

ENTREPRENEURS

Why do some countries become rich while others stay or even become poor?

Why in 600 BC did the small rocky seaport of Athens become so wealthy? Why did republican Rome amass wealth that much later imperial Rome lost? Why was Britain the scene of the industrial revolution ^{and} not France or Germany? Why did the USA prosper and not the once fabulously wealthy Peru and Bolivia? How do we account for the rise of the German and Japanese economies after World War II while Great Britain declined?

Why, over the past thirty years, has Australia slipped back from being one of the wealthiest nations on earth, and how long can our relatively poor performance continue before we are indeed the poor white trash of South East Asia?

The possession of natural resources seems to have very little to do with the wealth of nations. Countries with few natural advantages, like Britain in the last century and Japan, South Korea and Singapore in this, have prospered, while countries like Argentina and Australia with great natural wealth have declined relative to other nations. I once heard the American economist Herman Kahn remark that Australia's mineral wealth would let us stay asleep until recovery was impossible.

Economic theory says that if nations "efficiently" allocate whatever scarce resources they have the fortune to command they get richer than if they don't. This applies no less to the most important resource, which is people.

Debate has ebbed and flowed around the meaning of "efficiency", and particularly around the ability of voluntary exchange (ie markets) to maximise it, but most economists agree that free markets with many participants do a pretty fair job. They agree that major problems arise only when anybody - government or private - has the power to prevent or interfere with voluntary exchanges or force involuntary exchanges.

Mathematical models which simulate economies will predict better economic growth if regulations are relaxed and tariffs are reduced, but they underestimate the gains. Economic freedom offers more to economic growth than just the opportunity to use scarce resources in the best occupations. Deterministic models cannot allocate those things entrepreneurs might think of, if they are free to have a go and rewarded for success.

Entrepreneurs are more than decision makers. Computers can be programmed to make decisions but they do not have new ideas or back those ideas with effort and capital. The socialist dream of a maximisation formula that imitates the pricing system of markets might one day be an effective allocative mechanism, but it will not be an engine for discovery and evolution, nor will it be compatible with human independence and dignity.

Relative economic decline might be at least as explicable in terms of lost entrepreneurial activity as in terms of misallocated scarce resources. The rewards for entrepreneurial daring have been whittled away as governments have controlled prices, wages and productive activity. Individual goals can now be gained not only by competitive investment of capital and hard work, but also by winning government favours.

The entrepreneur engaged in forward looking dynamic competition is being replaced by a business manager closer to government than to the market, and many entrepreneurial activities are actually banned at law.

Attempts to start a new airline on a trunk route, carry paying passengers in a car, sell eggs, trade on Sunday, grow a new variety wheat, import shoes, grow sugar, fix teeth, open a boarding house, employ low value labour, and thousands of other regulated activities can, if persisted in, land the new entrepreneur in jail. By switching from commercial to political entrepreneurship established interests have encouraged governments to legislate to prevent new entrepreneurs from disturbing their established ways.

As yesterday's entrepreneurs triumph over today's, economic evolution winds down and once dynamic economies stagnate.