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Entrepreneurship and Global Prosperity: Implications for Poverty and Peace[1]

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MODERN SCHOLARS seem strangely incurious about economic growth. Were it not for our knowledge of the medieval period, many would believe that economic expansion was a roughly linear phenomenon reaching back to Greece and Rome. Growth just happens. In truth, we know little about humanity's path through markets. We know the Roman state made economic policy, and its rulers and scholars were highly conscious of the scale returns to empire. This story of growth occupied rulers in historic periods in China and India, as well.

For us, the idea of growth is intrinsically part of the Enlightenment. Adam Smith's treatise, *The Wealth of Nations*, appeared in 1776. By the time Franklin and Hamilton helped to write the American Constitution eleven years later, Smith's ideas were of such consequence that our founding document was as much the outline of an economic experiment as it was a political one. Faith in the ingenuity that would allow America's free citizens to prosper might be seen as the DNA of our constitutional government. Indeed, the recorded debates tell us of the quarrel between the idea of a political utopia based on freehold farms and that of a commercial republic eager to show the world that economic progress would confirm the rightness of the American Revolution. The new nation really did take on the exceptional task of example-making as it started out on its political/economic experiment.

How odd it is, then, that it took such a long time for the importance of the ensuing growth to be understood by economics, the discipline that holds itself responsible for understanding how welfare

[1] Read 21 April 2012 as part of the symposium "Entrepreneurship and the Battle against Poverty."

expands. William Baumol arguably is responsible for leading us to see the promise that modern entrepreneurial capitalism holds for scale growth and its potential to improve human welfare in all parts of the globe.[2] Baumol's work builds on that of Joseph Schumpeter, who first analyzed economic history and saw the importance of new market entrants that disrupt the status quo.[3]

We are indebted to Schumpeter for his insight relating to creative destruction. But it is Baumol who quantified the gains in terms of the historic expansion of economic welfare and enumerated the universal conditions necessary for growth to succeed.[4] We need only recall Baumol's reflection on the different outcomes for human welfare of one-percent and three-percent growth rates over the course of a century to appreciate why economic growth is preferable to its alternative. And it is Baumol who recognized the legal predicates laid down in the Constitution as vital to America's potential to exemplify the entrepreneurial order for the future.

This case for growth as the basis for expanding human welfare was made irrefutably by Henry Sigerist, a professor of the history of medicine at Johns Hopkins University and a contemporary of Schumpeter's. In *Civilization and Disease*,[5] Sigerist showed that increasing personal disposable income helped to improve human health over the course of history more than any other factor, including increasing ratios of physicians to patients. Sigerist suggests that when incomes rise, households are more likely to obtain better food, shelter, and clothing; acquire a higher standard of hygiene; seek better public goods—such as pure water and sewers; and, most important, acquire education.

Subsequent work in human capital economics extended these findings when describing correlations between rising family incomes and smaller family sizes.[6] Similarly, findings showing that, with increased incomes, people trade work for leisure amplified the importance of growth in producing welfare gains. As I will argue in this paper, more recent work in conflict studies suggests that expanding economic activity has still more profound implications for human welfare.

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[2] William J. Baumol, *The Microtheory of Innovative Entrepreneurship* (Princeton, N.J.: Princeton University Press, 2010).

[3] Thomas K. McCraw, *Prophet of Innovation: Joseph Schumpeter and Creative Destruction* (Cambridge, Mass.: Harvard University Press, 2007).

[4] William J. Baumol, *The Free-market Innovation Machine: Analyzing the Growth Miracle of Capitalism* (Princeton, N.J.: Princeton University Press, 2002), 53, n. 13.

[5] Ithaca, N.Y.: Cornell University Press, 1943.

[6] Robert Weintraub, "The Birth Rate and Economic Development: An Empirical Study," *Econometrica* 30.4 (October 1962): 812–17; Robert J. Barro and Gary S. Becker, "Fertility Choice in a Model of Economic Development," *Econometrica* 57.2 (March 1989): 481–501.

Yet, the concept of economic growth seems to trouble us. Perhaps it is human nature to yearn for the future to be better, even as we resist the loss of old ways of living and working. Creative destruction requires change, and change discomfits. Indeed, we have seen fierce resistance to economic expansion in the past, though seldom by name.

Relentless growth began with the Industrial Revolution. As the machine and factory displaced workshops, resistance to change and growth began its parallel existence. Indeed, the iconic sabot in the gears embodies the artisan's hatred of the machine itself. The Luddites introduced the notion that machines are, in their essence, evil. For their part, the Romantic poets, notably Wordsworth, updated Manichean dualism with their depictions of a machine-driven future that was antithetical to the pure and unchanging aesthetics found in nature.

The Arts and Crafts movement in late-nineteenth-century England, championed by William Morris, glorified traditions of medieval craftsmanship in opposition to mass production in modern factories. Indeed, the Arts and Crafts movement envisioned a utopian counterrevolution in manufacturing with small workshops that produced small batches of beautiful objects and furniture. (Ironically, they were produced in such tiny numbers that they are prized today by wealthy collectors.) These movements give some indication of the forms that emotional unease with industrial progress may take.

The reaction to industrialism begot the granddaddy of all movements dedicated to resisting the mechanics of growth—namely, "scientific" communism. Marx's philosophy springs from his tragic view that capitalism exploits labor and that the machine, merely a more concentrated form of capital, represents capitalism's enthusiasm for dehumanizing technology. From this perspective, it is natural to develop a theory of justice based on class warfare, in which workers oppose capitalists. Marx posited that the unavoidable outcome of the relentless quest for the most efficient use of capital made competition predatory by nature. In time the return on capital would be so small that firms would fail and the market system would collapse, leaving all workers unemployed. He argued that the way to avoid this inevitable result was to urge workers to take communal control of society's property, oversee its redistribution, and then self-govern the economic and political system in such a way that everyone would be equally well off and no one could profit at the expense of others.

The much-observed flaw in Marx's analysis that is relevant for this paper is his view that wealth is static. While his intellectual exploration was stimulated by the Industrial Revolution that swirled around him, he nursed the notion that wealth production was the focus of capitalist economies. He did not accept the classical objectives that innovation, growth, and development were the ultimate end of the market's exertions. He could not see that expanding wealth causes expanding welfare. If the economic drama he watched had any capacity to make things better for all, it was overshadowed by the notion that the capitalists and the bourgeoisie seemed to be laying claim to more and more of society's wealth. Instead, Marx advocated a noble revolution that would upset the class system in the name of the greater, long-term good.

Marx's worldview is central to our consideration of the contemporary potential of entrepreneurship, especially in the context of development for poorer nations. Marx saw the entrepreneur as the quintessential clever peasant who escaped life in the proletariat by seeking out a stunted agency role in capitalism. He never regarded entrepreneurship as a valuable activity. To Marx, the entrepreneur had no role in overthrowing reigning capitalists (which, of course, entrepreneurs do in modern free-market economies), but was only a victim of them. Thus, Marx theorized that the entrepreneur was engaged in a constant and losing struggle: The more successful his innovation, the more the market forced him both to seek more innovation and to cut prices, which led him to capitulate to the existing, large capitalist corporations that presumably were more skilled at the deadly game of competition.[7]

The question of interest to us concerns growth in free-market capitalism and why it is not universally embraced. The economic record in countries that have abandoned their Marxist political structure in favor of market-based exchange shows that social welfare improves at considerably faster rates. Recent data from the World Bank[8] show that the world's impoverished population is shrinking steadily. This result largely reflects recent growth in China and India, bolstering the argument linking individual entrepreneurial activity with growth. For example, between 1980 and 2010 roughly 662 million Chinese rose above the World Bank's poverty standard—incredible progress that hints at the larger story. The overall percentage of the population of the developing world living below an adjusted real $1.25 per day was reduced by half between 1990 and 2008. Moreover, the developing world has already attained the first Millennium Development goal of reducing the 1990 incidence of extreme poverty by half, five years prior to its

[7] Marx's hostility to entrepreneurs is echoed by Keynes, who also saw entrepreneurs as an irksome element in an otherwise flawless argument that the government should plan the future of the economy. (Source: John Maynard Keynes, *The General Theory of Employment Interest and Money* [London, 1936], 376.)

[8] Shaohua Chen and Martin Ravallion, "Briefing Note" (3 March 2012), Development Research Group, World Bank. See also their article, "The Developing World Is Poorer Than We Thought, but No Less Successful in the Fight Against Poverty," *Quarterly Journal of Economics* 125.4 (2010): 1577–1625.

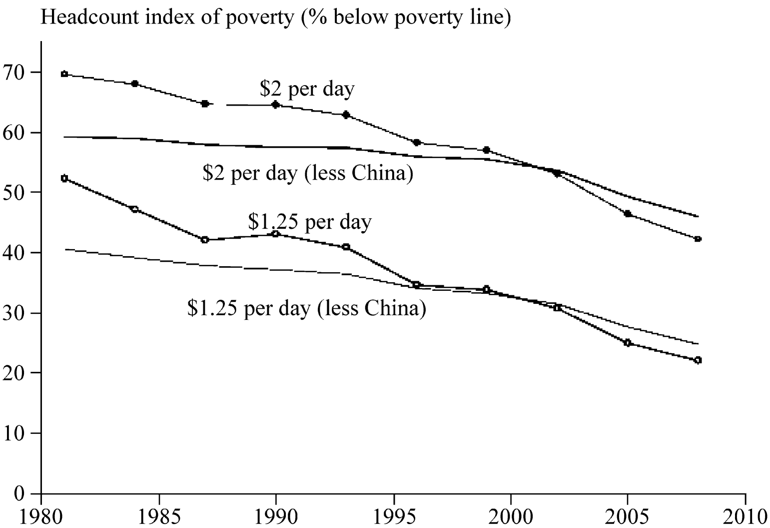

FIGURE 1. Poverty rates for the developing world, 1981–2008

deadline. According to the World Bank, poverty rates are declining throughout the world (see fig. 1).[9,10]

All of this progress conforms to Baumol's analysis showing that, as modern economies adopt more liberal policies encouraging innovation and entrepreneurship, poverty declines. Baumol not only suggested this relationship, but also anticipated what, happily, appears to be increasing expansion in the beneficial effects it brings. Indeed, economic growth, with its ability to eradicate poverty, may be recognized as the world's most remarkable achievement in the post–World War II era.

Still, the very idea of growth continues to meet with significant resistance. For example, the head of the World Bank, Jim Yong Kim, M.D., has written that "the quest for growth in GDP and corporate profits has in fact worsened the lives of millions of men and women."[11] His views appear in a collection of essays that he edited, *Dying for Growth: Global Inequality and the Health of the Poor* (2000). The title suggests a view that inequality is an overriding concern, despite the clear evidence that without growth there would not be sufficient surplus capital to worry over, say, health care in the developing world.

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[9] Figure 1 source: World Bank.

[10] Other social and economic indicators have improved as well, including substantial declines in world birth rates, increased per capita food production, reductions in air and water pollution levels, and increased levels of raw materials. For more details, see Indur Goklany, *The Improving State of the World* (Cato, 2007).

[11] Jim Yong Kim, *Dying for Growth: Global Inequality and the Health of the Poor* (Monroe, Maine: Common Courage Press, 2000), 7.

This position is a near pure distillate of the view that growth itself is, by its very nature, bad and a negative force in human affairs. Growth is inseparable from capitalism and "corporatism," forces from which little good derives. A more invidious argument animating the anti-growth movement is philosophical in nature, namely, that growth in the free-market context requires individuals to compete against each other with the necessary result that the human spirit is diminished because immoral characteristics, like greed and envy, emerge as necessary to success, if not survival. Finally, and perhaps most consequential, the claim is made that economic growth can happen only at the expense of humanity's relationship with the environment, because growth, by definition, requires the exploitation of natural resources and the despoliation of air, water, forests, jungles, and agricultural lands.[12] In the extreme case, then, humanity will see to its own extinction.

If growth holds the promise of expanding human welfare, what animates the anti-growth ethos? Adherents dismiss facts as either unpersuasive or unimportant. They seem to be satisfied that more people of the "right kind" believe that economic growth is bad.[13] Senator Moynihan's dictum comes to mind—"You are entitled to your own opinion but not your own facts"—but to no avail.

Thus arises what seems to be the fundamental question, namely, why are we afraid of growth? Indeed, how does the idea of growth trigger such vigorous resistance if there is not an underlying empirical case that growth is somehow bad?[14] At a minimum we must seek to understand why a world experiencing continuous economic expansion finds growth to be a disquieting idea.

There is no single answer. Rather, a complex question like this can only be considered from various viewpoints. As may be evident by now,

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[12] See Bjorn Lomberg. "Environmental Alarmism, Then and Now," *Foreign Affairs* (July/August 2012), 24.

[13] See Jonathan Haidt, *The Righteous Mind* (Pantheon, 2012), esp. chap. 9; and Albert O. Hirschman, *The Rhetoric of Reaction* (Cambridge, Mass.: Harvard University Press, 1991).

[14] It is important to note that history suggests that the ideas and causes that capture the public imagination often are ephemeral, just as matters of the gravest importance never capture any attention until unanticipated events require attention.

American policy experts in the 1970s worried about the inevitable supremacy of the Japanese economy. Since then, policy studies have given serious consideration to fatal meteor strikes, pandemics, the economic dominance of the "United States of Europe," Y2K, "nuclear winter," and global cooling—all events that fortunately never materialized. Yet, the fall of the Soviet Union, the rise of radical Islam, the "tech bubble" of the late 1990s, the financial crisis of 2008, and the "Arab Spring" all surprised us.

Thus, we must consider that resistance to growth may be a transient intellectual stance that will be abandoned as circumstances change or dispositive evidence regarding the benefits of growth accumulates. For more on this, see Anthony Downs, "Up and Down with Ecology: The 'Issues-Attention Cycle,' " *The Public Interest* 28 (Summer 1972): 28.

one's position on growth is always a matter of perspective. Those in the developing world rarely worry about the (real or imagined) problems that advanced economies concern themselves with, such as global warming or spending on foreign aid. Five perspectives are examined here.

Marx provided an analytic framework in which the *appearance* of growth rather than growth itself was at issue. Given that growth really is not central to Marxist thought (a reality reflected in the failure of Marxist regimes to produce economic expansion), the exertions of the state turn to managing distribution. Based on its production and benefits, individuals fall into implicit classes, which exist as a historic "imperative." In a no-growth economy, if one person becomes better off than another someone else must be worse off. Lost is the importance of expansion as an important objective. In its place innovation emerges over manipulation of favors; trade among individuals inevitably becomes corrupt.

For many, the appeal of utopian equality, however illusory, is real and significant. Among those on the modern left, utopian equality is the inchoate objective of modern democracy. They find it unnecessary in a "rich enough" society that individuals face the inherent stresses of market competition. Fred Hirsch argues that embedded in human nature is a need to acquire "positional goods"[15] that are intended to make others feel resentful, envious, or inadequate. Justice in the Marxian system is ultimately rooted in personal psychological grievance. If growth is avoided from the beginning, then the impossible problem of social tension stemming from dynamic economic positioning can be avoided altogether.

A second reason why growth disquiets is the belief that one mark of humanity's evolution is our ability to plan and control the future. A key achievement of the modern nation-state is that it has successfully propagated the belief that it can deliver a continuously growing economy. Government alone is capable of providing a predictable and stable future. In the face of the unrelenting business cycle that produced both the Great Depression and the current Great Recession, voters have become invested in the expectation that government can tame markets without any adverse consequences. Political leaders are only too ready to promote the specter of the economic chaos that would prevail without their informed and judicious management of the passions of investors, corporate leaders, and unpredictable markets.

The notion that government is wise enough to plan and shape our collective future in ways that maximize welfare is so alluring that we

[15] Fred Hirsch, *Social Limits to Growth* (Cambridge, Mass.: Harvard University Press, 1976).

overlook the actual record. Government cannot successfully deliver a managed future to us. If ever this was the case, today government is likely less adept at understanding and controlling a more dynamic and complex economy. It acts in non-market ways that are more likely to do harm than good.[16]

To many, this inability to anticipate and forestall disruptive future events reflects the failure of democracy itself. Thomas Friedman, for one, argues that America's participatory democracy might learn something from China's system, in which more power to plan and manage the economy is delegated to smart bureaucrats.[17] The Chinese, with their impressive current growth rates, Friedman argues, should serve as the model of good government planning.

Friedman's argument reflects the prevailing idea that highly trained experts are capable of managing the economy. The non-partisan, professional government planner is supposed to be uniquely trained and skilled to make the future more predictable, orderly, and intelligible. As independent government regulatory agencies have grown, we have witnessed a shift in the norms of the presumptive intelligence, or wisdom, of government action.[18] Until the Progressive Era the federal government did not have the intrinsic powers to do very much at all. Average citizens encountered federal government only at the local level, where most taxation and spending occurred. Indeed, the nation's infrastructure was mostly localized. Schools were supported and managed at the local level. State government managed infrastructure among its cities and provided the other services specified in their constitutions—the administration of justice and the care of people who were physically or mentally incapable of remaining in society.

Progressive "reforms" intended a new role for the federal government. Government became the active agent of improving life for its citizens. This engendered in government a new power, that of articulating the moral and civic values that would make life better for most citizens. In the Progressive vision, the federal government's best purpose was to invent and manage programs that actively lead society to those values.

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[16] In fact, government attempts to prevent politically unacceptable market outcomes actually induce greater and more damaging future crises, as I noted in my Schumpeter Lecture at the University of Illinois, 16 October 2006: http://www1.umn.edu/humanrts/edumat/sustecon/lessons/lesson6.html.

[17] Thomas Friedman, *The World Is Flat* (Farrar, Straus & Giroux, 2005).

[18] This slow drift prompts "back to the future" moments, such as the newly discovered wisdom of crowds. See James Surowiecki, *The Wisdom of Crowds: Why the Many Are Smarter Than the Few* (Abacus, 2004). The emerging "crowd sourcing" of investment money for new start-up companies is another example of this, though venture capital firms and other "expert" investors have questionable records.

Innovation in legal theory was central to the success of the Progressive movement, by inventing administrative rule-making as a power delegated to regulatory agencies, ceded by the legislative branch. This delegation permitted bureaucratic personnel (deemed expert *by law*) to establish the code of proscribed and prescribed conduct for many zones of commercial and private life. Thus, for instance, the federal government could set rules for securities markets and broadcasting. In time, overarching regulatory authority limited the scope of commercial activity. Public health regulations intent on controlling obesity undergird New York City's recent ban on "super-sized" drinks in fast food outlets. Massachusetts provides another example. Its health department has forbidden school bake sales because they may encourage "unnecessary" consumption of sugar, putting children at risk for obesity and diabetes. In each case, the expertise of an administrative agency justifies the government initiative. Federal jurisprudence generally defers to the "expert judgment" of government agencies, seldom limiting the bureaucracy as it expands its scope without specific legislative authority.

Aversion to growth has yet another motor. At least in the sphere of foreign policy a view has arisen that as an imposed aspiration economic expansion is probably not culturally appropriate. Economic assistance since 1950 has focused on helping achieve subsistence as our goal for aid to the developing world. A sizable constituency exists for the view that economic growth, which has been good for us, is not a self-evident course for poorer countries.[19]

Indeed, a surprisingly small portion of economic development literature identifies dynamic growth as an appropriate goal for poorer countries. In fact, a careful reading suggests a more sinister perspective runs through the expert consensus, namely, that certain populations are incapable of developing, sustaining, or managing more advanced economies. And as suggested, the root of this view is that policy makers are unsure that America's economic achievements should be propagated around the world.

This view may help to explain the widespread infatuation with small-bore development ideas, such as microfinance. Such programs are inevitably focused on cottage industries, typically revolving around native crafts or the trading of small amounts of foodstuffs. In addition, microfinance involves disproportionate numbers of single-proprietor, one-employee businesses with little possibility of becoming scale businesses.

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[19] Carl Schramm (May/June 2010), "Expeditionary Economics: Spurring Growth After Conflicts and Disasters," *Foreign Affairs*, accessed online: http://www.foreignaffairs.com/articles/66207/carl-j-schramm/expeditionary-economics.

Yet more recently another source of ambivalence regarding economic growth has gained importance: environmentalism. In recent decades, concern about degradation of the environment has been coupled with suspicion about economic growth. Any international summit on economic recovery will be met with anti-growth protests. Environmental concerns are used to critique industrialism, "corporatism," and the aspirations of developing countries. One reason that microfinance solutions appeal to development planners is that they seem to promise economic success without industrialization and its presumed environmental hazards.

Perhaps growth is resisted because of a deeper, inchoate fear of what is termed "materialism" among developing countries. Richard Fletcher of the Inter-American Development Bank typifies these concerns: "[F]or four decades (we acted on the belief) that we would improve the quality of life by producing more material wealth, more goods, more services. . . . [G]rowth is producing effects that are bad . . . [including] environmental damage, the loss of species, pollution, psychological and social stress."[20] Despite World Bank data showing marked reductions in the number of people living in poverty, observers continue to claim that development has accelerated disease and death.[21]

Unfortunately, once such doomsday-centric worries are adopted, they are difficult to displace or disprove.[22] The canon of belief relating the negative effects of growth was set down in the Club of Rome's report, *The Limits to Growth* (1972), which prophesied that by 2000 the earth would no longer be able to support its population, and critical

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[20] Center for Economic Conversion, Sustainable Economics Curriculum, accessed online: http://www1.umn.edu/humanrts/edumat/sustecon/lessons/lesson6.html.

[21] The growth vs. environmental degradation vs. sustainability debate is hard to settle using empirical evidence as the topic is imbued with ideology. For more on this, see Carlyle's perspective on the "condition of England question," as cited in Gertrude Himmelfarb's *The De-Moralization of Society* (Vantage, 1994), 221–23, which suggests the difficulty of separating objective from subjective judgments of such issues.

Indeed, Sunstein's notion of "selective fatalism" and Down's theory of transient public attention perhaps lead us to wonder whether or not humanity is actually competent to identify long-run collective risks. For more on this, see Cass R. Sunstein, "Selective Fatalism," *Journal of Legal Studies* 27 (1988): 799; and Anthony Downs, "Up and Down with Ecology: The 'Issues-Attention Cycle,' " *The Public Interest* 28 (Summer 1972): 28.

For the record, most of the topics that have generated widespread worry and calls for political action in recent decades ultimately have proved to be no particular threat. For more on this, see Orrin H. Pilkey and Linda Pilkey-Jarvis, *Useless Arithmetic* (New York: Columbia University Press, 2007); and for more on the mechanism of crisis generation, see Joseph H. Campbell, *Getting It Wrong: Ten of the Greatest Misreported Stories in American Journalism* (Berkeley: University of California Press, 2010).

[22] See D. Centola, R. Willer, and M. Macy, "The Emperor's Dilemma: A Computational Model of Self-Enforcing Norms," *Am. J. of Sociology* 110 (2005): 1009.

food shortages would result in unstable relations among nations and inevitable war.

So opposed are some to the very notion of growth that they have argued that the world should stop growing. Ehrlich and Harriman set the framework for this belief when they introduced the notion of "overdeveloped" countries that must, according to their policy prescription, "de-develop," while underdeveloped countries should be permitted to engage only in "semi-development."[23] Of course, these terms are laden with subjective values; not the least offensive is that the advantages that "overdeveloped" countries enjoy should not be the future of countries that are economically backward largely as a matter of accident.[24]

Implicit in the work of economists from Adam Smith to Joseph Schumpeter is the idea that humans are by their nature driven to make and market better goods and services that incidentally improve standards of living. Simply, the drive for growth is inevitable. Government planners have the power to suppress economic expansion. But in the end, when growth is seen as critical to social cohesion, it will win out. Nowhere is this more plainly the case than in the tensions we observe in contemporary China. While growth does not spring from the Marxist/Maoist doctrinal documents, preservation of the regime can be accomplished only with liberalization that achieves economic growth.

Continuous economic expansion is so important to human welfare that consideration should be given to how the prevailing anti-growth reflex might be overcome. Because aversion to growth, more meme than doctrine, is advanced by influential intellectuals, here are four exercises that might disturb their presumed right-thinking.

The first exercise demonstrates the importance of entrepreneurial growth to any economy. Economists rarely build a hypothetical economy from scratch. If they did, economic planners would be forced to confront what I call the "institutions first fallacy." Simply, while some institutions (for example, a national treasury) surely are needed, not all institutions are important to an economy at the outset. For instance, a

[23] Paul Ehrlich and Richard L. Harriman, *How to Be a Survivor: A Plan to Save Spaceship Earth* (New York: Ballantine Books, Inc., 1971).

[24] Cass Sunstein contributes an interesting insight. His view of "selective fatalism" suggests that humans appear to irrationally embrace and act upon premonitions of bad events that might injure them or society as a whole. He properly observes that one reason, suggested here, is uninformed bias. Sunstein's solution of expanding regulatory oversight of society to provide comfort is in reality an argument to permit government to act in a more rational way on behalf of citizens. The flaw in this argument is that government actors, really individuals, are no more free of bias, although often of an ideological order, than are the citizens for whom they would make decisions under their administrative authority. See Sunstein, "Selective Fatalism," *Journal of Legal Studies* 28 (June 1998).

stock exchange is not a necessary institution, although under USAID's direction one was established within the first three years of America's invasion of Iraq. In many African countries, planners have focused on building ministries to mimic western governments rather than supporting economic activity at the grass roots.

"Nation building" is more about building out governmental apparatus than building a nation's economic base. One reason is that we know very little about how economies develop from their earliest forms. Knowledge about how economies actually are formed is dismissed as historically irrelevant by planners. Few see parallels between our own history and the situation presently before us. When the American economy was in its infancy, our imperial parent offered very little in the way of support. Indeed, after the Revolutionary War, Great Britain continued active hostility; recall the War of 1812. The U.S. economy was built without the aid or even the encouragement of other countries. No initial institution in the U.S. exists because of foreign assistance. Our economic institutions emerged organically, often through trial and error, in response to the needs and circumstances of the times and specific situations. This exercise suggests we assist markets to emerge and let needed commercial and governmental institutions grow organically to meet the needs of the evolving indigenous markets.

A second exercise rests with Baumol's analysis of the differential effect of economic growth on social welfare gains by place.[25] His findings show remarkable gains in the quality of daily life resulting from the introduction of technological innovations that improve travel, telecommunications, and health care, innovations that both accompany and stimulate economic growth.[26] Since 1820, the United States has experienced per capita real growth of 17 magnitudes. In comparison, during those eighteen decades Africa achieved the same level of economic development enjoyed by Europe circa 1820! Imagine, then, what twofold or threefold economic growth over a twenty-five-year period might mean for a poor country simply in terms of, say, life expectancy.

One can see the improvements in welfare that might result if the World Bank, USAID, the United Nations, and other entities committed to reducing world poverty began to believe that Uganda, Kenya, Afghanistan, or Pakistan—all countries that have long been the target of

[25] Baumol, "Toward Analysis of Capitalism's Unparalleled Growth: Sources and Mechanisms," in *Entrepreneurship, Innovation and the Growth Mechanism of the Free Market Economy*, ed. Eytan Sheshinski, Robert J. Strom, and William J. Baumol (Princeton, N.J.: Princeton University Press, 2007).

[26] For a specific case, see Joel Mokyr, *The Enlightened Economy: An Economic History of Britain 1700–1850* (New Haven, Conn.: Yale University Press, 2007).

the development community—could change if they were to enjoy a threefold expansion of real per capita income over the next twenty-five years. As Baumol notes, such a vision can be realized only by relying on indigenous entrepreneurs. But, as noted above in discussing the "institutions first" fallacy, development policy often operates with no regard to the potential that new firms, by achieving scale growth, can reshape a nation's economic future.

A third and still more profound thought experiment involves imagining how the world's relatively better-off population occupies itself, as leisure becomes more common and the need for labor declines. Does newly acquired (or granted) leisure produce a population that becomes less productive and/or less innovative? Or does more leisure free more human energy to pursue the kinds of creative ideas that will become innovations that change all of our lifestyles? We take it as a given that an expansion of creative energy would spur world output at an ever-increasing rate.

The problem becomes more complex if one considers that as the leisured population grows the world's population divides increasingly into two classes: one that creates useful innovations and another that does little more than exist, albeit in some state of pleasure that was unimaginable just half a century ago. Some of the antipathy to growth may reflect a concern that as the leisure class grows, a massive state of Durkheimian anomie will descend, and social disintegration will threaten because those who traditionally spark innovation and the growth it begets will simply no longer work. Indeed, some of the dissolution in American civic life arguably connects to the presence of such sheer abundance.[27]

How would a society face the problem of people living without the need to work? In ancient Greece, people sought to accrue sufficient wealth to allow for the enjoyment of an active and disciplined "life of the mind." Three intellectual projects stood as the highest focus of such a life—namely, pursuit of individual virtue, fulfillment of an individual's duties to her society, and the proper ordering of the state to protect the nation's security and foster, using Aristotle's term, "human flourishing." All of this suggests that humanity has long understood that leisure is indispensable to pursuit of intellectual achievements.[28]

The continued drift away from the liberal arts among college-educated individuals suggests that fewer individuals are now equipped to even consider this problem—let alone live creative lives centered on

[27] Michael Barone, *Hard American Soft America: Competition vs. Coddling and the Battle for the Nation's Future* (Crown Forum, 2004). See also Brink Lindsey, *The Age of Abundance: How Prosperity Transformed America's Politics and Culture* (Collins, 2007).

[28] Josef Pieper, *Leisure the Basis of Culture* (Farber and Farber, 1952).

intellectual curiosity and continuous learning. Put aside those trained at the college level, what dissolute lives can be imagined for a growing majority of our population that is incapable of even imagining a constructive life without work. Longstanding government welfare programs may have induced generational indolence leading to millions of wasted lives of untold potential.

Perhaps we need public policy that is focused not so much on formal schooling but, rather, on how to stimulate individual creativity and provide the means, as yet unknown, to translate innovation into yet more productive contributions to society's welfare. At best we know that entrepreneurship is one means to induce commercial creativity. But, as yet, we do not know how to increase the number of entrepreneurs in society.[29] It is, however, apparent that a rich society can find itself very poor in other dimensions if its citizens do not know how to use their leisure time in constructive ways that reward their innate curiosity and contribute to the general welfare.

The fourth and final consideration has to do with the implications for establishing and maintaining peace throughout the world that spring from the exertions of entrepreneurs when they spur economic growth. The correlation between expanding disposable personal income and the decline of deaths due to warfare is capturing increasing attention.[30] The evidence indicates that, as incomes rise, state-sponsored violence against other nations goes down.

Observers frequently point out that the most volatile force in international affairs is the growing number of young people who cannot support themselves. When economic achievement through gainful employment seems to be impossible, despair can lead people to embrace radical political and religious ideologies and even take part in political violence.[31]

Thus, there are many good reasons to focus on entrepreneurship as a means of advancing the welfare of the developing world. Moreover, as already noted, there is little evidence that the approaches employed by USAID or other similar international development organizations, which largely ignore entrepreneurship, have achieved sustainable, long-term success. Entrepreneurship's role in economic theory is only now

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[29] Schramm, "Expanding the Entrepreneurial Class," *Harvard Business Review*, June-July 2012.

[30] Steven Pinker, *The Better Angels of Our Nature: Why Violence Has Declined* (Viking, 2011). See also Macartan Humphreys, "Economics and Violent Conflict." Working paper, February 2003: http://www.preventconflict.org/portal/economics; and Douglas C. North, John Joseph Wallis, and Barry R. Weinglass, *Violence and Social Orders* (New York: Cambridge University Press, 2009).

[31] Ted Robert Gur, *Why Men Rebel* (Princeton, N.J.: Princeton University Press, 1970).

being re-established, building on the insights of Schumpeter and a second generation of theory touched off by Baumol.

He is the articulator of what will in time be obvious. The aspirations of billions of people will drive growth, with or without the help of policy makers. If the past is any guide, we must hope our stock of entrepreneurs will grow because global prosperity will follow. In the end it may prove that it is the entrepreneur who will make real the ancient Greek notion that life's most important mission is to increase human flourishing.