

Any Nation Has Power To Innovate

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By DENIS COLLINS

Syndicated columnist David Brooks credited Republican presidential candidate Mitt Romney in Tuesday's State Journal for eloquently integrating two competing theories on why some nations are rich and others are poor - culture versus natural resources.

Both views miss the biggest factor, entrepreneurship.

One group of scholars rallies around UCLA Professor Jared Diamond, who wrote the 1997 book "Guns, Germs, and Steel." This group maintains that technological progress has more to do with the luck of natural resources than with human or cultural contributions. Geography, climate, food and shelter are key.

A second group of scholars supports the culture view, most recently espoused by Harvard historian David Landes in "The Wealth and Poverty of Nations." Landes attributes the Industrial Revolution's origins in Europe, rather than Africa, to cultural factors such as the Protestant work ethic, democracy, and enlightened ideas about education, political corruption and the relationship between science and religion.

Both views have some truth but are problematic.

The resource view exhibits a degree of hopeless determinism if you are born in a nation with essential resources, great. Otherwise, good luck.

The culture view exhibits cultural arrogance, fueling the Islamic fundamentalist war against civil society. Some aspects of American culture are immoral just channel flip through TV stations and see all the greed, power and especially sex.

Both views miss entrepreneurship.

According to the recent book "Good Capitalism, Bad Capitalism," four types of capitalism exist bad state-guided capitalism (Japan and Europe), bad oligarchic capitalism (Latin America), good large-firm capitalism, and good entrepreneurial capitalism.

The United States has a marriage of the latter two. In general, small entrepreneurial firms innovate and large firms bring the innovations to market. The mix has contributed to enhanced life expectancy, health care, technology, travel and communication. On the downside are unsustainable energy consumption, poverty and inequality.

Any Northern or Southern hemisphere nation can replicate this combination. Innovative entrepreneurship skills are possessed by people in all nations.

Governments must adopt four guidelines to unleash pent up entrepreneurship: Make it easy to form new businesses and relatively easy to abandon a failed business.

Enforce property and contract rights.

Focus on macroeconomic activities that increase the economic pie, rather than equal distribution of benefits.

Ensure that successful entrepreneurs and the larger companies continue to have incentives to innovate and grow.

From a moral perspective, the last two guidelines are the most difficult.

So if you want economic growth, rally behind the entrepreneurial and large-firm capitalism mix. Innovate, bring product to market and get rich. Then share the benefits with others. Without the sharing, capitalism will be distorted.

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