

Henrekson, Magnus

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Entrepreneurship, Innovation and the Good Life: Reflections on Edmund Phelps' *Mass Flourishing*

Magnus Henrekson

Entrepreneurship, Innovation and the Good Life: Reflections on Edmund Phelps' *Mass Flourishing*

Magnus Henrekson^{*}

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Abstract: Edmund Phelps, the 2006 Nobel Laureate in Economics, has written a thought-provoking and ambitious book: *Mass Flourishing: How Grassroots Innovation Created Jobs, Challenge, and Change* (Princeton University Press, 2013). The book is laudable for its emphasis on innovation, for its discussion of what constitutes a good life, and Phelps' realization that true life satisfaction cannot be achieved through a mindless quest for money and the goods it can buy. But the overly glossy characterization of the period before WW II as opposed to the post-1980 period, the niggardly evaluation of the European economies, and the lack of empirical indicators actually showing that the rate of innovation has dropped are significant weaknesses. These objections are especially regrettable given the importance of the book's main message: Creative entrepreneurship is not merely the key to economic growth, but to life satisfaction as well.

Keywords: Innovation; Entrepreneurship; Modernism; Postmodernism; Values.

JEL Codes: L26; M14; P47; Z13.

^{*} Research Institute of Industrial Economics (IFN), P.O. Box 55665, SE-102 15 Stockholm, Sweden. E-mail: Magnus.Henrekson@ifn.se.

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When policymakers and other observers emphasize the role of entrepreneurship, they almost exclusively focus on its role as a generator of jobs, economic growth and wealth. Implicitly or explicitly, the result in the form of increased consumption opportunities and consumer choice is highlighted. The jobs created by entrepreneurs are mostly seen as valuable because they provide income to the employee, income that can be used as a means to derive utility from consumption.

Entrepreneurship came to the fore in the public policy discussion in the 1990s. Silicon Valley was in the limelight, seen as a role model to be emulated, providing the way forward towards even higher prosperity in the West. Then the IT-crash struck in 2000–2001, and in the aftermath entrepreneurship and the individual entrepreneur could no longer serve as the unrivalled protagonists in the political gospel painting Utopia around the next corner. Entrepreneurship had been overexploited by politicians in the same way as they had put physical capital formation on a pedestal in the 1950s and 1960s, after it had been singled out as the prime driver of growth by leading development economists. In the 1980s investment in human capital came to the fore, and was similarly oversold.

At present, policymakers are busy overselling yet another concept: Innovation. The U.S. launched its national innovation strategy in 2009, and not unexpectedly the goals were lofty: “President Obama’s *Strategy for American Innovation* seeks to harness the ingenuity of the American people to ensure economic growth that is rapid, broad-based, and sustained. This economic growth will bring greater income, higher quality jobs, and improved quality of life to all Americans.”¹ The OECD launched its innovation strategy the following year (OECD 2010), and this has been followed by *OECD Reviews of Innovation Policy* for the individual member countries (e.g., OECD 2013). In the European Union the so-called Innovation Union has been launched as a key component in the EU 2020 initiative. Here the tone is one of urgency, verging on desperation: “We need to do much better at turning our research into new and better services and products if we are to remain competitive in the global marketplace and improve the quality of life in Europe. We are facing a situation of ‘**innovation emergency**’.”²

Unfortunately, when a certain concept is pushed heavily by politicians, they can seldom refrain from acquiring and touting measures aimed at directly promoting the legislation or

¹ Cited from <http://www.whitehouse.gov/issues/economy/innovation> (accessed November 14, 2013).

² Cited from http://ec.europa.eu/research/innovation-union/index_en.cfm?pg=why (accessed November 14, 2013). Bold in the original.

program in question. This resulted until the 1970s in investment subsidies and extremely generous rules for depreciation allowances, an extreme expansion of the state-financed university sector in the 1980s and 1990s in many countries, and a plethora of measures encouraging entrepreneurship (or rather self-employment and small firms) in the 1990s and 2000s. Now the same wave of concern is happening in the area of innovation: Patent box systems offering lower corporate tax rates on patent income, reduced social security contributions for R&D workers, reduced tax rates in the early phase for R&D-intensive startups, subsidized loans and loan guarantees to high-tech startups etc.

But is economic growth (the way we measure it), whether primarily fuelled by physical or human capital investment, entrepreneurship or innovation, a worthy visionary goal for politics? Wouldn't a more worthy challenge for politics be to strive to create an ecology within which free individuals through their own choices can create a good life for themselves and their fellow humans? How can that be done? What is a good life? Is it almost solely about making money at work in order to get the means (money) to buy leisure and consumption goods? Is there not more to the good life than that? Do people innovate merely to make money? Do people write songs only in the hope of receiving royalties when the song is recorded,³ downloaded and played? Do people build companies just to get rich? These are crucial questions in need of an answer. Economists are rarely if ever prepared to answer these questions with an unqualified "Yes", but an affirmative answer is routinely implicit in many analyses.

Edmund Phelps, the 2006 Nobel Laureate in Economics, has written a thought provoking and ambitious book: *Mass Flourishing: How Grassroots Innovation Created Jobs, Challenge, and Change* (Princeton University Press, 2013). Unlike the vast majority of economists who shy away from the above questions, Phelps tackles them head on. Innovation and entrepreneurship are central to his story.

Three strong points

Phelps convincingly argues that the ideas and ideals that sprang from the Enlightenment and the ensuing Modernism were a prerequisite for the extraordinary material and personal growth

³ It may be noted that in recent years between 3,000 and 4,000 new songs are annually submitted to the national contest competing to represent Sweden, a country with a mere 9 million inhabitants, in the finals of the international Eurovision Song Contest.

that the world has experienced since the dawn of the industrial revolution. The world population in the year 1800 had not yet reached one billion, the vast majority were doomed to lives best described as nasty, brutish and harsh. Two centuries later there are more than seven billion people, and a large and rapidly growing share of them live under decent or very good conditions. Most people in the West enjoy a standard of living and level of comfort far exceeding that of the most powerful rulers just a few hundred years ago.

There is little doubt that individualism was important for the unleashing of innovation and the ensuing growth. Gorodnichenko and Roland (2010) show that more individualist cultures are more innovative and have faster economic growth. Further evidence is provided by Taylor and Wilson (2012) in their thorough analysis of several independent datasets of culture and innovation from 62 countries spanning more than two decades. They find that most measures of individualism have a strong, significant, and positive effect on innovation, but also suggest that the simple traditional–modern dichotomy is insufficient to understand the role of culture. They argue that innovation at the national level can be fostered by patriotism and nationalism, while both familism and localism diminish innovation rates in the progress in science. Thus, although it seems clear that individualism encourages innovation, certain aspects of collectivism may also be essential.

Second, Phelps frequently stresses that “the good life” cannot be achieved through consumption alone. On the contrary, a meaningful life is largely achieved through the flourishing of an individual as a producer of offspring, goods and services, as an actor who solves problems, faces challenges, and discovers, creates and acts upon opportunities. Hence, people do not care exclusively about outcomes; they also value the procedures that lead to the outcomes, what Frey, Benz and Stutzer (2004) call “procedural utility”. This holistic emphasis is also in line with evidence that the self-employed typically report greater job satisfaction and happiness than do employees, despite working longer hours (e.g., Blanchflower 2004 and Benz and Frey 2004). Similar findings are reported by Csíkszentmihályi (1990), who even found that most people were, in fact, happier at work than at rest. He also found that people tended to think they were happier in their free time, and would choose to have more free time than work, even though it made them unhappier.

If facing challenges, discovering, creating and acting upon opportunities is fundamental for an individual who wants to have a good life, we may note that this is often labeled entrepreneurship. However, there is no rule requiring it to be enacted in the economic sphere.

It may be social, political, religious and even institutional in character. Institutional entrepreneurship is exceedingly important, but often overlooked (Henrekson and Sanandaji 2012). Deng Xiaoping was one of the most important institutional entrepreneurs in recent history. The forces unleashed through his reform efforts have had an immense impact and perhaps even changed the overall tide of world history.

A third valuable contribution of Phelps' book is that he tirelessly drives home the point that the ultimate source of prosperity is not more work, physical investment or research. The real source is innovation and the ensuing dynamism through entrepreneurship. In this dynamic process investment opportunities arise, jobs of higher productivity are created, and the rate of return on human capital increases, spurring people to acquire useful and highly valued knowledge both through formal schooling and at work. For an even more penetrating analysis demonstrating why innovation is the real source of growth I recommend William Baumol's recent *The Microtheory of Innovative Entrepreneurship* (Baumol 2010).

Questionable claims

Despite the strong points of Phelps' book, I am not ultimately convinced by his central thesis and in this section will try to explain why.

Values are important, but Phelps paints an overly simplistic picture

Phelps gives the impression that the modernist ethos of individualism, thinking for oneself, experimenting, overcoming obstacles, the will to compete and making a mark largely prevailed in the West from roughly 1850 until 1970.

This is an oversimplification inasmuch as there was enormous opposition to the flourishing of the individual throughout those years. This took various forms, ranging from religious opposition and labor union activism to democratic socialism and dictatorial fascism and communism. America was in no way immune to these tendencies. After the Great Depression and the blow it administered to the classical liberal faith in the efficiency of the market economy, and after World War II with its *de facto* planned economy in many areas, the U.S. was to a large extent a heavily regulated economy. For instance, the highest marginal tax rate peaked at 91 percent in the period 1952–1963 (Slemrod and Bakija 2008). Even in Sweden the highest tax rate never surpassed 85 percent, though a higher share of earners were effectively subject to these taxes in Sweden. Many important industries in the U.S. were

heavily regulated, including airlines, interstate trucking, banking and telecommunications. In fact, it was not until the Presidency of Jimmy Carter (1977–1980), and even more markedly under Ronald Reagan (1981–1988), that these tendencies were rolled back. Note that the Reagan Presidency was well after the 1850–1970 era identified by Phelps as the least interventionist in history.

Moreover, is it really true that values have become more traditionalist since the 1970s? Admittedly, there are pockets of fervent religiosity, and small but vocal minorities in all Western countries that long for conservatism and a return to pre-modernist values. But I believe the overall tide is heading in the reverse direction, into the late modern. No doubt, late-modernism is not totally devoid of traditional (retro) values, most notably a longing for the natural and genuine. Almost everywhere in the West there is an emphasis on the local community, including local production and a rising demand for participation in decision making in economic and political life (Jönsson, Wikström and L'Espeir Decosta 2014). These strands run parallel to a tendency towards increased individualism that is stronger than ever. While the family continues to decline in importance (lower fertility, more out-of-wedlock births, increased divorce rates) as does religiosity, there has emerged an exceptional and now legitimate diversity in lifestyles and life choices, a variety that would have appeared appalling to a majority of the population a mere generation ago (Norris and Inglehart 2004; Baumann 2007).

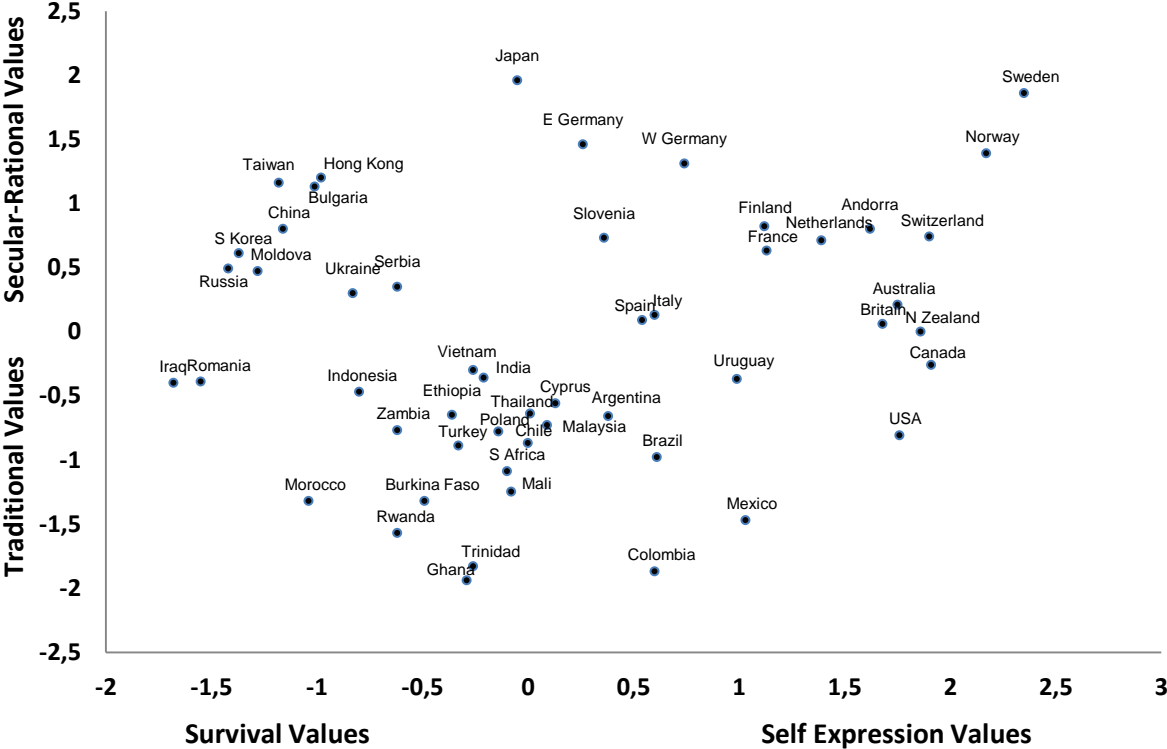
To help get a handle on this transformation, there is a highly respected two-dimensional value scale developed by Ronald Inglehart and a number of collaborators at World Values Survey (e.g., Inglehart and Welzel 2010). Figure 1 depicts the positions of the 60 countries that participated in the 2006 survey. The Traditional/Secular-rational values dimension captures the degree to which religion is important. Societies near the traditional pole emphasize the importance of parent-child ties and deference to authority, along with absolute standards and traditional family values, and reject divorce, abortion etc. Societies with secular-rational values have the opposite preferences on these issues.

The second dimension of cross-cultural variation is linked with the transition from industrial to post-industrial societies, evidenced in a polarization between Survival and Self-expression values. The latter give high priority to environmental protection, tolerance of diversity and rising demands for participation in decision making in economic and political life.

Figure 1 clearly shows that the U.S. does not score at the top in either of these two dimensions. Although it places fairly high in terms of self-expression values, it leans strongly towards the traditional pole in the traditional/secular-rational values dimension, where it is on the same level as countries like Thailand, Argentina, Poland and Indonesia.

Thus, the dichotomy traditional/modern is neither sufficiently nuanced to capture cross-country differences nor changes in values over time. As a corollary, it is very unlikely that such blunt characterizations of different cultures can explain differences in innovativeness, creativity and entrepreneurship. This is also in line with the Taylor and Wilson (2012) findings reported above.

Figure 1 Values and culture as measured by World Values Survey (in 2006).



Source: World Values Survey, <http://www.worldvaluessurvey.org/>.

Has the rate of innovation really declined?

Phelps asserts that innovation dropped to low levels, compared to what it was before 1970, and that it has remained there since, substantially cutting the rate of growth in income and wellbeing compared to earlier periods. The cause, he points out, has not simply been excessive regulation, unfunded entitlements and the depletion of low-hanging fruits available

for exploitation by innovators. To the contrary, he claims it is largely caused by a change in values away from modernist to more traditional values. By more traditional values he includes corporatist attitudes hostile to individualism and capitalism, as well as a devotion to solidarity, social protection and security, which gives rise to a demand for a spectrum of under-funded entitlements. Again, I find this argument unconvincing.

A first and almost insurmountable problem with this thesis is that Phelps does not present an objective way to measure an economy's innovativeness. For example, he measures an economy's capacity for innovation by the ratio of the market capitalization of a nation's equity market to GDP. Yet it is a commonplace that the stock market is much more important in the U.S. than in the Continental European economies that historically have relied on bank lending and non-public equity to finance investments. Phelps erroneously ignores the elementary fact that this difference has nothing to do with the rate of innovation. Nor are assets bubbles and temporarily overvalued equity prices such as those preceding many financial crises any indication of innovativeness.

Without a doubt the rate of growth is lower, and problems have been greater since the financial crisis erupted in 2007–2008. Perhaps even the rate of innovation is lower, but that is in no way at all certain. However, what I definitely question is the claim that the rate of innovation was not on par with earlier periods in the quarter century from the early 1980s until the onset of the 2007–2008 crisis. This was the period when the digital/ICT revolution (computers, the web, mobile phones) and globalization changed the way we live and communicate, and we have seen dramatic changes in how we spend our income and time. This view is confirmed by recent work by Gordon (2012) which expresses doubts that the high rate of innovation can be sustained. Other highly profiled scholars who speculate about future innovation, such as Kurzweil (2005) and Brynjolfsson and Hitt (2013), often make claims that the rate of innovation and change will accelerate in the future based on new general purpose technologies such as nanotechnology and bioengineering.

The fact that Phelps both erroneously claims that the rate of innovation has dropped since the 1960s and that no European countries can be said to be truly innovative, in combination with the lack of a credible operationalization of innovation, seriously undercuts the other virtues of the book.

Is the portrayal of the United States as exceptional fact or fiction?

Phelps throughout argues that despite the decline of modernism and dynamism in America, it remains far more innovative than any other place on earth. In contrast, he maintains that European countries are largely ossified and sclerotic, which flies in the face of the findings of several of the commonly used measures of national innovativeness. The top twelve countries for the latest available year are ranked in Table 1 according to what are arguably the five most frequently used indicators. The U.S. comes out on top in the IMD ranking, but only ranks in fifth place by the World Economic Forum and the annual Global Innovation Index produced by INSEAD, WIPO and Cornell.⁴ Thus, while the U.S. to be sure is in the top group, it is in no way outstanding. Small European countries like Switzerland, Sweden and Finland achieve high marks, as do Singapore and Hong Kong.

Should the consensus evident in these rankings be dismissed as blatantly misguided and unsound? As reported in table 1, significantly less subjective measures testify against the claim that the U.S. is uniquely innovative. Phelps entirely ignores the fact that Sweden, Finland, Switzerland and several other countries have more quality-adjusted (triadic) patents⁵ per capita and higher R&D expenditure as a share of GDP than the U.S. In the same vein several smaller countries such as Switzerland and Israel have also received more scientific Nobel Prizes per capita than the U.S.

⁴ See Dutta (2012) for details about this index. In the 2012 ranking the U.S. is in 10th place, superseded by no less than seven European countries along with Singapore and Hong Kong.

⁵ Triadic patent families are a set of patents filed at three of the major patent offices: the European Patent Office (EPO), the Japan Patent Office (JPO) and the United States Patent and Trademark Office (USPTO). Patents included in the triadic family are typically of higher economic value: patentees only take on the additional burden of extending the protection of their invention to other countries if they deem it worthwhile.

Table 1 Country ranking according to five commonly used measures of national innovativeness, top-twelve countries and latest available year.

Rank	IMD World Competitiveness Ranking 2013	WEF Global Competitiveness Index 2013–2014	Global Innovation Index 2013 (INSEAD, Cornell, WIPO)	No. of Triadic Patents per Capita 2010	R&D Spending as a Share of GDP 2011
1	USA	Switzerland	Switzerland	Japan	Israel
2	Switzerland	Singapore	Sweden	Switzerland	South Korea
3	Hong Kong	Finland	UK	Sweden	Finland
4	Sweden	Germany	Netherlands	Germany	Japan
5	Singapore	USA	USA	Finland	Sweden
6	Norway	Sweden	Finland	Denmark	Iceland ¹
7	Canada	Hong Kong	Hong Kong	Netherlands	Denmark
8	UAE	Netherlands	Singapore	Austria	Taiwan
9	Germany	Japan	Denmark	USA	Germany
10	Qatar	UK	Ireland	Israel	Switzerland ²
11	Taiwan	Norway	Canada	South Korea	USA
12	Denmark	Taiwan	Luxembourg	France	Austria

¹ 2009. ² 2008.

Sources: *IMD World Competitiveness Yearbook 2013*; World Economic Forum, *Global Competitiveness Report 2013–2014*; *The Global Innovation Index 2013 – the Local Dynamics of Innovation* (INSEAD, Cornell University and WIPO); *OECD Factbook 2013: Economic, Environmental and Social Statistics*; OECD Stat.

It is of course important to acknowledge the inherent methodological problem of comparing small outliers in Europe with the entire United States. Comparing Western Europe as a whole with the U.S. as a whole does show that America is indeed significantly more innovative. Similarly, if the U.S. was broken down into smaller entities we would find that Massachusetts, Minnesota or New York dominate even smaller European countries. That said it is still impossible to deny that many European countries characterized by the culture and policies Phelps criticizes are among the most innovative in the world.

Real standard of living may have increased after all

It is useful at this point to spell out my skepticism regarding the often heard claim that the median income began to stagnate in the 1970s. It is taken for granted that the rise in the standard of living (except for the top deciles), and in particular for the top percentile, has been negligible ever since. These estimates are complicated by declining household size, the increase of fringe benefits such as health care and difficulties in estimating inflation. Studies by the Congressional Budget Office and scholars such as Bruce Meyer and James X. Sullivan (Meyer and Sullivan 2012), who adjust for such factors, find that the American middle class have experienced around a 50 per cent increase in real income since 1970. This growth is less

than either the contemporaneous rise of the income of the rich or that of the Golden Age of 1946–1973, but is demonstrably far from stagnation.

Given the changes in the composition of production and consumption, price level changes are progressively more difficult to gauge properly. Even the fairly conservative estimates by the so-called Boskin Commission (Boskin 1998) concluded that the CPI greatly overestimates inflation (which leads to an underestimation of growth). This is because the CPI cannot fully measure technology driven quality improvement, the value of completely new products, and the role of cheaper outlets such as Wal-Mart. Thus, had we measured price changes differently, we would also have drawn different conclusions about the rate of innovation. Furthermore, as documented by Broda and Romalis (2009), the rate of inflation of the consumption basket of low-income people has been sizably lower than the consumption basket of high-income people. Thus, much of the rise of measured income inequality has been offset by a relative decline in the prices of products that poorer consumers buy.

Moreover, even the Boskin Commission may overestimate the rate of inflation for a slightly different reason. The kind of goods and services we produce are increasingly taking on a public goods character, which gives rise to a growing wedge between the value of the good to the consumer and its market price (which is what is measured in GDP). Until recently most of our income was spent on tangible things such as automobiles, housing, TV sets, household appliances etc. All of these goods are rival and excludable. If I use them, someone else can't, and I also may exclude others from using them when I don't (by locking my car etc.). Against that backdrop, it is obvious that much of contemporary consumption and time use is very different. It is indisputable that people spend a large part of their time everyday consuming online services (games, entertainment, news consumption, social media etc.). What must be underscored is that while these services tend to have a high upfront production cost, the marginal cost is very low or even zero. They are also nonrival; the fact that one person consumes an Internet service does not preclude its (concurrent) consumption by someone else. Judging by how we spend our time we value these new services dearly, and what we pay for them tends to be a mere fraction of this.⁶

Likewise, many health care services such as hip operations and psychiatric treatments can nowadays offer a person who was previously incapacitated a satisfactory life. Were we to dare

⁶ See Coyle (2011) for a more thorough discussion of the increasing importance of this phenomenon.

to put a price tag on the value of an additional year of life enjoying good health, it would probably amount to more than 50,000 dollars or more. But the treatment (i.e., the service) would likely cost no more than a fraction of that. And what is the value of the work of a nurse? Or for that matter, the value of the work of a great teacher? Given the positive externalities of human capital, the value is likely to far exceed what gets recorded in official statistics, such as GDP.

Finally, urbanization has powerful agglomeration effects that are not yet depleted (Moretti 2012). It is by now well-known that density spurs innovation, and in densely populated areas a greater variety of services can be supplied, and capacity utilization can be higher in service sectors characterized by non-storability (Jansson 2006).

Given that some two-thirds of all production consists of services not amenable to measurement, it is becoming increasingly difficult to assess the evolution of the real standard of living. Since the latter is also used by Phelps as a proxy for innovation (he uses productivity growth, but in his analysis there is implicitly a very close correspondence between productivity and standard of living), we cannot be sure that the slowdown in innovation is not simply a statistical artifact, at least up until the 2007–08 financial crisis.

To sum up, because nonrival goods are increasing in importance, and of a growing wedge between the value of what we pay for many products and what they cost to produce, and increasing network externalities and positive agglomeration effects, we tend to underestimate the increase in the standard of living in recent decades. Once we wake up and realize the interplay of these factors, it is but a small step to an important and fundamental corollary: we also tend to underestimate the genuine rate of innovation.

Systemic challenges

Phelps points out a number of challenges for politics, and therefore for all of us collectively. Some of the most important of these are systemic issues such as implementing environmentally sustainable lifestyles, reducing welfare entitlements to sustainable levels and a change of focus from the individual pursuit of material ends (mindless consumerism and greed) towards more worthy personal goals. How far have we not strayed from JFK's famous words uttered more than 50 years ago: "Ask not what your country can do for you, ask what you can do for your country."

Why did this happen? Mainstream economics should probably accept part of the blame, with its (explicitly or implicitly stated) overriding presumption that the sole rationale for working is that it supplies an income so you can derive utility from consumption (Frank et al. 1993). Phelps' cogent and consistent argument that most utility and meaning emanates from people assuming the role of innovator, problem solver and entrepreneur/producer, provides an important corrective to this one-sided view.

But there is also an ideological dimension to the current state of affairs with lower job satisfaction, less interest in politics, and less overall interest, it seems, in finding meaning by trying to "make a difference", by working for the common good with less focus on one's own material benefits. In my view the missing piece is entirely absent from Phelps' analysis, namely the rise of postmodernism and what it signifies. The postmodernist paradigm is part of a long line of attempts to discredit the optimistic Enlightenment view of the human condition (Bloom 1987).

The postmodernist outlook is but the latest potent challenge to the notion that reason, the pursuit of knowledge and individual freedom are the well-spring of progress, change and a decent social order.⁷

Moreover, leading and extraordinarily sophisticated postmodernist scholars claim that there is no objective knowledge, that if you thoroughly deconstruct any claim you will uncover a person's or group's self-interest. In such a landscape it then becomes impossible to arrive at a firmly grounded ethics, since "each society creates its own codes for the benefit of the same oppressive forces" (Wilson 1998, p. 43).

If there is neither objective knowledge *per se* nor an epistemology that we can agree on, then it becomes impossible to uphold a meritocracy with broad legitimacy. Lacking that, there will be no legitimate and esteemed way for the highly capable and conscientious to strive and vie for positions of leadership and the pursuit of the common good. Hence, if there is no arena where individuals can transcend their own narrow and egotistical strivings, and literally become public servants, they have little choice but to retreat into their own small circle or subgroup.

⁷ For a cogent and incisive discussion of the postmodernist research paradigm and its implications, the reader is referred to Wilson (1998, Ch. 3).

Postmodernist thought also tends to sap meaning out of institutions such as the family, voluntary associations, religious communities and schools, without pointing to alternative ones that can function as substitutes. As a result, it becomes more difficult for an individual to find contexts that encourage them to seek and strive for a cause that transcends any narrow egotistical goals, let alone to understand why that would be highly rewarding both personally and for society at large. Cooperation in teams or networks is fundamental in a well-functioning highly sophisticated, innovative economy, but the arenas where cooperative skills can be learned and taught are increasingly circumscribed and called into question, thereby becoming less attractive.

My chief concern is that the postmodernist paradigm in its various forms has become dominant in academia, the media, and public discussion. I believe it is an important reason why – as documented by Phelps in his book – a growing number of persons experience decreased job satisfaction, a lack of purpose and a sense of meaninglessness in their lives.

To conclude, Edmund Phelps has written a book aspiring to be a must-read “for anyone who cares about the sources of prosperity and the future of the West.” The book is laudable for its emphasis on innovation and argument that true life satisfaction is not the fruit of a mindless quest for monetary rewards that enable unlimited consumption of goods and services. The author appears spot on when emphasizing creativity, innovativeness and the producer side of our lives. A society that permits consumption to trump production and distribution to trump entrepreneurship, has produced a recipe of conditions encouraging growing frustration and redistributive conflict. In this sense Phelps reminds us that economics cannot be separated from humanistic individualism – the individual and her ideas constitute the ultimate engine of growth.

But it is impossible to ignore that there are unsound premises interwoven throughout Phelps’ account. His romanticizing of the period between the American Civil War and World War II as opposed to the post-1980 period is highly implausible for a host of reasons. The derogatory evaluation of the performance of the Continental European and Scandinavian economies seems lacking in depth. The absence of empirical indicators actually showing that the rate of innovation has dropped jumps out at the astute reader. All of this sounds suspiciously familiar, and is compounded by his sustained use of the timeworn traditional–modernist dichotomy which time and again has been shown to be far too restrictive to understanding what may have gone wrong in the West today. A fair share of our problems may just as well

emanate from the contribution of the growing focus on me-centered self-expression to a weakening of core traditional values. Creativity and self-centeredness are not sufficient to attain the good life; normally a sense of belonging and collective responsibility are also required.

As I stressed at the outset, these lapses are particularly regrettable because of the substance of the book's main message. In an increasingly atomized and consumerist age, Phelps makes a compelling case for creative entrepreneurship being not merely the key to economic growth, but to life satisfaction as well. Yet it is also a message that would have been more convincing were it delivered with more rigor and actually grounded in measuring innovation, less American exceptionalism and a less saccharine view of the past.

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