Foreword

Although discussions of entrepreneurship tend to employ much more elaborate definitions, entrepreneurship, or entrepreneurial activity, is simply another term for profit seeking. This is not to deny the difference between, say, seeking profit by starting a new firm that will produce a new product and seeking profit by arbitraging wheat futures. But the difference here is not one of entrepreneurship. It is one of the particular manner in which entrepreneurial activity – or profit seeking – is manifested.

The term “entrepreneurship” often leads to confusion, whereas the term “profit seeking” does not, which is why I believe the latter term is preferable. For example, while it is universally accepted that profit seeking need not always be socially productive, such as when a corporate CEO defrauds his stockholders, it is common to reflexively equate entrepreneurial activity, which conjures up the likes of Henry Ford and Bill Gates, with socially useful activity. Apparently this tendency includes, or at least until not terribly long ago included, many economists. How else to explain the important effect that William Baumol’s famous paper, “Entrepreneurship: Productive, Unproductive, and Destructive” (Journal of Political Economy, 1990), had on economists’ subsequent thinking?

Before Baumol, in economics, and perhaps in some quarters still today, entrepreneurship was often conceived of as a kind of natural resource. The more of it a society was lucky enough to have, the better off it was thought to be. Baumol showed why thinking this way is nonsense. Entrepreneurship is abundant in all societies. What differ across societies are policies and institutions – rules of the economic game – which determine how entrepreneurship is manifested. Those manifestations, which may be destructive (like the thieving CEO) or productive (like the invention of Microsoft), in turn influence economic outcomes.

The theme that connects the essays in the present volume follows this reasoning: economic rules of the game direct entrepreneurial activity, which in turn directs economic performance. Once “profit seeking” is substituted for “entrepreneurial activity,” the correctness of this statement becomes obvious even to those wont to think of entrepreneurship in exclusively positive terms. The central message the essays in this volume convey is that the rules that direct profit seeking in ways that promote
economic progress are those that characterize laissez-faire capitalism. For many, if not most, the correctness of this message is far from obvious. Hence the necessity of the hard work displayed by the contributors in adducing the theory and evidence that show it to be true.

The importance of this message has long been enormous. One need only consider the situation of the more than 850 million persons who inhabit the world’s least-developed countries to appreciate this fact. The incredible poverty these persons suffer is not the result of the bad luck of their countries’ geography, though for a time this view was not uncommon (and despite overwhelming evidence to the contrary, some still cling to it today). Nor is it the result of unfamiliarity with and access to contraceptives, though this view was also popular not long ago. Nor is the reason for these persons’ plight the product of rich countries’ failure to fill “gaps” in their countries’ investments in capital or education, though foreign-aid policy has been directed by this thinking too.

Rather, the poverty of citizens in the world’s least-developed countries is the result of unconstrained governments that fail to protect citizens’ private property rights, and more devastating yet, make a living by violating those rights. Such governments amount to economic rules of the game that reward political connections, corruption, rent seeking and, for those without access to political agents, rule evasion over market-directed production, investment, and wealth-enhancing innovation. Profit-seeking behavior so directed, poverty ensues. Only by constraining government to protect private property but do little more than this – precisely the rules of the game that least-developed economies lack – can profit seeking be channeled in ways that contribute to prosperity.

Over the past half-decade, this fact – a direct application of the central message of this volume – has taken on new-found importance: importance for the developed world. The financial crisis of 2007–08 seemed to evidence for many citizens of western countries their long-held belief in the inherent instabilities and excesses of “uncontrolled” capitalism. The following outcry for new controls on private economic actors was heeded in various wealthy countries, resulting in a movement away from more limited-government rules of the game and the socially productive profit seeking these rules engender toward more active-government rules of the game and the socially destructive profit seeking that they engender. An application of this volume’s central message to the post-financial crisis developed world suggests that such a move is dangerous indeed. Let us hope then, for poor and rich countries alike, that its message is heard far and wide.

Peter T. Leeson
George Mason University