

Introductory Remarks
4th Annual Conference of the Center on Capitalism & Society
Council on Foreign Relations November 14-15, 2007

Introductory Remarks: The Dynamism of U.S. Capitalism: Where are the Weaknesses? What are the Main Threats?

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It's gladdens my heart to see the 4th Annual Conference of Columbia's Center on Capitalism and Society ready to unfold. The Center came into existence in 2001 and went into the Earth Institute in 2002 at the invitation of Jeffrey Sachs. Our public face consists primarily of our website, to which our new electronic journal *Capitalism and Society* is linked, and our series of annual conferences.¹ We opened the series in New York with our Inaugural Conference in 2004. Next was Reykjavik at the University of Iceland. Then on to Venice in collaboration with CESifo.

I am grateful to Jim Dougherty and to the Council on Foreign Relations for providing us with an attractive and convenient space and a distinguished audience for this year's conference. You are all welcome to join in the Q and A.

This meeting – and the Center itself – is not just my inspiration, of course. But I would like to make a few prefatory remarks about my thinking on our subject here.

The *dynamism* of an *economy* is reflected in the spontaneous innovation that the participants in the economy tend to generate through their own *creativity* and personal *experience*. This kind of innovation stems from a *Hayekian process*: a new commercial idea of a business person, a *Hayekian* entrepreneur who despite Knightian uncertainty undertakes to develop and market it, one or more business managers or household consumers who pioneer its evaluation, adoption and mastery, and, finally, its ensuing imitation in much of the market. This is innovation in the economists' sense of new products and methods that succeed in winning adoption and subsequent use – a new

¹ The website is at www.earth.columbia/ccs and the journal is published by Berkeley Electronic Press. There is also a Working Paper series on the website and a short history of capitalism theory.

movie doing well at the box office, a new way to ship goods taking hold, and so forth. The advances of *scientists or engineers* do *not* constitute such innovations, although such discoveries anywhere in the world may trigger new commercial ideas and they enable engineers and others to design a new product or method to function at reduced cost. (Industrial research in the U.S. and Germany has often led to a scientific advance.) Neither do the advances undertaken by *Schumpeterian* entrepreneurs, since the latter merely work their way down the list of “obvious” commercial applications of not-yet-exploited scientific advances; Schumpeter himself saw little or no creativity there.

If this Hayekian view is right, the schoolbooks that lay the productivity advance in the *lead* economies fundamentally to the occasional scientific breakthroughs – electricity, the radio, the transistor, etc. – are far off the mark. Spontaneous, organic innovation is a hugely important source of productivity growth, perhaps the primary source. Yet not all increases in productivity imply the presence of dynamism. First of all, plenty of macro-economic events produce a one-time increase in productivity – and plenty of microeconomic events produce a one-time cost reduction at the affected firm – *without the presence of any dynamism and without causing any dynamism*. In many countries productivity has taken off after a large gap has grown up between the technologies and goods in use in that country and those in the leading foreign economies. (Continental Europe’s “glorious years” from the mid-1950s to the 1970s looks to be mainly a wave of imitation; thus it does not signify the sudden appearance of dynamism in the structure of the Continent’s economies – and then the sudden disappearance of that dynamism.) In many firms, productivity has increased following a drive for “cost savings” without any resulting increase in dynamism. (Greater “static efficiency” does not mean greater “dynamic efficiency.” Secondly, a *permanent* increase in the trend growth rate of productivity in, say, the leading economies or in the global economy *may* very well be ultimately attributable to an exogenous scientific advance or to an innovation in a foreign economy – with the help of a Schumpeterian entrepreneur in the home country who “implements” it, bringing it to commercial application. For all of these reasons, economic dynamism (or the force of dynamism) is *not satisfactorily measured* by the trend-rate of economic growth, in the sense of growth in hourly productivity; or, for that matter, the part of productivity growth not explainable by the growth in physical capital and human capital. What could be plausibly argued is that a country with relatively *less dynamism than the leaders have* may tend to have the same *growth rate* of productivity as the leaders have – on average over time – yet to have a

productivity *level* that usually lags behind the level in the leading economies, the lag varying from one decade to the next.

The fruits of dynamism in a country go well beyond productivity, moreover. Dynamism in a country *creates jobs* – jobs in *developing* embryonic innovations, in *marketing* the innovations that have been launched and in *managing* businesses that must constantly be evaluating and mastering innovations in order to lower costs or expand their demand.

Dynamism in a country also transforms the character of work. An economy of high dynamism offers opportunities for start-up entrepreneurs to create something, for financiers to practice their expertise in judging which entrepreneur to back and to mentor, and for employees to find mental stimulation in the workplace and to derive the satisfaction of solving new problems. As John Dewey liked to say, *the Means is the End!* The process is so important – for job satisfaction and therefore for life satisfaction. (I would note that if innovation workers could not hope that their work would have desirable end-results – adoptions, profits, prestige – their morale might suffer.) For these reasons, dynamism is socially desirable. And more of it is better than less.

This conference grows out of three concerns. We start with a debate on whether U.S. dynamism has been gaining ground in recent decades, as some argue, or whether it has been in a long decline – briefly interrupted by the internet revolution.

Whatever the truth on that score, many observers perceive much room for improvement. There are “enemies from within.” Our financial sector uses rules of thumb having fixities and independence assumptions that do not fit an economy of dynamism and it plays the game of musical chairs. Our corporate governance discourages takeovers and allows uninformed and under-motivated boards of directors. Thus dynamism is neglected and ill-served.

There are also “enemies from without”: litigants, extortionists, stakeholders, and political demagogues. Much of the public has come to feel that we cannot afford an economy that goes off in unpredicted directions, that so much market speculation and competition is undesirable. So capitalism must be reined in, they say. But a political movement toward increased economic control, if it stifles economic dynamism, would endanger productivity growth and jobs, employee engagement and human fulfillment.