busts”.

In order to better grasp these interrelations he devises a model that incorporates three abstract concepts, which he latter theorizes upon: the market economy, the financial capitalism, and the state. This triad is labeled the “three-player game” and, so the argument goes, gave “birth” to a world in which government-funded fundamental research have lead, not seldom, to financial speculation directed at the improvement of technological infrastructure which, in turn, have lead to the improvement of living standards. It can also lead, incidentally, however, to situations in which bubbles in the financial system explode and spillover, liquidating, in their wake employed and employers alike.

public commotion and pleas to the government are most pronounced.

These environments are ones of inherent and rampant uncertainty. And that is precisely why the state should take a stand and become responsible for investments “upstream” and “downstream” more frequently, not only at market failure times. However, this is not what has been seen in recent years. In fact, Janeway observes a clear tendency, in Western economies and, specially, in America, of state pull back. This can have interesting and dire consequences: if, on the short run, one can expect to experience improvements in growth, employment and income, on the long run, however, one can also expect to loose the leadership of the “Innovation Economy”.

The book provides a daunting prospect for Western economies, and also prescripts some possible ways so that these countries can try and escape this challenging quagmire. It is divided in four parts composed of three chapters each and a final chapter where are presented the conclusions of the research. The first six chapters convey an insider’s/practitioner’s view about the topic; the other six an outsider’s/academic’s view. It is masterfully put together by an expert on the subject. Janeway’s arguments are so pressing that make one consider the appropriateness of neoclassical prescriptions in dealing with crisis, investments, scientific innovations and the Innovation Economy. The book is, thus, an astonishing contribution to the debate and may interest a wide array of researchers, ranging from areas such as Economics, Development Studies, International Relations, and Finance, as well as the general public and government official.