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KIELER DISKUSSIONSBEITRÄGE

K I E L D I S C U S S I O N P A P E R S

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The Role of Entrepreneurship in the 1980s

by Herbert Giersch

The Role of Entrepreneurship in the 1980s*

I. The Economic Situation in the 1980s

1. In thirty years of fast economic growth, large parts of Europe and Japan have succeeded in catching up with the United States. Since the early seventies, however, all industrialised countries, including North America, have entered a phase of slow growth and slow productivity advance. This has reduced the scope for raising real wages much below what had been customary, notably in Europe. Wage pressures induced by past experience turned out to be excessive. This is why many firms and millions of jobs and workers were squeezed out of the market and why structural unemployment has reached levels which appear unbelievably high to all those who do not remember the thirties. At the same time, firms in Europe's advanced economies suffer from a profit squeeze and from increasing pressures of competition among themselves, but also under increasing pressures of competition from the U.S. and Japan and from those newly industrialised countries which have successfully started a catching-up process of their own. In this new era of competition and slow growth we must be on guard against the dangers of increasing protectionism. After governments have gone so far as to promise full employment at almost any costs and to guarantee a reasonable minimum income to almost everybody at taxpayers' expense, it is all too likely that they will find themselves under increasing pressures to extend the welfare state to the business community and to protect and subsidise more and more firms which have lost their viability and their capacity to adjust. But we know for sure that this would be the wrong direction. Whatever you subsidise, you make it grow in numbers. If you subsidise unemployment, you will have more unemployment; if you subsidise students you will have more students; if you start subsidising less developed countries you will soon have more of them; and if you extend the welfare state to firms, you will quickly have more firms needing this welfare state to survive. At the end of the road we see everybody relying on everybody else in a society which has lost its internal strength and which is bound to suffer a decline in its standard of living. This is why more and more ordinary people with sound judgement start to look for a turnaround. But the road towards prosperity and growth through more reliance on self-help and innovative competition is long and steep, not very attractive to politicians who need spectacular results well before the next elections. The turnaround will, therefore, be delayed until the situation has become worse and worse and until more and more people understand that there is no alternative. In these circumstances, Europe will probably not have returned to substantially faster economic growth before the end of the eighties even if we can persuade ourselves to quickly agree why we are where we are and where we have to go from here.

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2. It all started with the Keynesian idea that the objectives of high employment and economic growth could be socialised and handed over to the governments. Monetary fiscal policy based on Keynesian expert advice was thought to provide enough effective demand and to be smart enough for fine tuning the economy in such a way that the old business cycle with its recessions or depressions would no longer retard economic development. When fine tuning of this sort produced more and more inflation - and even more unemployment in the medium run - incomes policies in various forms were introduced. Their purpose was to repress inflation, but as they were bound to involve more and more direct control of prices and wages they distorted the allocative mechanism of the market and diverted attention and activity from competition, investment, and innovation. The Schumpeterian entrepreneur who is engaged in forward-looking, dynamic competition lost ground to the Keynesian business manager who is closer to the government than to the market and who pays more attention to demand created by governments than to demand created by its own supply. This - together with the march into the welfare state - was bound to result in a slowdown of economic development and productivity growth. If the trend is to be reversed, the driving force needs to be changed from demand pressures to supply incentives, from government to private business, from the rear wheels to the front wheels of the system.

3. The new policy concept from which we can expect a turnaround after a difficult transition period corresponds to old-fashioned but sound classical economic thinking. It entrusts the central bank with the sole and exclusive responsibility for preventing monetary inflation and that kind of unemployment which may result from unanticipated monetary deflation (Keynesian unemployment). But such monetarism is not enough, at least in the context of the European labour market. To cope with the evil of classical unemployment which results from excessive wages, we may have to experiment with new forms of unemployment insurance (making this insurance more similar to a private insurance system) or with measures to reduce the monopoly power of organised labour. Details cannot be discussed here. What then remains is the fundamental question, who would be responsible (a) for the growth of potential output and hence for economic development and (b) for that productivity advance that allows real wages to rise without creating classical unemployment. This question has a simple answer: the group of genuine economic entrepreneurs in the business community.

II. The Supply of Economic Entrepreneurs

4. Mainstream economics has almost nothing to say about the supply of genuine entrepreneurs. The entrepreneur is a decision-maker, this is true. But everybody has to make decisions; and if the resources are given, and if all relevant information is readily available and processed, rational decision-making even in complex situations can be entrusted to a computer. It is most remarkable to note that, in the great debate about economic calculation in the interwar period, economists thought that a socialist system could easily solve the economic problem by imitating the pricing system of the market and by letting civil servants do the job of adjusting inputs and outputs to changes in relative prices according to some

easily comprehensible maximisation formula. To be sure, such a system can work. But it is modeled to resemble perfect competition, a peculiar market form which we may find - in some approximation - in the potato market or the hog market, where decision-makers have to take prices as given. In this case, quasi-automatic decision-making is all that is required. It leads, by the way, to a deterministic solution which may satisfy social engineers, but hardly anybody interested in freedom of action, human development, and economic evolution. This system excludes the economic entrepreneur by leaving no room for the discovery of hitherto unknown facts about better products and processes, new inputs and locations, and unrevealed buyers' preferences. It imitates the market economy as an allocative mechanism but not as an engine of discovery and evolution. Even Schumpeter, who stressed the role of the entrepreneur and to whom we owe so much for understanding economic development [Schumpeter, 1912] missed this essential point when he discussed the feasibility of socialism [Schumpeter, 1943].

5. No theory can explain economic development if it assumes that alternatives or options are given and then proceeds to concentrate on formal maximisation techniques. I suggest that we do almost the opposite: Leave the solution of maximisation problems to a mathematical slave and computer and concentrate on

- search activities and search strategies and
- criteria for options which deserve exploration and for avenues that should be left aside because they are most likely to prove to be dead ends.

6. These two points imply:

- (1) An entrepreneur has to be alert so that he or she can observe every signal which indicates new opportunities. Such opportunities may arise from changes in relative prices, from scientific development, from rising incomes or consumers' saturation, from the failure of close competitors or from new laws and political shocks.
- (2) The entrepreneur must evaluate these signals by raising the following questions:
 - Is there an opportunity for profit?
 - How long will the opportunity exist, given the alertness of old and new competitors?
 - How much capital is needed?
 - What other complementary resources will have to be obtained at what cost to exploit the opportunity?

As always, every tentative answer will give rise to new questions, and every further search for answers will involve costs, including the exhaustible resource of human time.

- (3) As time is short for an entrepreneur, the exploration must somehow be finished by means of judgement which is still full of intuition. Good intuition is based on knowledge about the outcome in similar cases. This is the experience stored in one's long-term memory. Those who are too young can

ask for other people's experience in the form of impartial advice. But they should not ask experts who have fallen in love with specific ideas.

- (4) Good advice is particularly needed if the envisaged opportunity is the result of one's own imaginative thinking. It is only if one can convince others that one can feel protected against deluding oneself.
- (5) The alert entrepreneur, in order to remain alert for new signals, must often discard old options under the pressure of time and new information. Everybody needs spare capacity for absorbing and evaluating new signals; leisure in this sense is a kind of investment. It can help against single-mindedness or obsession - something which a researcher or inventor may need, but which an entrepreneur cannot afford until he has taken a considered decision in favour of one single option.
- (6) While the researcher can afford to go on thinking and pondering (because this may be the activity he is being paid for) the entrepreneur in competitive positions must realise that his income is derived from the results of doing something, and often from doing it earlier than his competitors.
- (7) There are risks involved in seizing an opportunity but the good entrepreneur will judge them in relation to the forces he can mobilise in the event of an imminent danger. Adrenaline will be produced in his own body, and assistance can be obtained from relatives, friends, and collaborators and from the suppliers of risk capital who already have a stake in the venture. It is this mobilisation of forces in the fight against risk and uncertainty that is more important than anything else to distinguish the entrepreneur from a gambler and to make him so different from a passive participant in a lottery game [McClelland, 1961]. But situations in which additional forces must be mobilised will arise very frequently when discovery and innovation take place under competition and free entry - as opposed to monopoly with high barriers to entry.
- (8) Competition is thus also an important element in speeding up the decision-making process (by the way: in research as well as in business). Economists have considered competition mainly as a device for reducing costs and prices and as a means for improving quality. But the true dynamic implication of competition is that it forces things to be done more quickly.
- (9) Opportunities need not be discarded but can be shelved; a "wait and see" attitude is advisable if hazardous competitors are in the game; they are likely to fail at an early stage in exploring and exploiting an opportunity. Their failure produces valuable experience which can greatly help one in launching the second attack.
- (10) Any new combination - to use Schumpeter's words for what the entrepreneur is to carry out - is likely to meet with resistance from opposing forces in political circles, public opinion, labour unions, or among customers, whether the new combination is a new product, a new production process, or a shift of the production process to a new location, perhaps in a foreign environment. Some of these resistances are likely to be based on fears that will prove unwarranted in the end, but which will be emotionally strong in the beginning. To minimise such emotional resistance requires the creation of confidence,

an early explanation of what is going on and what is to be achieved, and an assurance that negative side effects will be limited and will, if necessary, be compensated. A sharing of profit with those who are prepared to share the risk can be a useful device. Apart from this, emotional resistance will be minimised if the innovation can be presented as a series of steps rather than an indivisible huge venture. Comparison between microelectronics and nuclear energy suggests that more people are prepared to accept change when it comes piecemeal, so that they can evaluate each new step on the basis of past experience and feel free to reject or modify it should the negative side effects appear too large. Apart from this, a step-by-step introduction of new technologies allows people to learn to live with progress. This is why the automobile turned out to be such a success in the history of socio-economic development: Generations of people learnt to drive and to handle technologically more advanced cars - and they enjoyed it.

7. Now that we have enumerated all the qualities essential for successful entrepreneurial behaviour the question arises, whether we have enough good entrepreneurial talent and if not, whether we can produce more of it by forming teams? Let me start by giving a tentative answer: there is no shortage of entrepreneurial talent, but institutional resistances and technical requirements may create so complicated situations that no single person, but only a combination of persons, can successfully perform the entrepreneurial role.

8. Let me first deal with the first part of the answer. My belief that there is no basic shortage of entrepreneurial talent is derived from the observation that most of the qualities that we have described as essential for entrepreneurial activities are exhibited by good car drivers in crowded, but fairly unregulated streets. Choose any number of young people, give each of them a car, teach them the essentials of driving, and most of them will become good, and perhaps quite often aggressive, drivers after the period of time required for gathering experience and for developing good judgement and instincts in potentially dangerous situations. In a process of learning by doing, most candidates will become experts in anticipating other people's behaviour, in discovering opportunities for overtaking, and in judging the potentialities of their equipment. Of course, there will be differences in performance; and a process of competition and natural selection (which some will consider too costly) is likely to raise the state of the art. Having been carried in taxi cabs and chauffeur-driven cars in numerous countries all over the globe, I cannot imagine that there is a shortage of talent in this field; and as driving seems to be so similar to entrepreneurial activity I would need strong evidence to become convinced that entrepreneurial talent is genetically determined and could, therefore, be a limiting factor in economic development even over the long haul. The analogy of driving can be well extended to include other forms of human activity which require similar sorts of instinct and skill and which can be observed everywhere in the world.

9. Not every person is a driver all the time. Similarly, effective entrepreneurship in its more pronounced forms may be limited to a certain phase in a person's life cycle, when alertness and aggressiveness are still strong while enough experience and predictive power have already been accumulated. Since the late sixties, I have

strongly felt that the West must sooner or later suffer from a loss in potential economic driving power due to the fact that it failed to transform a rebellious youth into a vigorous cohort of achievement-oriented entrepreneurs. How much (potential) entrepreneurial talent has been wasted in futile and unproductive attacks on the establishment, and even in law-breaking, in hijacking and in all the other forms of outright terrorism? It would be useful to enumerate all those barriers to entry that contributed to diverting young entrepreneurial forces into the dead-end avenues of anti-capitalist revolt. In this connection, it should not be left out of account that formal education, including academic training, may reach far too long into adult life or may, given its length, be too passive or reflective in character for too many people who are disposed to become active decision-makers in their prime of life. For these reasons I also fear that in LDCs intellectual training - as opposed to apprenticeship and professional education - receives more attention and emphasis than is good for economic development.

10. The entrepreneur so far described is an ideal type (attitude, state of mind, form of behaviour) rather than a person in real life. What he needs in the world as it is are complementary factors, such as managerial skill, technical knowledge, and capital. Whether entrepreneurs can acquire enough capital or whether capitalists hire entrepreneurial managers is not important as a matter of principle, but given the abundant supply of entrepreneurial talent and the probability that it is easier for a person to acquire managerial skills than to accumulate capital, it appears evident that capitalists will normally hire entrepreneurs. In this case, capital becomes the limiting factor and a barrier to entry.

11. After all, what we have in this world as fields of operation for entrepreneurial talent are firms. They exist because subordination under organisational structures with strong hierarchical elements is often more efficient than a system of horizontal contracts in the market - with independent agents who cannot easily be induced to adjust their contracts as may be necessary from time to time [Coase, 1937].

- One source of the firm's relative efficiency is flexibility: a change need not be renegotiated with all contracting parties but can be ordered since the cooperating persons are under service contracts (for a certain or indefinite period) which leave it up to the firm's discretion what is to be on their daily agenda. This advantage is being greatly reduced now by stiff work rules and regulations, by elements of workers' codetermination and by legal and institutional difficulties in case the firm has to terminate the service contract.
- In these days we observe that hierarchical efficiency is, indeed, being lowered by government interference and workers' resistance (union resistance), whereas the relative costs of communication and hence of horizontal coordination over the market are on a decline.

12. This suggests that the balance is likely to tip more towards a higher degree of decentralisation in large firms. This change may lead to the factual dissolution of bureaucratic systems into conglomerates of a large number of profit centres. Casual observation suggests that persons at the top of such profit centres feel and behave more like entrepreneurs and consider the firm as something like a

separate capital market. There is a sharing of profit and (uninsurable) risk between the capitalist and the manager-entrepreneur which could be a model for similar arrangements with the lower strata of hitherto strictly hierarchical systems. Here, I suppose, is a vast field of opportunities for making better use of the abundant supply of entrepreneurial talent within existing firms. Even small steps in this direction can help in the important task of raising workers' motivation. They can help to reduce the great danger that bureaucratic management methods, like bureaucratic government with high taxation, force more and more entrepreneurial talent to emigrate into the underground economy.

13. In such a complex institutionalised society, as we have it now, few potential entrepreneurs can become effective without acquiring sufficient knowledge about legal and political constraints and without developing a feeling for the mentality of organised labour. But what about immigrant entrepreneurs who are quick to penetrate the restaurant business in advanced countries? They just prove the point since they mainly employ family members and are quick to withdraw once they get into conflict with existing laws and regulations. By the way, these immigrant entrepreneurs and their success in many countries, including LDCs, support the hypothesis that pure entrepreneurship is abundant everywhere, not only in advanced countries, and that one of the most important inhibitions for its becoming virulent at the source must be the deterrent effect of rules and regulations which tend to criminalise the pathbreaker and his transitory reward for changing the existing state of affairs. While the domestic entrepreneur is handicapped by his grasp of the deterrent, the immigrant is ignorant and feels courageous and innocent. But one has also to consider that the immigrant entrepreneur has (almost) no option of rising in the social hierarchy by joining those who want to conserve it. Thus he has to do things differently in order to succeed, and to succeed as an entrepreneur is perhaps the only avenue open to him in an otherwise closed arteriosclerotic society. This was the fate and the entrepreneurial role of the Jews in Central Europe, and anti-Semitism developed in response to their success. Now it is the Chinese in South Asia and the Indians in East Africa who perform the role of the immigrant entrepreneur. And much of the emotional resistance against the subsidiaries of foreign multinational companies in America outside the U.S. must have something to do with the fact, that they are foreign, that they behave differently and that they prove to be successful and hence profitable.

14. If an individual is too one-sided to be successful as an entrepreneur in a complex institutional environment he or she can decide to cooperate with complementary persons in what - for brevity's sake - I should like to call a team. This is a group formally or informally coordinated by leadership. What leadership is supposed to produce is - in my opinion - a plan for concerted action that turns potential conflict into hopeful harmony by making every participant believe that he or she will be better off (in both absolute and relative terms) in comparison to any option open to him or her as an individual. Self-confidence and charisma - to produce hope among the partners - may be sufficient at the beginning, but after some time it is only success that can succeed in keeping the team together in a mutually stimulating cooperation. Failure, disappointment, and skepticism produce internal conflict and - eventually - disintegration. As so much emotion is involved, the team may produce very good results but also disastrous mistakes. From time

to time, either the leader or the membership will have to change if the team is to survive critical situations as a coherent group. Although the team is superior to an individual decision-maker when the latter cannot acquire all the skills needed for successful action in complex situations (or if he cannot hire the skills on a permanent basis or from case to case), the team's ability to take wise decisions must not be overestimated. A serious drawback stems from the difficulty of synthesising (more or less analytical) knowledge relating to different fields. If a common denominator has to be found - as in committee decisions for which unanimity may be standard practice - it will be on a low level and will - as a rule - imply much neglect of relevant special knowledge. This is at least my experience in committee work. A better solution may emerge when the chairman listens - and tries to extract as much knowledge from the participants as he can - and then makes up his mind in full individual responsibility (or tries to write the Committee Report by himself). What matters in dealing with a complicated subject, is the feeling of an indivisible responsibility for the outcome. Teams may do excellent work in the performing arts, but the performance has to be orchestrated by someone. If the task is to acquire and integrate new information, the team leader will also act as a filter, using his own experience and the knowledge stored in his long-term memory. Here we have an optimisation problem. Too much experience and knowledge of past cases may reduce the capacity to listen and to learn. This raises the serious question of the optimum age of retirement from a decision-making job. To this I have no impartial answer. But to remain curious and to maintain the capacity to learn is certainly also a worthwhile subject for systematic self-training.

III. A Socio-Economic Environment for Productive Entrepreneurship

15. As the supply of entrepreneurial talent seems to be practically unlimited, the number of actual entrepreneurs will be determined by conditions (limitations) on the demand side, i. e. by the demand permitted, induced or actively provoked by the socio-economic structure and the political and cultural environment. To make it short, I should like to submit the following hypotheses for consideration, discussion and possible refutation:

- (1) Almost no demand for economic entrepreneurs is permitted in centralised systems without private property (Centralised Socialism). Here the economic entrepreneur is crowded out by the socio-economic imperialism of a powerful centralised political elite.
- (2) A similar situation exists in a centralised theocracy based on religious beliefs that the future is not open (after the last of the Prophets disclosed what life and society are to be about). Entrepreneurship in this case - as in the previous one - can flourish only in the underground economy or in tolerated enclaves.
- (3) Market socialism, defined as a system of decentralised decision-making without private property in firms, permits a given number of entrepreneurs to operate established firms but does not encourage entrepreneurship in the creation of new firms. However, there may be, as in Yugoslavia, private property

in firms below a certain size and thus a field of operation for petty entrepreneurs. In any such case where entrepreneurship finds only a limited field of action in the economy, entrepreneurial talent will be attracted by politics or will tend to emigrate.

- (4) The mixed capitalist economy offers attraction to entrepreneurial talent not only in the private sector but also in government, including state-owned enterprises, regulatory agencies, the social security system, bureaucracies for policy making, and the system of competing political parties. Due to the satisfaction obtainable in the political power structure, the public sector must be considered to absorb much entrepreneurial talent which then adds to the driving force behind the expansion of the state. Nineteenth century imperialism (which was expansive beyond the geographical frontiers) has turned into the imperialism of the Social State and the Welfare State in the twentieth century. However positively this may be judged in many respects, there is one grave disadvantage: entrepreneurs in the system of state bureaucracy tend to be counter-productive by reducing the scope for entrepreneurial action in the private economy. Now we observe the tendency for public sector bureaucracy to expand in the field of international economic cooperation. Proposals for a New International Economic Order (NIEO) and for a worldwide welfare system would lead, if adopted, to a similar bureaucracy as has developed in Brussels to serve and to complicate European economic integration (E. C.). Business has certainly contributed to this development by asking government institutions to bring about equal (or fair) competitive conditions by all kinds of rules and subsidies. But now the time seems to have come for genuine entrepreneurs in business to join forces with those observers of the scene who emphasise the counter-productive activity of entrepreneurs in public bureaucracy and the political system. A counter-revolution is not likely to be successful unless strong beneficial effects can be demonstrated to flow at a rather early stage from the one or two experiments underway at the present time.
- (5) Paul A. Samuelson [1980] made the gloomy prediction that market capitalism may survive only under fascist regimes. What he means are not corporatist societies (as Mussolini's Italy), but military dictatorships as they exist in some Latin American countries or in parts of the Far East. His language is confusing and alarming, but as a German I must emphasise that tremendous entrepreneurship was set free when the military governments of the Allied Forces enforced a currency reform in 1948 and allowed Ludwig Erhard, who was then merely an economic expert educated in a libertarian tradition, to remove most of the controls that had their historic roots in National Socialism. Having lived through that period I must admit that it would have been extremely difficult for any democratic party in power - with a strong opposition at work and elections on the horizon - to perform that type of surgery. And the idea of a domestic (rather than foreign) military dictatorship performing such a tremendous task would be unthinkable in retrospect and horrible in present circumstances. All this is much food for thought and detached discussion; but to make a long story short, I will state two propositions:
- (a) For rejuvenating an economy there is perhaps no substitute for unconditional surrender after defeat in war [Kindleberger, 1978].

- (b) The issues of political democracy versus authoritarian government cannot be usefully discussed without reference to the relative size of government and its functions in social and economic life.
- (6) The optimum size of government in this respect is a minimum government which concentrates on the protection of life and property, on external defence, on the enforcement of private contracts, and on the supply of socially valuable goods that neither the market nor free associations of individuals (clubs) can be expected to provide (public goods). The dividing line between what the government will do and what it will not do, must be clearly drawn and must remain fixed so that entrepreneurial activity can fill the area left for the market without fear of nationalisation, interference, or predatory competition by public authorities. If such fears exist, the market will neglect the areas close to the dividing line, so that government, or the public at large, sees a vacuum which could be taken to be a market failure calling for government action. (This is comparable to a national frontier which also tends to push away economic activity into geographical areas closer to the center.)
- (7) The idea that government must feel responsible for the supply of entrepreneurs (and for the growth of potential output) has no analytical basis, except under second-best conditions when government has done serious damage to economic life. But even in this second-best case the solution lies in the removal of uncertainty, barriers to entry, or excessive taxes on income from entrepreneurial activity and in the restoration of confidence between government and the public.
- Positive action would probably do more harm than good and would create - among the more successful entrepreneurs - an unnecessary feeling of gratitude towards government, and perhaps corruption. Instead, economic entrepreneurs should be and remain proud of their personal achievement and should not think that even part of their skill - and their human capital at large - were due to the benevolence of political entrepreneurs who have always been ingenious in redistributing other people's money.
- (8) To complete the picture, a word should be said about organisational entrepreneurs who find a living between the government and the market by forming pressure groups. Their personal satisfaction and their social product lies first of all in the defence of the market against government intervention. But political power vested in government is also being used to offer subsidies. If organisational entrepreneurs are tempted to extract subsidies or to lobby for any kind of protection against domestic or foreign competition, they become more and more part of the government machinery. Genuine economic entrepreneurs should be alert against this danger.
- (9) Every group wants protection, at least in the form of barriers to entry. And every potential entrepreneur, who is eager to see such barriers removed, will feel strong internal pressure to change his mind once he has succeeded in entering. If this is a general tendency, freedom of entry becomes a public good and should be protected by a general law of constitutional dignity. Such a law should include free imports of goods and services, free inflow of capital and - on the basis of reciprocity - free immigration. In the long run, reciprocity with regard to free immigration might be irrelevant, because free immigra-

tion into really open societies will mainly attract entrepreneurial talent and will thus cause a drain on the supply of entrepreneurs in less open societies. If the latter behave rationally - but this is a matter of time - they will compete by becoming more open themselves. Short-term experience may contradict this optimism, but there is a chance for the trend to change.

- (10) As a political economist I am all in favor of experiments. The experiments relevant here might be "zones of free economic activity". There is much entrepreneurial talent even in declining regions and cities. Instead of subsidising these problem areas under the heading of regional policy, it would be much better to invigorate them by removing all controls and barriers to entry for a trial period of time - say ten years - sufficiently long to bring about positive results. The major difficulty is perhaps that interest groups will mobilise public opinion against such experiments. But as the underground economy seems to expand everywhere, more and more people may wish to see it come to surface. In any case, wherever the underground economy is the training camp for entrepreneurs (as the black market was in West Germany after 1945), there is growing need for creating outlets which enable these entrepreneurs, young or old, to operate in the open market so that even the fiscal entrepreneurs (running the tax system) and the political entrepreneurs (who must think about balancing the budget despite their expenditure promises) can discover that they depend upon entrepreneurial activities in the economy.

16. To conclude and summarise let me make some general observations:

- (1) All western industrialised countries find themselves in a phase of slow growth and slow productivity advance. Average rates of progress are lower than they used to be in the late sixties. Wage pressures, based on past performance and not yet fully reduced to the poor conditions of the eighties, have proved to be excessive and have led to very high rates of unemployment all over Europe. Profit rates are depressed.
- (2) There are no immediate prospects for a quick return to the good old days of the golden sixties. We should not even try to go back to the policies of demand pressure and monetary-fiscal expansion which gave us the inflationary growth of the sixties. This is because we still have to pay the bill for what went wrong:
- accelerated growth produced the counter-revolution of the environment;
 - the march into an oil-intensive civilisation, fostered by fast growth and relatively low energy prices produced the counter-revolution of mankind's exhaustible resources in the form of an oil shock; and
 - cheap money was only for a while cheap money in real terms, when inflation had not yet reached its tolerance level. During this period of depressed real rates of interest
 - governments ran into high debt and wasted money in unproductive expenditures;
 - households ran into debt and invested in owner-occupied houses as the best hedge against inflation, thus making an investment which does not raise the capacity to produce and the number of productive jobs;

- . firms were misled to run into debt as interest rates were so low, and as the wage push was so strong - reducing profits to very low levels - firms failed to raise enough equity capital;
- . the productive investment that firms actually undertook in the seventies was artificially capital intensive, as one must expect it to be when the interest rate is too low and the wage level too high;

Now, after inflation has reached tolerance levels and is being fought everywhere, we observe the counter-revolution of savers and lenders: interest rates corrected for inflation are excessively high, and they will remain higher than in the seventies and higher than normal until we have corrected the distortions produced by cheap money and inflation in the seventies; i. e.

- . the shortage of productive capital in the business sector,
 - . the public deficits,
 - . the low propensity to save and to lend for productive investment, and
 - . the labor-saving bias in technical progress, induced by excessive wages and excessively low real interest rates.
- (3) In contrast to the golden sixties when governments could produce growth by exploiting
- the money illusion among savers and
 - the tax illusion among citizens

we now have not positive but negative money illusion, not positive but negative tax illusion.

Governments, therefore, cannot lead us into a phase of new economic growth. This task has become again the challenge for business and for the entrepreneurial potential in our societies.

- (4) My position with regard to the entrepreneurial potential is twofold.

First: The potential supply of entrepreneurship is unlimited.

Second: We can make use of this supply by raising the demand for it. This demand has been suppressed by

- the growth of bureaucratic rules and regulations,
- the domestic imperialism of the welfare state,
- the growth of bureaucracy within industry, greatly but only partly induced by government bureaucracy, and
- excessive wage pressures from organised labor.

The general conclusion then is: If we want more growth and productivity advance for the benefit of our populations we will have to exploit the huge potential supply of entrepreneurship, and the only way of doing it in this phase of correcting distortions is to enlarge the scope for free action, self-reliance and individual responsibility.

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