

# Book Review: 'The Past and Future of America's Economy. Long Waves of Innovation that Power Cycles of Growth'

by Angelo Reati<sup>1</sup>

Atkinson, Robert D. (2004). *The Past and Future of America's Economy. Long Waves of Innovation that Power Cycles of Growth*, Cheltenham: Edward Elgar, 368pp. Hardback 1843769557 £67.50, 368pp. Paperback 1845425766 £23.96

The author is a senior member of the Progressive Policy Institute, Washington DC, a pro-business think-tank for the US Democratic Party. In this easy-reading and interesting book he provides a description and assesses the problems of the so-called 'new economy' - i.e. the economy resulting from the technological revolution in ICT that started in the 1970s. The theoretical inspiration of the book is the long-wave theory, a conceptual framework that is particularly useful to understand what is happening now and that, by the same token, can provide the best guidelines for economic policy. Indeed, what the author names the 'new economy' is the fifth long-wave of the history of capitalism that, in the USA, begun around 1995.

The book is divided in two parts. Part I starts with a general introduction to long-wave theory, which is followed by a detailed description of the progressive unfolding of the fifth long wave. Part II is on the economic policy that can result from the previous analysis.

The first two chapters of part I are introductory. In chapter 1 Atkinson explains briefly and persuasively why and how the US developed into a 'new economy'; in chapter 2 he surveys the long-wave theory, referring essentially to Schumpeter and to few other scholars such as Christopher Freeman and Carlota Perez. While, on the whole, this chapter is satisfactory, I was surprised by the neglect of other major contributions of the Schumpeterian school (Nelson, Winter, Dosi, Soete, Lundvall, just to quote the most prominent scholars), that provided crucial theoretical advances to the understanding of the process of diffusion of technological change by relating it to the type and structure of organisations and institutions and by elaborating new concepts such as the technological paradigms and trajectories as well as the national systems of innovation.

Chapter 3 describes the second, third and fourth long waves in the USA (from the 1840s to the 1990s) considering the technology system, the new forms of business organization, the urban system and the gov-

ernance. The analysis of these waves is interesting and well presented, although it does not rely on the deeper theoretical support that we find in other studies (for instance Freeman and Louçã (2001)). The focus on the US induces the author to ignore the first long-wave (1780s-1848), as it was a European phenomenon led by Britain, France and Belgium and followed by the German States and the Netherlands.

Chapters 4, 5 and 6 are dedicated to 'today's entrepreneurial, knowledge based economy' which is 'a combination of a new technology system, a new global marketplace, a new organization of work and business, and a new workforce' (p. 95), that is, the fifth long wave. This reference to long-waves provides the thread for the thorough and very interesting description of the 'new economy' that appears in chapter 4. Chapter 5, on the productivity issue, recalls, first, the fundamental cause of the productivity slowdown of the 1970s, resulting from the fact that 'the dominant technological path was exhausted and further gains came with increasing difficulty' (p. 147). Then the author convincingly addresses the 'productivity paradox'<sup>2</sup>, explaining that it was due to the fact that, in the 1980s and early 1990s, ICT were not cheap enough, not well developed and firms did not use computer networks. Since 1995 the phenomenon has statistically disappeared (in the USA, at least), although further progress is needed in linking firms into networks. The digital economy will raise productivity in at least three ways, by: (i) machine-to-machine communication, that will replace person-to-person interaction; (ii) person-to-computer communication, that will lead to widespread self-service applications; (iii) re-engineering internal processes of firms and automate interactions with suppliers and business customers. The emerging economy will thus be characterized by a minimal amount of paper transactions, the automation of routine telephone transactions (via the reduction of telephone operators), the minimization of face-to-face transactions through the development of self-service transactions and, in general, the elimination of intermediaries by the e-commerce.

Atkinson considers all these developments as unambiguous steps towards progress and strongly criticizes all those who oppose such changes. This is the theme of chapter 6 ('The new economy and its discontents'), that concludes part I. Atkinson's attack to what he calls the 'anti-progress forces' is radical

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<sup>2</sup>'We see computers everywhere but in the productivity statistics', (Solow.)

and ranges on 360°, covering business protectionism acting against e-commerce, the Unions who resist labor saving automation, consumer groups who protect 'the rights of consumers against business, even if the result is lower productivity' (p. 194), the civil society that opposes genetically modified organisms, therapeutic cloning and stem cells research as well as globalization.... He admits that all these organizations have 'important and vital roles to play', but they can do this 'without opposing productivity-enhancing changes that benefit all Americans' (p. 200). In any case, 'ultimately the liberating forces of the new technology will win out' (id.).

The second part of the book - on economic policy - is based on the (right) idea that the main task of government action is to foster the full disclosure of the new economy potential. The topic is introduced by a chapter on the policy legacies of the past where, among other things, the author emphasizes 'the failure of the left's and right's economic doctrines' to promote productivity. He writes: 'the right wants to cut taxes...to drive investment. The left wants to give more money to workers to drive consumer demand. [...] Neither liberal nor conservative economics focuses on the right goal, helping consumers. [...] But while over 45 percent of Americans are investors, 100 percent are consumers. [...] While 71 percent of American adults are workers, 100 percent are consumers (sic !). [...] The interests of workers are not always the same as the interest of consumers and the overall economy. [...] The only long-term answer to improving economic well-being is to boost productivity' (p. 241).

The suggested policies (chapters 8 and 9) are not particularly new (at least for the European reader); they should: (i) stimulate technological innovation and R&D; (ii) foster the transformation to a digital economy; (iii) boost education and skills; (iv) promote entrepreneurship. All this should be done maintaining fiscal discipline.

The book ends with a panegyric on 'Building a more humane economy' (chapter 10) in which, after declaring his faith that 'today's New Economy is unleashing a host of forces that could enable a more humane economy' (p. 298), the author strongly criticizes the liberal elements of the Democratic party that 'often place less emphasis on productivity-oriented policies and more on redistributionist ones' (p. 325), and who 'even question the benefit of productivity' (ibid.). 'With some Americans still mired in poverty<sup>3</sup> and some workers still exploited on the job, many liberals will see a humane economy agenda<sup>4</sup> as a luxury that diverts attention from the real job of boosting opportunity for those at the bottom of the labor market' (p. 326). This kind of criticism, that in my view does not deserve com-

ments, leads me to evince the less valuable points of the book.

I think, for instance, that the accent the author puts on consumers is excessive and misplaced: what is the advantage of having cheaper products and wider choice if, at the same time, the consumer loses his/her job and there is no realistic possibility of finding an equivalent one within a reasonable delay? E-commerce certainly improves productivity. However, considering the absence of personal relationships that it entails, can it be always considered as a step towards a more humane economy? Also, what about the loss of personal contact with doctors or the absence of chemist's counseling that results from e-medicine? As one 'leading liberal economist' quoted by Atkinson - and wrongly criticized by him - stated: 'automation and high productivity in areas such as health care, education, and entertainment are sign of a poor society, not a rich one, and should be resisted' (p. 325).<sup>5</sup>

The author strongly and repeatedly argues in favor of productivity: in his view, everything should be subordinated to productivity growth. Everything is positive as long as it serves productivity. Obviously, generally speaking productivity increase is positive. However, is it really desirable to put the productivity objective above any other goal, such as a more egalitarian or convivial society? Also, how can the productivity goal justify the neglect of fundamental ethical principles? Atkinson does not state this clearly (he would even say the opposite!), but what I said is just a crude way to make the true meaning of his positions explicit.

To conclude, I think that the theoretical reference to long-waves in this book is particularly good, not only to understand what is happening now but also to direct economic policy. I also agree with the author's idea that (one of) the main task of economic policy is to favour the full deployment of the incipient long-wave (Reati and Toporowski (2004)). However, I am far from sharing his enthusiasm for everything that is announced under the label of the 'new economy'. In particular, I would be very reluctant to sacrifice everything on the altar of productivity, on the naive faith that it will solve all our problems: everybody will be richer, new technologies will substantially improve working conditions, people will benefit of more leisure time.... One of the merits of this book will be to stimulate the reader to think on these themes and help him to form his personal opinion.

<sup>3</sup>Consider that the word 'some' means 31 million persons (datum on p.323), i.e. slightly more than 10% of total US population!

<sup>4</sup>In clear, an economy all centered on productivity.

<sup>5</sup>Unfortunately the author does not give the name of the 'leading liberal economist' he refers to.

## Bibliography

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