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Review of Joseph E. Stiglitz and Bruce C. Greenwald, Creating a Learning Society: A New Approach to Growth, Development and Social Progress, New York, Columbia University Press, 2014, hb, 34.95\$, 680 pp., ISBN 978-0-231-15214-3

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An issue that has imposed most pressingly in the last decade is economics with a soul, with society asking for higher purpose and morality of the economy. *Creating a Learning Society* sets out to identify a new direction of economic thinking, one based on learning, and does not forget that the final destination of economic development and growth should be social progress, somehow a continuation of an earlier book by Stiglitz, *The Price of Inequality*, where the central conclusion is that inequality hurts economic growth.

With authors such as Bruce Greenwald, 'a guru to Wall Street's gurus' [1], and Nobel prize winner Joseph Stiglitz, the readers set their expectations high and their attention is aroused with the call 'that every aspect of the market economy needs to be reexamined from the perspective of learning and innovation' (p.166), the winning strategy to ensure growth and societal well-being consisting in the production and the dissemination of knowledge, and mostly in capturing and internalizing its positive externalities. The starting point was the Kenneth J. Arrow Lecture Series at Columbia University, which commenced in 2008 and is being held annually on a different theme, especially on one of the major themes that Arrow is famous for: learning by doing. In fact, we could consider *Creating a Learning Society* more of a learning economics manual than a book, since it touches almost every aspect about the importance of learning for the growth of a country.

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Part one serves as an extensive introduction to the benefits of learning to the general well-being of society, therefore 'creating a learning society should be one of the major objectives of economic policy.....a more productive economy will emerge and standards of living increase.' (p. 6) Part two relies on heavy analytics. To demonstrate the effects of learning, a basic model of a closed economy is presented and then developed to a two-period, n-good model and on to monopolistic competition, involving various assumptions of functioning under Cournot or Bertrand competition to identify levels of optimal interventions and equilibrium. Final recommendations are not based on these mathematical calculations, but rather on indicating generic directions to be followed, staying away from percentages, so this part may be skipped and not affect the general comprehension of the book. In fact, it could have been the subject of a completely separate book. This impressive mathematic display with no real end application makes us remember the words of Paul Krugman: 'a chance to show off their [the authors'] mathematical prowess' in his so famous article [2]. Chapter 11 is not to be missed though, dealing with one of the key book themes: the infant-economy argument for protection.

Part three continues and resumes much of the debate in part one, emphasizing the key elements that can help boost the learning within a firm, sector or a country, namely: macro stability, financial and investment policies, and intellectual property. Chapter 16 is moving into the new direction of the psychological part of the economy, seemingly the most difficult one: changing the mindset and creating the necessary framework for a society oriented to learning and innovating in the right direction. Though this should be the final destination mentioned in the title and where we expect (after 500 pages) to have the secrets of 'how to' revealed, the authors stop nevertheless at mentioning the difficulties that stand against changing mentalities and how they are formed within a society. No actual economic solutions are given and the fact that they admit themselves to this shortcoming, 'We have not devoted much attention to specific policies by which we can create a more open and inclusive democracy, or by which we might transform society, enhancing the culture of learning' (p.470), doesn't diminish the frustration of the feeling that the book does not live up to its promises. However, the book is definitely worth reading, mainly for the complex and elaborate analysis over all aspects that learning presupposes for economy and for the new theory that the dynamic effects of learning clearly surpass the short-term static loss in efficiency. In particular, three focal points of the approach developed by Stiglitz and Greenwald should be of vital concern for policy makers trying to boost national competitiveness.

The first one is *the role of the government* in surpassing market failures, inefficiencies, and asymmetries in producing and diffusing knowledge efficiently. The academic frenzy about markets self-efficiency started with Adam Smith and its invisible hand. Usually, crises cast serious doubts upon this theory and raise the question of state intervention in difficult times, when marked distortions are already at peak levels. Decentralized market processes have proved to be disappointing in what concerns the full capturing of the spillovers of innovation, making nations and their economies incapable of internalizing the benefits of their investments in the production of knowledge. Pollution, unemployment, and inequalities in the distribution of income are increasingly associated externalities of deregulated economic environments and the two professors are sold for the idea that the state should prevent such negative spillovers over the world wide economy, by moving away from the old doctrine relying on static resource allocations and on to creating economic policies that favour learning spillovers.

A very good example is provided, one which entails both government intervention and innovation, in order to encourage positive externalities: suppose that innovation is based on dirty technologies in order to maximize profits. Since innovation is heavily based on previous innovations, it is less costly for others to constantly innovate in the same direction if the state doesn't intervene to correct this deviation by putting a tax on carbon emissions and a subsidy for green technology. The same could be done for reducing the increasing unemployment rate caused by exacerbated innovation in technologies that decline the need for human labour, a global phenomenon.

Financial policy is placed under the most strict need for supervision and it is a truth generally accepted that the effects of the crisis have been tremendously amplified due to excessive financial and capital market liberalization and 'in the aftermath of the global financial crisis of 2008, the IMF changed its position, recognizing that capital controls can play an important role in macroeconomic stability' (p. 405), stability that directly affects and influences the creation of knowledge.

Tying financial caution with learning is a little bit stretched, since the problem was not that domestic banks didn't learn from the foreign banks entering the market, but that the entire banking sector went in the wrong direction: 'funds flowed freely into real estate and consumer loans, with only a small fraction....going into new enterprises in learning sectors' (p. 408) (much due to information asymmetry, implying that foreign banks don't have such strong market insights as to finance innovation driven projects) and that the complete liberty of capital outflows, that

were triggered at the smallest signs of trouble, rapidly transforming into a trend followed by all foreign direct investors and even local ones, destabilized economy up to the point that the crisis could not be avoided but amplified by the capital market. It has more to do with market irrationalities than with the lack of learning spillovers from foreign financial structures.

Less labour mobility is desired too, since the process of learning is considered to be more intense when it occurs in small geographical areas (e.g. Silicon Valley), and thus this brain migration has negative effects on the learning processes that occur between a countries borders. The moral of preventing someone from making the most out of its knowledge and intellectual capacity for the general good of the society is left out. After all, the authors too recognize that the challenge of achieving market efficiency with free trade and competition is that this might take more than a generation, and this means asking citizens to endure hard life maybe throughout their entire lifespan for the better of the generations to come. When they vote for less labour mobility, in fact they create the same effect for individuals.

The troubling aspect with the desire for state intervention and guidance of the economy dynamics is the contouring image of exacerbated protectionism, promoting countries' self-sufficiency. The problems spotted by the current complete liberalization are correct; it is the medicine offered that might worsen the patient's state, an extreme counterbalancing of the total lack of rules and regulation that governed economy in the past decades, forgetting that less developed countries may simply have nothing to learn internally, nor no significant national knowledge to build upon. Shutting the door to free trade and globalization means shutting their access to knowledge, as well as their chance to catch up.

Another fundamental idea of this lecture is *the infant-economy argument for protection*. The importance of learning is highlighted and identifying the most productive ways in which economies can learn is the scope. The solution lies mainly in the industry sector, which is considered to be the most innovative one, having the largest positive spillover effects in the economy, arguing that free trade and the theory of comparative advantage have misled countries into giving up industry and thus impeded the high amount of learning that occurs in this sector. It is considered that a subsidy or a broad tariff on trade should support the industry, even on indefinite term, as the benefits of learning from having an industry surpass the costs of artificially sustaining a nonperforming industry. The authors say that it's not about picking winners as many might fear, but about detecting and assisting possible sources of knowledge spillovers to the entire economy.

But as Solow remarks in a contribution to the book, 'How do you prevent broad tariff protection from leading to rent-seeking and laziness?' (p. 501), and when do governments know when to stop the subsidy, that the infant grew up and no longer needs assistance? These are questions that are not answered in this lecture. One of the main arguments for free competition and natural selection that occurs in markets is that the subsidized or incentivized companies will make the most of their efforts to constantly convince that they still need assistance. It is the authors themselves that at some point provide a strong counter argument: 'economies largely failed to learn, even if they did better in accumulating factors of production and even, in some cases, if they did better at developing advanced products, like Sputnik' because 'they failed to learn from the innovations and best practices that were going on in the other parts of the world' (p. 32). So, how would protectionism and isolation help enrich the learning system with the experience and discoveries of others?

Of paramount importance to the entire idea of the book, of achieving economic growth through learning, is the *Intellectual Property Regime* (IPR), which lately has become the main impediment to the free flow of knowledge which constitutes the base for learning. The authors see knowledge as a public good, 'so any restriction on the use or dissemination of knowledge introduces an inefficiency...IPR (through patents) confers monopoly power over knowledge....which, in turn, introduces a distortion in production.' (p.431)

The remedies to the current situation when private companies exploit more than what they contribute to the common pool of knowledge are based on *government funded research*, a role of the government that has been lately ignored due to the powerful lobby of free-market advocates, even if it is the only way to encourage research in fields of interest such as environment problems that at the moment have little financial returns. As possible mechanisms, the authors emphasize the *open source system* that had already proved its effectiveness in software and biotechnology, or *the prize system*, giving the first innovator a financial reward 'calibrated by the magnitude of the contribution' (p. 445) and then disclosing it freely to the rest.

The only weak point of the plea is the lack of international coordination in the IPR system, suggesting that the system should be designed differently by each country, taking into account whether they are a developing or an advanced industrial country, seeming to forget that countries don't act alone, but they interact strongly every day in the most unexpected ways. This differentiated system could work only in complete isolation, with countries functioning as fully closed economies. It is

precisely this international lack of coordination in IPR that allowed for some countries to steal their way in closing their knowledge and implicitly economic gap, such as China (and many others) did when it used its comparative advantage in labour to manufacture cheaper products based solely on imitation (free loading on others efforts and investments) and accumulated the funds to further appropriate foreign know-how by buying and relocating high end technology companies while the true generators of knowledge embraced extreme secrecy as a means of protection.

The era of laissez-faire assumptions of optimality is over and the focus is now on knowledge and learning!

References

- [1] Fabrikant, G. (1999), 'Private sector: a guru to Wall Street's gurus', *The New York Times*, 24 January.
- [2] Krugman, P. (2009), 'How did economists get it so wrong?', *The New York Times*, 2 September.

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