

It's All About Attitude

WITH THE DEMAND FOR MICROFINANCING ON THE RISE, and tech start-ups heading back to Wall Street, entrepreneurship is key when it comes to economic growth these days. But that wasn't always the case. When he accepted the 2006 Nobel Prize in Economics in Stockholm, Edmund Phelps was the first winner in decades to focus his speech on entrepre-

neurship, despite the crucial role that innovative, fast-growing companies play in job creation, technological progress and growth around the globe. Lately, the 74-year-old American economics professor has focused on what exactly drives certain economies to be innovative while others lag behind. NEWSWEEK's Berlin bureau chief Stefan Theil, currently on leave as a fellow with the German Marshall Fund of the United States in Washington, spoke with Phelps last week. Excerpts:

THEIL: When it comes to making economies more dynamic and innovative, everyone talks about tax rates, labor laws and access to venture capital. You argue we should also look at culture and mind-sets.

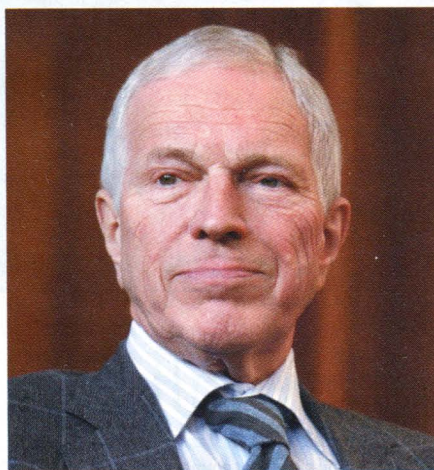
PHELPS: Yes. It's awfully odd that we're spending so much time on economic institutions, but haven't spent any time on attitudes—and whether attitudes have an effect on economic performance as measured by unemployment, productivity or growth.

Do they?

Attitudes toward responsibility, teamwork and risk-taking that we find in surveys actually do a significantly better job at explaining performance differences between countries than institutional factors such as employment-protection laws or the generosity of unemployment benefits.

That's astonishing. How exactly do attitudes drive economic growth?

Values and attitudes are as much a part of the economy as institutions and policies are. Some impede, others enable. Take the kinds of jobs that people look for. Surveys tell us that fewer French, Italians or Germans than Americans or Britons look for mental challenge, problem-solving, initiative and responsibility in their work. The data also show that the former have a



can have a large welfare state but still develop a strong, dynamic economy, as long as it has economic institutions that reward innovation and an economic culture that prefers challenge and competition.

Some commentators argue that different attitudes represent legitimate preferences and values—that Europeans prefer greater egalitarianism or less work-centric lives, for example.

They may say that their values and philosophy are right for them, but the data and surveys tell us the opposite. Unemployment continues to be very high in the big Continental economies, even at a much lower labor-participation rate. Young Europeans are voting with their feet and leaving. Many European countries score dreadfully low in job satisfaction.

Where is the fulcrum for change?

There is no magic bullet. A country's economic institutions are a richly textured fabric. There would be big disappoint-

CULTURAL ATTITUDES AREN'T JUST PUTTY IN THE

HANDS OF A BENEVOLENT LEADER.

lower acceptance of competition, of change, of new ideas over old ones. All these qualities are directly relevant to economic dynamism and innovation, not only in start-up companies but existing firms as well. Even if—and it's a big if—you had the same number of would-be entrepreneurs in Europe, more would perhaps be put off by the difficulty of finding a ready and enthusiastic work force.

Can't attitudes be changed?

Cultural attitudes aren't just putty in the hands of a benevolent leader. And government leaders are generally cautious about criticizing the attitudes of the voters who have elected them.

So are Europe's egalitarian traditions and high social spending not a problem?

The core problem of the Continental economies—Germany, France and Italy—is not that retired people get a pension check that's too big. The core problem is a lack of economic dynamism. A country

ment if a government abolished a quick employment regulation or two before breakfast and expected great things to happen. There are hundreds of things that have to change. Parts of the West have lost their way, and it will be a long road to get them back on track.

How do you think that will happen? Better education?

If I look back I can say, Wow, did college have an influence on me! I was hugely influenced by the humanities in my understanding of what a good life was about. Employment, to me, is the way to mastery of a field or a task, and to broad self-development. I agree that Europeans should improve their economic institutions to support innovation. But it also seems that European societies have to get reacquainted with their own classical humanist values, like Aristotle's quest for knowledge, Plato's responsibility, Kant's rejection of envy and Bergson's becoming instead of being.