• What drives economic growth and what role does entrepreneurialism play?
• What are the different types of capitalism identified by the authors? What are their relative strengths and weaknesses?
• What factors are needed to keep economies at the technological frontier growing?
• What can and should be done to help less developed economies?
• Why are ‘big firm’ do economies like Japan and Germany seem to be lagging behind these days? What can be done to fix them?
• What is the optimal structure for economic growth? How can the United States maximize its potential in the 21st century?
Types of Capitalism

1. State-Guided Capitalism

2. Oligarchic Capitalism

3. Big Firm Capitalism

4. Entrepreneurial Capitalism
State-Guided Capitalism:

Traits:
- Government rather than private investors play a major role in determining which industries grow
- Ownership/control of banks/financing
- Administrative guidance and industrial policies ('picking winners')
- Producer-oriented

Strengths:
- Record of success in East Asia
- Helps economies to ‘catch up’, especially via export-led growth

Weaknesses:
- Believing that state guidance will work forever
- Excessive investment
- Picking the wrong winners and losers
- Susceptibility to corruption
- Difficulty ‘pulling the plug’ and redirecting government resources
Oligarchic Capitalism:

Traits:
• Government policies designed to promote the interests of the wealthy elite
• Economies based on natural resources
• Corruption
• Extensive informal economy (lack of property rights)

Strengths:
• None (unless you happen to be part of the elite!)

Weaknesses:
• Low growth (about grabbing spoils, not expanding ‘economic pie’)
• Corruption discouraging entrepreneurial activity
• Economic inequality
• Political instability
Big-Firm Capitalism:

Traits:
- Economic systems dominated by large companies
- Disconnected ownership via shareholding
- Professional managers

Strengths:
- Stable profits provide foundations for incremental innovations (e.g., Honda & Toyota)
- Provide cost-effective means for radical innovations by smaller entrepreneurs to become mass market products

Weaknesses:
- Oligopolistic markets decrease competition, increase prices
- Stable markets of big firms reduces incentives to radically innovate themselves
- Encourages labor market rigidity (people wanting stable jobs with big firms, e.g., Western Europe)
- May focus on rent-seeking from government instead
Entrepreneurial Capitalism:

Traits:
- Large number of innovative entrepreneurs (individuals or new firms)
- Relatively free (unplanned) markets that encourage experimentation

Strengths:
- Promoting innovations yields ‘first mover’ rewards
- Keeps economies on the ‘technological frontier’ (‘creative destruction’)

Weaknesses:
- Disruptive and unstable (‘creative destruction’)
- Creating new winners means creating new losers too
- Losers may seek political protection (e.g., backlash against globalization)
What factors are needed to keep economies at the technological frontier growing?

Four key conditions:

1. Ease of starting a business
   (a) business registration
   (b) bankruptcy protection
   (c) access to finance

2. Rewards for Productive Entrepreneurial Activity
   (a) rule of law, property, and contract rights
   (b) avoiding onerous taxation (minimize disincentives)
   (c) proper regulation/deregulation
   (d) rewarding new ideas
   (e) government supported R&D (basic scientific research)
   (f) commercializing university inventions
   (g) rewarding imitation

3. Avoiding Disincentives for Unproductive Activity

4. Keeping the Winners on their Toes; Playing the ‘Red Queen Game’
What is the optimal structure for economic growth? How can the United States maximize its potential in the 21st century?

(1) Provide incentives for productive entrepreneurship
- Removing impediments to starting a productive enterprise
- Alter tax system to encourage investment (e.g., consumption tax)
- Reduce financial reporting requirements of Sarbanes-Oxley
- Review patent system (i.e., move to first to file)

(2) Disincentives for unproductive entrepreneurship
- Avoiding misuse of antitrust
- Reigning in frivolous lawsuits

(3) Encouraging competition and innovation
- Encourage joint ventures/mergers in high-tech areas
- Open (economic) borders (positive sum game)
- Facilitate the transfer of foreign technology (e.g., immigration)
- Rework stock options so as to promote innovation
- Encouraging the commercialization of university-based research
- Maintain a well-trained workforce