Mass Flourishing and Economic Dynamism

Edmund Phelps

Regaining modern values can reverse the slowdown in innovation and its rewards

Why do some nations experience mass economic flourishing while others do not? Why did several Western nations—first the United Kingdom, then the United States, France, and Germany—see a remarkable period of innovation, economic growth, and human progress beginning about 1890? And why did innovation stall after about 1970?

My thesis, developed in my 2013 book *Mass Flourishing: How Grassroots Innovation Created Jobs, Challenge, and Change* and tested in its 2020 sequel, *Dynamism: The Values That Drive Innovation, Job Satisfaction, and Economic Growth*, is that the well-performing nations acquired higher levels of dynamism—the desire and capabilities of the nation's people to innovate. The force behind this innovative dynamism that spurred people in large numbers to conceive innovations was the rise and spread of certain modern values: individualism, vitalism, and a desire for self-expression.

Individualism (not to be confused with selfishness) is the desire to have some independence and to make one's own way. It can be traced back to the Renaissance. In the 15th century, the Italian philosopher Giovanni Pico della Mirandola argued that if human beings were created by God in his image, then they must share to some degree God's capacity for creativity. In other words, Pico foresaw a sense of individualism in which people carved out their own development. Martin Luther spread the spirit of individualism during the Reformation with his demand that people read and interpret the Bible for themselves. Other thinkers that championed individualism were Ralph Waldo Emerson, with his concept of self-reliance, and George Eliot, who embodied the spirit of breaking with convention.

Vitalism is the notion that we feel alive when we are taking the initiative to "act on the world," to use the German philosopher Georg Wilhelm Friedrich Hegel's terminology, relishing discovery and ventures into the unknown. A vitalist spirit swept from Italy through France, Spain, and Britain later, during the Age of Discovery from the 15th until the 17th century. This spirit is found in the great sculptor Benvenuto Cellini's work, with his zeal for competition; in Cervantes's *Don Quixote,* when Sancho Panza, stuck in a place without challenges, goes so far as to hallucinate obstacles for a sense of fulfillment; and later by the French philosopher Henri Bergson, who conceived of people energized by the currents of life involving themselves in challenging projects and transforming themselves in a process of "becoming."

Last, self-expression is the gratification that comes from making use of our imagination and creativity—voicing our thoughts or showing our talents. In being *inspired* to imagine and create a new way or new thing, people may reveal a part of who they are.

Modern values

Modern economies formed in nations where modern values arose. These economies were, at their core, driven by the judgment, intuitions, and imagination of a modern people—mostly ordinary people, as I like to say, working in various businesses. Those nations with high dynamism not only had higher rates of innovation but also higher rates of job satisfaction and happiness linked to nonpecuniary rewards such as feelings of achievement, exercising imagination to create new things, and overcoming challenges. Those nations were conducive to mass flourishing.

By contrast, dynamism was scarce and innovation and job satisfaction less abundant in societies where traditional values, such as conformism, fear of taking risks, service to others, and a focus on material rather than experiential gains, prevailed.

Is there evidence to support my theory? Calculations in *Dynamism* by one of my coauthors, Raicho Bojilov, reveal that innovation was consistently abundant in some countries and consistently meager in some others for about a century.

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During the post–World War II period of high innovation (comparable to the historically innovative period from the 1870s to World War I), indigenous innovation rates were strikingly high in the US (1.02), the UK (0.76), and Finland (0.55) but strikingly low in Germany (0.42), Italy (0.40), and France (0.32).

Analysis of 20 Organisation for Economic Co-operation and Development countries by another coauthor, Gylfi Zoega, shows that countries with people possessing high-strength doses of modern values—the US, Ireland, Australia, Denmark, and less so Switzerland, Austria, the UK, Finland, and Italy—did have relatively high rates of indigenous innovation, as my theory predicts.

Moreover, Zoega's statistical investigation shows that values matter. He finds that not only does trust matter—a value neither modern nor traditional, I think—but also "the willingness to take the initiative, the desire to achieve on the job, teaching children to be independent, and the acceptance of competition contribute positively to economic performance . . . measured by TFP [total factor productivity] growth, job satisfaction, male labor force participation, and employment." Teaching children to be obedient, however, reduced economic performance.

Unfortunately, the span of spectacular growth has since slowed. Cumulative growth of TFP in the US over 20-year periods went from 0.381 in 1919–39 to 0.446 in 1950–70, then down to 0.243 in 1970–90 and 0.302 in 1990–2010, Bojilov's calculations show.

The slowdown in innovation and growth does not mean there has been no innovation since the 1970s—there have been breakthroughs in artificial intelligence and electric vehicles, for example. However, most of these innovations come from the high-tech Silicon Valley region of California, a small part of the economy. Massachusetts Institute of Technology economist Daron Acemoğlu commented recently that AI would add no more than 1 percent to US economic output over the next decade.

Loss of innovation

The economic costs to the West caused by the loss of innovation are serious. The resulting near stagnation of wage rates is disturbing to workers who grew up believing that their wages would rise enough to provide them with a better standard of living than their parents'. As capital investments run into diminishing returns that are no longer offset by impressive technical progress, much capital formation has been discouraged. As real interest rates sank to lower levels, the price of many assets, such as houses, rose relentlessly from about 1973 to 2019, so fewer people than ever could afford to live in them.

The social costs have been great, too. General Social Survey household data show that reported job satisfaction in the United States has been on a downhill slide since 1972. Anne Case and Angus Deaton in *Deaths of Despair* show data on the outbreak of despair in America, linking it to economic developments.

The decline of innovation and its rewards is attributable largely to deterioration of those modern values that fuel the dynamism of the people, I believe. The horrific rise of the "money culture," to use a term by American philosopher John Dewey, may weaken a nation's dynamism, as I argue in *Mass Flourishing*.

I am heartened that others are taking interest in further developing my ideas on restoring economic dynamism. Melissa Kearney, director of the Aspen Economic Strategy Group, has for example shifted the organization's research focus from resilience to strengthening dynamism.

Regaining these values and reversing the slowdown of innovation will be hard. Economists ought to design an economy high in dynamism where people can experience mass flourishing from the grassroots up. F&D

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