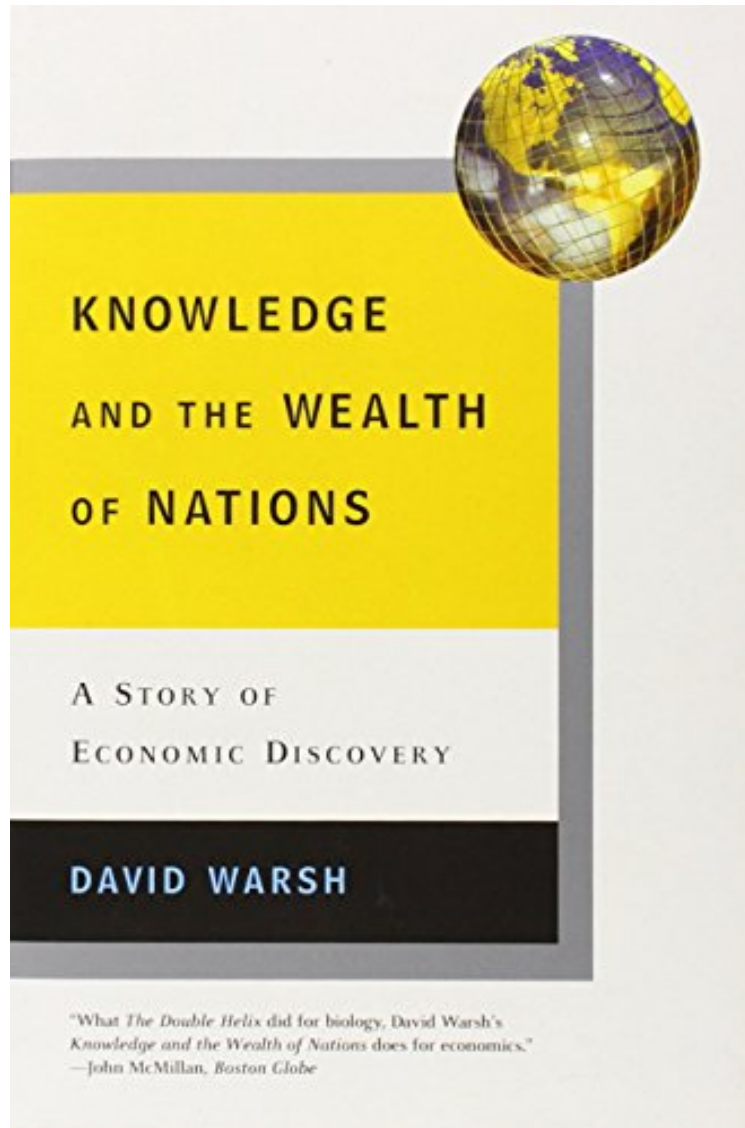


Knowledge and the Wealth of Nations: A Story of Economic Discovery

David Warsh

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#381009 in Books Warsh, David 2007-05-17Original language:EnglishPDF # 1 8.20 x 1.20 x 5.50l, .88
#File Name: 0393329887464 pages | File size: 26.Mb

David Warsh : Knowledge and the Wealth of Nations: A Story of Economic Discovery before purchasing it in order to gage whether or not it would be worth my time, and all praised Knowledge and the Wealth of Nations: A Story of Economic Discovery:

8 of 8 people found the following review helpful. More Economic History than Economic ThoughtBy ChrisWarsh has authored a well written book with a compelling tale of the foundations of theory of economic growth. More than

anything else, it is a story of Paul Romer and his groundbreaking ideas. Romer is a remarkably creative thinker on a search for an economic theory (aka model) to explain growth. The author starts us on Romer's odyssey first with a brief history back to Adam Smith. It is clear Romer stood on the shoulders of giants (Smith, Marshall, Arrow, et al) in formulating theories (models) for growth, recognizing the value of knowledge and technology. The kernel of the story becomes a bit muddled at times as Warsh becomes more fascinated with the great economists than he is about great economic ideas. The book is not written with a clear exposition of the evolution of economic thinking. It is written toward explaining the history of events of how the evolution of the thinking occurred. As such, it can be a tough slog as we are introduced to one economist after another without sufficient explanation of each person's contribution of ideas and how it fits into the mosaic of 'the real economy' (my emphasis). Romer comes and goes throughout the chapters but he is the central subject. Toward the end (chapter 25), the history of Microsoft is introduced as an example of the ultimate 'pin factory' (Adam Smith). At this point in the story, reading about MS feels artificial and disconnected. I would have left it out completely. One interesting observation was leading economists make 'discoveries' through models, explaining through sophisticated mathematics what the average businessman already knows from observation and experience. I felt this throughout the book so was not surprised when the author recounted a story of Krugman testing a new learning from a model on a non-economist friend. The friend's response was the discovery was "obvious". This says something about the theoretical economist's need to connect with the real world as opposed to spending all their time with models. To be fair economists must work with models which are mathematically well behaved, similar to physicists and engineers working with linear equations which are tractable for solution. These models often require assumptions or simplification which leaves out important factors. (I do worry at the unreal assumptions in the models described since many of these same economists find their way to be Presidential advisors or Fed Governors.) I am glad I read the book and learned about how the profession develops its thinking. I also wonder if the time was well spent.

6 of 7 people found the following review helpful. A Great Story in the "Longitude" Style
By P. Johnson
I started this book and could not put it down till finished. It was well worth it. Warsh has an engaging and lucid prose style, and a reporter's gift for unearthing the story of the people engaged in the quest to unravel the "mystery of economic growth". He casts a wide historical and character net - from Aristotle to Linus Torvalds, Adam Smith to Peter Drucker, Alfred Marshall to Jane Jacobs to Al Gore... Each character gets his or her colorful moment on the stage, and Warsh does credit to them all. The story within the story is the inner workings of an academic community - debate, consensus, personalities, ambition, collaboration, and ultimately (often accidentally) progress. If you are considering buying this book you may reasonably ask: how does knowledge and the wealth (prosperity) of nations manifest in the real world? Why should I think that this is anything more than ivory-tower theory? What evidence is there that "new growth theory" has real world impact? Should anyone outside academic economics care? I would suggest two stories in the Wall Street Journal of 29 September 2006 as evidence that this book speaks to the future of economic growth. My apologies for 'cheating' and inserting something more than my own personal opinion in a review!

Why Economists Track Firms' R&D Data on Knowledge Creation
Point to an Increasing Role in Domestic Product Growth
By GREG IP and MARK WHITEHOUSE
September 29, 2006; Page A2
That research and development makes an important contribution to U.S. economic growth has long been obvious. But in an important advance, the nation's economic scorekeepers declared they can now measure that contribution and found that it is increasing. The new data, part of efforts to pinpoint the role of knowledge creation in Americans' well-being, helps to explain why the U.S. economy tends to expand faster than the contributions of capital and labor alone, a puzzle that has been the subject of Nobel Prize-winning research. In the current system of measuring gross domestic product, RD is treated like a so-called intermediate expense. For example, salaries paid to research scientists are lumped in with wages paid to assembly-line workers. Under the new approach developed by the Commerce Department's Bureau of Economic Analysis and the National Science Foundation, RD spending is treated like capital investment, such as the cost of a machine tool or an office building. By that measure, RD would have accounted for nearly 7% of growth from 1995 to 2002, up from a little more than 4% from 1959 to 1994. (The rest comes from an expanding work force, increased capital and other, unexplained factors.) That exceeds by a wide margin the 2% contribution of investment in buildings and factories during the 1959-2002 period. Treating RD as an investment would make the economy 3% larger and the national savings rate about two percentage points higher. "Our economy may be hundreds of billions of dollars larger than we currently calculate," said Commerce Secretary Carlos Gutierrez. Since the 1950s, economists have explained economic output as the result of measurable inputs. Any increase in output that can't be explained by capital and labor is called "multifactor productivity" or "the Solow residual," after Robert Solow, the Nobel Prize-winning economist considered the father of modern growth theory. From 1959 to 2002, this factor accounted for about 20% of U.S. growth. From 1995 to 2002, when productivity growth accelerated sharply, that grew to about 33%. Accounting for RD would explain about one-fifth, by some measures, of the productivity mystery. It suggests companies have been investing more than the official data had previously shown -- a good omen for future economic growth. "The slump in investment is not as drastic as people thought before they saw these figures," says Dale Jorgenson, professor of economics at Harvard University. Mr. Jorgenson noted a lot of the multifactor productivity growth remains unexplained. "The great mystery of growth ... is not eliminated." Paul Romer, an

economics professor at Stanford Business School, said the better the measurements of RD become, the more economists and policy makers will realize other factors may be more important. "If you look at why we had rapid productivity growth in big-box retailing, there were lots of intangibles and ideas that ... don't get recorded as RD." BEA director Steve Landefeld said for now, GDP will continue to be measured in the typical way, but the agency plans to start including RD regularly in 2012. Separately, the BEA said GDP grew at a 2.6% annual rate in the second quarter, down from an estimated 2.9%, in part because businesses didn't boost their inventories as much. In another report, the Labor Department said the number of new claims for unemployment insurance fell by 6,000 last week to 316,000.

China's Spending For Research Outpaces the U.S. By GAUTAM NAIK September 29, 2006; Page A2

An unprecedented surge in research and development spending is helping China catch up with the two longstanding leaders in the field, the U.S. and Japan, a new study found. RD spending in China has been growing at an annual rate of about 17%, and is far higher than the 4% to 5% annual growth rates reported for the U.S., Japan and the European Union over the past dozen years. China's massive investments in education are also bearing fruit. In 2002, its industrial-research work force was 42% the size of the equivalent U.S. work force, up from 16% in 1991. China is increasingly making its mark with scientific discoveries and patents held by its scientists. In 2003 China became only the third country, after the U.S. and Russia, to put a person into orbit on its own. Yesterday, Michael Griffin, administrator of the National Aeronautics and Space Administration, returned to the U.S. after a visit to China -- the first time a NASA administrator has visited that country -- to explore and expand space-program cooperation. "China's significant investment in RD is predicated on the assumption that they want to be a player and competitor both economically and militarily," said Jules Duga, senior analyst at Battelle Memorial Institute, a nonprofit trust in Columbus, Ohio, that runs labs for the government and industry. The study, co-written by Mr. Duga, was conducted by Battelle and RD Magazine and is being published today. The study included in its measure expenditures such as scientists' salaries and lab equipment in both the public and private sector, but excluded long-term capital expenditures such as buildings and major equipment. China's technology-driven rise could heighten worries that the U.S. is ceding some of its competitive edge in science and technology to Asia's new power. America's share of total global RD is estimated to slip slightly to 31.9% in 2007 from 32.7% last year, according to the study. Japan and Europe are projected to show similar declines, while China's share of global RD is set to increase to 14.8% in 2007 from 12.7% in 2005. But the U.S. remains an RD powerhouse, investing \$320 billion in such efforts last year, compared with \$236 billion invested by the EU and \$125 billion by Japan. Though China's RD spending now makes up about 1.6% of its gross domestic product, up from about 1% five years ago -- it's still a far cry from the 2.6% of GDP that the U.S. invests, and the 3.2% of GDP that Japan invests. In the last few years, the increase in U.S. RD investment has been driven by military-related research. Roughly 60% of America's research and development originates from the private sector. In a ranking of the top five RD-spending companies, four are American, including Pfizer Inc., Ford Motor Co., Microsoft Corp. and General Motors Corp. The other is Toyota Motor Corp. of Japan. American firms also make the biggest biotechnology investments, according to the Battelle report. One spur: a continuing decline in the number of new drug approvals by large pharmaceutical companies. Despite the shifting RD landscape, "there's no need for the U.S. to panic," said Mr. Duga. Instead, he said, "the U.S. needs to be prepared for a change. We need to figure out how we can keep ourselves in a strong position" in crucial areas of science and technology. His prescription: Spend more on math and science education, and invest more in pure research, which U.S. industry increasingly has shunned.

2 of 3 people found the following review helpful. Knowledge and the Wealth of Nations By Barbara And Byron Skinner "Knowledge and the Wealth of Nations" is a timely restatement of how an economic era develops through its life span. Agriculture started about 8000 years ago in the Baaka Valley and concluded with the Cotton Plantation of the early 19th. Century American South. Like wise the Industrial Revolution began with the forge and cottage weaving in England and ended in the late 20th. Century with the Robatic Assembly lines in China. The current Information Age is still in its infancy it will most likely will be dated from the mid 18th. Century when movable type and cheap paper made the printed available to the masses which sparked a revolution in literacy. The point of all this is that the great Information Age industries are still not here yet. Some may be developing in garages and on kitchen tables and some day will become the Ford, IBM or Proctor Gamble on the new economic era. This is a business book and is divided into short quick readable chapters. I would assume that the author had in mind it being read on an airplane.

"What The Double Helix did for biology, David Warsh's Knowledge and the Wealth of Nations does for economics." Boston Globe

A stimulating and inviting tour of modern economics centered on the story of one of its most important breakthroughs. In 1980, the twenty-four-year-old graduate student Paul Romer tackled one of the oldest puzzles in economics. Eight years later he solved it. This book tells the story of what has come to be called the new growth theory: the paradox identified by Adam Smith more than two hundred years earlier, its disappearance and occasional resurfacing in the nineteenth century, the development of new technical tools in the twentieth century, and finally the student who could see further than his teachers. Fascinating in its own right, new growth theory helps to explain dominant first-mover firms like IBM or Microsoft, underscores the value of intellectual property, and provides essential advice to those concerned with the expansion of the economy. Like James Gleick's Chaos or Brian Greene's

The Elegant Universe, this revealing book takes us to the frontlines of scientific research; not since Robert Heilbroner's classic work *The Worldly Philosophers* have we had as attractive a glimpse of the essential science of economics.

From Publishers Weekly Starred .In this shrewd piece of intellectual history, former Boston Globe columnist Warsh shows how two contradictory concepts of Adam Smith—the invisible hand and the division of labor (famously, at a pin factory)—took on lives of their own after their 1776 publication in *The Wealth of Nations*, and then finally converged in the work of late 20th century economist Paul Romer. In the first half of this book, Warsh gives an entertaining and precise history of economic thought from Smith forward, through the lens of what have come to be two of his key constructs. Warsh's treatment of difficult economic concepts like value is brief but clear and accurate, and he gives equal weight to personalities, institutions and broader social forces. In the second half of the book, Warsh advances the claim that in the 1970s and 80s, when Romer divided economics into people, ideas and things, instead of labor, capital and land, he touched off a revolution in the field, one that is still playing out in now-dominant "New Growth Theory" economics. Warsh does not focus narrowly on Romer's work, but describes the social and institutional framework of modern professional economics: how ideas percolate, how papers are published, how careers advance and how meetings and societies are organized. The book brings sophisticated ideas into a complex story without losing the thread, or the reader's interest. Copyright Reed Business Information, a division of Reed Elsevier Inc. All rights reserved. From Booklist Warsh, who had a long-running economics column in the Boston Globe, here journeys through the discipline's history en route to an analysis of an influential 1990 technical paper. Written by Paul Romer, "Endogenous Technological Change" is described by Warsh as mathematically formidable, which is the way modern economists like their fare, begging the question of why its story would be of general interest. First, hundreds of thousands annually enroll in university-level economics courses; second, Romer's paper, pertinent to the information revolution that is our zeitgeist, is clearly explained by Warsh; and third, Warsh reveals the occupation of economics to the benefit of those who aspire to it. After historical exegesis of Adam Smith and his successors, Warsh depicts post-1945 schools of thought, biographically summarizing figures such as monetarist Milton Friedman and Keynesian Robert Solow, and those of Romer's generation now in their career primes. Appraising the intellectual lineage and gestation of Romer's paper, Warsh imparts in a comprehensible way the engagement many have with economic thought. Gilbert Taylor Copyright American Library Association. All rights reserved A fascinating journey through the world of economic thought....If you like reading stories of high intellectual drama, if you want to know the origin of ideas that, as Keynes said, 'are dangerous for good or evil, ' this book is for you. --Paul Krugman "Warsh has written the best book of its kind since Peter Bernstein's *Capital Ideas*. "