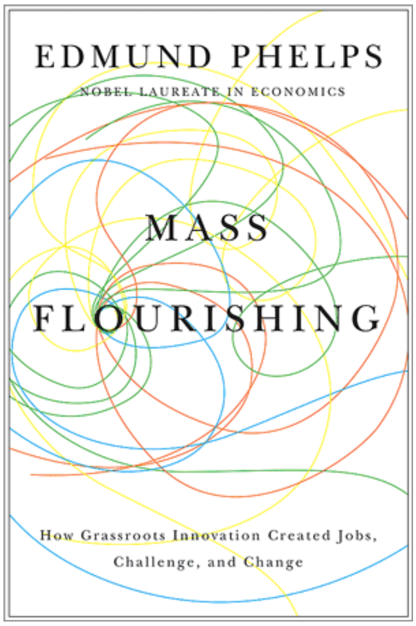
Book Review: Mass Flourishing: How Grassroots Innovation Created Jobs, Challenge and Change by Edmund Phelps

*In this book, Nobel Prize-winning economist **Edmund Phelps** considers how grassroots innovation has been beneficial for economies in the past and why it might be under threat today. **Declan Jordan** finds that this book is an important contribution to the battle of ideas on how we can respond to the crisis in economics and economies. There have been many books written on the causes and potential solutions, but this one joins the few that place the current problems in a broader and, consequently, more exciting context. The book should appeal to readers who are interested in a considered discussion on what capitalism can continue to contribute to economic growth and welfare and, in particular, those who are interested in the role of innovation in a market economy.*

Mass Flourishing: How Grassroots Innovation Created Jobs, Challenge and Change. Edmund Phelps. Princeton University Press. July 2013.



Find this book:

Nobel laureate Edmund Phelps' latest book should be read by those seeking a broader context to the challenges currently facing the global economies. In a wide-ranging and insightful book, Professor Phelps draws on historical trends and cultural shifts to present his hypothesis that a lack of dynamism in modern economies lies at the root of the current malaise. It is refreshing to see such a broad approach to complement the more prosaic treatments that have pointed at sub-prime lending, moral hazard in financial markets and austerity. Indeed, this remarkable book addresses the central economic question of why some economies thrive while others languish.

The concept of the modern economy is at the core of the book and central to the success of a modern economy is dynamism. Phelps describes an economy's dynamism as the willingness and capacity to innovate. It is the deeply embedded forces and facilities behind innovation; "the drive to change things, the talent for it, and the receptivity to new things, as well as the enabling institutions" (p. 20). He distinguishes this dynamism from Schumpeter's entrepreneurialism or alertness to opportunities. Dynamism will determine the normal volume of innovation, though periodic market conditions or other factors may produce a peak or trough in the actual volume of innovations. Dynamism is manifested in grassroots innovation, where individuals are free and able to propose, test, and exploi new ideas and new ways of doing and being. He strongly argues that freedom is a necessary but not sufficient condition for dynamism to thrive.

The book is structured in three parts. The first part sets out the emergence and development of the modern economy and explains the concept of dynamism that Phelps suggests is the driver of prosperity in a modern economy. The author traces the improvement in economic and social conditions in modern economies. He shows how dynamism manifested itself as indigenous grassroots innovation and this explains relative national economic performances.

The second part of the book treats the decline of dynamism, in particular in the European powers. The blame is placed firmly on the rise of socialism and corporatism which had the effect of stifling individual freedoms and the emergence of new ideas and innovations. Socialist and corporatist structures are not merely assumed to be inferior, in terms of innovation and dynamism, but rather the relative performance of economies that may be considered more corporatist or centralised are compared to those with a lower state presence in the economy. There is an element of circular argument in this part as the poorer performing economies are those that can be considered more corporatist so corporatism is seen as the source of decline in dynamism. A question that is prompted by this part of the book, but which is not satisfactorily addressed, is whether the decline in growth and dynamism as nations become more corporatist or socialist (perhaps better described for most European powers as socially democratic) is recognised by citizens as the cost of the benefits brought by those structures. This is perhaps just one of the many hypotheses prompted by this thoughtful book.

The third part begins by analysing the post-1960s decline in economic conditions (productivity, employment and income equality) in the US and Europe. The book argues that the traditional narratives of US decline do not adequately explain the real causes of that decline. The first narrative is that the golden age of the post-war decades was based on federal government providing welfare support in the New Deal and its decline resulted from a resurgence in efficient managerial capitalism. This provides a justification on the left for a return to corporatism. The other narrative argues that the golden age began prior to the New Deal and was driven by low taxes, less regulation and support for free enterprise. The decline resulted from leaving this path. This underpins arguments on the right for a return to lower taxes and regulations. Phelps persuasively argues that neither narrative is appropriate and asserts that decline in the US resulted from a decline in dynamism and a move away from the generation and acceptance of new ideas and innovation.

The latter part of this section considers the dynamic modern economy in the context of the good life and one of the key arguments of the book, and perhaps its most controversial, is that a dynamic modern economy is consistent with ideas of economic justice and the concept of the *good life*. Phelps' arguments in this are very convincing and the suggestions he makes in the Epilogue on how to regain the dynamism of the modern economies should be carefully considered by thoughtful policy makers.

The book poses challenges to the techno-fetishist and techno-nationalist approaches to innovation that underpin many national and supra-national policies. In his book the *Venturesome Economy*, Amar Bhidé refers to the 'techno-fetishist' mindset that sees competitiveness and economic growth as a function of investment in leading-edge science and technology, and 'techno-nationalism' as the mindset that nations must generate new knowledge rather than be the best at using new knowledge, irrespective of where it originates. Over the last few years, innovation has been appropriated as a scientific concept, particularly in Europe, but also in the US. It is notable how innovation policy now appears as an addition to science and technology policies. For example, the European Commission has developed a strategy on Science, Technology and Innovation; the UK government has issued a Science and Innovation Investment Framework; the Danish government has a Minster for Science, Technology and Innovation; and Ireland has published a similarly titled strategy.

Bhidé is referring to the science-push model that generates innovation policies that are focused on increasing funding for research and training more scientists. He argues that these policies could do more harm than good and that successful innovation relies more on input from, and funding for, entrepreneurs, salespeople, managers and consumers. I suspect he would find common ground with Phelps' arguments. The linear idea that science and technology is the only, or even the primary, driver of innovation and, in turn, economic growth, is impressively shattered in this book. It places the human, with her ideas, creativity and art, again at the centre of the innovative process.

Phelps draws a distinction, which is very refreshing, between entrepreneurship and, what he terms, innovatorship. He argues that each of these draw on different sets of human resources. For the latter he states "a basic resource is the *imaginativeness*, or *creativity*, to conceive of things not conceived already that a firm could try to develop and market. There cannot be much departure from present knowledge if no one can imagine the existence of another way or another goal…imaginativeness is fundamental to successful change" [emphasis in the original].

It is also refreshing to see a recognition of the important role of users of technology and innovation in the explanation of growth and development. These are too often ignored or underestimated in analyses of the relationships between innovation and economic growth, and yet they are sources and inspirations for innovation and determine the relative success and diffusion of innovations subsequently.

Phelps argues for a rethink on the fundamental principles underpinning the modern economies of developed countries. He states (intriguingly) that “getting our theories right is going to be crucial for the West and the East too in the next decades” (p. 308). This is a welcome call for governments and civil society in general to first accep that theories are important in enabling shared understanding of what types of economy and society we wish to have, and second, that we need to move beyond the superficial debates that prevent a return to the dynamism that drove modern economies previously. In the US for example, he notes that dynamism and prosperity are unlikely to return as long as there remains the belief that freedom is sufficient for them to return. This is an example of the lack of an appreciation of the importance of theory. He implies that the contradictory calls in the US for a return to traditional values and a return of economic dynamism drown out the necessary societal debate on how dynamism and a just modern economy are to be achieved. He also blames the persistence in Europe of beliefs (that have “not met the test”) that the right state control over private capital can achieve the stability and harmony that capitalism cannot.

This book is an important contribution to the battle of ideas on how we can respond to the crisis in economics and economies. There have been many books written on the causes and potential solutions, but this one joins the few that place the current problems in a broader and, consequently, more exciting context. The book should appeal to readers who are interested in a considered discussion on what capitalism can continue to contribute to economic growth and welfare and, in particular, those who are interested in the role of innovation in a market economy.

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