

# Mass Flourishing: How It Was Won, Then Largely Lost

by Edmund Phelps

The epic story of the West is the development in the 19th century of a mass prosperity the world had never seen and its near-disappearance in one nation after another in the 20th. *Mass Flourishing* is a history linking this story to the rise and fall of homegrown innovation. It is also a text on the nature and sources of prosperity. It has two components. The material part is growth of productivity and wages. The non-material part is flourishing – successful exercise of creativity and talents. To flourish people have to engage a world of challenges and opportunities. The economy's dynamism and the resulting experience of business life are central to our wellbeing.

Mass prosperity came with the mass innovation that sprung up in 1815 in Britain, soon after in America and later in Germany and France: It brought sustained growth to these nations – also to nations with entrepreneurs willing and able to copy the innovations. It also brought flourishing to large and increasing numbers of people – mass flourishing. There were *experiential* benefits: Routine work, dull and lonely, gave way to careers that took twists and turns and jobs that were rewarding. There were also *developmental* benefits: As people used their imagination to create new things and their ingenuity to meet challenges, they found self-expression, self-realization and personal growth in the process.

What brought mass innovation to a nation was not scientific advances, its own or others', but *economic dynamism*: the desire and the space to innovate. The nation had to cultivate the right drives, build the needed institutions and not throw up barriers. High dynamism brought a high rate of innovation under decent market conditions and barring a string of bad luck with the ideas it conceived and tried out. America enjoyed the richest flow of innovations in part because working people in all kinds of jobs were conceiving and pursuing new ideas – grassroots dynamism. From the 1830s to the early 1960s Americans were in a frenzy of creating, tinkering, exploring and testing – gripped by a “rage for the new” in Lincoln's phrase.

The impetus for high dynamism, my book argues, was the modern values arising in Jacques Barzun's Modern Era – roughly from 1490 to 1940 – particularly the values we associate with individualism and vitalism. They include thinking for oneself, working for oneself, competing with others, overcoming obstacles, experimenting and making a mark. The courage to express one's self by creating or exploring the unknown and the gumption to stand apart from community, family and friends are also modern values.<sup>1</sup> The thesis is that these values stirred a desire to flourish; they shaped a modern conception of the life to aim for – the good life. A prevalence of these values in a nation tends to generate an economy that offers work gratifying those desires – an economy that delivers flourishing.

The thesis can be tested. A measure of a nation's flourishing is the reported job satisfaction in household surveys. Interviewee responses to questions about what they look for in a job suggest a measure of the prevalence of modern values. If the thesis is right, we should expect that a people embracing modern values will forge careers and seek jobs that are interesting, involve initiative, offer change and present challenges such as competition. The book reports the finding that nations scoring high in these modern attitudes do tend to score high in job satisfaction: They build economies with the dynamism to deliver the jobs that satisfy them.

This finding suggests that people get the institutions that enable the careers and jobs they want – to a degree, at any rate, and getting them may take a long time. Institutions and government have a role, even if they explain little when attitudes are taken into account. Modern values, if strong, ensure there

will be a popular demand for the individual rights that make it possible to innovate and to earn a living in innovative ventures.<sup>2</sup>

In the high noon of the Modern Era, some nations where values were prevailingly modern went from mercantile economies to modern economies – the first economies of dynamism. They helped large and growing numbers pursue the good life.

The once-dynamic nations lost half or more of their dynamism in the 20th century: Britain and Germany in the '40s, France in the early '60s and America around 1970.<sup>3</sup> A great loss of jobs and job satisfaction ensued. Innovation was largely narrowed to the impressive “tech” industries.

The resulting dearth of indigenous innovation – unremitting save for the internet build-out – is widely blamed on pathologies in policymaking and institutions. Historians have laid Britain's decline to rationalization, cartelization and the closed shop – policies sustaining old products and impeding new ones. In France and Italy, entrepreneurs lay the decline to fiscal and regulatory practices – policies discouraging small firms from innovating by imposing tougher employment rules and heavier tax rates if they become medium-size. In America, the success of firms and whole industries hinges on intensive lobbying rather than intensive innovation. In America and Europe, much of a legislature's focus is on sparing politically favored corporations and cities from the impact of its own legislation and singling them out for pork barrel projects, assistance and loans.

But much of those declines of dynamism are an effect of *other* forces, not the rise of rent seeking and patronage. My book recognizes the many institutions and policies that block innovation – short-termism in big business and finance, for example, under-taxation that has given working-age people inflated perceptions of their wealth and, of course, the minefield of patents and regulatory risks. These are important.

A change in values may be no less important, however. Possibly modern values have waned, reducing the desire to innovate. Or other values have arisen that inhibit or block modern desires. Even rent seeking and patronage are not simply effects of self-interest in government and the economy: What is in people's self-interest depends on what people are interested in doing with their lives – on their various *values*.<sup>4</sup>

The heavy loss of dynamism in the West can be laid to two destructive tendencies that have crept into value systems. The first of these is the attitudes hostile to the *methods* of the modern economy. In continental Europe, of course, there was opposition to capitalism long before modern times. And since the economies of dynamism were built on capitalist institutions created in the course of mercantile capitalism, the attacks on capitalist institutions had the unintended and perhaps unanticipated effect of weakening dynamism. The Continent's once-dynamic nations, then, had only a tenuous hold on dynamism from the start.

Socialists' attitudes were influential on the Continent by the 1910s. They had a horror of company profits and sought to nationalize some companies or curb their profits or redistribute them from share-owners to stakeholders. In the interwar years the belief arose that it was wrong for a company to downsize its workforce if it was making a profit. Schoolbooks in postwar France and Germany disparaged capitalists and reviled bosses as stooges. Such hostility scared off innovators and tarnished the idea of innovating.

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.

Europe in the 1960s and America soon after became devoted to a kindred set of traditional values: solidarity, social protection and security. These values gave rise to a vast canvas of entitlements. No 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 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.<sup>5</sup>

The second destructive tendency is a 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,<sup>6</sup> Ralph Gomory said "that view is very American." I replied that my understanding of the good life came from Europeans: Cellini, Cervantes and Bergson.

Serious thinkers in both Europe and America, though not exactly 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 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.

Now we find a full embrace of materialist thinking even at a high level. 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 con-

ception 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.

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## Notes

- 1) Many of them have known authors: Pico, Luther, Montaigne, Voltaire, Hegel, Kierkegaard, Nietzsche and Bergson. Hegel speaks of "acting on the world" and Bergson of "becoming."
- 2) It might be thought that modern values are not a necessary condition for high dynamism. It is true that some of Britain's freedoms pre-date the Modern Era, for example, the rights proclaimed in the Magna Carta of 1215. But that document was more a symbol than a binding constraint on the ruler until the late 1600s, when it came into play as a foundational document on rights.
- 3) Any such calculation from productivity data must take into account that nations that had fallen far behind saw their productivity grow faster than their dynamism could provide in the years when they were "transfer-ring" at a great rate the overseas innovations not already copied.
- 4) Neoclassical economics hews to a purely materialist view of what self-interests are. So the neoclassical model of endemic rent seeking and patronage developed by Mancur Olson supposes that the only value in which people have an interest is material wealth. Entrepreneurs, owners and labor organizers are "in it for the money," not for creating, exploring and personal growth.
- 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.
- 6) Phelps, "The Economic Performance of Nations," Conference in Honor of William Baumol, New York University, November 3, 2003.



**Edmund Phelps** is the 2006 Nobel Laureate in Economics and the Director of Columbia University's Center on Capitalism and Society, of which he was one of the founders. The Center's objective is to promote and conduct research on modern capitalism. In addition Professor Phelps is Dean of the New Huadu Business School at Minjiang University.

Edmund Phelps' work can be seen as a program to put "people as we know them" back into economic models – to take into account the incompleteness of their information and their knowledge and to study the effects of their expectations and beliefs on the workings of markets. He has adopted this perspective in studying unemployment and inclusion, economic growth, business swings and economic dynamism.

The Nobel Prize Committee praised Edmund Phelps' work for having "deepened our understanding of the relation between short-run and long-run effects of economic policy. His contributions have had a decisive impact on economic research as well as policy."

Professor Phelps' published books include:

*Mass Flourishing: How Grassroots Innovation Created Jobs, Challenge, and Change*, August 25, 2013, Princeton University Press.

*Rewarding Work: How to Restore Participation and Self-Support to Free Enterprise*, 1997, Harvard University Press, Cambridge, MA.

*Structural Slumps: The Modern Equilibrium Theory of Unemployment, Interest, and Assets*, 1994, Harvard University Press, Cambridge, MA.

*Microeconomic Foundations of Employment and Inflation Theory*, 1970, W. W. Norton & Company, Inc., New York, NY.