

Behind the Rise and Decline of Grassroots Dynamism

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It's an honor and a pleasure to be able to introduce to you my book, *Mass Flourishing*.

My book begins with the mass prosperity – the high participation rates and the wide availability of satisfying careers – that arose in the 19th century, first in Britain and America around the 1820s, later Germany and France. It continued almost uninterruptedly to the middle of the 20th century. Never before had sustained prosperity reached large and increasing numbers.

This prospering came to individuals from doing things – *rewarding* things. The *material* rewards were the gains in one's earning power and the widening of one's opportunities that derived from expanding one's capabilities.¹ The *non-material* rewards were the experiential gains from one's working on novel problems to solve, gathering insights, imagining new things, and exploring the unknown: experimenting in the workplace and testing in the marketplace. A great deal of personal growth resulted. Successes were plentiful. But even the failures were ok. They were better than not engaging the world.

What was going on what was going on in these nations? And what were the sources of the prospering? And what were the causes of the decline of this prosperity in the middle of the 20th century? The questions have become urgent as the loss of that prosperity appears more and more to reflect a

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¹ We would not say that a person enjoying wage increases brought by market forces through no effort of his own is "prospering." He is enjoying capital gains on his human capital. Such wage increases are not like the pay raises earned through one's own successes brings.

secular change, not some long cycle that will soon revive the prosperity.

THE RISE OF ECONOMIC DYNAMISM

Indigenous, grassroots innovation

What was going on that brought that high prosperity was *innovating* – though the historians Jürgen Kuczynski and Walt Rostow missed it. In Britain and America especially there was a welter of efforts, large and small, to develop and market new products and methods. The economy was open to anyone to try right down to the grassroots of society. The result was a myriad of innovations, most of them never to be heard of – not just headline innovations. This was mass innovation. In 1840s Britain, new companies were forming so fast that Parliament, wearying of issuing charters, passed the Joint Stock Act of 1844. In an 1858 lecture Abraham Lincoln said of America that there was a “perfect rage for the new” – a “rage” that was rife among makers of products, not just end-users. The incessant search for the new was the impetus behind what Mark Twain called “the drive, and push, and rush and struggle of the raging, tearing, booming nineteenth century!”²

Mass innovation was unprecedented. All previous economies in the West were *traditional*. In these economies, it was only rulers – and only the exceptional ones – who sought to innovate and few of them succeeded. Elites were advisers to the ruler or petitioners for pressure groups or seeking gains of their own from the ruler; they were seldom in the business of producing and thus in a position – or of a mind – to attempt innovation. The *feudal* economies of medieval times produced economic security, social protection from one another and “concertation” among pressure groups in the interest of solidarity; but they did not produce mass innovation. In the mercantile

² Samuel Clemens (Mark Twain), Speech at Delmonico’s, New York, April 8, 1889. He was saying that American baseball, then notable for the speed with which the game was played, was “the very symbol, the outward and visible expression,” of 19th century America. (My book missed this quote.)

capitalism of the 16th, 17th and 18th centuries, the merchant or producer with a license, or charter, to operate had some freedom to try a new method or offer a new product, but there weren't many of them and their innovations were apparently rare. The heavy hand of tradition did not encourage upstarts with new ideas. The sporadic innovations that did occur were essentially *exogenous* to the economy: they were the “obvious” commercial applications by entrepreneurs of the discoveries made by “scientists and navigators” typically outside the economy – even in another country. The traditional economies acted in the name of traditional values: stability, social responsibility, service to others and the sense of a vocation.

The mass innovation in a nation sprang *not* from scientific discoveries, its own or others' – the flow of such discoveries was far too meager for that. It sprang largely from the nation's *economy*. A nation's innovation was *indigenous* to extent that the nations that had an economy rich in *dynamism* – in the desire, capacity and scope to attempt innovation. In the 19th century these nations saw a massive outbreak of tinkering, imagining and experimenting. People in all sorts of work were forever conceiving of ways to improve methods of production or the product; and many were conceiving of new products to develop and try out on the market. Human resources of initiative and imagination were extensively devoted to this activity – not just to producing and trading. The high level of dynamism extended right down to the grassroots of society. Dynamism remained high into the middle of the 20th century – even in the depressed years of the 1930s. No wonder there was “mass prosperity”: jobs were more satisfying than the routine, isolated work of rural economies. No wonder that steep productivity growth arose: no economy before drew on the imagination of a great range of the nation's minds.

The high dynamism required *entrepreneurship*. Entrepreneurs were needed with judgment about how best to do a project, and financiers were needed with judgment about whether the project is worth doing. The dynamism also required *innovatorship*: Innovators were needed with the insight, imaginativeness and vision to dream up new products that might well work and change practice. Human beings *have* the creativity needed to create original things. And some people with business experience can be expected to *have* the insight and strategic vision to make good guesses about what creations would succeed in the marketplace and what creations would not. But the idea that business activity in a free market can always be depended on to possess the dynamism for indigenous innovation is a mistake. The “right stuff” is required. Innovators often have to buck *conventional thinking* or to break away from *traditional ties*. Innovation also requires a social and political climate that supports innovating despite the disruptions it may cause.

What, then, was the needed fuel that powered the innovators?

Modern values as pre-conditions

The core of the book is a thesis about the roots of dynamism – and the forces getting in the way – in Britain, America, Germany and France. Some *values* – attitudes, precepts and beliefs – play a necessary role.

What a nation needed to fuel high dynamism was a prevailing number of people holding *modern values*. Modern values had to prevail over rival values for innovation to be intense and widespread. Some of these values are under the heading of *individualism*, others under *vitalism* and still others under the *desire for self-expression*. “Individualist” values include thinking for one’s self, working for oneself, doing without the approval of others and a willingness to break away from conventional thought. Above all,

individualism means the pursuit of happiness.” (p. 99) “Vitalist” values include taking initiatives and “acting on the world.” “Expressionist” values include making a mark for yourself, imagining and creating, and testing one’s views against evidence – thus to “show” your parents and others you had the “stuff” to make it. (Perhaps it’s useful to remark that these activities or aspirations are often said to be modern human rights.)

The slow accretion of these modern values, the book suggests, finally achieved the critical mass necessary to fuel the desire in individuals to innovate, to spur the capabilities required to innovate and boost the willingness in society to give wide scope for innovation. (Note: the prevalence of modern values may not be sufficient: There may be countervailing values. Or opponents of innovation may stifle the expression of modern values.)

It may be wondered how the nations having high dynamism acquired these modern values. The book argues that the modern values arose with the onset of the Modern Era (in Jacques Barzun’s term) – roughly from 1490 to 1940. Thus they derived from the same cultural changes that gave shape to the modern conception of the *good life*. There were several elements of this good life: Using one’s creativity (due to Pico), meeting challenges (Cervantes), winning the struggle to act (Shakespeare), using imagination (Hume), acting on the world (Hegel), voyaging into the unknown (Kierkegaard), overcoming obstacles (Nietzsche) living fearlessly (James) and “becoming” in the process (Montaigne and Bergson). Philosophers use the word *flourishing* to characterize that sort of life. The prospering that came to people in the economies of dynamism is a case of flourishing.³

³ Aristotle viewed the good life as one of “study” – of gaining knowledge. Aristotle understood that individuals and nations that are very poor may not be able to afford that conception of the good life. He also knew material gains have a place in the strategy for a good life if, with enough time, those

Of course, this philosophical heritage belonged to the world and certainly to all of the Western nations. But it is implicit in the book's thesis that some of them did not embrace it strongly enough to incorporate it into their values – the ones they act on.

In these terms, the thesis is simply that modern values stir a desire to flourish. In a nation where they prevail, they tend to generate an economy that offers an economic life that gratifies those desires – a life of flourishing.

The thesis is tested in the book by using the prevalence of selected “values” reported in household surveys to represent the strength of modern values and using job satisfaction as a measure of flourishing. If the thesis is right, we should expect that a population subscribing to modern values will forge careers and seek jobs that are interesting, involve initiative, offer change and present challenges (such as competition). The finding is that nations scoring strongly in modern attitudes *do* tend to score high in job satisfaction. They develop economies with enough dynamism to generate the jobs and careers that will enable them to flourish.

Modern values, if they are predominant, spark the engine of human imagination that drives innovation in the modern economy. And this modern economy provides the good life for a large and growing number of participants. In contrast, several *traditional* values operate to inhibit attempts to innovate. And some traditional values, if they prevail over modern values, foster elements of a corporatist economy that impede or even block innovation. Such an economy may provide a “quality life,” a life filled with

gains finally enable a person to accept interesting, challenging opportunities later on in life.

security, amenities and comforts, but not individual flourishing, which is integral to the good life.

THE DECLINE OF DYNAMISM

These nations now appear to have lost *much* of their prospering – Britain and Germany by the 1940s, France by the early 1960s and America by the mid-1970s. (Germany has managed to keep employment relatively high, but it is like the others in having poor job satisfaction and slow productivity growth.) Only during the build-out of the internet did any of these nations taste again the prosperity of old. (By one metric, the loss in America is around a half.)

The aggregate rate of indigenous innovation in America

The book presents evidence of a *decline* of innovation in the *American economy as a whole* and discusses signs pointing to a decline of dynamism – the desire, capacity and scope to innovate. Some people in the general public are incredulous that anyone could think that innovation has declined, since the personal computer and the internet have changed our lives after the early 1970s. However, the book addresses the average rate of innovation over all industries. The book suggests that innovation has fallen off mainly at the established companies in the heartland of the country and especially at the grassroots level, with the result that innovation is concentrated along the west coast and led by elites from Harvard and Stanford.

The book supposes that the rate of indigenous innovation in the American economy is adequately measured by the rate of growth of total factor productivity – now known as “multifactor productivity.” The book uses calculations performed by Robert Gordon to show that TFP growth declined by about a half: from 2.26 per cent in 1922-1972 to 1.04 per cent in

1972-1996 and 0.81 per cent in 2004-2011. (The true drop in the rate of innovation is apt to be even steeper since, when innovation slowed, Nelson-Phelps diffusion went on – until every company had an IBM computer.)⁴

In the European nations we do not see an analogous slowdown of productivity in the 1940s or 1950s. Productivity growth – mainly due to technical progress – went on and on in the European nations to the 1990s, pulling up gross domestic income and wealth. Does that mean that indigenous innovation did not slowdown in those nations at that time? Not at all. The explanation is that there remained plenty of room for intra-economy diffusion of the Nelson-Phelps type and inter-economy transfer – mostly from America – of new methods and products until well into the 1990s. And thanks to this progress and to their governments, these nations saw a continuing rise in the so-called *quality of life*: in economic security, public safety, amenities like museums and concert halls and copious amounts of leisure – owing to shorter workweeks and longer vacations. Many Americans have long envied Europe’s comforts and high culture. But this “quality of life” is no substitute for prospering. The quality of life does not capture the rewards of personal successes and personal growth.

Sources of the declines of innovation

Did something happen to values that inhibited innovating or narrowed the capacity or the scope for it? Regarding modern values, the book “does *not*

⁴ It is possible that, for a time, the data reflect not a decline in innovating but rather a decline in annual “diffusing” of methods and products that already had a pioneering adoption or two. But, in the long run, a rise in the lag between first adoption and full penetration would have no effect on the rate of growth of TFP so the latter over a long span is good estimate of the rate of innovation.

Recent work by Mike Feroli of the University of Chicago contributes a new test. A fall in the rate of innovation that is embodied in new equipment can be expected to reduce the rate at which two-year old equipment obsolesces, as measured by its price relative to the price of new equipment. Data on prices of information-processing equipment shows that this rate of obsolescence ran around 12 or 13 per cent per annum from 1973 to 1977. But in the past 3 or 4 years the rate of obsolescence has been considerably less than 10 per cent per annum.

argue that there has been somehow a loss of the desire for a life of flourishing.” (p. 288) And, indeed, the book found no direct, compelling evidence that modern values have weakened relative to the 1950s or the 1920s or 1990s, though we may suspect they have.

But what of traditional values? Several traditional values operate directly to *inhibit* attempts at innovation or to *impede* or *block* innovations. *Family ties* may hinder the breaking away that people may need if they are to attempt innovation. The unremitting emphasis on *service to others* may inhibit potential innovators from pursuing their own happiness through innovation. The requirements of *solidarity* may make it uncertain that an innovation would be tolerated or rewarded. And the *materialism* of these traditional goals operate to steer people toward seeking material gains, which can be distributed to family, community and society, and hence away from seeking the selfish adventures hoped to lead to innovations and thus experiential gains.

The traditional values also impeded or blocked innovation *indirectly* through their influence on economic policy. The traditional values inspired the rise of the feudal economies of the middle ages, which we now regard as early *corporatist* economies, and we know those economies were not dynamic. The classic corporatism of Mussolini was based on the traditional idea that the economy – indeed, everyone – is to serve the nation and the government is to decide what is good for the nation. Corporatism denies the desirability of flourishing: It denies that the exercise of creativity and the existential experience of voyaging into the unknown are central to well-being.

Corporatist attitudes against capitalism came to the fore in the 1920s. Corporatists, with their conservative values, hated the invasion of towns and regions by new businesses, upsetting traditional ways, wealth and status. They hated new money with a particular vehemence. Their objective in Italy, Germany and eventually France was *control* of private enterprise – not private ownership. An axiom of capitalism – that capital should go where entrepreneurs and financiers expect it to be profitable – was replaced by the corporatist tenet that the state would know better.

Corporatists also hated the individualism present in modern values. For them, the good was the good of the nation. People who would have tried to be innovators for the thrill, fame, fortune or fun of it did not fit in. That dynamism would suffer from these conservative values did not occur to the corporatists, who thought their system would increase dynamism.

In the 1960s, both Europe and America became enamored with another set of traditional values: *solidarity*, *social protection* and *security*. These values gave rise to a vast canvas of entitlements. A modest disincentive to work would have resulted had they been fully funded, but they were generally under-funded. The reductions in labor force and output at home and abroad shrank the available market for innovations. These values also gave rise to thickets of regulation impeding or barring innovation.

Is there any *hard evidence* backing up that these values *harm* dynamism, making jobs less satisfying? The book's chapter on statistical research finds that a prevalence of *modern* values is conducive to job satisfaction. What of a prevalence of the conservative and traditional values? A basic level of these values may be a safety net, encouraging some

innovation. However, nations scoring *high* in *traditional* values tended to score *low* on job satisfaction.⁵

Is there *evidence* that traditional values and the corporatist policies they serve are on the rise – and thus help to account for the decline of dynamism? A lengthy discussion in Chapter 10 finds broad evidence of a *resurgence of some traditional values* since the 1960s and the *emergence of a new corporatism* – in America and earlier in the other once-dynamic nations, Britain, Germany and France. These developments may be supposed to have drained off some of these nations’ dynamism, not just caused inefficiency.

- There is enormous self-dealing in the behavior of people in large firms, mutual funds and banks – pathologies that divert companies from innovation to short-termism.

- Behind this, in part, is a wide spread of the “money culture.” People would like some “flourishing,” the more the better, but they opt for the industries or jobs that pay better, perhaps rationalizing that the flourishing will be better too or not thinking that doing so may cost them dearly in lost chances for flourishing – especially if all people goes for the money.

- The devaluation of achievement, the rise of an “adolescent” culture low on concentration and self-discipline and centering on family and friends spells a decline of “go west, young man, go west.”

- The rise of a culture of entitlement: the medieval notion that many basic goods are to be supplied free and the pressure on companies to allow employees to meet family needs by working at home.

- The rise of a new corporatism has greatly expanded the system of patronage from politicians and campaign contributions from corporations and labor unions. The nexus between the economy and the state has been greatly

⁵ How then can Israel be dynamic despite deep traditions? Perhaps most Israelis are not tightly confined by them. The issue was debated on “Goldstein on Geld,” Israel Radio, July 30, 2013.

broadened. The evergreening of patents continues to delay the development of various new products for the marketplace. The welter of regulation has become a tool of established corporations that poses complications for any innovator. Legislating new regulations causes a diversion of the management of a company from its strategic planning – including the planning of innovative projects – to lobbying for modifications of the regulations or carve outs that would protect the company from the new regulation. The nexus between private and public is particularly pervasive in a few select industries, such as education, medical care and pharmaceuticals.

- Another consequence of corporatism is the explosion of entitlements, accomplished in significant part by deceptions about the future costs of the legislated benefits.

“It is no surprise,” the book concludes, “in view of the adverse developments in institutions, values and economic policies, that America gives signs of a serious decline in economic dynamism and thus in resulting innovation ... It is also no wonder, in view of the rise of anti-modern values, and policies, that the lower segments of the working population, whose modern values were relatively fragile and their disadvantages daunting to begin with, have suffered a costly decline in their rewards relative to others and [a decline] in their upward mobility.” (p. 264).

But this is not punchy enough. It is necessary to say that the rise in demands for solidarity, social protection and security, has created career opportunities in the supervision and regulation of various industries in the economy, such as banking, education, health care and pharmaceuticals. As a result, the interventions undertaken in the name of equality ends up handing a considerable control of the economy to elites. There is a need for a participatory economy. Another point: No truly modern society could

imagine denying artists the right to open studios and to try to sell their work. Similarly, it would not be going too far to say that businesspeople have a right to an economy open to their pursuit of their ideas and their projects of creation and exploration – that it is a human rights violation to deprive people desiring a life of flourishing.

THE NEW MOVEMENT AGAINST FLOURISHING

I will close this introduction to my book with a further worry, which did not get into the book. I see the beginning of an intellectual movement away from the modern notion of the good life – the notion glimpsed by Aristotle and given shape in the Modern Era – and toward a reversion to materialism, however well-intended. Increasingly American attitudes exhibit the same drift away from the creation and discovery of the new, which Lincoln exclaimed over in the 1860s. Students go into banking, not business. A fixation on making money was widely noted in the 1920s. Now it has become a widespread sickness. Under-saving has become self-destructive. Materialism has turned into greed. A survey of the financial community by a New York law firm found that 38 percent of respondents said they would commit insider trading for 10 million dollars if it could not be detected.

It is thought by many Americans and Europeans that the modernist conception of the good life is specific to America. After I spoke of people's need for that sort of life at a 2003 conference,⁶ Ralph Gomery said “that view is very American.” I replied that my understanding of the good life came from Europeans: Cellini, Cervantes and Bergson.

Now, in both Europe and America, serious thinkers, though not materialist, have drawn away from the modern conception of the good life, hence the good economy. In the 1920s John Dewey saw a good job as a

⁶ Phelps, “The Economic Performance of Nations,” Conference in Honor of William Baumol, New York University, November 3, 2003.

mental workout offering *problem-solving* – not a springboard for exercising creativity and voyaging into the unknown. In 1943 Abraham Maslow wrote of *self-actualization* by which he meant the realization of a person's predetermined potential – not Bergsonian “becoming.” Amartya Sen's *capabilities* is in this spirit.

A reversion to materialist thinking is found even at high levels. The 2009 Report of the Commission on the Measurement of Economic Performance and Social Progress, while devaluing one materialist measure, namely production, upholds other measures of material well-being – household wealth and income, time away from work, and the longevity. They include nothing on non-material experience.

These formulations overlook the world of creation, exploration and personal growth. Gone is the conception of the good life as a wild ride through an economy with an open future, an economy offering challenges with unimagined rewards. In this climate, young people are not likely to grow up conceiving the good life as a life of Kierkegaardian mystery, Nietzschean challenge and Bergsonian becoming.

My research in the past 10 years leads me to believe that regaining mass flourishing will require a new and major public effort. While the government will have to be smaller in some respects, it will have to be bigger in others. The effort will necessitate large subsidies aimed at employing low wage labor. But mechanical corrections and repairs will not be remotely sufficient. The effort will succeed only with a broad restoration of grassroots dynamism. That will require clearing away the barriers to innovation that have grown up in recent decades. Above all, it will require Europe and America to reconquer the medieval demons that regained influence over the past century and to reaffirm the individualist and vitalist values that were fundamental to the dynamism of the West's brilliant past.

APPENDIX

The changes in values

My book had to depend on cultural evidence to support its hypothesis that the slow accretion of modern values led finally to the break-out of modern economies beginning around 1815 (after the Napoleonic War) to 1940 or, in the case of the U.S., even to the early 1960s. This evidence was mainly period of modernism in music, fiction and painting, which is explored in Chapter 3. (According to Jackie Wullschlager, modernism in painting ran from 1860 to 1930.)

Now, thanks to Google, we have data on the frequency of various words and phrases in English and in American English. Some of these words can be used as proxies (or maybe instrumental variables) for the prevalence of various values in Britain and in America. (I had learned of the Ngram database around 2011 but there was no response to my request at that time for time series on several key words.)

This spring, when I learned through a reference to work by Daniel Klein that the data had been released, I discussed it with Jeff Nagy, my assistant at the Center – though my book was closed by that time, so any results could not have been introduced into the book. To my astonishment, it took him only a minute to present to me a time series of the frequency of the word “flourishing” since about 1800. Sure enough, the use of that word grew stronger, reaching a peak in mid-century. As is well-known, the growth rate of TFP also peaked around 1940, so the rate of innovation may have peaked around the same time. This adds to the evidence that modern notions of the good life were strong in the 19th century and even gained strength for decades in the 20th.

The book also found data that give some evidence of a resurgence of some traditional values in the 1960s and beyond – traditional values that the book argued inhibited would-be innovators or discouraged them with hurdles and barriers. Do the data on use of words and phrases suggest that resurgence? I have had a chance

to look at the paper by Marc Egnal, “Evolution of the Nobel in the United States: The Statistical Evidence,” in the journal *Social Science History* 37:2(Summer 2013). The author sees a “new order” arising in what he calls the Postmodern Era 1960- . He notes an explosion of the words “shit” and “fuck.” He also reports that in postmodern books “the use of ‘mother’ has surpassed that of ‘father’,” the “celebration of ties between parents and children” and “the sharply increased references after 1960 to ‘nurturing’ and ‘todler’.” He cites “works that illustrate that tie as diverse as Toni Morrison’s *Beloved* (1987), Philip Roth’s *American Pastoral* (1997), Richard Russo’s *Empire Falls* (2001) and Cormac McCarthy’s *Road* (2006).

Let me conclude with this thought. From the 1970s to the end of the 20th century it would have been unthinkable of economists – in MIT as much as Chicago – to consider values as the great force driving innovation. They would have thought of tax rates and perhaps scientific breakthroughs. Now it is perfectly “thinkable.” – and, for some of us, perfectly plausible.