

BOOK REVIEW:

MY JOURNEYS IN ECONOMIC THEORY BY EDMUND S. PHELPS

REVIEWED BY

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The preprint may be cited as follows:

Christie, John P. Review of “My Journeys in Economic Theory” by Edmund S. Phelps. *Journal of the History of Economic Thought* (forthcoming). Preprint at SocArXiv, osf.io/preprints/socarxiv

Book Review: Phelps, E. S. 2023: *My Journeys in Economic Theory*

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Abstract

Phelps, E. S. 2023: *My Journeys in Economic Theory*, Columbia University Press. 248pp., \$14.99. ISBN: 9780231207300 (Hardcover)

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Edmund Phelps' memoir, "My Journeys in Economic Theory," offers a captivating and insightful exploration of the intellectual odyssey of a pioneering economic theorist. Spanning over six decades, the book chronicles Phelps' groundbreaking contributions to various domains within economics, from his early work on the "Golden Rule of Accumulation" and the microfoundations of macroeconomics to his later groundbreaking theories on innovation, economic growth, and the pursuit of meaningful work. The memoir is structured as a chronological narrative, guiding readers through Phelps' formative years, his academic training, and his professional career. It is not merely a recounting of personal experiences but a profound examination of the intellectual debates, theoretical breakthroughs, and policy implications that have shaped the field of economics. Phelps' candid discussion of his intellectual evolution, interactions with other luminaries, and the challenges he faced in reshaping aspects of economic theory provide a rare glimpse into the mind of a brilliant thinker.

One of the book's compelling aspects is Phelps' seminal work in the late 1960s on developing microfoundations for macroeconomics based on imperfect information and market disequilibrium (Phelps, 1970). His rejection of the neoclassical view of wage-taking firms and his efforts to incorporate expectations formation and the lack of market clearing laid the foundation for his later endeavors. Phelps' account of the "Microeconomic Foundations of Employment and Inflation Theory" conference he hosted in 1969 and its subsequent impact on the field is particularly insightful. Phelps' dissatisfaction with the disconnect between macroeconomics and microeconomics drove him to embark on a quest for a unified theoretical framework. His work on the neutralizing effects of public debt on consumption demand and labor supply, presented in "Fiscal Neutrality Toward Economic Growth" (1965), challenged popular views and showcased his intellectual courage.

Throughout the memoir, Phelps' intellectual curiosity and creativity shine through as he grapples with complex issues such as the role of altruism and morality in economic activity (Phelps, 1972), the economics of economic justice and redistributive taxation based on Rawlsian principles (Phelps, 1973; Phelps & Ordovery, 1975; Phelps & Riley, 1978), and the phenomenon he termed "indigenous innovation" as a driver of economic growth. Phelps' work on the intricate relationship between unemployment, inflation, and optimal monetary policy (Phelps, 1967; Phelps, 1972) represents a significant contribution to macroeconomics and labor economics. His recognition of the multidimensional nature of work and the non-pecuniary aspects of unemployment, as well as his introduction of the concept of "statistical discrimination" in the labor market (Phelps, 1972), challenged conventional theories and prompted further research.

A significant portion of the memoir is dedicated to Phelps' groundbreaking work on "structural slumps," a theory that challenged the prevailing Keynesian and neoclassical paradigms by introducing a structuralist perspective on unemployment and interest rates (Phelps, 1994; Fitoussi & Phelps, 1988). Phelps' recognition that the natural rate of unemployment is not a fixed constant but rather a variable shaped by the real structure of the economy, including sectoral demands, factor supplies, technology, tax rates, and institutional arrangements, marked a noteworthy departure from conventional wisdom. Phelps' intellectual journey culminated in his development of a radically new theory of innovation, economic growth, and human flourishing, which he termed "indigenous innovation" or

"dynamism theory." Departing from the traditional Schumpeterian/Solowian view that innovation stems from rarified discoveries by scientists and entrepreneurs, Phelps theorized that sustained economic growth derives from a zeal and appetite among ordinary people across the economy to imagine new solutions, products, and processes (Phelps, 1997; Phelps, 2003).

Phelps argues that these "modern values" of individualism, vitalism, and the quest for self-expression enabled many in the workforce to experience not just higher incomes but the deeper satisfaction of "meaningful work" like problem-solving, exercising agency and creativity, and venturing into the unknown. This "indigenous innovation" produced by widely distributed dynamism, not merely upper-crust inventions, was the prime driver of the phenomenal growth and metamorphosis into "modern economies" witnessed in the United States, Britain, Germany, and France from the late 19th through the mid-20th centuries.

While the memoir excels in its intellectual depth and candor, some readers may find the occasional technical economic jargon and theoretical nuances challenging to follow, particularly those without a strong background in macroeconomics. Additionally, some transitions between personal anecdotes and theoretical discussions could be smoother. Nevertheless, "My Journeys in Economic Theory" stands as a remarkable testament to the relentless pursuit of intellectual truth and the enduring human quest for understanding the fundamental drivers of economic progress. By chronicling his personal and academic odyssey, Phelps invites readers to embark on a thought-provoking exploration of the interplay between human creativity, institutional structures, and a nation's capacity for sustained dynamism and innovation.

Phelps' ability to connect his theoretical arguments to broader currents – the sporadic spread and contraction of modern ideals and dynamism, the humanist desire for "mass flourishing" beyond material rewards, and how the "meaningful work" ideals emanating from indigenous innovation enhance self-respect and transcend crass utilitarianism – makes the book particularly compelling. He implores economists to recognize these rich human experiences and challenge disciplinary blinders to broaden our theorizing. While some readers may disagree with Phelps' weighting of moral philosophy over other facets of economic analysis, such as economic growth or dynamism, he persuasively argues for the centrality of these issues in serious economic theory. Those looking for a candid intellectual journey by one of the great minds in economics will find this memoir richly rewarding.

In conclusion, Edmund Phelps' "My Journeys in Economic Theory" is a must-read for scholars, policymakers, and anyone interested in the evolution of macroeconomic thought and the philosophical underpinnings of capitalism. Through his candid and thought-provoking narrative, Phelps invites readers to engage with his powerful ideas on reinvigorating dynamism and reaping its rewards in meaningful work for both individual and societal flourishing.

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