Capitalism has run out of ideas

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Edmund Phelps was the 2006 Nobel laureate in Economics and is director of the Center on Capitalism and Society at Columbia University. He argues in the FT this morning that the:

slowdown [in European growth] resulted from narrowing innovation. Even in the postwar years, innovation in Europe was feeble by past standards. In the 1960s, it slackened again, leaving the continent largely dependent on America for new ideas that would generate further productivity growth. But in the 1970s American innovation, confined to Silicon Valley, waned in the aggregate. The pool of past American advances on which Europe could draw would narrow to a trickle and lead to the productivity slowdown on the continent in the late 1990s and which came later to Germany.

This is an idea I have put forward on this blog, often.

The simple fact is that the need for the goods and services that the market supplies has been, to a very large degree, satisfied by the current state of technology given the current state of wealth and income distribution in Europe and there is little or no chance of some new technology coming along and changing that any time soon, not least because no one is investing to make that happen.

In that case two things follow. The first is the rise of the rentier economy.

The second is the decline in real wages. As rentiers extract more from the economy there is less left for wages and no disruptive technology to redistribute the balance.

Unless, of course, we have a Courageous State to do the job that would, firstly, realise that when the private sector has ceased to innovate it falls to the state to do so, and secondly would realise that this is the only way in which the real, and growing, needs of people can now be met in the future, and that this is the key to the real prosperity based upon wage growth that is fundamental to the well-being of any society and economy.