Institutions that promote creativity key to new economics


Economic growth, as we learned long ago from the works of economists like MIT’s Robert M. Solow, is largely driven by learning and innovation, not just saving and the accumulation of capital. Ultimately, economic progress depends on creativity. That is why fear of “secular stagnation” in today’s advanced economies has many wondering how creativity can be spurred.

One prominent argument lately has been that what is needed most is Keynesian economic stimulus — for example, deficit spending. After all, people are most creative when they are active, not when they are unemployed.

Others see no connection between stimulus and renewed economic dynamism. As German Chancellor Angela Merkel recently put it, Europe needs “political courage and creativity rather than billions of euros.”

In fact, we need both. If we are to encourage dynamism, we need Keynesian stimulus and other policies that encourage creativity — particularly policies that promote solid financial institutions and social innovation.
In his 2013 book Mass Flourishing, Edmund Phelps argues that we need to promote “a culture protecting and inspiring individuality, imagination, understanding and self-expression that drives a nation’s indigenous innovation.” He believes that creativity has been stifled by a public philosophy described as corporatism, and that only through thorough reform of our private institutions, financial and others, can individuality and dynamism be restored.

Phelps stresses that corporatist thinking has had a long and enduring history, going back to Saint Paul, the author of as many as 14 books of the New Testament. Paul used the human body (corpus in Latin) as a metaphor for society, suggesting that in a healthy society, as in a healthy body, every organ must be preserved and none permitted to die. As a public-policy credo, corporatism has come to mean that the government must support all members of society, whether individuals or organizations, giving support to failing businesses and protecting existing jobs alike.

According to Phelps, Pope Leo XIII advocated a corporatist view in his 1891 encyclical Rerum Novarum, and Pope Pius XI amplified these ideas in his 1931 encyclical Quadragesimo Anno. However, in reading these works, I do not find a clear or persuasive statement of any economic doctrine, except for basic notions of fairness and Christian charity.

In fact, an Ngrams search of books shows that the term “corporatism” began to become popular only after the mid-1930s and achieved broad currency by the 1970s and 1980s. The term seems to have been used most often by critics, often to denounce the defunct Fascist philosophy, or by those extolling elements of a “new” corporatism.

Surely, elements of corporatist thinking persist today. People who might not stress that the government should protect failing businesses or redundant workers still have sympathies that might often lead to such outcomes.

Historically, an important spur toward corporatist thinking was Gustave Le Bon’s 1895 book The Crowd, which coined the terms “crowd psychology” and “collective mind.” For Le Bon, “An individual in a crowd” — not only angry mobs on the street, but also other psychologically interconnected groups of people — “is a grain of sand amid other grains of sand, which the wind stirs up at will.”

Le Bon believed that crowds need strong leaders to distance them from their natural madness and transform them into civilizations of splendor, vigor and brilliance. Mussolini and Hitler both took inspiration from his book, and incorporated his ideas into Fascist and Nazi ideology; and those ideas did not die with those regimes.
Still, the word “crowd” has taken on an entirely different meaning — and political valence — in our century. Crowdsourcing and crowd-funding have created new kinds of crowds, of the sort that Le Bon could never have imagined.

As Le Bon emphasized, people cannot easily do great things as individuals. They need to operate together within organizations that redirect crowd psychology, facilitate creativity and are led by people of integrity.

Any such organizational technology, however, is subject to error and requires experimentation. When the crowd-sourced Wikipedia was started in 2001, its success was not obvious. Even one of its founders, Jimmy Wales, found it a little hard to believe: “It’s kind of surprising that you could just open up a site and let people work.”

When the US’ Jumpstart Our Business Startups (JOBS) Act, which facilitated true crowd-funding of enterprises, was signed by US President Barack Obama in 2012, it was an experiment, too. Many critics said that it would result in the exploitation of naive investors. We still do not know whether that is true, or how well the experiment will work, but if the JOBS Act does not succeed, we should not abandon the idea, but try to modify it.

Ultimately, we need economic institutions that somehow promote the concerted creative actions of a wide swath of the world’s people. They should not be corporatist institutions, dominated by central leaders, but should derive their power from the fluid actions of modern crowds.

Some of those actions will have to be disruptive, because the momentum of organizations can carry them beyond their usefulness, but there must also be enough continuity that people can trust their careers and futures to such organizations. Acknowledging the need to experiment and design new forms of economic organization must not mean abandoning fairness and compassion.

Robert Shiller, a Nobel laureate in economics, is a professor of economics at Yale University.

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