BOOK REVIEW

Openness to Creative Destruction, Arthur M. Diamond Jr. (2019), Oxford University Press, Oxford, 304pp., paperback £2.99, ISBN 978-0-19-026367-6

The author is a well-known professor of economics in the United States. In this book, well researched and supported by numerous references, his philosophy of life is made clear – and a rather worrying philosophy it is, as we shall see. The book addresses the question of how to encourage innovation and entrepreneurship in an advanced economy such as that of the United States.

The author makes some interesting points; for instance, innovative entrepreneurs are likely to have less knowledge of formal theory and more informal or tacit knowledge than experts, such as academics, government officials and those who make funding decisions. This is in line with the school of thought espoused by Michael Gove, the Conservative politician, in the recent debate over whether the UK should leave the European Union without a deal: 'We've heard enough from the experts.' But, as we shall see, the author is not always consistent in this approach.

Chapter 10, 'funding inventors', is a detailed account of how patents can assist inventors by being fair and enabling while also providing the potential for rewards. They also offer other economic benefits, such as permitting the quick sharing of knowledge and reducing the need for trade secrecy. The author then considers some of the arguments against patents put by other authors, and carefully demolishes them. He discusses the problem of so-called 'patent trolls' – people or companies that own patents but do not use them all the while threatening to sue anyone who does make, sell or use the invention. Diamond concludes that 'policies that assure that a higher percentage of patents issued are of high quality' are needed. Yet, elsewhere, as I have noted, he has argued against regulators, which presumably include patent examiners. Without patent examiners, how can numerous low-quality patents be avoided? The chapter includes some interesting analyses of patent systems that in the past seemed to have worked well (US) and not so well (UK), but concludes that the current US patent system is not working as well as it could. He recommends that patent applications should be made simpler and cheaper. Judges should check which applications represent clearly written, non-obvious advance, and should oversee patent appeals. Quite how all this can be achieved, and why experts are suddenly a good thing, is not made clear. Diamond further recommends the creation of patent pools, such as the Intellectual Ventures patent pools developed by Nathan Myhrvold. However, he fails to mention that Intellectual Ventures has been repeatedly accused of patent trolling and stifling innovation by buying patents and then using litigation to force inventors to license their ideas.

It is a pity the author is so selective with his facts. He claims, for example, that the factories in England resulting from the industrial revolution were warm, clean and airy – far better conditions than those that had been encountered by farm workers. This claim is dubious in its own right, but when one adds the pollution caused by these factories – not mentioned at all by the author – one wonders if the workers' lives were really much improved. Similarly, Diamond's claim that, in making employees contactable when on holiday, the Internet and smartphones make vacations more relaxing, is dubious indeed.

The author is a techno-optimist, praising fracking and the idea that intelligent systems will ensure that car parking spaces 'will always be available without pollution-causing circling'. He is also optimistic that substitutes for the rare earths needed for modern electronic devices will be found. He even believes that continued innovations in biology and chemistry will allow us to bring back the mammoths and other extinct species. Nowhere does he question the ethics of all this. He also favours nuclear energy as the future for energy supplies, and nowhere addresses the problems of climate change and environmental pollution that increased energy consumption implies. He describes the Haber-Bosch process to synthesize ammonia as a 'miracle process'.

Diamond sees regulations that operate on the precautionary principle (let's be sure this thing works/has no bad side-effects) as stifling innovation. Regulators are corrupt and unimaginative. The market will decide what products are good and what are bad, he tells us, quietly ignoring the example of thalidomide or the VW emissions scandal, when manufacturers initially suppressed information about bad effects.

The author is opposed to any sort of open source, claiming these sorts of initiatives never last long: 'Defenders of open source do not spend much of their passion on how, without patents, poor inventors will be able to fund their inventive projects.' He notes that countries with strong intellectual property rights have high levels of entrepreneurship. The implication is one of cause and effect, but of course all sorts of factors might be in place.

The book's basic argument is that regulation, taxes and cronyism cripple the innovative inventor, and that innovators who are also entrepreneurial in spirit, or who learn to work with entrepreneurs, will create more and more innovations with their profits. A range of historical and more recent case studies is used to demonstrate his point. Many of his examples relate to the use and exploitation of patents. Here, he emphasizes the importance of serendipity and learning from trial and error. On taxes, he argues that inventors should not be taxed heavily, though he is unclear how the tax regime should be adjusted to take into account past inventive activity. In any case, Diamond completely overlooks the benefits of taxes in maintaining public services. I suspect he would be happy to have a low tax regime with minimal public services.

History, we are assured, has shown that regulations (financial, health, safety) have crippled innovation. Rather than regulated, innovators should instead be praised, incentivized and rewarded. He admires people such as Carnegie and Rockefeller, whose notoriety in their treatment of workers is conveniently overlooked. A wealthy innovator, we are told, is likely to use the wealth to pursue more ambitious projects, but this is a claim that goes untested. On regulations, the author presents a graph that shows that deaths from job-related accidents were already declining when the US introduced safety at work regulations in 1971. Again, he takes a causal relationship approach to prove his point that the regulators had no effect. Other possible factors are simply ignored. Once again, regulators are accused of being corrupt by seeking payoffs from established industries and interested parties.

This is a well-written book with an easy style that will appeal to economists, students and perhaps the general public. It is supported by a large number of references, as well as figures and tables. It has an exemplary index. Diamond covers interesting ground and provides some fascinating histories of the development of many of the inventions we now take for granted. Such a pity that Diamond's argument is so one-sided, and that he fails to take into account moral, ethical and environmental concerns in his optimistic vision of how innovation can make economies thrive. The book is recommended, but treat its contents with caution.

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