Government and Entrepreneurship

If everyone did the same thing they did yesterday, the economy would never grow. For thousands of years in human history, people did roughly the same thing every day. They did the same thing their parents and their grandparents did. Mainly this involved planting, reaping, hunting, and gathering with rudimentary tools. Life, as [Thomas Hobbes](http://plato.stanford.edu/entries/hobbes/) describes it, was “solitary, poor, nasty, brutish, and short”.

Rapid and sustained economic growth for the world’s masses has not been around long. The Dutch and British economies started to grow in the 1700’s while the Chinese economy has only really started growing in the last thirty years. [Hans Rosling’s](http://www.youtube.com/watch?v=jbkSRLYSojo) video on growth for 200 countries over 200 years illustrates how fast growth has come to large amounts of people in a relatively short time. What kicked off this economic growth that has brought longer, richer lives to the world’s inhabitants? [Deirdre McCloskey](http://www.youtube.com/watch?v=WCLfai3kWoU) attributes it to a change in attitude toward wealth creation. The protestant reformation in the Netherlands and in the UK brought with them the notion that those who create wealth are not only not evil, they are in fact dignified.

Entrepreneurship is the term used to describe the inventive, risk-taking actions that change what products are made, how products are made, and how products are distributed to others who do not produce them. Entrepreneurs are those people who choose to engage in these kinds of actions. Without entrepreneurs there is no long term economic growth. Everyone doesn’t have to be an entrepreneur for an economy to grow. However, the more people who are devoted to using their unique knowledge and skills to innovation and wealth creation, the faster economic growth will come. As JFK noted, “a rising tide lifts all boats”. That is, millions of people across the globe have gotten wealthier not because they engaged in entrepreneurship, but because someone else did and it created economic growth for all.

Entrepreneurship is a signature of the private sector economy. For profit firms constantly try to create new products that consumers want to buy, make them more cheaply, and find better ways of getting their products to mass markets. As [noted last week](http://wkubbtcenter.com/2012/07/27/wheres-the-growth/), government spending as a percentage of GDP has grown from 23.95% in 1950 to 40.27% in 2012. This means there are fewer people working in the private sector and with it, fewer entrepreneurs. Where there are fewer entrepreneurs, there is less economic growth.

When was the last time the US Postal Service was recognized as being an innovator or a wealth creator? Yesterday the [USPS defaulted](http://www.businessweek.com/articles/2012-08-01/what-the-u-dot-s-dot-postal-service-default-really-means) on $5.5 billion payment to their retirement fund. Sure governments can do the same thing they did yesterday, (though usually for a higher cost than yesterday) but they rarely do more. Sometimes government officials like to think they help entrepreneurship by picking which private companies ([Solyndra](http://www.foxnews.com/politics/2012/08/02/probe-faults-pressure-to-promote-stimulus-in-535m-solyndra-loan-approval/)) to subsidize. However, politicians picking production based on their own personal preferences or ideologies does not create economic growth. Think [Chevy Volt](http://news.investors.com/article/601207/201202141851/obama-administration-raises-chevy-volt-subsidy-.htm?p=full). The growth is created by producers picking their products based upon what people actually want to buy. Think I Phones.

Politicians these days seem to be forgetting that wealth has to be created before it can be redistributed. Those who long for an even larger role of government in the economy need to be honest about what they are advocating. More government will lead to less growth. They need to run on a “we have enough stuff” (food, clothing, housing, health care etc.) platform. They need to state that 8% plus unemployment is an acceptable price to pay for their vision of equity.

The US Senate voted this week to [not extend the Bush tax cuts](http://www.breitbart.com/Big-Government/2012/07/26/Senate-Votes-Against-Extending-Bush-Tax-Cuts-Across-The-Board) to entrepreneurs. Apparently the ever smaller number of entrepreneurs are not paying their “fair share” of taxes even as they provide the lion share of growth for the entire economy. If we aren’t careful, we will return to as the world was before the protestant reformation where wealth creators were demonized and economies did not grow. Having a president say that entrepreneurs didn’t build their businesses, instead government did, is a solid step in that direction. Telling others that entrepreneurs are not dignified and that they are hoarding wealth is another step. What happens when the pace of the steps gets faster? Will it then be time for another reformation? Is it already?