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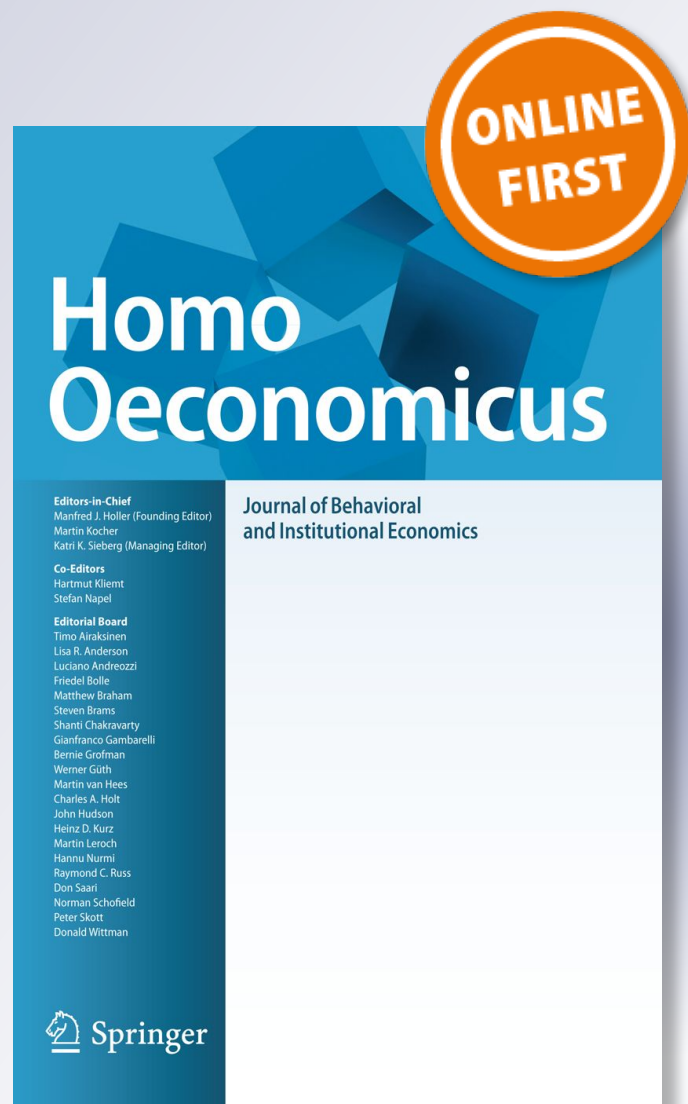
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Getting Innovation Right: The Key to Happiness and Flourishing?

A Comment on “What Is Wrong with the West’s Economies?” by Edmund Phelps

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Abstract Correlations between happiness and other variables, including innovation, are possibly dubious and may be ultimately misleading. Quality-of-life enhancing innovation is a social phenomenon, and much more than just a technological breakthrough. It typically involves institutional, cultural, organizational, managerial and other changes. It is the social phenomenon, rather than the technological breakthrough, or in addition to it, which makes the economy more dynamic and lives richer. Interesting examples include the distinction between the invention of the airplane and the development of mass tourism between northern and southern Europe. But there are many other examples, from access to pharmaceuticals in poor countries to wine making, miners’ rescue and earthquake damage prevention. Failure to see the difference between the technological breakthrough and the social phenomenon may lead to the wrong conclusions.

Keywords Non-technological innovation · The good life · Happiness correlations · Institutions · Culture · Organization · Latin America

JEL Classification D6 · I31 · O3 · O35 · O43 · Z1

1 Is There a Correlation Between Innovation and Happiness?

Edmund Phelps, Nobel Prize winner in 2006, is ‘one of the most influential and respected economists of his generation’ (Mokyr 2014, p. 189). Some of the concerns he expresses in his article in the current issue of *Homo Oeconomicus* (Phelps 2016) are shared by many others. Phelps rightly emphasizes self-respect, participation, imagination and creativity. No one could disagree with his support for inclusion,

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good education, and the encouragement of young people to read good books. In Phelps' view, all of the above contribute to innovation and dynamism, and therefore to the 'good life', prospering, flourishing and happiness. In this comment I focus on the definition of innovation Phelps uses, which I believe is somewhat narrow and restrictive, and possibly misleading. A more precise definition, going beyond the technological breakthrough, which I use in the examples presented in this comment, should help to answer some of the important questions Phelps asks. I will also explore his claim of a correlation between innovation and happiness. I will not discuss here Phelps' assessment of living and working conditions during England's Industrial Revolution, which he proposed in an earlier book and has been examined before (Mokyr 2014; Henrekson 2014), or analyse the arguments in one of his sources, *Liberty's dawn* by Emma Griffin (for that purpose see Frank 2014; Gurney 2014; Humphries 2014; Kucich 2014).

2 Happiness, Labour and Dynamism

Is there a statistical correlation between innovation and variables such as happiness, labour force participation, or the labour share of income? Phelps interprets the results of a recent survey of household attitudes, including happiness, as reflecting 'bleak levels of both unemployment and job satisfaction in Europe'. He claims that '... many Europeans seem not to have grasped that ... they are poor in the conditions for the good life ... The crops may be growing, but there is no personal growth.' The happiness scores Phelps mentions include 54 for Spain, against higher scores in six Latin American countries, ranging from Chile (58) to Mexico (79), and including Colombia (64), Argentina (66), Brazil (73) and Venezuela (74). Unfortunately, using these materials may lead to the wrong conclusions, for several reasons. First (and to stay with Latin America as an example), Latin American countries suffer from some of the worse inequalities in the world. Latin American happiness scores are likely to mask very large within-country variances. Second, high inequalities may affect not only a survey research design, but the attitudes and preferences of low-income individuals (for example, high inequality may influence the contents of the mass media, and therefore distort ordinary people's culture, views and opinions). Third, these scores may suffer from sharp short-term fluctuations. In the light of these happiness scores, how can we explain, for example, the recent massive migrations from Argentina (happiness score 66) to Spain (happiness score 54)?

In Phelps' happiness ranking, Chile appears at the bottom of the six Latin American countries mentioned before, despite the fact that for several decades Chile has led the region in both economic growth and institutional quality. The 2015 Global Innovation Index (GII) ranks Chile at the top of Latin America, followed by Mexico, Colombia, Brazil, Argentina and Venezuela, in that order (<http://www.globalinnovationindex.org>). So, in Latin America, a simple and direct relationship between innovation and happiness either does not exist, or it is very weak (incidentally, if we include in the comparison also other Latin American countries, Argentina's GII innovation rank falls down to 9 in the region, and Venezuela's to

17). If there is a general relationship between innovation and happiness, it may be more complex than assumed by Phelps. Similar warnings apply to possible relationships between innovation and labour force participation, and innovation and the income share of labour. If these relationships exist at all, possibly they are more complex than Phelps seems to assume.

Do nations need dynamism to be happy, as Phelps argues? Possibly yes, but the complete answer may depend both on our definition of dynamism, and on which nation we are looking at. Phelps mentions the French and Italians ('their economies ... almost devoid of indigenous innovation for nearly two decades'). But his view both relies on Phelps' narrow definition of innovation, and it ignores again within-country variances. Most observers would agree that European regions such as Tuscany or Haut Languedoc enjoy very high levels of the 'good life', resulting from their productive specialization on high-quality local food and wine, and high-income tourism that respects heritage and nature. It would be difficult to claim that Tuscany and Haut Languedoc have achieved this without innovation. On the contrary, possibly substantial levels of innovation have been involved, except that these innovations are not only technological, but also organizational, managerial, marketing, social, cultural and political. Technological breakthroughs and non-technological innovations have combined to make these peoples' lives not 'pitiful' (Phelps' word), but joyful.

3 Holidays and Pharmaceuticals

Not all innovations are life-enhancing, as witness Nazi concentration camps, chemical weapons, or the corrupt relationship between some Brazilian politicians and the state-owned oil company Petrobras (Financial Times 2015), to give just a few examples. Even technological breakthroughs with great life-enhancing potential (what we may call potentially 'good-life innovations', or potentially 'flourishing-inducing innovations'), may not realize their potential, if other conditions are not present, or other complementary or enabling innovations do not take place. For example, it was not, or not only, the invention of the airplane which made the immensely life-enriching, inexpensive mass tourism from northern to southern Europe possible after the Second World War. This international mass tourism would have been impossible without a number of institutional, organizational, management, diplomatic, political, cultural, and other innovations, which happened several decades after airplanes were invented. This is another example of life-enhancing innovation, taking place in Europe, which becomes apparent when we use a more comprehensive definition of innovation, including both the technological breakthrough and non-technological aspects.

Phelps takes a dim view of the health care, pharmaceutical and medical device industries. He mentions loss of dynamism, entry barriers against outsiders, insufficient innovation and non-competitive prices and profits. But industry experts seem to see a different picture, with tight margins, new products being introduced, and courts ruling against the large corporations (Ward 2015a, b, c). Perhaps even more important in terms of life-enhancing innovations, Indian makers of generic

products have successfully challenged the pharmaceutical international corporations (Mueller 2007; 't Hoen 2013). Indian producers now make medicines accessible to many millions of patients in poor countries around the world, whom otherwise would not have been able to afford them (Ford et al. 2011). Indian generic makers have even entered the US and EU markets, encouraged the development of domestic generic manufacturers there, and made the lives of millions of American and European patients richer and fuller (Hoffman 2005; Bower and Sulej 2007; Athreye and Godley 2009). All of this was made possible not, or not only, by the original technological breakthroughs, but by institutional innovations including radical regulatory changes (Athreye et al. 2009; Baldwin et al. 2010). And developments like these apply not only to pharmaceuticals. 'Bottom-of-the-pyramid' production, investment and innovation have also been taking place in Europe, or with European participation, in other industries and sectors (Prahalad 2010).

4 Wine, Miners and Earthquakes

The following three examples refer to Chile (the most innovative country in Latin America, <http://www.globalinnovationindex.org>). New, exciting, amazingly good wines are today made not only in Tuscany and Haut Languedoc (among other places), but also in Chile. This became possible not, or not only, because of technological breakthroughs, but thanks both to imaginative international partnerships, with the foreign partner usually being European, and to several institutional, political economy, organizational, managerial, human resource and marketing innovations (Hojman 2015).

The case of the 33 Chilean miners rescued in October 2010 offers another example of a successful combination of technological breakthrough and non-technological innovation. Never before had been so many miners, trapped so far below the surface for such a long time, rescued, without a single life being lost. This achievement not only saved the Chilean miners, but made all Chileans (and maybe all miners around the world) see themselves differently, however slightly, and made the lives of at least one billion television viewers worldwide, briefly richer. Of course, technological breakthroughs (including some of European origin) were relevant, but success (its probability at the beginning of the rescue operations being estimated by experts at less than one percent) had to do with organization and leadership (Useem et al. 2011; Rashid et al. 2013), not to mention the clever embrace of a great political opportunity.

A third example from Chile comes from earthquake damage prevention and tsunami alerts. In both 2014 and 2015, huge earthquakes (both of magnitude higher than eight), followed by tsunamis, hit Chile (El Mercurio 2015). In other countries, this sort of disaster provokes tens of thousands of deaths, but in Chile the total number of fatal victims, including disappeared persons, was less than 30 across the two earthquakes. Anti-seismic building technology, which keeps improving, has been around worldwide for decades, but there are large international differences regarding implementation. Chilean building regulations are extremely tough and rigorously enforced, again an institutional, not a technological advantage (Hojman

2014; Rietbrock 2014). Chile's extremely efficient tsunami alert system was developed using Israeli technology (Manning 2012), but this is never mentioned, for different reasons, by either pro- or anti-Israeli sectors of Chilean public opinion. Again, these are political rather than technological reasons. Tens of thousands of lives are protected, not only because of an Israeli technological breakthrough, but thanks to the successful combination of that breakthrough with Chile's special political, historical and institutional circumstances.

5 Conclusions

Good-life, flourishing-inducing innovation is a social phenomenon, qualitatively different from a technological breakthrough. The examples presented in this comment offer strong evidence in favour of the view that a technological breakthrough may not be a sufficient condition to generate good-life, flourishing-inducing innovation. Often other innovations which are not technological breakthroughs, such as institutional, organizational, managerial, social, cultural or political innovations are also needed. Several of our examples are from Europe or rely on European involvement. It follows that maybe what is currently missing from the West's economies may not be imagination and creativity (which are essential ingredients of a technological breakthrough), but other, non-technological conditions. There may be plenty of imagination and creativity everywhere, including Europe. What may be really missing, and badly needed, would be non-technological changes (institutional, political, organizational, managerial and so on), which would make it possible for imagination and creativity to be released. Even despite these barriers, there is no shortage of flamboyant, immensely creative inventors, innovators and entrepreneurs in late twentieth and early twenty-first century Europe, from Clive Sinclair, Alan Sugar and Richard Branson to the fathers of the European Union or King Juan Carlos of Spain, to name just a few. For example, the latter's active and public confrontation of a reactionary military coup attempt, among many other less spectacular activities, make him both a successful political entrepreneur and possibly the founder of modern Spanish democracy.

Non-technological and non-economic barriers to good-life, flourishing-inducing innovations are not new. On the contrary, these barriers have always been there. The best of economics as a discipline, from its very beginnings with Adam Smith to recent advances in, for example, regulation (Baldwin et al. 2010), among many other subjects, themes and sub-disciplines, have always tried hard, and succeeded, to contribute to our understanding of the social, cultural, political, historical, and other non-economic dimensions of market failures and 'conspiracies against the public'. Maybe it is not the economy or economics which are 'failing society'. Maybe what is failing society is politics?

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