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Invisible Wealth: The Hidden Story of How Markets Work

Arnold Kling, Nick Schulz

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WITH A NEW PREFACE BY THE AUTHORS

INVISIBLE WEALTH

THE HIDDEN STORY OF
HOW MARKETS WORK

"An important new book."—DAVID BROOKS

ARNOLD KLING AND NICK SCHULZ

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Arnold Kling, Nick Schulz : Invisible Wealth: The Hidden Story of How Markets Work before purchasing it in order to gauge whether or not it would be worth my time, and all praised Invisible Wealth: The Hidden Story of How Markets Work:

3 of 3 people found the following review helpful. Economics 2.0 - and Much Much More!!!By William DahlAn absolutely fascinating read. I highly recommend this book for those interested in economics, community development, economic development and human behavior.Kling, Arnold and Schulz, Nick From Poverty To Prosperity - Intangible Assets, Hidden Liabilities and the Lasting Triumph Over Scarcity, Encounter Books, New York, NY Copyright copy; 2009 by Arnold Kling and Nick Schulz.This book is about "Economics 2.0" - an emerging field of economics whose

impetus for evolving has been the blatant miscues, misunderstandings, assumptions, math, models and people that have contributed to the ongoing global financial crisis. I will let the following excerpts speak for themselves: "This book presents the main ideas of what we call Economics 2.0. Economists have developed these ideas in order to explain the enormous differences in quality of life over history across countries." P. 2 "Economics 2.0 says that these differences reflect intangible assets and invisible liabilities. The intangible assets are knowledge bases." P. 2 "Invisible liabilities, on the other hand, are institutional and cultural impediments to innovation and productivity. These range from the structure and conduct of government to the attitudes and customs of ordinary citizens." P. 2. "Economics 2.0 says that overcoming market failure requires innovation. Innovation is best delivered by markets." P. 3 Economics 2.0 is about abundance, which arises from technological progress." P.4. "We use "recipes" to refer to innovation, ideas, know-how, science, and technology. We use "the operating system" to refer to customs, rules, norms, laws, regulations, and methods of intermediation." P. 10-11. "The past decade also saw gains in jobs that involve imagination and creativity - designers, architects, photographers, actors and directors. The hairstylists and cosmetologists category rose by 146,000 jobs. Many occupations that use analytic reasoning have continued to grow, too, but computer operators and others are beginning to see their numbers fall. The occupations in eclipse are generally those that involve muscle power, manual dexterity and formulaic intelligence." pp.46-47 "The software layer creates the possibility that growth will accelerate. As more and more of the value in goods and services come from ideas, our standard of living will tend to increase at a faster pace." P. 75 "By far the largest contributor to growth of our price adjusted GDP, or value added, has been ideas - insights that leveraged physical reality." P.76 PAUL ROMER is a senior fellow at the Stanford Center For International Development (SCID) and the Stanford Institute for Economic Policy Research (SIEPR). His contributions to field of economics include being the primary developer of new growth theory, which deemphasizes the traditional idea of the scarcity of objects and directs attention to the power of new ideas. "Newton said that he could see further because he stood on the shoulders of giants." P.80. "The set of possible ideas, the set of things there are out there to discover, is just so incomprehensibly large that we've only begun to explore the tiniest subset of possible ideas or discoveries." P.81 "As long as we keep freeing up labor from bending metal and stamping out pills and put more and more of it into discovery, we can keep pushing up that rate of growth, by directing more and more resources in that direction." P. 98 "You want people to be aware of what others are doing so that you don't end up with a whole lot of replication of effort. Part of what A communications technologies are doing is coordinating these discovery efforts worldwide: as soon as somebody discovers something, it gets broadcast very quickly to others throughout the world, and people can change the directions they explore based on what they know others are doing." P.99 Question to Paul Romer: "Are there one or two key things that our politic class, broadly speaking, doesn't sufficiently appreciate or understand about economic growth?" Pp.104 1. Well, one thing that's important to persuade everyone of is that everyone wants growth but nobody wants change, and you've got to have both or you've got to have neither - it's what I was talking about before, that it's all about rearrangement and finding better ways to rearrange things. The only way you can create new value with new rearrangements is essentially by doing things differently; and any time you do things differently, there will be change, so people have to buy into the idea that change accompanies growth. It's not going to be just more of the same for everyone." P.104 2. We have to agree that, one, there will be change, and two, there are some winners and losers and there are no guarantees: everybody who is engaged in economic activity takes a certain amount of risk. There are always winners and losers when there are risks. We all commit to that, and on average we're all going to be better off, but we don't let the losers have veto power over progress. This is clearly a very acute question right now in Europe, where the existing elite, the existing well-off, do have a very strong position of veto power, a choke- hold on change and innovation." P.105 JOEL MOKYR is the Robert H. Strotz Professor of Arts and Sciences at Northwestern University. He holds a joint appointment in economics as well as a Sackler Professorial Fellowship at the Eitan Berglas School of Economics at the University of Tel Aviv. "The degree to which we hold fast to the wisdom of earlier generations is an incredibly important element in how innovative a society is, because if you think about it, every act of invention is an act of rebellion." P. 130 Kling Schulz -- "Tribalism tends to cause resistance to innovation. People in isolated villages view new productive techniques as threats. In part, this is because innovations are associated with outsiders. Moreover, innovations threaten to disrupt local traditions that have sustained community cohesion for many generations." P. 139 DOUGLASS NORTH is the Spencer T. Olin Professor in Arts and Science at Washington University in St. Louis. He was awarded the Nobel Prize in economics in 1993. His major interest is the evolution of economic and political institutions and the effects of institutions on the development of economies over time. He is the author of Structure and Change in Economic History (1981), Institutions, Institutional Change and Economic Performance (1990), and many other books. P.148 "We're trying to broaden how we think about problems, and. The frame is not economics; it's all of the social sciences. You cannot separate economics from political science and sociology at all. All of the interesting issues are on the borders between them." P.149 Question to Douglas North -- "What other obstacles prevent economists and policymakers from seeing what really matters?" Until they understand that our understanding of the world is very fragmentary, is not complete, is - I believe - partially incorrect, no matter how intelligent we are, we're not going to make sense of the world." p. 151 "Behavioral economics, which has gotten a couple of Nobel prizes in the last couple

of years, is the beginning of a recognition that traditional economics is too narrow, and cognitive science is now becoming a flourishing area of interest to social scientists." P.152 "We still don't understand how beliefs get formed, how they change, why they change, when they do, and how that underlies the choices people make." P.153. "It factors in that I keep on saying it's a non-ergodic world, which means the world is changing. And therefore, we're always behind. And if we're way behind, of course, our theories are completely wrong. And indeed, all of economic theory is predicated on models that are derived from the past. Now the models, if the world isn't changing very rapidly, may be perfectly fine. But if the world is changing very rapidly, the models are out of date." P.154. Question to Douglass North: "What do you make of the emphasis on math in economics?" It was vastly overdone. Math should be a tool, and what's happened is that it's become an end in itself. We build elegant models, using very elegant mathematics, but they are so abstracted, so divorced from the problems we're trying to confront that they don't deal with them at all. We borrowed again from the physical sciences, and in the physical sciences, elegant mathematics is essential. That's not so clear for most of the social sciences." Pp.160-161 "We should be very tentative about how we understand the world. That doesn't mean you don't do things. You've got to do things, but you've got to recognize you may be wrong. We don't know enough. And so it's terribly important to recognize that you can be wrong. And, to be, therefore, very susceptible to modifying the theories you hold in the light of new evidence. Now as I said, that doesn't mean you don't do anything; you've got to do things. It does mean that you're willing to be adaptively efficient [in the face of change and to rethink the problems as you evolve." P.163 "What particularly bothers me is that the world is evolving more rapidly now than it ever did before. The degree to which we can catch up with it and deal with it, I think, is more and more strained now that we've devised ways to blow each other off the face of the earth. The time horizon we have to solve problems is much more abbreviated than it used to be; whereas before we could make mistakes and kill a few hundred thousand people, now we can blow everybody up. And we don't seem to have gotten very far in solving social disorder. I hope I'm wrong." P.164 Kling Schulz: "The entrepreneur's task is to overcome resistance to adoption of new ideas and the discarding of unsuccessful or obsolete practices. This in turn requires that people accept change." P.183. "Economic development is best served by searchers." P.195 "Economics 2.0 says that the abundance that arises from innovation and economic growth depends on the work of entrepreneurs and searchers. We see economic activity as an ongoing battle between upstarts and incumbents. Incumbents try to consolidate and defend the existing modes of operation. Upstarts try to apply new knowledge and techniques. When the upstarts succeed, incumbents are reluctantly forced to follow." p. 197. "In Economics 2.0, we emphasize the importance of what is unseen and unknown. In the case of financial intermediation, it is the problem of unseen risks that merits attention." P. 229. "As with any bureaucracy, the internal dynamics tend to favor those who question innovation and put roadblocks in the way of those with new ideas." P.245 "Economics 2.0 looks at the economy primarily in terms of its adaptive efficiency - how effective it is at incorporating new recipes and discarding outmoded ones." P.239 "Incumbent organizations - resist adopting the best practices that challenge the status quo. The gradual diffusion of innovation is a process that has long fascinated economists." P.249. "The material portion of our GDP is declining, and the intellectual portion is increasing." P.274. "The most successful economies have been those in which people have been most willing to accept and promote change. Poverty tends to be concentrated in countries where people and cultures tend to resist change. This means that those countries will either remain backward economically or confront difficult social tension." P.278 The excerpts above are simply a few tidbits. A wonderful contribution. Devour it. 8 of 9 people found the following review helpful. Intangible wealth and invisible constraints By Brian D. Rudert I read this book after reading David Brooks column in the NYTimes recommending it in December 2009. I didn't regret reading it. I am not an economist and found the book easy to understand yet highly insightful. It was my first exposure to the powerful concept of intangible wealth and its importance in raising general welfare and alleviating poverty. I've always been aware of the importance of social capital and strong and benevolent institutions but not packaged together the way intangible wealth is. I've spend most of my career overseas working in lesser development countries and after reading the book I have a new analytical way of looking at things and why things the way they are. The chapter on financial intermediation provides a new insight on the financial collapse of September 2008. You will also be surprised at what the authors consider to be the primary challenges for continued economic growth and wealth creation in the future. 3 of 4 people found the following review helpful. An insightful potpourri of economic thought By Jonathan Bechtel I am a frequent reader of EconLog, the blog that Arnold Kling regularly contributes to, so I found this book to be self-recommending. What I thought was best about this book is mostly what other reviewers have alluded to....the rich interviews with economists the typical layperson would never have heard of and how they each contributed a lot of important ideas that you don't see talked about by the media's most visual pundits. These interviews, combined with the commentary by Kling and Schulz paint a useful and textured way of looking at the world and the way it's changing. In particular I thought the interviews with Ed Lewis, Amir Bhidé, and Paul Romer to be the most interesting. I also thought the formula of writing a book consisting mostly of interviews to be a smart one and one I hope to see repeated by others. If potential readers are looking for downsides, I would say people who picked up the book because they read Econlog might be disappointed since they've been exposed to the books' high praise and are already familiar with Arnold Kling's writing style and some of his viewpoints which are replicated here somewhat. Also this book seems like it's more oriented towards the

curious layperson than it is to someone who is already familiar with economics. Although the themes running through the book are novel, the books' treatment of them could be seen as lacking depth to the more technically proficient. All in all, a very worthwhile book that I would recommend to someone looking for something to enrich their vision of how the world works.

The discipline of economics is not what it used to be. Over the last few decades, economists have begun a revolutionary reorientation in how we look at the world, and this has major implications for politics, policy, and our everyday lives. For years, conventional economists told us an incomplete story that leaned on the comfortable precision of mathematical abstraction and ignored the complexity of the real world with all of its uncertainties, unknowns, and ongoing evolution. What economists left out of the story were the positive forces of creativity, innovation, and advancing technology that propel economies forward. Economists did not describe the dynamic process that leads to new pharmaceuticals, cell phones, Web-based information services forces that fundamentally alter how we live our daily lives. Economists also left out the negative forces that can hold economies back: bad governance, counterproductive social practices, and patterns of taking wealth instead of creating it. They took for granted secure property rights, honest public servants, and the willingness of individuals to experiment and adapt to novelty. *From Poverty to Prosperity* is not *Tipping Point* or *Freakonomics*. Those books offer a smorgasbord of fascinating findings in economics and sociology, but the findings are only loosely related. *From Poverty to Prosperity* on the other hand, tells a big picture story about the huge differences in the standard of living across time and across borders. It is a story that draws on research from the world's most important economists and eschews the conventional wisdom for a new, more inclusive, vision of the world and how it works.

"Over the past decades, many economists have sought to define the differences between the physical goods economy and the modern protocol economy. In 2000, Larry Summers, then the Treasury secretary, gave a speech called *The New Wealth of Nations*, laying out some principles. Leading work has been done by Douglass North of Washington University, Robert Fogel of the University of Chicago, Joel Mokyr of Northwestern and Paul Romer of Stanford. Their research is the subject of an important new book called *From Poverty to Prosperity*, by Arnold Kling and Nick Schulz." — David Brooks in the *New York Times*, Dec 22 2009 — Newt Gingrich, former Speaker of the House, author of *Real Change* "A fascinating blend of interviews and perspectives on where economics and the economy is heading. A must read for anyone who thinks economists are out of touch with today's reality or don't have competing compelling visions for the future." — Simon Johnson, Ronald Kurtz Professor of Entrepreneurship at MIT's Sloan School of Management, former chief economist at the IMF