

My Kryniza Manifesto

by Edmund Phelps^{*}

Capitalism is more a system for the inspiration, development and testing of new ideas than it is a system for allocating resources. It is about discovering what works, and what does not work – largely through trial and error, with no basis for exact predictions.

It started in Britain in the 1810s, the US in the 1820s, Belgium and to some extent France in the 1840s and Germany in the 1850s. It went on spreading into the 20th century with spectacular results in every dimension so far examined.

The system cannot set asset prices perfectly, not even approximately. In view of the uncertainty of the future and the huge uncertainty it creates in the course of its own innovating, the asset prices are mostly guesswork. An asset price this morning probably has no lasting significance. Evaluations will shift even if conditions do not. And, in a capitalist economy, conditions generally change quite a lot within a few years. Sadly, in the recent episode there was abysmal naivete about housing prices.

Though it is a far-from-efficient system, it is – where well-functioning – highly creative.

It is not necessary that each country have such creativity in order to enjoy relatively high productivity. A country can rank high in productivity through copying the lead country rather than creating its own indigenous advances.

A country needs this creativity to make our work engaging and to have new ideas to work on. It appears this system also serves to promote job creation as well as job satisfaction. We cannot afford to let it go.

Is this system sinking? In the 20th century several western European countries turned to corporatism of medieval character and to kinds of market socialism. Eastern European countries turned to communism. Yet the spirit of entrepreneurship survived here and there.

Currently the US, UK and Ireland are in a slump, though it cannot compare to the Great Depression. If capitalism could survive the Depression – and rack up some of its greatest exploits in that decade – it is reasonable to suppose it will survive the current slump.

Maybe capitalism *will* go into retreat for a time. Or be suppressed for some years.

However, in all populations, it appears, we human beings have always had an inextinguishable desire to discover, to invent – to take actions to change our lives and work.

So I think people do *not need* to move from capitalism (“been there, done that”) to something less challenging. The *need* is to rehabilitate it so as to regain its deep rewards.

^{*} Reply to the last question at the press conference September 11, 2009, ending the 11th Annual Economic Forum, held in Kryniza, Poland.