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PHELPSIAN GOOD ECONOMY: TWELVE RADICAL ASPECTS

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In a series of groundbreaking writings, Edmund S. Phelps has outlined what he calls "the good economy" (Phelps 1997/2007, 2006, 2007a, 2007b, 2007c, 2009, Phelps and Zoega 2009). We believe the radicalism of Phelps' ideas has not been fully appreciated. The intention of the current paper is to pinpoint some aspects of Phelps' views that are particularly visionary, and indicate further developments along the lines suggested by Phelps.

We are philosophers and organization researchers, not economists, and believe Phelps' ideas deserve wide attention. They should not be confined to an intra-economics debate only. On the contrary, one key aspect of Phelps' approach is in the fruitful dialogue it promotes on the subject of economic life in general. Given the commanding status of economics as a discipline and the hegemony of economy as a political and social reality, Phelps' provocative yet constructive proposals are of tremendous potential significance both theoretically as well as in pragmatic terms.

Anybody in Love Here?

The senior writer of this paper recalls encountering Professor Phelps at the wedding of the son of Pentti Kouri, a mutual friend. The Nobel laureate was in the company of a lovely lady of warm aristocratic grace, his wife Viviana. Esa was struck by the radiance of the seasoned couple. They were obviously in love after decades of life together. Later Esa went up to the Phelpses and the threesome started a conversation on the subject of love and lasting relationship, continuing well into the night over the wedding dinner.

Is this relevant from the point of understanding economics? For mainstream economics, the answer is no. For the Phelpsian view of economics, the way we read him, the answer is yes.

The Affective Turn in Economics

"In neoclassical economics," Phelps stated in his Nobel speech, "the objects of the theory were not human endeavor as we know it – only 'prices and quantities.´" (Phelps 2007a, p. 14). "There was a *disconnect* from history and the humanities. Neoclassical *growth theory* was conspicuous in having no people in it." (ibid, italics in the original)

The battle cry of Phelps is one of bringing people back to economics. "In a 2003 conference I proposed that a career of *challenge* and *personal development* is the essence of the good life… a good *economy* promotes "vitalist" lives. It produces the stimulation, challenge, engagement, mastery, discovery and development that constitute the good life." (ibid, p. 17-18, italics in the original).

The study of economy leads Phelps to study *good economy*, and good economy to study *the good life* - in terms of notions such as *inclusion, engagement, self-realization, self-actualization, self-respect, self-expression, creativity, vibrancy, abundance, personal development, human satisfaction, flourishing, and the good life*.

Phelps' choice of vocabulary is remarkable and noteworthy by any standard. Phelps address the study of the economy using words you would like to come up in a future-oriented discussion with your 18-year-old son or daughter, in terms of what could be called *the naïve basic discourses of life*. We call this the *first radical point* of Phelps' approach: he tackles good economy with concepts that relate to human activities and endeavors as part of people's *Lebenswelt* and with words people can be expected to understand and to relate to on a personal level.

This means that Phelps' vision of "good economy" does not unfold in terms of specialized jargon. If we accept the "hyperspecialization" of intellectual life and universities (Mark C. Taylor 2007) as unavoidable and justified, there is nothing to worry about, but Phelps' move points to the opposite direction.

Phelps sides with Hayek here. In his powerful yet neglected Nobel speech, Hayek criticizes the "pretense of knowledge" on the part of economists, the obsession of economics to pose as "science" next to the natural sciences (Hayek 1989). For the purposes of analysis, it might be exciting to focus upon models that are accessible to specialized intellect and claimable as the privilege of an academic expertise. As Daniel Kahneman, another challenger to orthodoxy once put it, "the standard assumptions about the economic agent are in economic theory for a reason: they allow for tractable analysis." (Kahneman 2003, p. 166). You measure what you can measure, and the rest you declare insignificant.

In actual fact, of course, economic life inextricably intertwines with the naïve basic discourses of life. People buy wedding rings because of romantic constructs referred to as "love", and houses, and trips to faraway countries, and all that irrespective of how questionable the construct of love might turn out to be on intellectual or scientific grounds. *Phelps' second radical point,* we conclude, is that economic life might not and need not be restricted to constructs that can be rationally, intellectually, objectively or scientifically justified. No matter how ephemeral and ill-defined, amorphous and manysplendoured, subjectivistic and non-measurable, fictitious and mysterious "love", "self-realization", or "vibrancy" might turn out to be, they still might and indeed do influence people in their economic activities. People might love their work. People might love to self-realize and create vibrantly fabulous breakthroughs. Indeed, love might be "the killer app" as Tim Sanders has put it (Sanders 2002). Love and self-realization might be *humanly* relevant in a way that makes them *economically* relevant.

Economics, as we interpret Phelps, should not only be by the people, but also for *all* the people and *fundamentally* of the people; recognizing the reciprocal nature between theory and activity (e.g. Ghoshal 2005). In essence, Phelps is arguing for a radical harmonization in the discoursive practices of economists, where the accepted bifurcation of esoteric specialization and general influencing of public opinion should be remolded into a coherent whole, with some new morally less dubious fundamentals (e.g. Kahneman 2003).

Phelps insists on focusing upon economic life, over and above economic theories of that life. As a result, he challenges existing theories radically, even outrageously. “The modern economy, where fully developed, has indeed been transformative for *nations* – but much less so for *economics*” (2007a, p. 1, italics in the original). According to the 2006 Nobel laureate in economics, economic theories have failed to account for “the distinctive nature of the modern economy” (ibid, p. 1). This is because key drivers of economic growth dynamism have been bypassed. “Though in fact crucial for growth, a human role over a vast range of activities involving management, judgment, insight, intuition and creativity is absent.” (ibid p. 14)

Economists have largely bypassed the personal and energizing, exciting aspects of economic growth and how it feels to be an agent in that realm, Phelps suggests. In particular, economists have bypassed emotions.

In bypassing affect and the emotional dimension, economists are not alone. Also organization researchers and even psychologists have been slow to warm up to the emotional fundamentals of the human life. With the words of a recent meta-article: “As psychology transformed itself from the science of the mind … into the science of behavior …, an important topic slipped from scientific view: the subjective experience of emotion.” (Feldman Barrett et al 2007, p. 374). Likewise, the emergence of focus on the emotional dimensions of organizational behavior has been so slow to come that some researchers have labeled its recent breakthroughs as the “affective turn” in organizational scholarship (Barsade et al 2003).

Perhaps even more strikingly, in the field of philosophy, the most visionary and sky-bound of the higher educational disciplines, relevance to the actual conduct of people’s lives has been lost. Indeed, the whole of what could be called *content philosophy* has been on a sidetrack since the days of Williams James and Henri Bergson. The question of *good life,* and the grand Socratic mission of philosophy to improve upon life and the passion to facilitate people in their strive for better lives – the original intention of philosophy – has been pushed to the margins. With Haeykian “pretense of knowledge” and formal orthodoxy counting more than relevance (Taylor and Saarinen 1994, Saarinen 2008), academic philosophy has become increasingly irrelevant to the actual conduct of people’s lives.

Phelps’ *third radical point* is one that sides him with the “affective turn” in behavioral research. Phelps’ content philosophy is a battle cry for an engaging economic theory; a humanely fertile theory that refuses to become marginalized from the actual conduct of economic life.

Positive Economics

In the course of the past ten-fifteen years, positive emotions, the phenomena of human flourishing and dynamism of positive spirals have began to attract increasing systematic attention in psychology and the human sciences. (Seligman and Csikszentmihalyi 2000, Seligman 2002, Snyder and Lopez 2002, Cameron, Dutton and Quinn 2003, Keyes and Haidt 2003, Fredrickson and Losada 2005). The emergence of positive psychology and positive organizational scholarship are groundbreaking developments which extend the focus of psychological and organizational research to directions similar to those identified by Phelps as the future of economics.

Joining the battle for a more positively tuned approach at the theatre of economy, and from a similar value base as positive psychology and positive organizational scholarship, Edmund Phelps launches a view of economics that stresses the *positivity of the positive* from the point of view of the functioning of the economic life. We welcome this as *the fourth radical point* in Phelps' thinking.

Thus it is only fitting to find in Phelps emphatic reference to explicitly positive, vitalistic notions such as *self-realization, self-actualization, vibrancy, abundance, personal development, human satisfaction, creativity,* and *flourishing.* We emphasize the fact that similar discourse and vocabulary is the hallmark of positive psychology and positive organizational scholarship.

Contrasted with the neoclassical view, Phelps' position amounts to a two-fold attack. Firstly, he claims that neoclassical theories fail to account for modern economy on the level of observable phenomena. Secondly, Phelps holds that neoclassical theories fail to account for what is *distinctive* about modern economy – its innovative, dynamic nature. Here positivity has a key role, we interpret Phelps as suggesting.

Phelps focuses on three stakeholders that he considers fundamental for economic innovation and dynamism: the entrepreneur, the financier and the employee. Much of Phelps' radicalism is based on addressing *the positive psychology, positive social psychology and positive interactive dynamism* of these three key players.

Less is More

In his *Rewarding Work* (1997/2007), Phelps argues that it is beneficial for economy to build a subsidized system for low-pay work. This is because *inclusion* to work life creates possibilities for the self-actualization of people and injections to economy that gets the benefits of that work.

Continuing in the wake of Knight and Hayek, Phelps goes on to stress the role of genuine risk taking, unpredictability and uncertainty in the functioning of a dynamic economy. Quoting approvingly Knight's views, Phelps observes that "Knight's principal thesis" is that in capitalist economy, "the prospects lying ahead for *every* business decision, including decisions to produce more or less of existing goods, involve elements in the calculation of demand and cost that are not known, not even statistically." (Phelps 2006, p. 7, italics in the original).

This leads Phelps to reject rational expectancy models and salute with enthusiasm "imperfect knowledge economy" which Roman Frydman and Michael Goldberg have proposed (Frydman and Goldberg 2007). For Phelps, the fact that knowledge counts as *less* in economy, makes *more* of economy. The good news is: rational calculations are not enough. More is needed because economic dynamism involves human fundamentals that extend outside the knowing subject. The dynamism of knowledge is insufficient to deliver the dynamism of the real economy.

Here Phelps follows Knight in stressing the "forward-looking character of the economic process itself" (Knight 1921/2002, p. 237, Phelps 2007a, p. 7). Urging the economic theory to acknowledge the forward-looking nature of its subject matter, and the openness and uncertainty that accompanies it, Phelps goes on to emphasize the category particularly critical for the functioning of modern economy: innovativeness. "Capitalism is all about novelty, exploration, innovative ventures and discovery – features absent from neoclassical theory" (Phelps 2007a, p. 1).

Innovativeness is for Phelps the core of dynamic economy, his chief theme. But as clouds gather around predictability, calculability and objective knowledge, the dawn of broader humanity is in the offing. Up in significance raise individuals, the human choice, emotions, the category of the possible, connectivity, Hayekian "private know-how", opportunity-seizing, the growth-oriented, emergent intra- and intersubjective human creativity that goes beyond rationalism and objectivistic epistemology. The categories of possibility and positivity go up, those of necessity, factualism and negativity, down.

Having worked his way through Knight, Polanyi and Hayek, Phelps summarizes his purpose: "to incorporate or reflect in my models what it is that an employee, manager or entrepreneur does: to recognize that most are engaged in their work, form expectations and evolve beliefs, solve problems and have ideas. Trying to put these people into economic models became my project." (2007a, p. 3). Phelps' *fifth radical point* in bringing the people parameter to the center of economic theorizing, is in his emphasis of what makes us thrive as human beings and makes life worth living in positive terms, as opposed to the neutrality-seeking scientism and greed and deficit –based negativism.

This positive view sets Phelps firmly apart from the "ideology-based gloomy vision" and "negative assumptions of people and institutions" that Sumantra Ghoshal very sharply has identified as the reason "why bad management theories are destroying good management practices" (Ghoshal 2005).

The Spirit of Economic Creativity

Phelps' emphasis is on capitalism as a dynamic economy, therefore on innovativeness and self-expression as cornerstones of economic life. Phelps argues for a human turn in economic theorizing. How far along that turn is Phelps suggesting we should proceed?

One uniquely human feature is our ability to think in terms of stories and narratives (Bruner 1986, Gardner and Laskin 1995). People are highly sensitive to the "how" dimensions of processes. Is Phelps suggesting economic theory should open itself to the narrative fundamentals of human cognitive endowment? We believe he is. He is suggesting in effect that *the qualitative dimension* can no longer be ignored.

At the center of the qualitative dimension is the human ability to have experiences and peak experiences (Csikszentmihalyi 1990), to make sense and to operate "beyond the information given" (Bruner 1973). It is based on the distinctive human possibility of having an inner life. That endowment has been explored in the course of the centuries in various ways among others by poets, mystics, philosophers, psychologists, theologians, historians, autobiographers, spiritual and moral thinkers, essayists, artists, educators, common people as well as by scientists. The theme of inner life is inextricably intertwined with "the moral calling of philosophy" (Cavell 2004) which demands attention to an "examined life" (Hadot 2002). Few would question its significance for a life worth living, or for any adequate account of what it is to be truly human. Unfortunately, from the point of view of scientific modeling, experience is muddy waters. It opens the door to human subjective whims and idiosyncrasies. It is notoriously difficult to account for in an objective discourse. Therefore it is looked upon often with deep suspicion.

The nuance-rich subjectivity of experience is a headache from the point of view of measurement, rigorous theorizing and objectivistic model building. Indeed, many theorists and scholars in the social and human sciences and even in psychology prefer to stay away from the messy details of human experience and subjectivity, choosing stingy and cold objectivism instead of rich and warm subjectivism. The charms of abstraction are particularly tempting for those whose talents lurk in the elegant intellectualism of rigorous models and in the methodologies that deal with them. In economics, this is reflected in the "rational expectations hypothesis" which presumes that economists can predict exactly how rational individuals comprehend the future. As Frydman and Goldberg put it, "for economists, a 'rational individual' is not merely reasonable; he or she is someone who behaves in accordance with a mathematical model of individual decision-making that economists have agreed to call 'rational.'" (Frydman and Goldberg 2009)

Rejecting "rational expectations hypothesis" and the unrealistic assumptions of rationality that accompany it, Phelps launches yet another aspect of his human turn in economic theorizing. He opens the door for a whole range of new questions the significance of which has not been fully appreciated.

Phelps is in effect asking: is it beneficial for the dynamism of economics that economics is essentially an effort of the people, by the people, and for the people? Does it pay off – in economic terms - to be human, as opposed to being a rational, calculating, self-interest-driven and knowing agent only? Phelps' answer is: yes – in opposition to neoclassical theories that answer "no". This is the *sixth radical point* in Phelps. Being *forced to be human* is not a handicap in economy, but a benefit, advantage and privilege. You lose complete knowledge and calculability but you gain innovativeness and dynamism.

This point goes much farther than the calls by some economists who are willing to go beyond strict rationalism in considering some subjective data. More is at stake than merely qualifying the agent of economic theory beyond *the rational, selfish agent, with* *tastes that do not change* (to use the description of Kahneman's "first exposure to the psychological assumptions of economics", Kahneman 2003, p. 162). Not only is it *unrealistic* to approach economy on the basis of rational expectancy hypothesis and assuming complete knowledge, Phelps insists. You also lose the delights of economic creativity and the treasure chests of its processes. For Phelps the economy is sky-bound in opposition to many traditionalists for whom the ceiling is set by self-centered calculating rationality.

The Unbearable Lightness of Economic Dynamism

Suppose human capacities such as *thinking differently, to operate in the face of the indeterminate, to create in the context of the unmeasurable and the uncertain, to learn, discover and innovate, to come up with ideas, to leap into the unknown, to live with ambiguity* are critical for the dynamic functioning of the very foundations of economy, as Phelps stresses. You would expect such abilities to come out with high priority in the curriculum of any business school and any serious study of economy. In fact, that is not the case. Thus *the seventh radical point* in Phelps concerns the implications of his view on the curriculums of higher education as well as the focusing of its research. If Phelps is right, the reason why "business schools lost their way" (Bennis and O'Toole 2005) is due to their inability to link economics and people – it is *the human abilities* that are critical for the functioning for innovation economy. Many of such abilities point beyond those of a self-interest-driven, rational, analytical, objective knowledge –centered agency.

In effect Phelps warns against intellectualism and scientism (in the sense and spirit of Hayek) in the context of economics. This is *the eighth radical point* in Phelps, we suggest.

Recall Phelps' constant reference to the likes of Cervantes, Shakespeare, Cellini and Henri Bergson in his discussion of good economy and economic dynamism. In the eminence he assigns to humanities, Phelps is siding with humanistic wisdom and judgment over formal calculations and factual objectivism. When it comes to *homo economicus,* Phelps is basically saying, Shakespeare got it often more right than Newton ever did. Phelps is in effect celebrating "the depreciated legacy of Cervantes", as Milan Kundera put it in his *The Art of the Novel* (Kundera 1968). Like Howard Gardner in his *Five Minds for the Future*, Phelps looks at the big picture with the idea of doing something about it (Saarinen 2008). The point is to give science what it is due, and not more, rejecting "science as the prototype of all knowledge, rather than one powerful way of knowing that needs to be complemented" (Gardner 2008, p. 17).

Economic Becoming

We observed above that fundamental to Phelps' human turn in economics is the resulting focus on the qualitative dimension. One way to make this point is to say that much of what is quantitatively relevant in economy, start off as qualitatively relevant. In economic life, the qualitative precedes the quantitative.

Once enough quantitative data emerges, a theoretician may restrict himself to analyzing such data only. A theorist may presuppose all data to be quantitative. Instead of analyzing economic phenomena in the process of becoming, a theorist may reify economics to *what it has become*. Phelps' point is to emphasize that such essentialistic and backwards-looking approaches will not be sufficient to account for the actual economy in its lively and exciting dynamism.

Phelps is in effect suggesting that neoclassical economic theories *reify* the phenomena under scrutiny. They end up studying secondary phenomenon instead of the primary phenomena of becoming and change. "Our theoretical understanding of modern economies, its rudimentary state notwithstanding, and the bulk of empirical evidence strongly suggest that careers of vitality require an economy generating change and a generally forward motion" (Phelps 2007a, p. 18). For Phelps, to study economy is to study change as an ongoing process. But instead of change, economic theory ends up endorsing non-change, Phelps argues.

With its implicit ideology of stability and equilibrium, neoclassical economics has like-minded colleagues in the near-by disciplines. To wit, contrary to what you might think *prima facie,* the bulk of organization theorists in effect share the same reifying stability assumptions. As Wanda J. Orlikowski puts it, for decades "questions of transformation remained largely backstage as organizational thinking and practice engaged in a discourse dominated by questions of stability" (Orlikowski 1996, p. 63). Although the talk of change and transformation is the favored liturgy in business and management theory, the "presumption of stability" has prevailed (ibid, p. 64). Transformation is reduced to controlled and predictable change as opposed to something genuinely new and emergent (Orlikowski 1996, p. 65, Stacey 1993/2007). The result is an account "dominated by assumptions privileging stability, routine, and order" where organizational change is "reified and treated as exceptional rather than natural" (Tsoukas and Chia 2002, p. 567). What is lacking from organizational research is a theory of "organizational becoming" (ibid, p. 570).

From this point of view, Phelps' economic approach is about *economic becoming* with the intention of understanding economy involving "emergent change". We submit it is hard to deny the significance of such a perspective, if we assume that the point of economy is to be dynamic. Against the standard view, Phelps' insistence on economic becoming amounts to his *ninth radical point*.

The Mozart Proposition

Phelps' call is to bring people back to economy. What kind of people? Rational? Greedy? Egoistical? The Phelpsian answer is: let us be liberal here. Any kind of people might turn out to be economically relevant. Perhaps this is a new form of Phelps' "Mozart Proposition" according to which the cutting off of people on some random basis always risks a Mozart being among those thrown out (Phelps 1968). Don't rule out the possibility of yet-to-come economically relevant groups, from the focus of your economic considerations and theorizing, because maybe they turn out relevant through an unprecedented twist of creative economic creativity. Witness the emergence of the economics of micro loans in developing countries (Yunus 1998), or the economic implications of "the Hacker ethics" (Himanen 2001) and the open source movement (Torvalds and Diamond 2001, Raymond 1999).

In *Rewarding Work* Phelps argues for inclusion on economic grounds (as well as on the basis of fairness and self-realization). "In the perspective of Rawls (1971) inclusion means that the least advantaged toil in the formal economy under terms affording them prospects of self-realization" (Phelps 2007a, s 18). While taking Rawls as starting point, Phelps wants to proceed further than Rawls. There is "great value", Phelps suggests, if even the less advantaged working-age people have "the opportunity to obtain rewarding work in the formal economy and to earn enough in such jobs to be self-sufficient. These are the twin conditions for what is sometimes termed *social inclusion*, or, more aptly, *economic inclusion*." (Phelps 2003, s. 1, italics in the original)

Phelps' model of inclusion is quite mechanistic, however. It is based on external push rather than internal pull. While acknowledging the merits of a Phelpsian *hard inclusion*, we suggest it is useful to address also the possibility of *soft inclusion* along with the impact *the qualitative dimension* makes to economy. It is one thing to get included, and yet more to *feel* included.

In the first three tenors' concert in Rome in 1990, Placido Domingo performs "No puede ser", a Spanish composition, with Zubin Mehta conducting the orchestra. In the film that documents the concert, the performance comes out with a force that leaves both Domingo and Mehta visibly shaken. It is one of those rare instances where a camera has been able to capture performance magic as it unfolds. The mesmerizing uplift of the performance takes even the chief subjects by awe.

At stake is the emergence of a *positive deviance* (Cameron et al 2003). In the less-demanding second part of the song Zubin Mehta turns sideways to Domingo radiating a generous expression of encouragement and peer respect. How significant is the little gesture of being-by-your-sideness that takes 4.5 seconds? We don't know. But we can feel. We can sense the encouragement and the gentle push upwards. As human beings, we can feel the uplift from within. We can associate to something similar in our own experience and empathetically envision the arousal of emotional energy (Thayer 1989, Collins 2004).

General life experience verifies uplifting forms of positive spirals highly significant. They have been identified as a subject of pivotal interest by positive organizational scholarship and positive psychology (Cameron et al 2003, Quinn and Dutton 2005, Garland et al 2011). Enter relatedness-studies and the research of energizing bonding and connectedness (Fogel 1993, Stacey 1993/2003, Losada 1999, Losada and Heaphy 2004, Beebe and Lachmann 2002, Brown and Brown 2006, Dutton and Ragins 2007, Hari and Kujala 2009). People have the ability to feel connected on some very deep level, it is generally acknowledged by studies ranging from organizational scholarship and team performance to infant research and neuroscience. The tenth key point of the Phelpsian good, innovative, dynamic economy, we suggest, is that this phenomenon of positive, energizing relationships, connectivity and uplift should be addressed as a cornerstone of economic thinking. If inclusion is a pivotal driver of innovativeness, the psychology, social psychology and organization of inclusion should be addressed in economic theorizing.

We submit that for the purposes of Phelpsian innovation economy, a pull-based, qualitative and soft inclusion is a yet-to-be-discovered economic asset.

On the macro level, phenomena such as the creation of the likes of Linux testify that Phelps is right here. Contrary to what you would expect if economy were driven by self-interest and rational calculations, much of the economic activity around the internet has resulted out of excitement, joy, the sharing of insights and peer recognition. The "hackers" (as opposed to crackers) "believe in freedom and mutual help." (Raymond 2001). A programmer enjoys the community of the like-minded where peer recognition is a major source of reward (Torvalds and Diamond 2001, Himanen 2001).

New forms of business with enormous revenues have been generated in spite of the fact that feasible models of "e-commerce" have been slow in coming. There is no agreement even on what value creation in e-commerce might amount to while it is generally recognized that many assumptions of traditional thinking are inadequate (Taylor and Saarinen 1994, Amit and Zott 2001; Anderson, 2004). Is the boom of the new and unprecedented, even "irrational" forms of economic life - such as giving away products free of charge - good news or bad news for economic theory? For the kind of dynamic, innovation-based theory Phelps is envisioning the development is welcome and indeed can be taken to illustrate *economy at its dynamic best.* Models go down, economic activities up: exactly the kind of unpredictable change dynamics Phelps is talking about and pinpointing as the *distinct nature* of modern economy.

Optimal Performance and Leadership

A general trend in innovation research has been a shift toward constructs of collaboration, sharing, co-creation, connectivity and relationality (Stacey 1993/2007, John-Steiner 2000, Chesbrough 2003, Sawyer 2006, 2008, Prahalad and Krishnan 2008). It has been generally acknowledged in innovation studies that hardly anything of significance can be explained by studying isolated subjects only. (Johnson 2010, Sawyer 2006) No serious scholar in the field would assume even for a moment that innovation is a function of self-interest-driven, rational agents.

In a parallel trend, parameters of connectivity and positivity have become pivotal in the research on high performing teams. (Losada 1999, Losada and Heaphy 2004, Luoma et al 2008, Cameron 2008). Connectivity, acceptance, encouragement and social bonds are among the soft parameters that have been found to link with successful team creativity, productivity and innovativeness.

Neoclassical economics does not contact such resources. However, if economic theory is supposed to describe the phenomenon of modern economy in its dynamism, if the dynamism of modern economy is driven by creativity and innovativeness, then critically relevant parameters of the latter should be at least potentially significant for the former.

When do people perform at their best? Some of the leading research to date in the area of peak performance has focused on the construct of *flow* as introduced by Mihaly Csikszentmihalyi (1990 and subsequent works). The details are subtle, but here it suffices to take flow as a particular psychological state at which an individual is "fully involved in the present moment" and in "complete absorption in what one does" (Nakamura and Csikszentmihalyi 2002, p. 89). "When in flow, the individual operates at full capacity" (ibid, p. 90). The primary focus on the flow theory is the action of an individual, but the flow research also pays attention to "the dynamic system composed of person and environment" (ibid) in as much as that contributes to "optimal experience" under scrutiny.

Is the flow phenomenon, and consequently the flow theory and research, relevant from the point of view of economics? Could the phenomena of modern innovation economy be explained *without* reference to such phenomena? The flow phenomena is about people acting fully engaged, with complete absorption in what they do, with intense focus and with the experience of the activity being intrinsically rewarding: basically the idea of Csikszentmihalyi is to study the psychology of a particular kind of optimal experience, "finding that the reported phenomenology was remarkably similar across play and work settings" (ibid, p. 89).

As Phelps' old friend Robert K. Merton once observed, scholars "may shut their eyes to strategic data not expressly called for by the paradigm". (Merton 1949, p. 16) "Misuse results from absolutizing the paradigm rather than using it as a tentative point of departure." (ibid; see also Merton and Barber 2004, p. 269). As we know from Kuhn's work, you can rule anything out ideologically on the basis of a paradigm (Kuhn 1962/1996). Because a paradigm can take anything for granted without any further ado, it can rule that an adequate economic theory can be developed irrespective of the actual nature of human beings, including the psychology and the functioning of "optimal performance", "innovativeness" and "collaborative action".

Consider the case of leadership. The field of leadership studies is vast, scattered and multidimensional (for a recent overview, see Avolio, Walumbwa and Weber 2009). One of the most discussed distinctions in the field is between "transactional" and "transformational" leadership (Burns 1978, 2004, Avolio and Yammarino 2002). Transactional leadership "occurs when one person takes the initiative in making contact with others for the purpose of an exchange of valued things" (Burns 1978, p. 19). In contrast, in transformational leadership, "one or more persons *engage* with others in such a way that leaders and followers raise one another to higher levels of motivation and morality" (Burns 1978, p. 20, italics in the original).

We submit it is safe to assume that leadership is a genuine human phenomenon; that leading scholars in the field, after decades of study, have been able to capture something of importance of that phenomenon; and that key concepts developed have some validity for the phenomena of the field. It also seems safe to assume that the leadership of economic organizations is a phenomenon that has bearing economically. The conclusion is that the distinction between transactional and transformational leadership is of potential economic relevance.

This conclusion seems particularly forthcoming if we acknowledge economic dynamism to count as a phenomenon worth studying. What kind of leadership makes a difference in economic dynamism? Does transformational leadership make a difference in innovation context beyond transactional leadership in a way that is economically fundamental? Authentic leadership (Avolio and Luthans 2006)? Complexity leadership (Uhl-Bien and McKelvey 2007)? Systems intelligent leadership (Hämäläinen and Saarinen 2007)? Leadership based on stories and the mind of the five-year old (Gardner and Laskin 1995)? In order for an economist to be able to study such questions involving leadership, the underlying parameters of leadership will have to be acknowledged as relevant by the discipline of "economics".

At the current time there is a lack of a scientifically legitimate discourse that would link together neoclassical concepts of economics and the concepts of leadership scholarship, emotion research, flow-phenomena, and innovation studies. The fact that such a discourse does not exist is no argument to the effect it could not exist. Or *should* not exist. By stressing the significance of a wider perspective to the effect of an integrating discourse under the umbrella term of a good economy, with his *eleventh radical point,* Phelps is calling out to a paradigm shift in the field of economy.

First Things

"The subject of economics is the study of human activity in every field of endeavor and therefore must include human nature" (Phelps 2009, p. 3). What is the nature of that nature?

In their groundbreaking work, Beatrice Beebe and Frank M. Lachmann (2002) offer an intriguing answer. Drawing from well-documented results from infant research and developmental studies, integrating the work of a vast number of scholars, Beebe and Lachmann present a striking perspective of what it is to be human.

At stake is the *co-created nature* of the fundamental forms of human interaction. Emerging in early infancy, these forms are presymbolic, operate in milliseconds, and typically take place outside of conscious control. Relying on comprehensive empirical research data by themselves and others, Beebe and Lachmann set out to describe the nature of the interaction patterns between mother and infant. They use careful 'microanalysis' of sequences of behaviours from videotape. This work shows "how astonishingly subtle, complex, and rapid these early patterns of relatedness are." (Beebe and Lachmann 2002, p. 85; cf. also Beebe et al 2010, Hobson 2002.)

Beebe and Lachmann are describing the repertoire of interactive capacities of infants. The chief point is to acknowledge "the role that dyadic interaction" plays "in the early organization of experience" (Beebe and Lachmann 2002, p. 22). The infant is involved in "a reciprocal, split-second, mutually adjusting system" (p. 22), where the "self- and interactive regulation affect each other continuously" (ibid, p. 87). The regulation is bi-directional, not one-directional from the mother to the infant.

A system is at place, a system that is co-created and co-regulated". "The success of the interaction is an emergent dyadic phenomenon" (ibid, p. 88) where each partner "responds to the other within fractions of a second" (p. 95). Beebe and Lachmann stress that "this rapid responsivity cannot be based on stimulus-response, because it is too fast for visual reaction time" (p. 96). "Thus the infant is responding to each behavior not only as a discrete event but also as an element of a predictable series" (p. 97).

A salient feature of the co-created dyadic system is the *expectations* the infant brings to it. "There is extensive experimental evidence that, from birth and even before, babies form expectations of predictable events … infants are biologically prepared to detect regularity, generate expectancies, and act on these expectations." (ibid, p. 150). The ability to have those expectations is part of the "systemic endowment", the "striking systematicity" as Jerome Bruner has put it, of the infant (Bruner 1983, p. 28). With her considerable interactive and social capabilities at the first months of her life, the infant is very much an active partner in her developmental processes and in the emergence of the co-created dyad she constitutes with her mother.

Beebe and Lachmann apply their perspective for psychoanalysis and to therapeutic adult treatment. Their leading idea is that "infant research is most fruitful [as a perspective to psychoanalysis] *because the basic processes of interaction at the nonverbal level remain so similar across the life span*." (Beebe and Lachmann 2002, p. 22-23, italics added) Insights from infant study carry over to adult treatment.

We submit the same holds for *economic dynamism*. To the extent interaction remains co-created, nonverbal and out of conscious control, and to the extent the dynamics of economy hinge on human interaction that benefits from such co-creation, there is an enormous resource in the human domain lurking here. Recent findings in brain research reinforce this conclusion. What the emerging field of "social neuroscience" and "two-person neuroscience" (Hari and Kujala 2009) show is the dept with which individual human beings are tied with one another.

Some economists have been willing to investigate the economics of prosocial and altruistic behaviours, thus moving beyond the customary self-interested and rational agents. Few have considered the possibility of moving all the way to the nonverbal realm of intersubjectivity. This is what we are suggesting here – the significance of the nonverbal dimension for economic phenomena and therefore for economic theorizing.

This move, bold as it may seem, is entirely in line with the Phelpsian perspective. In the

Phelpsian good economy the emphasis is on innovation, the dynamics of the economy as a system and the human fundamentals that drive that dynamism including the personal rewards like self-realization and flourishing. It would be quite surprising, we suggest, if some of the relevant aspects of innovativeness and flourishing would not take advantage of the original human capabilities of co-creativity that the infant research and social neuroscience has revealed.

Some evidence for these suggestions is provided by the fact that often the self-reports by the most impressive creators of economic value are often intellectually strangely disappointing. In spite of their wealth of insight, something very much is lacking from accounts such as *Jack* (Welch 2001) or *The Snowball – Warren Buffett and the Business and Life* (Schroeder 2008). What is lacking is the verbal conceptualization of the nonverbal dimension, a cornerstone of the mastery of many of the truly great.

Freedom Talk

There is a grand tradition in economic philosophizing that underscores the significance of *freedom* as a concept of utmost gravity. We are now prepared to make a Phelps-inspired, somewhat speculative contribution to this legacy of thinking by suggesting that the perspective from systems based infant research outlined in the previous section opens the door to considering the legitimacy and significance of *nonconceived, nonconceptualized freedom.* It is often useful to conceptualize freedom and put the concept to work in specific, situational, contextually relevant ways. There is a point for sophisticated strategic articulation as well as for one-liner discourses "straight from the gut". Yet there is also a point for holding back the conceptual endowment for something even more fundamental.

Our proposal reads: in economy, there is a case for freedom that is not fixed to any identified form, discourse landscape or conceptual shape. Strategies, explicit intentions and articulated roadmaps have their place in the processes of innovation, but there is also a point in celebrating a *shapeless, formless and unarticulated* freedom because such a tuning beyond words might well enhance the upsurge of a remarkably emergent change.

Working with explicit, articulated intentions is one powerful way to strive for results. Indeed, this is how strategies are put in place and "roadmaps" and "must-win battles" are launced as part of everyday management. Beebe and Lachmann, however, along with their colleagues in infant research, show that infant capabilities of interaction reflect expectancies that are not delivered through articulated, explicit or verbal intention. The infant endowment for interactivity works prior to any articulate intentions. The idea of nonconceptualized, nonconceived freedom highlights forms of fundamentally human productive action that emerge beyond explicit intentions and beyond the verbal dimension through the realm of intersubjectivity and co-created action. We are suggesting that it is a factor that economic reflection should take seriously – as indeed is done by practitioners in the field who do not want to trap their actions to any conceptual form even in retrospect.

"It is now well established that there are many … shared systems of rules for the regulation of joint action in the first year of life, well before language develops" (Beebe and Lachmann 2002, p. 150). There are likely to be contexts where it is prudent, for the sake of accelerated economic dynamism, to leave the mysterious flame of co-creativity, intersubjectivity and joint action running wild and untamed by conceptual cages. This is *the twelth radical aspect* of Phelpsian good economy.

Ideas that Matter

What counts as a legitimate conceptualization in economics is no small matter. "There is little doubt that economics has won the battle for theoretical hegemony in academia and society as a whole" (Ferraro, Pfeffer and Sutton 2005, p. 10). As Keynes put it, "the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood" (Keynes 1936/1973, p. 383).

Given the hegemony of economy and supremacy of science, the science of economics is a powerbase that carries enormous weight to how the future emerges. If the science of economics deems directly or indirectly some themes or concepts as illegitimate or "unscientific", those themes and concepts will have a hard time in being taken seriously by policy makers, politicians and decisions makers.

Science is an attempt to describe reality, but reality is more than any description of it. The problem with theorizing, as witnessed time and again, is that a narrowed-down discourse may take over and start to live a life of its own. Features of economy may become reduced to issues of economic theorizing, and issues of economic theorizing to conceptualizations that the theorists are capable of conducting within their chosen discourse. If economic theorizing does not acknowledge as relevant constructs such as "people", "innovation", "leadership", "co-creativity", "connectivity", "emotions", "flow", "fairness" or "animal spirits", so much worse for those phenomena, an orthodox economist might conclude.

As a matter of fact, economies continue as people enterprises. Economy continues to involve innovativeness, leadership, flow and other real-life human dynamics. Preferring to stay with their own self-defined, non-realistic subject matter while pretending they are dealing *with the real thing*, economics makes it a case to close itself off from what *everybody knows* is relevant for the actual functioning of economy as well as from the insights *the scientific community outside of economics* knows of those phenomena.

Abstractions and idealizations are the basis of the scientific method and highly pleasing intellectually. Once introduced, an abstraction can also be highly seductive. A manager, an expert, a product manager, a financier, a policy maker and even an entrepreneur may start to think of economic phenomena as a complex web of phenomena which is fundamentally about "wages", "commodities", "prices", "rational expectations", "the market" and the like, as opposed to "innovation, waves of rapid growth, big swings in business activity, disequilibria, intense employee engagement and workers' intellectual development" (Phelps 2007a, p. 3).

It does make a difference to your thought-action repertoire (to borrow a phrase from Barbara Fredrickson, 2001) as to how broad and dynamics-oriented is your economic discourse. By restricting the discourse to "rational choice", "fixed preferences", to "supply and demand curves", to "pricing", to "competition", "self interest" and the like, the ensuing reality will turn out more scarce and less exciting as compared to what it would have been if based on Phelpsian ideas of good economy. There is less to *love* in economy, less to innovate and to be proud of. But with Phelpsian "broaden and build" perspective of economics (as one could put it, inspired by Fredrickson's work on positive emotions), there is more room for the uniquely postive in the human condition to serve as the base for long term success and short term inspiration. (Fredrickson 2001, 2004, 2009). There is more room for self-realization, flourishing, vibrancy and upward spirals.

There is little doubt that *life* in Phelpsian good economy will be subjectively better, more fulfilling and rewarding than in a self-interest- and market-based neoclassical economies. And more dynamic. More what economy always was intended to be – a contributor to the mighty cause of the good life.

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