

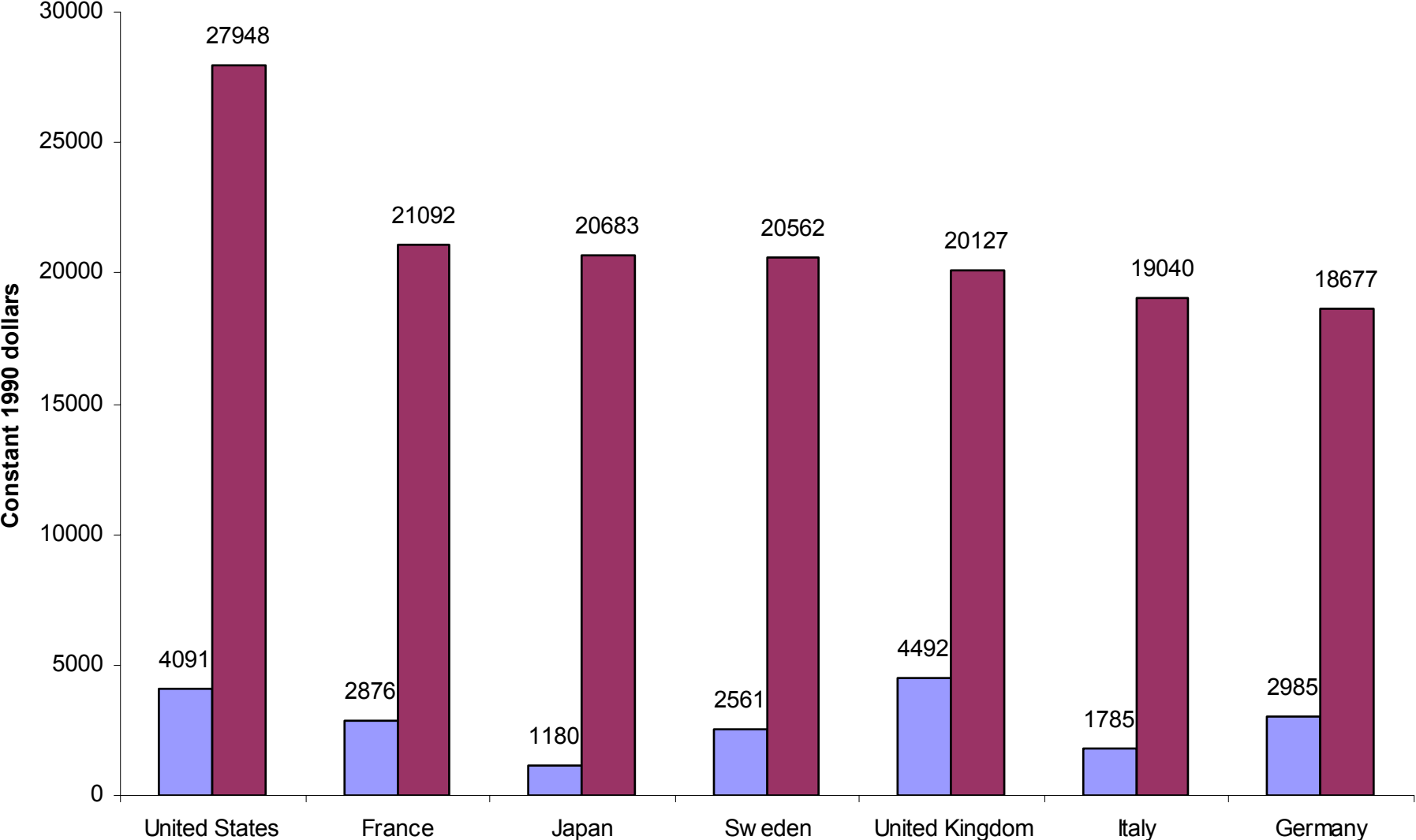
**ENTREPRENEURSHIP,  
CORRUPTION AND  
MISGUIDED VIRTUE**

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- **“EXPERIENCE IS A MUSEUM FULL OF MISTAKES”**

- (Marius van Nieuwkerk, 2006, *Dutch Golden Glory* p.22)

Real Per-Capita GDP, 1900 vs. 2001

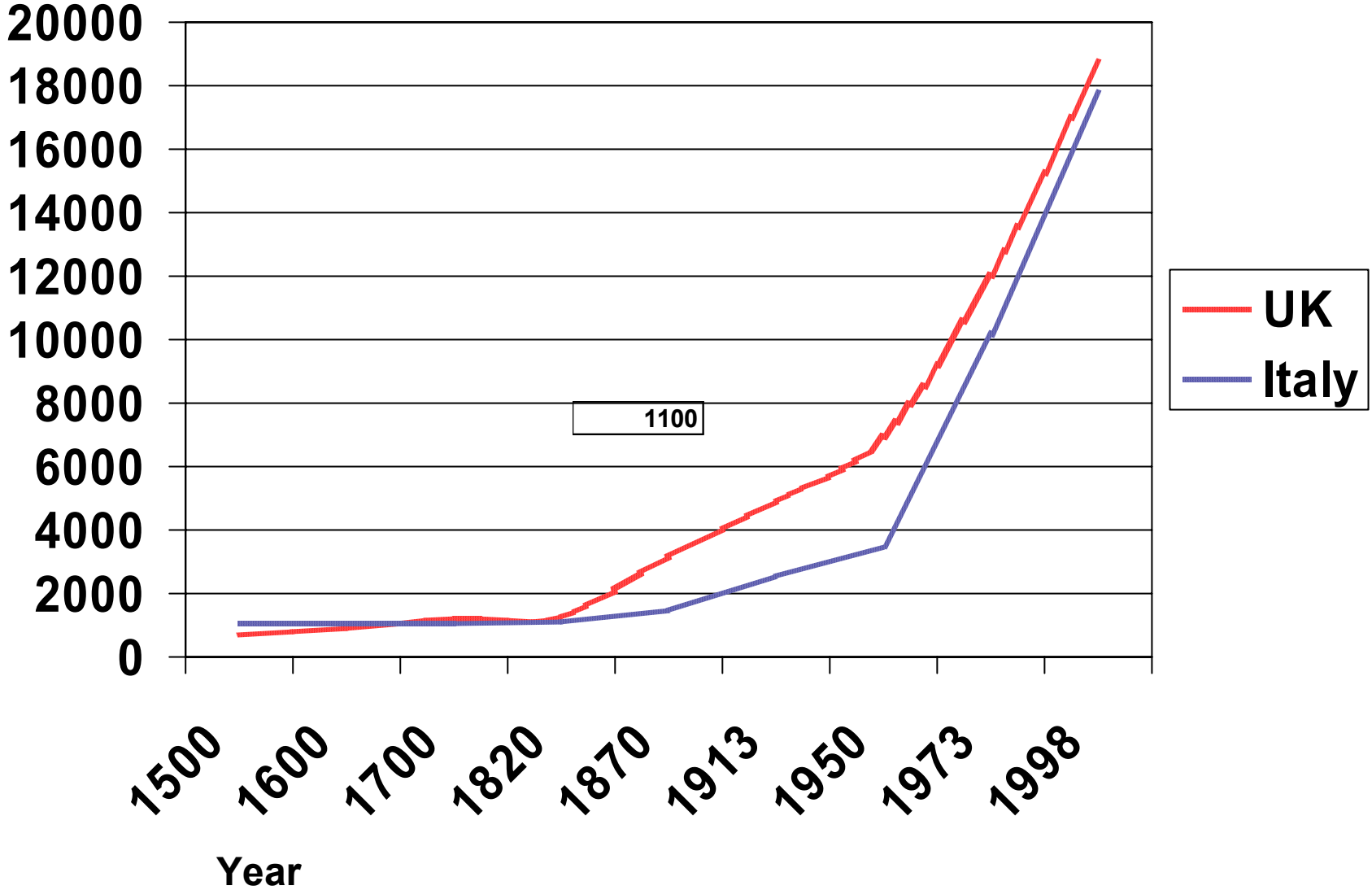


# RISE IN REAL PER-CAPITA GDP, 1900-2001

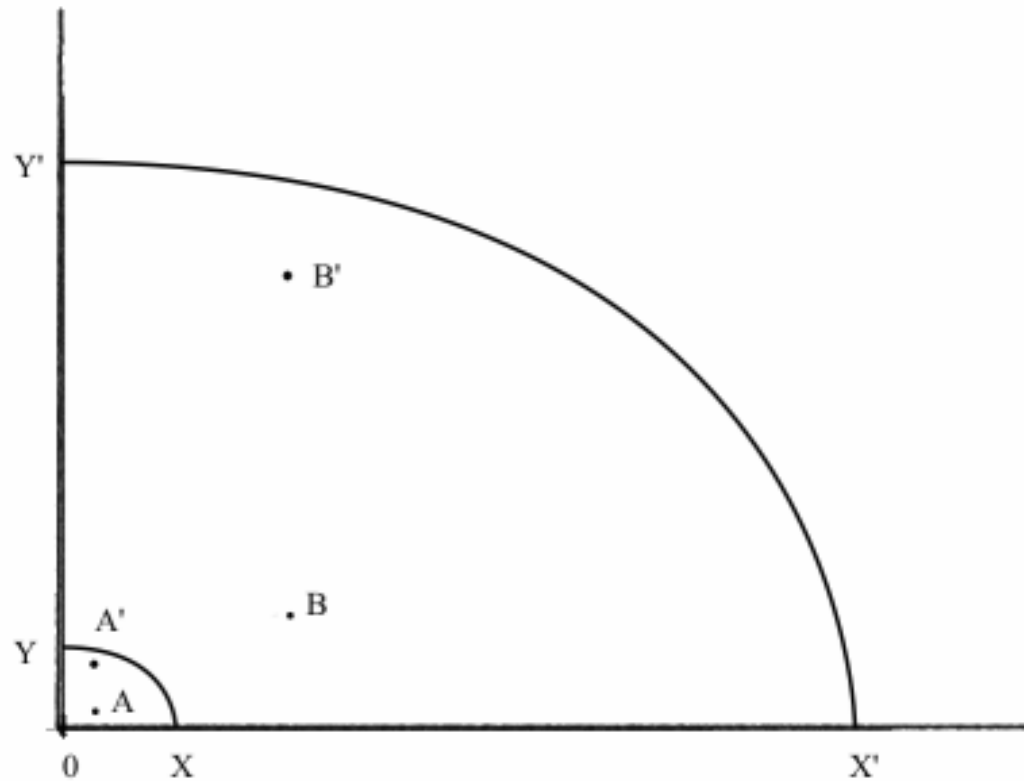
	<u>% RISE</u>	<u>MULTIPLE</u>
• <b>UNITED STATES</b>	<b>583%</b>	<b>6.83</b>
• <b>FRANCE</b>	<b>633</b>	<b>7.33</b>
• <b>JAPAN</b>	<b>1,653</b>	<b>17.53</b>
• <b>SWEDEN</b>	<b>703</b>	<b>8.03</b>
• <b>UNITED KINGDOM</b>	<b>348</b>	<b>4.48</b>
• <b>ITALY</b>	<b>967</b>	<b>10.67</b>
• <b>GERMANY</b>	<b>526</b>	<b>6.26</b>

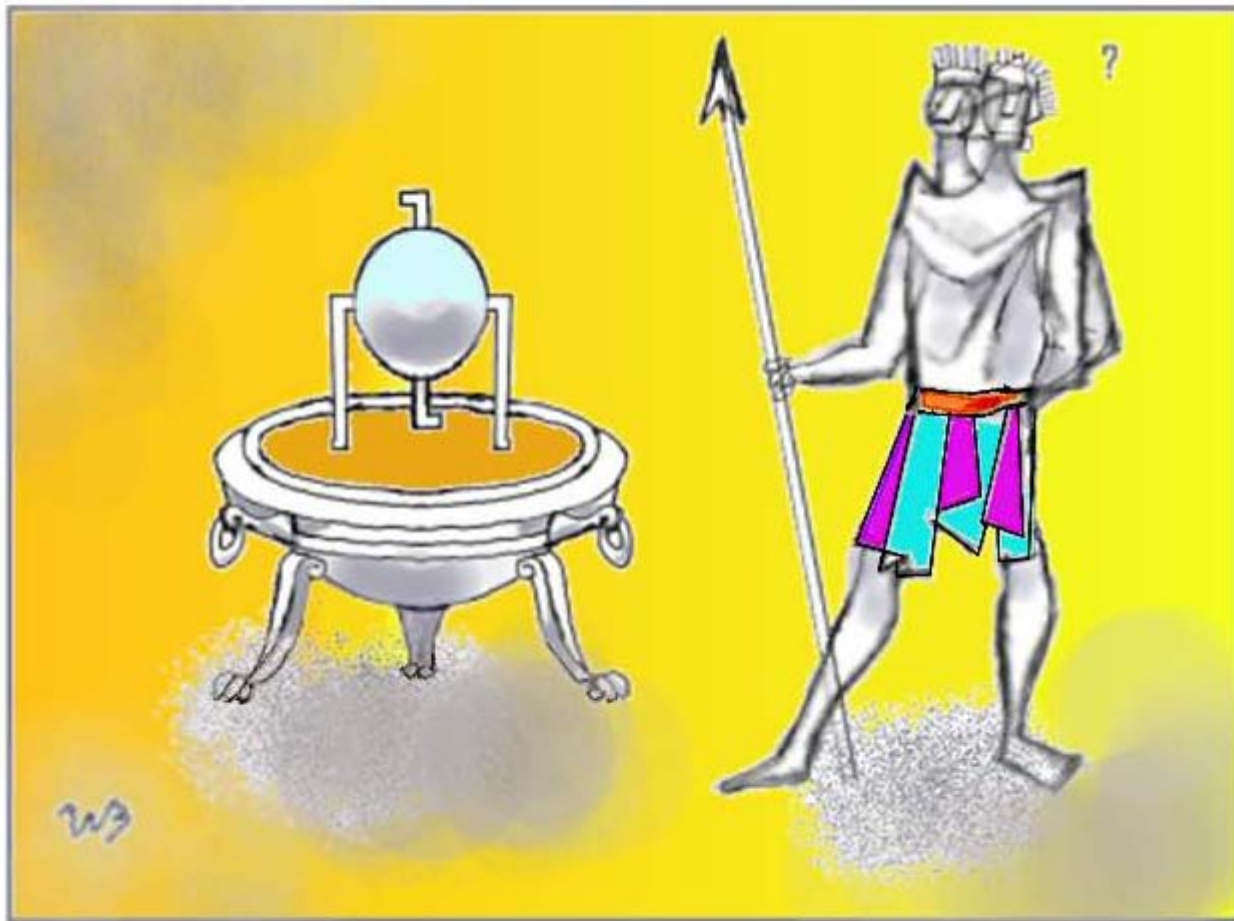
- SOURCE: ANGUS MADDISON, *THE WORLD ECONOMY: HISTORICAL STATISTICS*, PARIS: ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT, 2003 (<http://www.source: oecd.org>).

# GDP Per Capita 1500 – 1998, Italy and Great Britain



# Static versus Intertemporal Range





# Guess the author...

- “...as much as two thousand years ago the power of steam was not only observed, but an ingenious toy was actually made and put in motion by it, at Alexandria...”
- What appears strange is, that neither the inventor of the toy, nor anyone else, for so long a time afterwards, should perceive that steam would move *useful* machinery as well as a toy.”

# J.B. SAY KNEW THE ANSWER

- “Nor was the mere knowledge of these matters [scientific discovery] sufficient; for that knowledge might possibly have lain dormant in the memory of one or two persons, or in the pages of literature. It was further requisite that [an entrepreneur] should have been found, possessed of the means of reducing the knowledge into practice” (Traité, 1<sup>st</sup> ed. 1803 p.11)

**THIS INTERESTED DILIGENCE OF THE CLERGY IS WHAT EVERY WISE LEGISLATOR WILL STUDY TO PREVENT; BECAUSE... IT HAS EVEN A NATURAL TENDENCY TO PERVERT THE TRUE, BY INFUSING INTO IT A STRONG MIXTURE OF SUPERSTITION, FOLLY, AND DELUSION. EACH GHOSTLY PRACTITIONER, IN ORDER TO RENDER HIMSELF MORE PRECIOUS AND SACRED IN THE EYES OF HIS RETAINERS, WILL.... ENDEAVOUR, BY SOME NOVELTY, TO EXCITE THE LANGUID DEVOTION OF HIS AUDIENCE. NO REGARD WILL BE PAID TO TRUTH, MORALS, OR DECENCY IN THE DOCTRINES INCULCATED. EVERY TENET WILL BE ADOPTED THAT BEST SUITS THE DISORDERLY AFFECTIONS OF THE HUMAN FRAME...THE CIVIL MAGISTRATE WILL FIND ....THAT IN REALITY THE MOST DECENT AND ADVANTAGEOUS COMPOSITION, WHICH HE CAN MAKE WITH THE SPIRITUAL GUIDES, IS TO BRIBE THEIR INDOLENCE, BY ASSIGNING STATED SALARIES TO THEIR PROFESSION, AND RENDERING IT SUPERFLUOUS FOR THEM TO BE FARTHER ACTIVE....” (WEALTH OF NATIONS, 742-3)**

WHAT IS NEEDED?

INSTITUTIONS WITH  
EFFECTIVE INCENTIVES  
FOR PRODUCTIVE  
ENTREPRENEURSHIP



# But the Law often does the Opposite: e.g., Early UK Auto Rules

- **“...A BRITISH LAW OF 1865 REQUIRED THAT THERE BE AT LEAST THREE PEOPLE DRIVING EVERY MOTORIZED VEHICLE, IN ADDITION TO A WALKER WITH A FLAG WHO HAD TO PRECEDE THE ‘LOCOMOTIVE’ BY SIXTY YARDS TO WARN THOSE AHEAD AND CALM FRIGHTENED HORSES; THAT THE SPEED BE LIMITED TO FOUR MILES PER HOUR IN THE COUNTRY AND TWO MILES PER HOUR IN POPULATED AREAS...AMONG OTHER CONSTRAINTS.”**  
**DAVID LANDES, DYNASTIES P. 112**

# BRITISH PATENT PRACTICES AS INNOVATION DISINCENTIVES

- **“NOT ONLY WERE [BRITISH PATENTING] FEES SET EXTREMELY HIGH (FIVE TO TEN TIMES ANNUAL PER CAPITA INCOME WELL INTO THE NINETEENTH CENTURY), BUT POTENTIAL PATENTEES WERE WELL ADVISED TO OBTAIN THE HELP OF A PATENT AGENT TO AID IN NEGOTIATING THE NUMEROUS STEPS AND OFFICES THAT WERE REQUIRED FOR A CUMBERSOME PROCESS OF APPLICATION IN LONDON.... (KAHN AND SOKOLOFF 2006, 125-30).**

# Early British Patenting (continued)

- it was not until the Crystal Palace Exhibition in 1851, where American inventions shocked observers with their creativity and called attention to their innovative patent institution, that actual legislation was enacted to meet some of the long-standing criticisms. In 1852 the British patent laws were revised in the first major adjustment of the system in two centuries. ....

# And Patenting in France

- France provides another example of European institutions to promote invention and technical change....Although offering some striking contrasts with the approach taken by Britain, overall they were alike in offering quite limited incentives for technologically creative individuals without either comfortable means or high status...**The basic structure and principles of the French patent system set forth in these early French statutes endured until after World War II....**
- Khan, B. Zorina and K.L. Sokoloff, (2006) "Institutions and Technological Innovation during Early Economic Growth: Evidence from Great Inventors in the United States," in Eicher, T.S. and Cecilia García-Peñalosa, eds. *Institutions, Development and Economic Growth*, Cambridge, Mass.: MIT Press.

# The U.S. Difference

- The intellectual property clause providing for the patent and copyright statutes appears in the very first Article of the U.S. Constitution.... Congress debated the question of appropriate fees, and the first patent law in 1790 set the rate at the minimal sum of \$3.70 plus copy costs...

# THE WORLD STILL DOES SUCH THINGS

- **“IT TAKES TWO DAYS TO START A BUSINESS IN AUSTRALIA, BUT 203 DAYS IN HAITI AND 215 DAYS IN THE DEMOCRATIC REPUBLIC OF CONGO...EMPLOYMENT LAWS IN EL SALVADOR ALLOW FIXED TERM CONTRACTS ONLY FOR SPECIFIC JOBS AND SET THEIR DURATION TO BE AT MOST ONE YEAR...” (QUOTED IN T.L. FRIEDMAN THE WORLD IS FLAT P.320)**

# FORMER INDIAN OBSTACLES TO ENTREPRENEURSHIP

- COMPUTERS IN THE INSURANCE INDUSTRY
- INDUSTRIES RESERVED FOR SMALL FIRMS
- THE RECENT GROWTH MIRACLE: OBSTACLE ELIMINATION

# EUROPEAN OBSTACLES TO ENTREPRENEURSHIP

- STATUS OF BANKRUPTCY
- LOSS OF JOB TENURE FOR THOSE WHO ATTEMPT ENTREPRENEURSHIP
- DIVORCE BETWEEN INDUSTRY AND UNIVERSITY RESEARCH

- **YES, THERE STILL IS  
MUCH ROOM FOR  
IMPROVEMENT– EVEN IN  
YOUR ECONOMY AND  
MINE**



Grey World - Man Made  
August '07

WB

# To see more...

- Please go to
- <http://www.stern.nyu.edu/~wbaumol>