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Book review

Common Innovation (how we create the wealth of nations) in the light of reflections on Mass Flourishing (how grassroots innovation created jobs, challenge, and change)

Edmund Phelps's 2013 book – *Mass Flourishing* – received a warm welcome. The reason for this was that Phelps reminds us of certain truths, worth reiterating after decades of academic works that focused more on science and technology than innovation and after decades of public policies that concentrated on scientific and technological capacities and generally missed their real target, namely innovation. Phelps reminds us of *the basic economic dimension* of innovation by proposing a narrow and radical definition of it: innovation is an idea with a commercial aim that is developed and commercialized and adopted by the market; this is what innovation is and thus, innovation capacity (of a country for example) is restricted to those who develop and commercialize these new ideas, those who have to finance these activities, and those who are going to adopt or reject them. Therefore, it is clear that science and technology are only rather indirectly linked with innovation. Certainly, they sustain the production process of new commercial ideas (and in certain sectors this role is very important) but they do not lie at the core of the phenomenon. What does lie at the core is the concept of economic knowledge – what works and what does not from an economic standpoint; thus, what lies at the core is not the R&D laboratory but what Phelps calls “*a vast imaginarium, a space for imagining new products and processes*” (p.27). And so the problem of the decline of the West and its dynamism, as documented by Phelps, is neither a problem of the inadequacy of the Science–Technology–Engineering–Mathematics (STEM) system nor a problem of the incompatibility of industrial policy, but instead a problem of economic institutions and governance that concerns those who conceive and commercialize new ideas, those who finance them and those who adopt or reject them. It is, above all, a problem of the culture, values, and mentality that either generate or not the energy and commitment of innovative entrepreneurs.

And then *Common Innovation* by Peter Swann lands on my desk! A volume that at first, second – even third – glance is the radical opposite of Phelps's work! Swann (2014) takes us into a world very different from that of Phelps, a world little known to economists, even though the pioneering works of Von Hippel (1988, 2005) did manage to attract our attention. It is the world of innovations that are modest, frequent, non-professional, and non-exceptional, *commonplace* like wild flowers can be (p.ix). Innovations where the objective is not to increase the commercial performance of the business or entrepreneur and where the consequence is not primarily the creation of material wealth (M-Wealth). But innovations where the objective is the direct growth of another type of wealth – in

the form of wellbeing or happiness – that Swann proposes calling R-Wealth.¹

From the works of Von Hippel, we know that innovation is a phenomenon that goes far beyond the frontiers of the commercial world to also affect users – those who cannot find what they want on the market in terms of quality or price and who therefore, innovate by necessity or for pleasure in order to obtain for themselves the desired object, instrument, or service. The notion of social innovation also implies transcending the analytical framework of the strictly commercial dimensions of innovation. The merit of Swann's book is that it provides a general framework for the economic analysis of these innovation logics that elude a strictly commercial definition. This analytical framework is based on the distinctions between M-Wealth and R-Wealth and between the outer economy and *oikonomia*,² and on a relational model that links nine categories of economic activities to the two concepts of wealth.

According to Swann, commercial innovations have two fundamental features: first, they aim essentially to improve commercial performances and thus, have only an indirect effect on wealth: an indirect effect on M-wealth “*we need to be clear that maximizing the M-wealth of the economy, as such, is not the explicit goal of business innovation*” (p.16); and a very indirect, sometimes insignificant, effect on R-wealth. Indeed, as commercial innovations originate far away from *oikonomia*, the majority of them, which are important for firms, have little significance for the final consumers (p.228). For example, in the case of a commercial innovation aimed at reducing costs, most of the cost savings “*are absorbed by intermediate corporate customers in the supply chain and show up as increased profits for these various customers*” (p.30). Therefore, according to Swann, “*the ratio of the social value of an innovation to the value captured by the innovator declines with remoteness from oikonomia*” (p.228).

Second, commercial or business innovations (B-innovations) are basically characterized by the phenomenon of creative destruction, which implies that the social value of innovation (the sum of positive or negative values generated in favor of the innovator, competitors, and consumers – see p.32) is usually modest as the positive effects are reduced by the costs and losses borne by those who are outdone and downgraded, those who see their market dramatically

¹ M-Wealth and R-Wealth are the categories used by Swann, the M referring to both the economist J.S. Mill and the words money, material, and mercantile, while the R refers to Ruskin the philosopher and the word real.

² “In essence, *oikonomia* refers to a very small-scale, or micro-economic unit – the household.” (p.27). The outer economy, including such elements as financial markets, corporate performance, trade, business innovation, is important “in influencing how well capitalist business can create M-wealth and hence supply consumer needs. But these concepts are remote from *oikonomia* and remote from the understanding and experience of many ordinary people” (ibid.).

reduced as a result of the innovation. Whereas, most innovation economists speak of creative destruction as a phenomenon that is taken for granted and do not devote much thought to it, Swann is right to dedicate a whole section of his work – *The destruction side of B-innovation* – to different forms of creative destruction (in different domains) and their effects on wealth (both M- and R-wealth).

Common innovations, on the other hand, do not involve this aspect of creative destruction as their emergence hardly affects commercial affairs (p.142). Common innovations tend to be characterized by what Swann elegantly refers to as “a gentle and benign breeze of creativity” (p.21). Furthermore, common innovations, which emerge from within *oikonomia*, have a stronger impact on the consumer than do commercial innovations – which originate a certain distance away from *oikonomia* (p.29). Consequently the social value of common innovation is only slightly reduced by negative destructive effects and this form of innovation, which emerges from the heart of *oikonomia* (and not from outside of it), is directly manifested as an increase in R-wealth.

Just a word on social innovation – which should not be confused with common innovation. Social innovation is about developing innovative solutions that are needed to cover important social needs and where the market (and its minimal institutions, such as property rights) fails to deliver. The statement “that the market fails to deliver” is fundamental here. Unless this qualification is made, all the greatest innovations (electricity, the car and the computer, for instance) would be classified as social innovations. Thus, “it is only when markets fail that social innovation becomes important as a way to meet needs that would not otherwise be met and to create value that would not otherwise be created” (Phills et al., 2008; p.39). Of course, boundaries between social innovation and common innovation are somewhat blurred. However, a certain reading of Peter Swann might lead to the observation that both business and social innovations are opposed to common innovation in that in the latter case (common innovation), the innovator and the consumer are most often the same economic entity (whatever those entities are individuals or collectives) and, as such, the problem of common innovation is not about whether the market works or does not work; there is simply no market and it does not matter!

Although the two books apparently have nothing in common, they nevertheless share certain ideas, which makes reading them in parallel quite fascinating, since this leads us to wonder what these shared ideas can tell us about the true nature of innovation.

The main difference between these two works is however, not so great. It stems from the area of analysis. By abandoning to some extent Phelps’s radicalism with regard to his definition of innovation, we can concede with Swann that innovation takes place when the invention or new idea is exploited (Swann, 2014, p.213), this exploitation not necessarily being commercial. It can be achieved in non-commercial spheres. And so the two books divide up the world of innovation, each exploring one of the two spheres in which new ideas are exploited. As the difference between these two books is only a difference in the area of study, the two works do not contradict each other, and indeed there are many interesting consistencies and links to be identified.

First, each author crosses in his own way the well-defined frontiers of standard innovation economics (even extended to national systems and the theory of firm capabilities). Phelps does so by seeking in literature and the arts the literary and artistic expressions of this culture and these underlying values of commercial innovation that he would like to see re-established. Swann visits numerous domains of everyday life, outside the commercial sphere, to track down and analyze the non-commercial innovations that occur there.

Second, although both works extend beyond the frontiers of standard innovation economics, they essentially concentrate on

the economic nature of innovation: science, technology, R&D are merely suggested and considered by both sides as secondary factors. Herein lies a fundamental point that draws the two theses closer together: innovation has a principally economic nature. Swann says nothing different from Phelps. For Swann, however, therein lies the difference – economics does not stop at the commercial sector!

There is an even more revealing similarity: in both books, innovation comes from the grass roots. This is obvious in Swann’s case, but it is also clear for Phelps when, for example, he writes about innovation capacity: “that determines the degree to which innovation can come from the grassroots, not just from the top”. Innovation is certainly commercial but in a way it is business on a humble level that most interests Phelps. Neither is interested in the innovations of NASA or the large pharmaceutical groups. Innovation is sparked from the bottom and Hayek is in each case invoked to explain this in terms of local and decentralized knowledge – “of time and place” – that everyone has and can benefit from in a specific way. Hayek is, of course, a key figure in Phelps’s analysis but he is also cited by Swann (p.18). Grassroots innovation is a source of the good life in the opinion of Phelps, or happiness according to Swann.

Beyond these links and this common ground, there is naturally an opportunity for disagreement. This arises in relation to the respective value of these different types of innovations. The discussion does not center on the fact that innovation *à la Phelps* is destructive whereas innovation *à la Swann* is not – but the discussion can focus on the magnitude of social value and the creation of wealth in both cases. Of course, one of them (common innovation) does not destroy wealth but is it as creative as the other one, the one that does destroy it?

Each of the two authors is obviously the champion of one of the two forms of innovation. Thus, the macroeconomic reasoning of Phelps suggests the different sequences that make commercial innovation the driving force not only behind increased productivity but also behind the reduction of inequalities. As for Swann, his argument focuses, on the one hand, on the very negligible aspect of the destruction caused by common innovations and, on the other, on the fact that the effects of common innovations on *oikonomia* are far greater in this domain than the effects of commercial innovations. How can they be separated? They cannot of course. We must only observe the following point that may possibly tip the scales in favor of business innovations, even if we do not pronounce a verdict. Apart from the differences pointed out by Swann – and the fact that all work in favor of common innovations – should we not reflect on the status of *the diffusion of innovations* in the two logics? The commercial performance objective incorporates the diffusion of the innovation, but the common innovation objective does not necessarily do so. The diffusion function is intrinsically linked with commercial innovation and it is essentially diffusion that allows a ‘superior’ technology or better quality product to be used or adopted by the greatest number of people. As Baumol (2002) explains: “Innovation and quick dissemination are two of the critical stimuli to economic growth. Each helps to increase productivity and product quality, and, if one or the other were to disappear, growth would surely slow to a crawl” (p.75). On the other hand, nothing indicates that diffusion is an integral part of common innovations. Swann admits this indirectly when he shows that the destructive aspect of common innovations is limited “because my quiet use of common innovation in my own home creates R-Wealth for me and my family, but does not obviously reduce the R-Wealth of my neighbors” (p.142). To be sure, but this argument also tells us that innovation that is homemade, and which can increase the productivity of my household production unit, will not influence the productivity of other household units because it will not be disseminated. There are no strategic dissemination objectives. In many cases, the very idea of diffusion makes no sense since the innovation in question

cannot be characterized by any degree of novelty. It is an innovation within the framework of a particular community (e.g., the family, village, and school) but the idea has long been in existence and is applied practically everywhere. Swann's examples of school trips (p.166) and self-help tutorials (p.171) in the case of education illustrate this phenomenon. It is neither a duplication phenomenon nor a multiple discovery phenomenon, both of which are well known in the business innovation world. These are simply innovations that are conceived in small hidden cavities of *oikonomia*. They are new to the micro-community but have no claim to novelty in a general sense. The fact that they are not original innovations in no way detracts from their contribution to the improvement of R-Wealth for a family or for a community. It merely indicates that there is no hope of these innovations being diffused and that there is not even any reason to be concerned about this non-diffusibility!

If we ventured to establish a typology of common innovations, according to their propensity for dissemination, we could establish the following categories (noting that a given innovation can fall into more than one category):

- Common innovation in my own home (in the kitchen, etc.), in my community.
- Common innovation as a unique project (finding a new use for an old industrial site) or a unique work (in art).
- Common innovation as providing solution to socio-economic problems.

In this list, we see categories that primarily comprise innovations that are not intended for dissemination. I do not claim that these will never be diffused. The claim is just that diffusion is not the great objective it is in the context of business innovations and a case for failure in this context if it is not achieved. Only the third category corresponds to *diffusible* innovations, since they correspond to a social need and provide a (*trans*) portable and visible solution that can go beyond the initial context of usage. Incidentally, it is in this category that we would find the innovations that "start as common innovation" but are most likely to become the object of commercial strategies. As Swann writes on microcredit: "*It is perhaps a borderline case. I would say that microcredit was an example of common innovation at the start but has now made the transition into business*" (Swann, 2014, p.154).

At the heart of the innovation economy à la Phelps lies the economic discovery process. Far more than technological or scientific discovery, entrepreneurial economic discovery is, in the case of a commercial innovation, the crucial moment when the *diffusibility* of the innovation, its adoption and generalization potential,

are tested, when the transition is made from local and specific knowledge to more general knowledge concerning the fact that the innovation "will work economically". Economic discovery happens within the market in a competitive context, and in some cases, leads to commercial failure. The innovation is not adopted by the market.

The economic discovery occurs elsewhere in the case of common innovations. It happens in *oikonomia*. Discovery is less laborious in *oikonomia* than on the markets: when the first user of the innovation is the innovator (p.32), the economic discovery is frequently limited to "*my quiet use of common innovation in my own home*" and as such is not concerned with the *diffusibility* of the innovation. The discovery process is internalized, as it were, and will therefore, result in very few nasty surprises!

Unlike common innovation, the success of commercial innovation is, by definition, dependent on its diffusion and, if it does succeed, it will thus, contribute to an increase in productivity that extends beyond the first unit that adopts it.

Swann has established a frontier between the two innovation logics – commercial innovation and common innovation – and he has plenty of solid arguments to justify this frontier. However, without denying this frontier, we have reason to think that another frontier is just as stimulating. This one separates innovations whose economic essence is diffusion (commercial innovation and social innovation) from innovations for which diffusion is not essential or is even very secondary (a large proportion of common innovations). This frontier could, no doubt, go a long way toward explaining the disparities between innovations in terms of social value.

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