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**Grassroots Dynamism: Source of Mass Flourishing**  
2013 Book Tour Speech

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## Grassroots Dynamism: Source of Mass Flourishing 2013 Book Tour Speech

Edmund Phelps\*

The epic story of the West is the emergence in the 19<sup>th</sup> century of a wide prosperity the world had never seen before and its near-submergence in one nation after another in the 20<sup>th</sup>. My book *Mass Flourishing* can be read as a history of this phenomenon where it was forceful – in the “modern” economies of Britain and America from the 1820s, Germany and France from the 1870s.

They were the marvel of the world: The wonder was not so much the high *level* of wages and wealth, which deTocqueville noticed. (Mark Twain exclaimed over “the drive and push and rush and struggle of the raging, tearing, booming 19<sup>th</sup> century!”<sup>1</sup>) There was massive *prosperity*, a material gain, and widespread *flourishing*, a non-material gain. So the book is also a text on these rewards and their relations to what humanists call the “good life.”

The book can also be read as the missing piece in the modern economics founded by Keynes, Knight and Hayek. They pointed to developments at work in the modern economies around them – Keynes to the investor's “animal spirits,” Knight to the feeling of uncertainty, and Hayek to the innovator’s perception of an opportunity for “adaptation.” But they did not sense the *visions* capable of *driving people forward*. The book sketches a theory of the dynamism – and the satisfactions – of modern economies.

The book notes that, before the modern economies, economic knowledge,

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<sup>1</sup> Speech at Delmonico’s, New York, April 8, 1889.

thus productivity, was virtually stagnant – even in the economies that were the jewels of mercantile capitalism, such as Spain and Holland and even 18<sup>th</sup> century Britain. The concept of “job satisfaction” was unknown. The lone shepherd, bored by the routine and isolated, symbolizes that system.

The new mass prospering and flourishing was brought about by *mass innovating* – though the historians spoke only of resources, efficiencies and increasing returns to scale.<sup>2</sup> In the stream of new methods and products, some of them found adoption by consumers or producers, changing the complexion of the economy. In Britain and America especially, there was a welter of innovations, large and small – not just headline innovations. In a lecture on 1858 America Abraham Lincoln observed that there was a “perfect rage for the new” – a “rage” that was rife among makers of products as well as users.<sup>3</sup>

Where did ideas for innovation come from? The German Historical School and the young Austrian Joseph Schumpeter believed innovations originated out of discoveries by “scientists and engineers” who were generally exogenous to the economy; Schumpeter added the commercial applications of those discoveries required “entrepreneurs.” But the modern economies possessed their own *economic dynamism* – the *desire, capacity* and *scope* to innovate. This led to an outpouring of imagining, envisioning, creating, tinkering, testing and trying out. These economies were capable of *indigenous* innovation, not just exogenous innovation.

This system of dynamism was more effective the more widely it extended to the grassroots. And the modern economies were open to grassroots

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<sup>2</sup> In particular, Jürgen Kuczynski and Walt Rostow, two leading scholars focused on this period.

<sup>3</sup> Abraham Lincoln, “Second Lecture on Discoveries and Inventions,” February 11, 1859.  
[https://teachingamericanhistory.org/document\\_author/abraham-lincoln/](https://teachingamericanhistory.org/document_author/abraham-lincoln/).

innovators. So vast amounts of human resources, such as initiative and imagination, were allocated to innovating rather than producing and trading. This dynamism was pervasive until the middle of the 20<sup>th</sup> century. No wonder there was *mass* prosperity. No nation's economy before had ever drawn on the imagination of such a wide range of the nation's minds.

The dynamism required *entrepreneurs* and *financiers*, of course, just as the sporadic innovations of the mercantile period did. Their judgment and expertise was needed. Yet dynamism further required *innovators* – innovators with the insight, imaginativeness and vision to dream up new products that might pan out and win adequate adoption.

However, the orthodox faith that any nation maintaining a “free market” can be depended on to have the dynamism for indigenous innovation is a mistake. The “right stuff” is required. Innovators often have to buck *conventional thinking* or break away from *traditional ties* to family and friends. Innovating also requires a social and political climate that is receptive to innovations despite the disruptions they are apt to cause.

Was the modern economy desirable? It brought the *classical* prosperity often called “improving conditions.” On the material side, productivity was growing with the rise of economic knowledge, so the going wage rates for standard work and working conditions tended to be *improving* – and markedly so. The *social* benefits of the material gains were also important: decreasing disease and poverty; and increasing inclusion. On the non-material side, companies became places for *social interchange*. Even in the worst factories, workers had at least escaped the farm. This prosperity was positive. A worker could ride this rising tide. Non-modern economies could tap into that growth through trade and technology transfers.

A *modern* reward, called flourishing, was also created. In material terms, a person might gain earning power from having *new insights* or undertaking *new ventures*. A person might gain satisfaction from *new experiences in one's work*. These gains are *personal rewards of initiating and creating*. They represent *succeeding*. Non-modern nations could not tap into that.

The non-material rewards had a radical impact: they changed the very nature of life and work. There were *experiential* rewards from working on new problems, gathering insights, imagining and creating novel things, testing them in the workplace and trying them out in the marketplace.<sup>4</sup> And there were *existential* rewards of self-discovery and personal growth from journeying into the unknown. The adventurous experience and exploratory spirit of the modern economic life emerging in 19<sup>th</sup> century cities were reflected in music and art.

*Of course* this transformation depended on the development of institutions that enabled dynamism, including various legal rights, laws governing corporations and financial institutions. The real crux, though, and one not given enough weight until now, is the rise of *modern values*: the spread of modern attitudes, precepts and beliefs. These modern values can be roughly grouped under the headings of *individualism* (thinking for one's self, working for oneself, willingness to break from groups and traditions), *vitalism* (relishing challenges, surmounting obstacles, satisfying curiosity, competing, taking initiative, "acting on the world") and *self-expression* (imagining and creating, testing, trying out, and voyaging into the unknown in hopes of "making a mark").

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<sup>4</sup> As noted, there were also *material* rewards in the form of gains in earning power from expanding one's capabilities. And a wage gain of one's own doing is particularly satisfying – far more so than a wage gain brought by market developments. But we would not say that a person enjoying increased income through no effort of his own is "prospering."

*A basic thesis of the book is that the slow accretion of these modern values finally achieved the critical mass necessary to whet the desire in individuals to innovate, to spur the capabilities required to innovate and boost the willingness in society to give wide scope for innovation.*

The book documents the modern values that emerged from the dawn of the Modern Era (in Jacques Barzun's term) to dusk – roughly from 1490 to 1940: *Individualism* began with the humanism of the late Renaissance, *vitalism* with the quests of the Baroque era and the curiosity of the Enlightenment, and *self-expression* with the Romantic period.

Ultimately, severe reactions to the modern economies set in. The *fluctuations* and *disparities* in outcomes (and even in prospects) typical of modern economies – and endemic *unemployment* – led to *socialist* opposition. Some nations moved part of the way to a socialist economy, seeing more planning and more state ownership as steps toward stability, equality and greater employment. Generally speaking, the socialists spoke of raising people's capacities to produce but showed no consideration or awareness of the deeper goals of individuals – the non-material rewards deriving from a life of self-expression, such as exploration and creativity. They made no provisions for innovation.

The *rudderlessness* and the *social upheaval* wrought by the modern economies led in the 1920s and '30s to a *corporatist* reaction invoking some traditional values found in the middle ages (and even in mercantile capitalism). The corporatist critique in Italy, Germany and France drew upon a set of traditional values. Corporatists hated new enterprises invading towns and hated “new money” upsetting traditional ways, wealth and status. So they hated the lack of society's control over the economy. The essence of their thought was a

revolt against individualism and self-expression. For them, what mattered was the good of the nation, not the individual, and the government got to decide what was good for the nation. In practice, corporatist institutions and policies aimed at social protection and solidarity: They set up an economy that replaced competition and the market with a tripartite system of business confederations, labor unions – both with little power – and the state. Companies remained in private hands, though owners had little control. These economies were conspicuous for their patronage and lobbying, not to mention cronyism and nepotism.

Corporatists and socialists have continued to claim – right up to the present – that their systems boost economic performance on their measures. But data from the 1980s and 1990s do not support those claims. In brief, the more socialist economies did not excel at employment, the more corporatist economies did not excel at growth. Those economies have proved so woefully lacking in innovation, indigenous or even exogenous, that they have been unable to realize their own goals.

The book tests its thesis that highly prospering nations require high dynamism, and for that they have to be high in modern values. To simplify the investigation, the book tests whether, to be highly prospering, nations have to be high in modern values. That is done by using the prevalence of several attitudes reported in household surveys – a preference for jobs that are interesting, involve initiative, offer change and present challenges (such as competition) – to represent the *prevalence of modern values* and using the prevalence of reported job satisfaction as a measure of the *prevalence of prospering*. Among 18 OECD nations, the 6 where job satisfaction was widest were all above-average in modern values. The more prevalent modern values are, the more prevalent is job satisfaction – life satisfaction too. Where certain

traditional values are more prevalent, low job satisfaction is quite low.

To return to the book's narrative: In the postwar years, Germany and France enjoyed rapid growth again – and Italy found new growth. But it was mostly through technological transfers. There was mounting evidence of lessened dynamism. In Britain and Germany, later France, the loss of indigenous innovation appears to have been drastic, though concealed by continuing technology transfers from America until the low-hanging fruit ran out – around the late 1990s. In America, the growth rate of productivity *net* of the part attributable to growth of capital per hour worked – *fell* in the early 1970s to about *one-half* of what it had been consistently in the period 1922-1972 and has remained there ever since – with the exception of the years of the Internet build-out, 1996-2004. What has happened is that innovation *narrowed*, diminishing in most established industries, rising in some new ones.

What are the root causes? The book lays *much* of these declines to a return of pre-modern and anti-modern values. Europe was particularly hard hit.<sup>5</sup> But I will focus on changes in America – changes largely found also in Europe.

Thus much of America no longer shows the pioneer spirit captured by Willa Cather and the movie *Shane*. The *pre-modern* values are not all repellent; many may even be appealing. Some of them, taken alone in a small dose, might do some good. But, taken together at full dose, it appears that these

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<sup>5</sup> The book notes some attitudes damaging to innovation that are unique to Continental Europe.

- French businessman Philippe Bourguignon found that children in playgrounds are taught by their mothers to be cautious – a protectiveness and fearfulness not noted in the 19<sup>th</sup> century and pre-war decades – nor in America. (p. 209)

- German journalist Stefan Theil found that students in French and German high schools are taught that capitalism is “brutal” and “savage,” and managers despicable. No wonder few Europeans grow up desiring careers contributing to business innovation.(p. 209)

values choke off much of the modern economies' dynamism, not just some of their efficiency.

The conclusion is clear. Modern values, if predominant, spark the engine of human imagination that drives the innovation that is central to the modern economy. In contrast, some *pre-modern* or *anti-modern* values inhibit attempts to innovate. And some of these values, if they prevail, foster corporatist policies that impede or even block innovation.

What sort of economy ought we to aim for now? What is the good and the just? Some serious people have suggested we say goodbye to growth. The book agrees that the non-material rewards were ultimately the great gift to nations with modern economies. Yet prominent economists propose to say goodbye to dynamism and prospering! They focus on the "quality of life" – amenities like stadiums and comforts like clean streets. A report from the OECD views *wealth* and *leisure* as the highest goods.<sup>6</sup>

The book argues that an economy, to be a *good* economy, must be structured to offer participants prospects of the *good life* – it would be an injustice to deprive people of prospects of the good life. Further, the book sees the good life as the conception developed across centuries in the Modern Era by a succession of philosophers and humanists -- a life of exploration, creativity and discovery.<sup>7</sup> Philosophers use the word *flourishing* to characterize this sort of life. It is apparent that the widespread emergence of new methods and new things that came to the modern economies is a splendid example of this flourishing. Moreover, most ordinary people have no other source of this

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<sup>6</sup> Report of the Commission on the Measurement of Economic Performance and Social Progress, Organization for Economic Cooperation and Development, Paris, 2009.

<sup>7</sup> The modern conception derives from Pico, Luther, Montaigne, Cervantes, Shakespeare, Hume, Hegel, Kierkegaard, Nietzsche, William James and Bergson.

flourishing. So the modern economies were unique in offering the good life to large numbers of participants all the way to the grass roots of society.

An economy both *good and just* must be geared to offer those with the poorest prospects of a good life the best prospects possible. And if some people are not oriented toward the conception of the good life, a just society will allow them to operate their own parallel economies. (The book and movie *Nomadland* describes a parallel economy.)

To close: The left, the right and the corporatists all overlook the world of creation –meaningful life and the personal growth it can offer. They all cling to materialist goals. But what many of them call a “quality life” is no substitute for the *good life*. The good life is a wild ride through an economy with an open future, an economy offering unimagined rewards – a life of Kierkegaardian mystery, Nietzschean challenge and Bergsonian becoming. That is what we must hope to regain.