

Entrepreneurship and the Global Economy

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Remarks at the Presidential Summit on Entrepreneurship

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What I thought I'd do today is start by asking: What in our time is going to be historically memorable 300 years from now?

Perhaps the top story will be the end of the Cold War. But if you think about major conflicts between pairs of countries that took place three hundred years ago, they are a little hazy in our memory.

Perhaps the large story will be the relationship between the West, broadly defined, and the Islamic world and how that story plays out.

And that is certainly an issue of profound importance.

But I would suggest to you that the greatest likelihood is that what will be remembered is the rise of emerging markets in Asia and beyond, at unprecedented rates.

Consider if you will this. If you look – and historians have quite carefully – standards of living as best we can judge them in the Athens of Pericles' time and the London at the beginning of the nineteenth century, they had changed very little.

On an optimistic view they had risen 75 percent over that 2,200-year period.

If you look at the Industrial Revolution, the reason they called it the Industrial Revolution was that for the first time in human history, living standards rose at a rate where they were noticeably different at the end of a human lifespan than they had been at its beginning. Growth had been perhaps 1 or 1.5 percent a year.

If you look at the most rapid period of growth in U.S. economic history, per capita incomes, living standards rose at perhaps 2 or 2.5 percent – a rate at which they rose perhaps as much as five times within a single human lifespan.

If we look at what is happening today in large parts of the world we are seeing growth at a rate of seven, eight, nine, ten percent a year. A rate at which living standards rise not by a factor of two, not by a factor of five, but by a factor of more than 100 over a single human lifespan.

We are seeing it not in a single corner of Europe but in a region where the largest share of the world's population lives. And we are seeing it in a world that is vastly more interconnected and able to feel its effects than the world that experienced the rise of the United States or experienced the Industrial Revolution.

It will, over time, I suspect, reshape almost everything – from the way in which people work, to the nature of the art they regard as beautiful, to the level of prosperity that they enjoy, to the security fears that they choose to worry about.

It's going to be the historical story of our time.

But I would suggest to you that it is a story that will be written in no small part by entrepreneurs. Because while economic history changes, while events change, if there is a constant in economic history, it may be the power of markets and the power of entrepreneurs within them.

Entrepreneurship is not confined to new technologies. It includes the introduction of new goods, new methods of production, new markets, new sources of supply for raw materials, and new ways of organization.

As Stanford's Paul Romer, a leading student of economic growth, has put it, and this is perhaps the single most important thing to understand about economic growth over the long run: "Economic growth springs from better recipes, not just from more cooking."

The static strategies of accumulation, whether pursued by Russia in the '40s and '50s, or whether pursued by Japan in the 1980s, work for a time, but eventually run out of gas. The path to permanent and continuing change is the path of better recipes, the path of innovation, the path of the breakthroughs – organizational, intellectual, or technological – that can transform societies.

The work of entrepreneurs.

In the nineteenth century, the technologies that reverberated across the U.S. economy included the transcontinental railroad, the telegraph, and the steam engine.

In the twentieth century, those technologies were the automobile, the jet plane, and, over the last generation, everything associated with the personal computer and information technology.

All of that was driven by entrepreneurs.

Indeed, a culture of entrepreneurship has been central to the economic success of the United States. We are, perhaps, the only place in the world where you can raise your first \$100 million before you buy your first suit, if you have a sufficiently good idea.

So too, entrepreneurship will play an important role in the renaissance of China, India, and the rest of the developing world.

What transforms villages is whether they have an entrepreneur or whether they don't. In the wake of such creative effort, entrepreneurs create jobs and spur economic activity.

I would suggest that entrepreneurship drives economic growth in three critical ways.

First, it fosters competition and dynamism in a world economy whose shape is rapidly changing. It used to be that a country's success could be judged by the size of its skyscrapers and steel plants. And yet at the turn of the twenty-first century, Microsoft had a greater market capitalization, a greater market value than the entire American steel, auto, and aerospace sector combined. And that was before people had heard of a start-up company called Google.

We think of Wal-Mart and it is an enormous retailer. But compare that with eBay and its online marketplace of 85 million active buyers and sellers.

Joseph Schumpeter, the economist whose name is practically synonymous with the creative destruction of innovation, observed that there is no such thing as a dynamic equilibrium. Competition breeds more competition. Entrepreneurship breeds more entrepreneurship. And change can come quickly.

In understanding why the business landscape is profoundly different than it once was, consider this:

In 1960, it took 20 years for a third of the Fortune 500 companies to turn over. Today, it takes just four years for similar turnover.

Second, entrepreneurship facilitates the incorporation of the new technologies that fuel economic growth. I was reminded of this many years ago, now, in the mid-1990s, when as Deputy Secretary I visited Cote d'Ivoire. We did something that government officials too frequently do. We journeyed

several hours away from the capital to a small town in Cote d'Ivoire where I was to have the privilege of turning on a water well which had been a USAID project that would provide for clean water for that village.

The village was across a small lagoon and eight or ten of us were on a boat that a few people were paddling to get across that lagoon. We had gotten there, done our thing. We were on our way back and as we were on the boat someone stuck a cell phone in my face and said, "Secretary Rubin needs to talk to you." All I could think about was how different that was than any world that I live in. Here we were, three hours away from the capital city of a desperately poor country in or near a village that was getting clean water for the first time, and I was able to be talking to Washington with a perfect connection and nobody was thinking very much of it.

That was about information technology.

As you'd expect, that was about the private sector, and, yes, that was about entrepreneurship.

4.6 billion people today have access to mobile phones. Nearly two-thirds of the people on the planet. To take just one example, in 1995, Vietnam had one phone for every 100 people. Today it has 33, and two-thirds of them were mobile phone.

And it's been estimated that a 10 percent increase in wireless penetration in emerging economies can result in a half-a-percent increase in the GDP.

These examples are pervasive. You will hear them throughout your conference and I am not going to try to describe them in detail. But if you ask what will make a difference over the long-run, it is disruptive technology of the kind that entrepreneurship brings.

A final thought. Entrepreneurship provides opportunity and it supports freedom. If you look at some of the greatest entrepreneurs in our country, people like Bill Gates and Steve Jobs, they dropped out of college.

One study claimed that an amazingly high fraction of entrepreneurs – more than ten times as high of executives in large companies – had had some kind of learning disability when they were children.

But the opportunity to break out, to break the mold, had changed their lives and it had changed the lives of others.

George Bernard Shaw once observed, "The reasonable man adapts himself to the world. The unreasonable one persists in trying to adapt the world to himself. Therefore," Shaw concluded, "all progress depends on the unreasonable man."

And so it is with entrepreneurs.

Social scientists have debated for two centuries and no doubt will debate for several more the complex relationships between free markets and free societies. I'm not going to resolve those issues here today. But I would suggest to you this: Free societies are the best breeding grounds for entrepreneurs.

An important test of the freedom in a society is whether it enables Shaw's unreasonable man to try to change the world.

Are its consumers open to using new products in new waves?

Is its financial system willing to take a chance on someone with a compelling vision but a short track record?

Do its institutions enable people to bet their future on a dream?

If we in the United States have been successful over the last century, our ability to do these things relatively well is no small part of the reason. And if it is true that free societies create entrepreneurs, it is also true that a strong entrepreneurial class makes a society freer.

They provide choices for consumers.

They provide options for those seeking jobs.

They provide perspectives in the public sphere that do not come from the public sector.

They provide for independence from large, hierarchical organizations.

Through the competition, they check the power of large businesses and large governments that would otherwise be unchecked.

President Obama observed last night that “throughout history the market has been the most powerful force the world has ever known for creating opportunity and lifting people out of poverty.”

When history is written 300 years from now the story of our times is likely to be one of unprecedented economic transformation. But it will be a story whose running theme, what entrepreneurs do, is what many of you live and what we all know very well.

Thank you very much.