

Foreword

Entrepreneurial discovery is the driving force behind increasing living standards and prosperity. Improvements in technology, for example, have not only increased our ability to communicate and entertain ourselves, but have also led to medical advances that have vastly improved health and longevity. Rising productivity, wealth, and well-being are the by-products of entrepreneurship.

Entrepreneurs search for new combinations of resources. They combine productive resources to create new goods and services. In a market economy, this search process of trial and error is guided by the profit and loss system. The strength of consumer demand and willingness to pay based on value added determines revenue; and the opportunity costs of employing productive resources determines costs. The relative comparison of these two determines profitability, and in the end determines which new businesses or goods survive and which do not. The economic system of capitalism, with its process of profit and loss, is uniquely suited for increasing both the quantity and value of the total output of a society through time.

Most entrepreneurial innovations or breakthroughs come from the experimentation of individuals with unusual ideas. Some are even accidents. From air conditioning to Jacuzzis, it is the freedom for even uneducated and inexperienced individuals to experiment with new ideas that drives the entrepreneurial process. This freedom to try—to enter an industry and compete with existing businesses, or to create a whole new industry—is essential to prosperity. A high level of entrepreneurial experimentation—rolls of the dice so to speak—coupled with the quick feedback the profit and loss system provides, is the process that best fosters innovation and progress through time.

This entrepreneurial process of ‘creative destruction’ is disruptive, however. Previously successful entrepreneurs with existing businesses are constantly threatened by new products that may drive them out of business—the car replaces the horse and buggy. Somewhat ironically the entrepreneurs who have already benefitted from the economic freedom of capitalism often begin to focus on policies to stifle the very process that allowed for their own success. Existing businesses expend time and effort

to lobby for policies that stifle competition, erect barriers to entry, and give special subsidies or favors to their own businesses that give them unfair competitive advantages.

In the end, entrepreneurs *are* driven by the profit motive—in both their private sector and in public sector actions. When spending time and effort in the political marketplace begins to produce a sufficient financial return, the attention of entrepreneurs shifts away from investments in the marketplace and toward investments in influencing public policy. Competition shifts away from competing for customers and toward competing for government favors and grants. Sadly, however, while this competition is positive-sum in the private sector, it is either zero-sum or negative-sum in the public sector. When individuals spend their time and talents seeking wealth transfers, money is shifted around between individuals without creating net gains for society. The resources used up to secure (or protect against) these transfers, however, have an opportunity cost, and therefore these efforts to transfer wealth that expend resources lower the overall well-being of a society. Resources are used up fighting over existing resources, lowering the size of the economic pie for everyone.

When entrepreneurial efforts shift toward ‘unproductive entrepreneurship’ societies become poorer. When the most talented individuals spend their time and effort lobbying rather than competing in the marketplace a society loses its productive output. To foster economic growth societies need policies and constraints on government action in place that discourage unproductive entrepreneurial activities. The rule of law, and policies consistent with limited government and economic freedom, do precisely this. Societies that get the rules right grow and prosper; those that do not stagnate.

Unfortunately, the recent trend has been toward adopting policies that increase the reward to unproductive entrepreneurial activities. The growing system of ‘crony capitalism’ in which success in business depends on political connections rather than market forces has led to an unparalleled growth in the level of unproductive entrepreneurship in the American economy. Whether one terms these efforts ‘unproductive entrepreneurship,’ ‘lobbying,’ or ‘rent seeking,’ there is no doubt that these activities are more rewarded today than ever before. To promote economic growth and entrepreneurship we must have a return to broad-based tax and spending policies that level the playing field; enact regulatory reforms that make it easier for individuals to start businesses; pass legal and tort reforms that limit wealth transfers through litigation; and reduce the role of government spending in determining business success.

The chapters in this volume discuss the theory of unproductive entrepreneurship in more detail, and highlight both the potential and actual

negative consequences of policies that encourage unproductive entrepreneurship along with ideas on how policies may be reformed to combat this growing problem.

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