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# It's Not So Bad

Magnus Henrekson

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A recurring theme of the Nobel laureate in economics, Edmund Phelps, is that "the good life" cannot be achieved through consumption. On the contrary, he believes that a life filled with meaning – a prosperous life – is mainly achieved when one is both the actor and producer. The actor role must be understood in a broad sense – as a producer of offspring and of valuable goods and services, as a problem solver, as a person who takes on demanding challenges, makes discoveries and creates and exploits opportunities. Phelps also highlights that the fountainhead of economic growth is not more work, investment, education or research. The real source of growth is innovation and the dynamism that follows from innovation. This dynamic process results in investment opportunities and the creation of jobs with higher productivity; the value of human knowledge also increases. Return on human capital provides an incentive to acquire economically valuable skills through formal education and in other ways, not least at work.

I have no problem agreeing with the message that the meaning of life cannot be achieved by consumption alone, and that it is innovation and entrepreneurship within the context of a system with good institutions that are the foundation of today's prosperity. But, although Phelps highlights these often-neglected aspects, his analysis is plagued by several weaknesses that make it unconvincing. According to Phelps, there is no end to all that has gone wrong in the economies of the West.

Phelps defines the modernist ethos as individualism, the desire to experiment, the competitive mentality, a strong will to overcome obstacles, to excel and make a difference. According to Phelps, this ethos dominated in the West, and especially in the Anglo-Saxon world, from the mid-1800s to the late 1960s. This is a gross oversimplification.

Phelps has overlooked the fact that, from the 1800s, the growing opposition to individualism, liberal democracy and the market economy took many forms – from religious opposition and union activism to democratic socialism and totalitarian fascism and communism. Such tendencies were also to be found in the United States. The depression of the 1930s meant that

confidence in the market economy's wealth-creation capability sank like a stone. World War II led to important parts of the US economy being regulated and operated according to planned economic principles.

Several key industries like aviation, the interstate transportation, banking and telecommunications were highly regulated, and taxes were high. Inheritance tax was raised to 77 per cent in 1940, and the highest marginal tax rate was 91 per cent between 1952 and 1963, while in Sweden it was never higher than 85 per cent. In fact, it was not until Jimmy Carter's (1977–81) and Ronald Reagan's (1981–89) presidential terms that the economy was deregulated and tax rates were lowered.

Phelps says that innovation in the economy fell sharply in the late 1960s and has remained at a clearly low level since then. His main explanation for this is that there was a shift from modern to more traditional values. With more traditional values, ??he believes there is hostility towards individualisation and the liberal market economy system. These values are said to lead to a strong demand for social assistance benefits and a policy focus on equalisation of outcomes, rather than an equalisation of life chances.

Sure, growth has been lower, and the macroeconomic imbalances larger after the financial crash of 2008. But to claim that the pace of innovation should have been low over the last 45 years is, to say the least, curious. It was during this period that the digital revolution and globalisation fundamentally changed the way we live and communicate, and we have seen dramatic changes in how we spend our income and our time.

Phelps holds that European countries are even more sclerotic and ossified than the United States. This stands in stark contrast with the World Economic Forum reports, where small European countries such as Switzerland, Finland and Sweden regularly come top, along with the United States, Hong Kong and Singapore. According to INSEAD's Global Innovation Index, the United States winds up in fifth place; before it, come four European countries: Switzerland, Sweden, the UK and the Netherlands. Less subjective measures give a similar picture: Switzerland, Finland and Sweden have more quality-adjusted patents per capita than the United States and higher R&D spending as a share of GDP. In addition, Switzerland and Israel win more science Nobel Prizes per capita than the United States.

The values in the West have hardly become more traditional since the 1970s. Certainly there are pockets of strong religiosity and other conservative groups in all Western countries. But the main flow is in the opposite direction. There are certainly some elements of retro values, a yearning for the authentic, the importance of the local community, a craze for local production and a strong will to participate in communities of various kinds. These currents, however, run in parallel with the increasing individualisation: the family is less important (lower birth rates, higher divorce rates, more single households), the importance of religion decreasing almost everywhere, and we also see an increasing variety of lifestyles and personal expression (even if conformism is strong within each subgroup).

The evidence that the pace of innovation has decreased, says Phelps, is that real incomes in the United States, except for the wealthiest, have stagnated since the 1970s – this is simply not true. First, relative prices have fallen for many of the products on which those on low incomes spend much of their money: food, cars, appliances, furniture and consumer electronics. New products will generally not fall into the CPI until they have fallen sharply in price. For example, the car didn't enter into the CPI in the US until the mid-1930s, by which

time the price had fallen by over 90 per cent since the beginning of the century; same thing for penicillin.

Even more important is that a large and increasing share of consumption is made up of online services (games, entertainment, news media, social media, etc.). These services may be expensive to develop, but the marginal cost is zero or close to zero; that a certain person consumes an internet service does not prevent others doing the same time. Judging by how we spend our time, we value these services highly, but the price we pay is often only a fraction of the perceived value.

Because perhaps as much as two-thirds of consumption now consists of services that are increasingly difficult to measure in terms of volume, it becomes increasingly difficult to measure how real incomes are being developed. Because non-rival services are becoming increasingly important in consumption and they generally cost a fraction of the subjective value we ascribe to them, we underestimate the real income growth and the pace of innovation. Consuming takes time, but if we want to spend more of our free time on activities that do not cost so much and the sharing economy spreads then it becomes meaningless to own our own car, boat or summer cottage. In such an economy, many feel they do not need as much money anymore to have a good life. A differentiated service society also requires density housing, which pushes forward urbanisation. We see how more and more prefer to live in a crowded, large city in preference to living in spacious accommodation in smaller town or to stay at home throughout their studies instead of moving away from home at the age of 18, which was the default position before.

If more and more like to have a good life on a small budget, because what you want to do costs so little, then the state has problems – our income is the state's tax base.

Long ago, a crucial strategic decision was made, namely the tax financing of health care, education and social care. These services were considered so basic that they needed to be kept outside the private market. These activities are labour-intensive; reduced staffing often means lower quality. Machines and computers cannot replace people in industry and trade. Productivity cannot increase as fast, despite the savings that new therapeutic methods entail. The relative cost increases. In relation to the cost of food, online services, and mobile phones, it is not only gourmet meals but also healthcare, education and care that are becoming increasingly expensive.

At the same time, we want to add a very large share of the increase in demand that rising incomes allow to welfare services; when incomes rise, the demand for these services is even faster. In a modern knowledge society, education becomes increasingly important. Both the quality of education and the overall duration over a lifetime needs to increase. With rising incomes, the need for quality childcare and eldercare increases, and demographics increase the demand for healthcare and care for the elderly.

The value of welfare services today is often much greater than the cost: a cataract operation costs no more than just over a week's pay and a good medical treatment that creates a healthy year might cost 20,000 SEK, while the value according to the calculations used, for example, by the Swedish Transport Administration, is up to 800,000 SEK. The value that a really good teacher creates exceeds, of course, the marginal production cost. The examples are many.

The public sector has committed to tax-finance those services that both meet a rapidly growing demand and have the most unfavourable cost trend. Everyone except a few wealthy people sees no alternative but to settle for the free or heavily subsidised welfare services offered. But, apart from this, we get a subjectively good life on less money than before. Why work in elderly care for a low salary, especially as the transfers of the new patterns of consumption and use of time give a richer life than before?

While private investors are drawn to the pet care industry like flies to a sugar cube, subtle gatekeeping functions are being introduced to keep down citizens' consumption of health care. The average Swede has ever larger assets in the form of retirement savings, mutual funds and housing that have risen in value, but these cannot be used for welfare services of high quality. It is not, then, surprising that many are sceptical about the value of striving for higher real wages when it has become so difficult to use the rise to get more of what is really highly appreciated.

In other words: if we do not let purchasing power into the welfare sector, it will continue to be depleted. A dynamic society requires that the majority of people, based on their circumstances, strive to obtain a good income. It requires drivers in the form of providing access to valuable goods and services. But if you do not see any potential through a higher income to give your children a better education, your parents better care in old age, and yourself better care when you get sick, then falls the central argument for obtaining higher incomes. Herein lies the welfare state's Catch-22.

The good life cannot be realised through consumption, partly because few can buy what is most important, such as education and healthcare, and partly because the good life is achieved through the creation of meaningful activities, but the national economic base model and postmodernism has blinded us to this.

The adoption of the basic economic model, that the only motive for working (i.e., to create) is that it provides an income that can be used to obtain benefits through consumption, has helped to distort our preferences; to get lost in our quest for happiness and wellbeing. Even union representatives came to embrace such a view. A powerful illustration is given by Kommunal's former president Sigvard Marjasin's idea of workers' morality (quoted from Johan Wennström's book *Teachers without Freedom* (Society Publishers, 2014)):

> To the extent that one can speak of a working class morality, it is equally valid to ask where it comes from and what purpose it serves: diligence, contentment and honesty are three positive value-loaded words. They can be described in another way – even if it's provocative. That kind of morality is useful to the oppressed. It is precisely this morality that the upper class wants to see in others.

LO and TCO came in the 1970s increasingly to see work as a means of obtaining financial resources for leisure and to satisfy the individual needs of the community, health and political and trade union participation.

Phelps' consistent argument that most utility and meaning is obtained by individuals assuming roles as innovators, problem-solvers, entrepreneurs and producers is an important corrective to this one-dimensional approach.

Phelps misses, however, as I see it, one important ideological partial explanation for the decline in job satisfaction, the declining interest in political engagement, and in working to ‘make a difference’ for something bigger than their own sordid gain: the postmodernist interpretation- and research paradigm. This is creeping in virtually everywhere and settles like a filter of insinuation over every interpretation of an event or action. The paradigm has proven extremely effective and viable in terms of undermining the credibility of the Enlightenment message – that sense, rationality, the search for knowledge and individual freedom is the basis of progress, change and a decent social order.

A leading thought of postmodernism is that there is no objective knowledge; instead it is argued that if one merely deconstructs alleged knowledge thoroughly enough, their underlying self-interest will be uncovered. But if there exists no objective knowledge or if you cannot agree on any theory of knowledge, then it is not possible to create and maintain a meritocratic system with a well-rooted legitimacy. Without such a system, there is no way for the most competent, conscientious and ambitious to claim the leadership positions with the aim of promoting a wide public interest. If there is no arena in which individuals with credibility and legitimacy can strive for and serve something greater than their narrow self-interest, then no alternative is offered but to work for their own family or group.

Postmodernism also helps to undermine meaning-creating institutions like family, clubs, church and school without contributing new institutions that can provide an equivalent function. It has, therefore, become more difficult to find contexts that encourage the individual to seek the common good and understand why it is right to do so. Cooperation is an important condition for an effective and innovative economy, but the arenas for learning cooperation are becoming fewer or losing their appeal.

# Det löser sig inte

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Sharon Rider TEMA 20212

Personally, I am becoming increasingly convinced that the postmodernist paradigm in its various forms, which has become so dominant in academia, the media and in the public discourse, is an important reason why so many are unsatisfied with their work and carry with them a sense of futility.

The view that there is no objective truth contributes to the declining school results. This applies particularly when postmodernism teaches that 'knowledge' is actually an instrument of oppression that power uses to keep people in check. This problem exists, to a greater or lesser degree, in all Western countries, but the so-called *Pisa-raset* indicates that Sweden is one of the countries hardest hit.

While senior policymakers talk about the importance of knowledge and education so that "Sweden should not have to compete with low wages", the educational theories that disparage knowledge have made a strong impact in the education system. Sometimes, it is even claimed that the learning of facts hinders real understanding, and that students themselves should discover how the world is instead of being taught. Quite often it is claimed that modern people do not need to have learned skills as these can, if necessary, be got from the internet.

This is, in my view, and in line with modern research on how the brain works, is simply wrong. One has to have knowledge to gain further knowledge.

The notion that there really are no truths, only submissions or ideological reasoning is, of course, devastating for the teacher's authority and legitimacy to rate student performance. Herein is also the main reason for the declining status of the teaching profession.

There is no doubt that Edmund Phelps has an important message, especially his highlighting innovation's central importance for our prosperity and that he discusses what actually constitutes 'the good life'. It is also easy to agree with the final request that we need to "turn away from the classical fixation on wealth accumulation and efficiency to a modern economy that puts imagination and creativity at the centre of economic life".

But research in psychology and neuroscience has given us a better understanding of what makes life meaningful and from behavioural economics is emerging a more complex view of human motivation.

Actually, the chances are better than ever for people in the West to create a good life, regardless of whether you are a person who constantly seeks change and challenges, or who wants to find meaning in other ways. A prerequisite is, however, that we come to terms with the ideas that preach mistrust of everything that breathes desire and passion so that we, without hectoring from the powers that be, can put the common good in front of our own selves.

**Magnus Henrekson** is professor of economics and president of the Research Institute of Industrial Economics.
Magnus Henrekson
Professor i nationalekonomi och vd för Institutet för Näringslivsforskning.