



**RESEARCH2REALITY**

Shining a light on research & innovation.

## **Can Creative Destruction Bring Prosperity for All?**

An Interview with Economists: Professor Daron Acemoglu, Massachusetts Institute for Technology; Professor Philippe Aghion, Collège de France; and Professor Daniel Trefler, University of Toronto

Canadian Institute for Advanced Research

### **Why research innovation?**

#### **Daron Acemoglu**

If you want to think about how economic decisions have a major impact on our long-term future, it is in the area of innovations. So we don't grow economically because suddenly things come down on us as manna from heaven. We grow economically because we have better and better ways of producing output, better and better ways of organizing production, organizing firms, organizing society, and those all come down to innovation technology and our ability to effectively implement them and make use of them.

#### **Philippe Aghion**

Trying to understand what drives innovation, the creative destruction associated with innovation, trying to look at the relationship between growth and competition or between growth and inequality, you have to have an organization or society that both encourages innovation but doesn't allow people to get the grants from it, to use those grants to prevent subsequent innovators. Because growth is a conflictual process, it's all the time the new replacing the old, how you manage that.

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## How do we foster innovation in society?

### Daron Acemoglu

For some people progress is becoming a more civilized, more encultured society. But for economists, progress has to be judged from the viewpoint of our society creating enough wealth for it to be shared by everybody so that poverty is not as acute. People are able to live more comfortable lives. Well what if we are creating more and more wealth, but at the same time we're taking a lot more civil liberties away, we're muzzling the press, we are getting rid of the freedom of speech? Well, that would not just be a very impoverished society, socially and culturally, but it would also, I claim, in the long run not enable that enrichment, that economic progress. If you have a system that benefits certain people at the expense of the rest. If you don't have equal opportunity, what happens is those that have the better opportunities really gain and that's why some of these terrible systems remain in place even though they're not good for economic growth. Opportunity is key for innovation, for economic progress, for people to get into right social and economic situations to create value for society.

## Why do institutions matter to innovation?

### Daniel Trefler

The big question about institutions are how do they change and adapt so that we can become more successful?

### Daron Acemoglu

You know, when we talk about institutions, we mean laws, regulations, and a society that creates the framework under which we function. Appropriate incentives and appropriate opportunities are at the root of innovation. Both are very important and that's why an institutional perspective is key here.



### **Daniel Trefler**

People will always tell you what we need to become more productive, more prosperous is we need, say, big capital investment projects like a dam, or we might need better educational systems, but all that can't just happen, it has to happen in a context, it has to happen in an institutional environment.

### **Philippe Aghion**

The problem is the poverty trap - the problem is the mobility trap - is the fact that people at the bottom cannot get to the top. You see, whatever is good to educate everybody it rebounds, makes the creative destruction world better, and therefore generates more innovation-based goods. I think that there is a virtuous circle there.

### **Daron Acemoglu**

The institutions create incentives, the institutions create the framework under which we operate, and therefore they create opportunities.