*THE INVENTION OF ENTERPRISE ENTREPRENEURSHIP FROM ANCIENT MESOPOTAMIA TO MODERN TIMES*, EDITED BY DAVID S. LANDES, JOEL MOKYR, & WILLIAM J. BAUMOL PRINCETON UNIVERSITY PRESS, 2010, Kindle Edition.

Introduction

“Global Enterprise and Industrial Performance: An Overview” by DAVID S. LANDES

WESTERN ENTREPRENEURSHIP AND TECHNOLOGICAL PROGRESS go back centuries and have changed the world for the better. That, at least, is one assessment of the historical record— one with which not everyone would agree. Some scholars there are who, disapproving of Western triumphalism or solicitous of Asian (mostly Chinese) pride and prowess, would date the Industrial Revolution as a late phenomenon in the history of entrepreneurship and treat it as lucky accident (or unlucky, depending on one's sense of values). It could have happened anywhere, they say; it just fell to Europe's or Britain's lot, in large part owing to political fortune, reinforced by overseas dominion. And globalization, in the sense of worldwide diffusion of trade, industry, and technology, came even later: after World War II.

Yet newer research and reflection on comparative world history make it clear that global trade goes back more than a millennium, back to Asian and then European economic development in the later Middle Ages, back to the opening of the world with the turning of Africa and penetration of European vessels into Asian waters and to the contemporaneous European invasion of the Americas.1 The centuries that followed saw the West grow richer than other regions of the world, pull away from the onetime leaders, establish empire in distant lands— all of this on the basis of superior scientific knowledge, industrial technique, and business enterprise. Much of subsequent history has been profoundly influenced by this gap and the reaction to it of lagging areas—these last resentful of patronizing, condescending, charitable and uncharitable, advantageous and predatory Western dominion.

They see this gap between rich and poor as the fault of the rich; they see their own weaknesses and shortcomings as someone else's doing. In particular, they feel that advanced industrial nations have used their power not to help, but to exploit and plunder the weak. In this scenario, success and empire are forces for evil.

Nonetheless, the gains made by the more precocious industrializers incited other, slower nations to imitate and emulate. There was money to be made by these new ways. But wanting was not necessarily doing. Emulation required knowledge, the ability to organize and rationalize production, intelligent and active entrepreneurship, laws protective of property and change. The countries best equipped to undertake the task were to be found in parts of the West, such as Ireland, Scandinavia, pieces of central and eastern Europe, Canada, some bits of Latin America— places that had earlier been barred from the pursuit of new ways by political misfortune and cultural impediments.

In general, the countries and regions that have done best are precisely those that have taken advantage of the opportunities offered by active trade and entrepreneurial freedom, often in the face of official constraints. These are the countries that have most attracted foreign advances and investment. But they have not done so by following the formulas proffered or imposed by experts from richer lands. The essence of successful enterprise lies in creative imagination and initiative.

The older centers of hither and farther Asia— the Islamic world, India, China— lacked the cultural and institutional foundations on which entrepreneurship rested. Worse: they tended to cling to tradition in a world of disturbing and disagreeable challenge.2 Both China and the Arabic Middle East offer pungent case studies of this resistance to innovation and the subsequent national revenge against those they blamed for the economic disparities that ensued. Both impoverished themselves by insisting on their cultural, moral, and technical superiority over the barbarians around them, by refusing to learn from people they scorned as inferiors, by simply refusing to learn. Pride is poison, and as the proverb puts it, pride goeth before a fall.

China was once the richest and proudest of civilizations. Faced with pretentious eager, greedy barbarians, the Chinese did badly, nursing feelings of superiority that blinded them to opportunity.3 Angus Maddison's (1991, 10) estimates, shown in table I.1, tell a clear, unmistakable story.

Their refusal to exchange ideas with others cost them some four hundred years of potential progress. Western sinologues (really sinophiles) try to comfort the Chinese by dating the Western advance as late as possible, by reducing it to happy accident, by minimizing its extent and impact. I emphasize the “Western.” The Chinese themselves know better. Because they know better, they are now doing something about it.4

One can tell a similar story about the Muslim Middle East, Arabic and Otto-man.5 This had once been a world center of economic growth based on scientific and technological priority, a teacher of the West. But religious values confounded with political ideology grievously hurt productivity and justified self-impoverishment, insofar as it was not blamed on others. The result has been an angry ossification and resentment that has led much of Islam to reject the West and turn back to the allegedly superior values of Mohammed's time.



1500

1990

[Table updated by Barreto with 1990 dollars from MaddisonData,xls starting in year 1500.]

Thus many Muslim countries and societies have strenuously opposed Westernization, which they see as a process of material corruption, a sacrifice of traditional virtue on the altar of self-indulgence. This defensive closure has cost them their place in the world. After all, Muslim civilization was once the intellectual and cultural leader— and Muslims the masters— of the Eurasian world. As one wit put it, if there had been Nobel prizes a thousand years ago, they would have gone, just about all, to Muslims (Pipes 2002, 4). (In this sense, the Nobels serve as something of a barometer of current and potential scientific and industrial performance. Look at Japan: four prizes in the last three years.)6

So what went wrong with Muslim performance?7 We have here a case study in defensive refusal to learn, a systematic suppression of curiosity, a pursuit, instead, of revenge and return. To be sure, Islam has its diversity and variety. Muslim Turkey, Malaysia, and Indonesia are very different from the Arab Middle East, Algeria, Pakistan, or the northern Sudan. (I shall come back to this.) Yet almost everywhere, rule is autocratic, with little patience for opposition or obstruction. The rulers and the powerful have succeeded in silencing the open-minded dissenters, who have come to realize that their very physical safety depends on their discretion or their departure to more open cultures— and sometimes not even then.

As a result, many Muslim countries and societies, particularly those of the Arab heartland, have found themselves slipping steadily, one might almost say inexorably, backward, in political strength and material wealth. The process is somewhat mitigated and concealed by the accidents of geography, in particular by the possession of major resources of that invaluable engine and motor fuel, petroleum. They have given the Arab countries a political role far exceeding what their population and wealth, to say nothing of their behavior, might have warranted.

The Muslim world's response to challenge and decline has not only been one of refusal, but an intensification of the traditionalistic, often crippling aspects of the culture. This has been particularly true of the response to European technological and commercial achievement, which has been seen as a ruthless betrayal of moral justice and an undeserved reversal of proper historical relations. The Muslim reaction, as befits a virile, honor-based society, has ranged from angry violence to smoldering, sulky resentment. Within the Islamic world, such a negative response to challenge and opportunity has its spiritual and psychological consolations. But the economic consequences can be disastrous, for anger and inequality kill trust. Trust is wanting among strangers, setting a limit on potential expansion of business ventures and enterprises. Trust is especially wanting between Muslims and non-Muslim minorities.

To be sure, the Muslim world does have its bright spots— Indonesia, Malaysia, and Singapore (all Asian), for example. But their success owes much to the relative looseness of their religious strictures, their multicultural populations, above all to the large presence of non-Muslim Chinese émigré entrepreneurs. They might normally be the object of systematic hostility by way of reserving the economy to good Muslims— the kind of exclusivity that has been a principle of Turkish economic policy, for example. But Asians have learned the value of open and free entrepreneurship. Still, Islam matters, and in Malaysia the tacit understanding is that non-Muslim (Chinese) entrepreneurs shall maintain a position of silent modesty. The economy grows, in large part owing to the Chinese contribution; and the Muslims take the credit.

There remain Latin America and Africa, both laggards. Latin America is a mixed picture. A few countries have done well: Brazil, Argentina (yes and no), Columbia, Chile. Such successes have been based, as in the Middle East, on nature's accidental generosity: precious raw materials, prairie lands especially well-suited to mass cultivation of cereals; jungle plants of industrial value, rubber particularly. Still, these are nations that have largely failed to combine increasing product with a higher standard of living and a leveling up of incomes. They are countries of a few rich and many poor, stuck in unbalanced arrangements that go back to colonial times, where minorities of privileged white conquerors ruled over the beaten survivors of indigenous peoples and then took in poor immigrants, preferably and often compulsorily Roman Catholic, to do the dirty work of painfully and tediously urbanizing societies. These nations are legally democratic and parliamentary, but practice often diverges from principle, and internal peace and order are precarious. One finds the same discrepancy with the market and entrepreneurship: the recent difficulties in Argentina testify to the intrinsic instability of an economy that was once envied and admired by the world's advanced industrial nations. Latin America remains a big question mark.

Africa offers the most extreme examples of economic failure. To begin with, the geographical environment is not favorable to work and effort. Air conditioning would make a big difference, might even attract enterprise and labor, but air conditioning costs money and the African peoples do not have it. Philanthropic progressives put hope in subsidies by the rich, especially investments in productive capital. Yet such hopes for now have been food for disappointment, in large part owing to political mismanagement and corruption. Africa has been a place of flight and exit; success in Africa, a ticket for departure.

Meanwhile the more advanced countries, comfortable in their technological and political superiority, have been increasingly tempted by the opportunities to export work to places of cheap labor. This sort of thing happens all the time now, because entrepreneurs are in it for the money, and they can make more money with a lower wage bill. Just read the story of James Dyson, inventor of the bagless vacuum cleaner. Dyson's British company made more than 8 million of these machines in less than a decade; had sales of $ 316 million in the year 2000 alone; had built capital to an estimated value of $ 700 million. By 2002, however, it was planning to move production of all vacuum cleaners to Asia. Needless to say, the decision brought howls of protest. But Dyson dismissed such objections as irrational: “I put £ 40 million of my money into this business to try and make manufacturing work here. But I have to regard the law of economics. If we are to survive as a business, we have to go where manufacturing is economical. I am not betraying anybody.”8

Or take the story of Polaroid film, made for years in a factory in Waltham, Massachusetts. This plant closed in the summer of 2002, and the work moved to new plants in Mexico and the Netherlands. The decision to move came from an investment group that bought Polaroid and prefers profits to sentiment. Needless to say, the workers were unhappy. Some had been employed by Polaroid for decades and never dreamed the company would ever leave Massachusetts. The Massachusetts secretary of state began investigating the company program that required employees to buy shares and then sold them without consent. His comment: “I think it's been fairly sinister the way the company has been cut apart like a stolen car at a chop shop while the employees are left holding the spare tire.”9

Nor are the initiatives toward job export limited to the advanced industrial nations of the West. When Honda Motors of Japan announced its intention of building plants in China, to make cars not only for the Chinese market but for export around the world, they defended the action by announcing that quality of product would match that of autos made in Japan, but costs would be 20 percent lower.10

This process of job transfer (“outsourcing”) is a central aspect of contemporary entrepreneurship and globalization. This last is a terrifying word for many, to the point of violently negative response. If one were to judge by the recent proliferation of writing on the subject, one would think that globalization was an invention of the late twentieth century, a turn of the exploitation screw, an international attack on peace and happiness. Yet as we have seen, it is a process that goes back centuries and varies in intensity with technological and social possibilities, the ups and downs of business enterprise, the ever-changing uncertainties of war and peace. It is not a cause, not an ideology. It is simply the pursuit of wealth.

We today are living in a period of particularly active globalization of economic activity. This is a good thing, especially for those poor nations that build on these imports of activity to catch up. It is the way the backward learn, the way the poor can escape from poverty. Given these generally (ultimately) beneficent effects, why then the resistance and resentment? Why the angry riots? Why the flood of criticism?

One reason is disappointment with the results. “Poverty,” writes Dani Rodrik in a luminous and eloquent essay, “is the defining issue” (2002, 29). The poorest countries have not done well, in spite of strenuous efforts by economists and government institutions in the rich countries of the West (thus the IMF and World Bank) to get them to do the things that are supposed to promote development. Almost all of Africa is sinking into a morass of failure, corruption, and disease. The countries of Latin America have known alternating prosperity and failure and seen growth rates fall below their historical averages. A number of former socialist and communist countries, which might be expected to flourish in newfound freedom, closed out the twentieth century with falling income per capita. Even the so-called miracle economies of South and Southeast Asia have met with reverses.

To be sure, on the global level, poverty has diminished, and this because the two most populous nations in the world have done well. China has averaged almost 8 percent annual growth of GNP since the late 1970s; India has gone from 1.5 percent to 9 percent in 2005-6. These two nations hold more than half the world's poor and make the overall result positive. What do these gains mean for the people of these lands? Just look at life expectancy. In 1960, the average Chinese could expect to live only thirty-six years; by 1999 this figure had risen to seventy years, almost as high as in the United States.

Many if not most Third World countries, or the South as against the North, see globalization as a device or pretext for imposing postimperialist domination and exploitation by the West of the Rest. This must be true, for the gap is apparently growing, and who else could be responsible? Even more vexing is the cultural conquest and destruction that accompany material triumphs: the cinema, the music, the art and architecture, the heroes and heroines, the styles, furnishings, fast-food cuisine, manners. Globalization swallows all, leaving no place for those outside it.11

These reactions are reinforced by the sense that history has done the losers wrong; that where once they were leaders and standard-bearers, they have now been pushed aside, reduced, humiliated. The West, say the self-proclaimed victims, rules the world, does as it pleases, commits crimes at will. Formal empires may have dissolved, but the school of imperialism has continued to breed war criminals. Witness, they say, the bullying and oppression of Afghanistan, Iraq, Palestine, Lebanon, Syria. Hence an abiding, festering hatred of Americans and Jews (or Israelis, seen as agents of the United States). Hence infinite indulgence for barbaric crimes, defended as the legitimate, unavoidable recourse of weak against strong. Hence the deliberate killing of civilians, the use and celebration of child suicide bombers using weapons designed to hurt and maim noncombatants. The weak, this reasoning goes, can do no wrong.

What is to be done? We know no foolproof answer, and certainly no single remedy that always works. But part of the answer, if it can be made politically feasible, is the adoption of enhanced incentives for domestic enterprise. Indispensable is enterprise that is prepared to learn from the successes of others, and to adapt appropriate foreign practices and rules of the game to the needs of domestic circumstances and cultures. For it is only by introduction of more effective mechanisms to enhance domestic productivity and production that poverty can be contained. This, of course, is hardly all that it is needed, but historical evidence suggests that it is not easily dispensed with. This book is designed to bring together some of the relevant history and to suggest some of the lessons the history implies. We hope that it will offer interesting insights to the reader and make for good reading as well as valuable knowledge.

Notes

1 For a new and important approach to early trans-Eurasian trade and development, see Gordon 2008.

2 On China particularly, see Landes 2006.

3 See Chan, chapter 16 in this volume, for a broad discussion of the history of entrepreneurship in China.

4 For an anti-Eurocentric, romantically sinophilic point of view, with abundant barbs at David Landes, see Wright 2000, chap. 12, “The Inscrutable Orient.” Even more romantic is the new book by William Menzies, 1434 (2008).

5 For a more detailed discussion of Muslim entrepreneurship, see Kuran, chapter 3 in this volume.

6 International Herald-Tribune, October 14, 2002, 4.

7 This is the title of the book by Bernard Lewis: What Went Wrong? (2002).

8 International Herald Tribune, February 22, 2002, 1.

9 Boston Globe, April 20, 2002, C2.

10 James Brooke in the New York Times, July 11, 2002, W1.

11 I take this from a talk by Abbas Beydoun, director of the cultural pages of the Lebanese newspaper Assafir, to the Policy Forum of the German Foundation for International Development in Berlin, March 4– 5, 2002.

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