Crony Capitalism in the Information Society*

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1 Introduction

One of the most interesting political economy developments at the end of the 20th century and the beginning of the 21st has been the rise of a vision of capitalism in which entrepreneurship has the central and defining position. In many respects, this vision is not entirely new. It is essentially a resurgence of an older perspective elaborated by Joseph Schumpeter at the beginning of the last century. However, after World War II, the role of entrepreneurship and the entrepreneurial dimension of capitalism were overshadowed by other aspects. Large scale production, increasingly oligopolistic market structures, and the performance of industries with a few large-scale firms received more attention, as did the general idea that large-scale production and economic concentration under managerial rationalization are associated with increased efficiency. The dynamic side of entrepreneurship, associated with decentralization and with the activities of small and medium firms, was losing ground in both theory and practice, as anything apart from economies of scale was seen as an inefficient mode of organizing production (Bhide, 2000).

This trend has unexpectedly reversed in the 1970s, in what David Audretsch (2003), one of the authors empirically documenting this change, has called a "particularly startling" development. Today, entrepreneurship is not only deemed to be the fundamental force fueling economic and social development at a global scale, but it is also considered the key distinguishing factor between so-called "traditional" and "new" economies. Somewhat paradoxically, entrepreneurship has even become one of the main focuses of economic policies, as entrepreneurial behavior is deemed essential for the performance of an economic system: "Entrepreneurs are agents of change and growth in a market economy and they can act to accelerate the generation, dissemination and application of innovative ideas. ... Entrepreneurs not only seek out and identify potentially profitable economic opportunities but are also willing to take risks to see if their hunches are right" (OECD, 1998, p. 11). Hence, a major task of economic policy – if not the main task – has now become to encourage, support and protect entrepreneurial activities.

*fragment from chapter 4 of *Capitalist Alternatives: Models, Taxonomies, Scenarios* (Routledge 2015)

The reversal from focusing on economic integration and hierarchies (i.e. from a model of capitalism in which concentration of large enterprises was both a fact and an objective) towards the re-emergence of decentralization and small and medium enterprises was not limited to the United States. A more general international pattern can be identified. To explain this change, researches have invoked an entire array of factors: technological change reducing the extent of economies of scale; local, specialized or even tacit knowledge becoming increasingly the most significant factor of production; changes in the composition of the labor force, and increasing work flexibility; deregulation and privatization reducing barriers to entry of new and small firms into markets, as well as the increased importance of innovation in high-wage countries. Some combination of these factors "reduced the relative importance of large-scale production and instead fostered the importance of entrepreneurial activity" (Audretsch, 2003, pp. 2-3). In conjunction with technological changes, increased globalization and deregulation have increased competition and created a comparative advantage to knowledge-based forms of organizing economic activity, making it possible to draw much larger profits than before from paying close attention to local and specialized knowledge. Even the large firms, from Wal-Mart to Amazon.com, have been successful by adopting new management techniques that embedded decentralization and the focus on local knowledge at the core of their operations. As Kelly (1998, p. 3) put it, "[i]n the 1950s ... [General Motors] was the paragon of industrial progress. It not only made cars, it made America. ... How ironic that ever since the future has arrived, GM is now the counter example."

The rise of the "knowledge economy" has been coextensive with this rise of the "entrepreneurial" economy. In a knowledge economy, entrepreneurship becomes the key mover as continuous and rapid discovery processes and structural changes take the front stage. And thus entrepreneurship takes a more central role in both theory and practice, as "the engine of economic growth and employment creation", and public policy "has looked to entrepreneurship to spawn economic growth and foster new jobs" as "cities, regions, states and entire countries have turned to entrepreneurship to generate economic development" (Audretsch et al., 2007, p. 1).

These developments have powerful implications for the ways in which we understand the further evolution of contemporary capitalist economic systems as well as their changing structure, governance and management. A vision of economic systems and public policies merely promoting small and medium-sized enterprises, and assisting specific types of enterprises targeted in accordance to some criteria of size and function, are *not* what we mean by entrepreneurial capitalism. This economic model is much more radical, "reflecting the shift away from the managed economy and towards the entrepreneurial economy" (Audretsch et al. 2007, p. 2; see also Audretsch and Thurik 2001). Entrepreneurial capitalism, pushes beyond the realm of changes directed, controlled or even favored by governments. It verges on a form of "out of control" economy in which changes are pervasive, extensive, unpredictable and, at least to some extent, unstoppable

(Kelly, 1994). According to this vision, we are witnessing a structural transformation of modern economies, mainly as a result of the wide-raging transformative effects of information technologies. As authors such as (Kelly, 1998, p. 5) have argued, "communication ... is not just a sector of the economy. Communication *is* the economy. ... Communication is the foundation of our society, of our culture, of our humanity, of our individual identity, and of all economic systems. Communication is so close to culture and society itself that the effects of technologizing it are beyond the scale of a mere industrial-sector cycle." The bottom line is that this shift towards entrepreneurial capitalism and a far more dynamic knowledge economy generates "a series of tradeoffs that range from those related to the competitiveness of large-scale production and economies of scale, to the role of diversity ?nance and even geography" (Audretsch et al., 2007, p. 2).

In order to understand the institutional underpinnings of entrepreneurial capitalism, one needs to look beyond a specific set of instruments, agencies, or just a few entrepreneurial startup firms in a specific sector. "Rather ... just as the managed economy dictated a cohesive policy approach, the entrepreneurial economy also mandates a cohesive and pervasive policy approach that spans all facets of society not just economic policy" (Audretsch et al., 2007, pp. 2-3). This purported emerging economic system has a certain logic that needs to be recognized as such. "The entrepreneurial economy dictates a decidedly new public policy direction that not only spans many, if not most institutions, but also leaves virtually no aspect of the economy untouched". Traditional governance, arrangements and policies "need to be redirected from their traditional role in the managed economy to a very different orientation in the entrepreneurial economy". Public policy towards "finance, immigration, labor markets, retirement, education, family, wages and income distribution, international trade, health, and social security becomes dramatically different as the entrepreneurial economy replaces the managed economy" (Audretsch et al. 2007, p. 2; see also Audretsch and Thurik 2001).

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To sum up, both the empirically documented historical trends and the academic and public discourse regarding entrepreneurship and its role, reveal that entrepreneurship has become a pivotal theme in our attempts to understand and shape the evolution of contemporary capitalism (Bhide, 2000). Powerful technological, cultural and social forces are seen as pushing Western advanced capitalism towards becoming more and more "entrepreneurial". The recognition of the crucial role of uncertainty and imagination for shaping the future of human economies and societies leads to the idea of a special form of capitalist system based on and built for entrepreneurship. Furthermore, an unprecedented "dynamist" ideology is beginning to shape up, actively celebrating never-ending change and creative destruction. This new ideology is, on one hand, justifying and rationalizing away the costs involved in such a system of perpetual disruptions, and, on the other hand, it is arguing in favor of the institutional structure underpinning perpetual change and "sustainable disequilibrium": the deregulation of markets, "permissionless innovation", more flexible and innovative educational practices, and for a change in mindset towards embracing entrepreneurship and flexibility as a way to cope with perpetual change (Lee and McKenzie, 1993; Postrel, 1998; Kelly, 1998; Borsook, 2000; Thierer, 2014; McArdle, 2014).

This chapter will take a closer look at this radical idea of entrepreneurial capitalism, following the same approach developed in the previous chapters, focusing on the three explanatory pillars of microeconomics, institutions, and ideology. Our main objective is to get a better understanding of the nature of this possible system. The micro-foundational processes, the institutional structure, and the ideological elements supporting and legitimizing it provide the key for understanding the interactions between markets and governments, which ultimately shape the structure and identity of the system. Importantly, we need to get at least a minimal sense of how entrepreneurial capitalism fares in relationship to rent-seeking phenomena. Currently, the debate about such issues has largely been between, on one hand, techno-utopians, who hold that these new technologies increasingly make it virtually impossible for governments to restrict entrepreneurial activities and free markets (e.g. Kelly, 1998, 2008), and, on the other hand, techno-pessimists, who hold that these new technologies create unprecedented opportunities for government surveillance and control (e.g. Morozov, 2012). In a sense, a discussion of such parameters echoes some aspects of the old debate between "capitalism" and "socialism", with all their lack of subtlety about the presumed inherent conflict between governments and markets. In fact, the range of possibilities is wider than just a choice between some form of out-of-control capitalism and an Orwellian totalitarian dystopia of state control.

A much less explored possibility is that of a crony capitalist information society. To put it differently, we need to look not only at the arms race between government control and the creative destruction of market forces, but also at the possible collusion between governments and some market participants. In this respect, a much more important, yet subtle, relationship exists between rent-seeking and creative destruction, i.e. between firms' attempts to secure long-term government-granted privileges and the uncertainty and disruption generated by entrepreneurial activities. To give a simple example, securing a monopoly or oligopoly in land telephony, mail distribution or television becomes irrelevant when parallel competitive markets emerge providing substitutes such as mobile phones, email, and cable television. As such, the crony capitalist foundation of rent-seeking societies can get undermined not only by improved democracy and more transparent politics, but also by the out-of-control dynamism of markets. But to what extent is this just "techno-libertarian" wishful thinking? In touching on this sensitive problem, this chapter prepares the way for conceptualizing the range of possibilities, including the crony capitalist one.

Given the inherent dynamic nature of the phenomenon, we need to look more closely at entrepreneurship and its conceptualization. The more familiar equilibrium framework of economics 101 is insufficient. At best, the equilibrium models can give us a clue about the range of possible end states, but not about the underlining process from here to there. As such, conceptualizing the possible future of capitalism amounts to understanding the ways in which entrepreneurship interacts with the institutional structure and the cultural environment, given the new opportunities created by information technologies. The fact is that this future is open. Yet, all too often, authors on all sides of this debate write as if we are faced with historical forces beyond our control, and with a predetermined future. Our perspectives are improved by avoiding such deterministic thinking and if more attention is paid to the tension between rent-seeking and entrepreneurial creative destruction, as that tension may be more important than the one between government control and creative destruction.

2 The Schumpeterian benchmark

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3 Entrepreneurship and the theory of the market process

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3.1 Entrepreneurship as speculation

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3.2 Entrepreneurship as leadership

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4 Networks: the institutions for sustainable disequilibrium

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4.1 Corporate management, public administration, and social change

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4.2 Social entrepreneurship in the networked economy

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5 Political entrepreneurship and crony capitalism in information societies

We have noted that the microeconomics of entrepreneurial capitalism, as well as its institutional and ideological facets, are geared towards generating an ongoing process of structural changes. Those structural changes may take many forms and while some of them may lead to increases of productive activities, others have redistributive or even production decline results. There is no a priori guarantee that changes are towards an ever growing direction. The following question has to be seriously considered in any discussion of entrepreneurial capitalism: Is entrepreneurial capitalism self-sustainable? Is entrepreneurship in such a system able to avoid the trap of social and political entrepreneurial activities aimed at rent-seeking? Following the Schumpeterian insights about the importance of non-price competition, we need to recognize the rent-seeking competition of bidding for the creation of special privileges. This is more than just an accidental fact of capitalism. The search for *any kind* of sources of profit, including "non-fair-play" ones, is a major driver leading the process of creative destruction by which the new replaces the old. Supporters of entrepreneurial capitalism often write as if firms should abstain from seeking politically-granted privileges out of morality concerns. But, if such firms exist, they tend to be outcompeted by the less restrained ones. Hence, one should not be surprised to see in capitalism a combination of efforts to create situations in which one controls a stream of income coming from a new resource, new process of production, new technology etc., but also entrepreneurial efforts to create and capture rents via purely political and institutional means. Sometimes it is difficult to draw a line between them.

Hence the question: Why do we tend to assume in our models of entrepreneurial capitalism that the system will operate free of rent-seeking? More precisely, and calibrating to the previous discussion: How likely is it that communication technologies may in fact facilitate the creation of a crony capitalist information society? Based on the analysis advanced in previous chapters, to answer these questions we need to understand how likely it is that these technologies will be regulated in order to benefit the existing large companies at the expense of consumers.

The previous sections defined entrepreneurship, identified some key details of the ways in which it works, and discussed the operation of a high-paced networked economy. With that, some features of entrepreneurial capitalism were illuminated and analyzed. However, the discussion so far has largely assumed a stable system of laws and regulations. But, apart from firms trying to satisfy consumers with better products, we also have politicians trying to attract the support of citizens (i.e. votes) with proposals about various possible rule changes (Oakerson and Parks, 1988). Moreover, in the above discussion, firms have been assumed to compete fairly with each other, each trying to discover new and better ways to satisfy consumer demands. However, this assumption of fair play is not an entirely accurate description of reality. Firms often try to increase their profits by lobbying for certain legislative changes that would disproportionately hurt their competitors. Finally, rather than taking for granted citizens' desires in a bottom-up fashion, entrepreneurship may also operate in a more top-down direction, with "social entrepreneurs" providing new types of group identities to which people may choose to belong. These may include everything from political and religious identities to the myriad of growing and ebbing sub-cultures and fashions. We may thus witness at work a different type of entrepreneurship, one that tries to use the regulatory and political process to create privileges and rents.

The concept of political entrepreneurship was first introduced by Wagner (1966). More recently, the idea has gathered a lot of attention as a way to model political change and disequilibrium (Oakerson and Parks 1988; Buchanan and Congleton 1998, pp. 72-8; Boettke and Coyne 2009; Klein et al. 2010; López and Leighton 2012; Tarko 2014). A closer look at the notion and at the phenomenon reveals why even an entrepreneurial capitalist, knowledge economy fueled by new information technology is not immune to its dark side. Entrepreneurial capitalism is as vulnerable to rent seeking and cronyism as any other form of capitalism. One may even conjecture that a system that overemphasizes entrepreneurship and "mass democratizes" it, may generate, as an unintended consequence, an explosion of initiatives in areas in which its impact is not always very constructive.

In adapting the concept of entrepreneurship to the political arena, we need to first identify "political profit". The consensus in political science is that we can get a good understanding of politicians' behavior if we assume that they are trying to maximize the probability of election or re-election. Matters such as their personal ideological beliefs may have some impact, but, overall, the opportunistic search for votes seems to have a lot more explanatory power. One need not assume that politicians are completely dishonest, as this may simply be the result of a selection effect: the only politicians who actually get into office are those whose personal ideologies tend to fit the beliefs of the median voter.

Politicians get into office and manage to get re-elected by a combination of different *kinds* of entrepreneurial activities (Tarko 2014): (1) they speculate about which items to bring on the public agenda such that they can get as much attention from the media without alienating too many voters with overly controversial proposals; (2) they cater to special interests (such as rent-seeking businesses) such that they will obtain sufficiently large campaign funds, while trying to fend off corruption allegations; (3) they listen to various experts (economists and others) about which kinds of policies will most likely improve the lives of their voters (e.g. reduce unemployment, etc.); (4) they exchange favors with other politicians ("I'll vote for your law if you vote for mine"), such that some of their preferred policies can pass even if there is no genuine majority support for them (what is known as logrolling).

These four kinds of activities are often at odds with each other, and politicians need to decide the best

Table 1: Risks faced by politicians when engaged in entrepreneurial trade-offs

Favor this → Over this ↓	**Popular policies**	**Special interests**	**Expert opinion**	**Logrolling**
Popular policies	—	Risk facing corruption scandals	Risk alienating the public	Risk appearing without principles
Special interests	Lose campaign donations	—	Lose campaign donations	Lose campaign donations
Expert opinion	Promote misguided policies	Lose the support of intellectual elites	—	Lose the support of intellectual elites
Logrolling	Get isolated in Parliament	Get isolated in Parliament	Get isolated in Parliament	—

way, in terms of maximizing votes, in which to make such trade-offs. Table 1 illustrates some these trade-offs.

For example, the most popular items they may bring on the public agenda may have, contrary to voters' misguided opinions, negative *de facto* effects. Various popular market regulations have significant negative consequences (Caplan, 2007), but voters may punish the politician regardless of whether they themselves have favored the policy. The fact that voters are largely uninformed about the activities of politicians, cuts both ways: politicians may get away with promoting some unpopular and/or corrupt policies, but they may also be punished at the ballot box for promoting popular (but misguided) policies. Politicians often compete with each other by trying to inform voters of their own popular policies and their opponents' unpopular policies (Wittman, 1995).

To determine the extent to which a policy proposal is driven by, say, popular opinion, we have to compare the political costs of following popular opinion (column 1 in Table 1) with the political costs of not doing so (row 1 in Table 1). Similarly for the other factors. For instance, the reason why public policy only weakly reflects expert opinion is that the risks of alienating the public, losing campaign funds, and getting isolated in Parliament are costlier than the risks from promoting misguided policies and losing the support of intellectual elites.

We can see that, at each moment, different politicians follow different political strategies involving a different mix of those trade-offs. Some politicians may be more populist than others, some may be more elitist than others, some may be more corrupt than others, and some may be more skilled at political networking than others. At different times and in different counties, different strategies may work best with the voters. The political market is thus in many ways similar to other markets in that it is driven by profit and loss, it involves entrepreneurial speculation, and the winners are not known in advance because changes in consumers/citizens demands are often unpredictable.

There is another facet of political and public entrepreneurship to be taken into account. Firms may compete both in the marketplace and in the lobbying arena, what Leeson and Boettke (2009) call "two-tier entrepreneurship": entrepreneurial activities within the rules, and entrepreneurial attempts to change the rules, "entrepreneurship directed at altering the institutional context within which other economic activity takes place". This higher-tier entrepreneurship is important for economic development, as private actors have an incentive to promote an institutional order that is relatively protective of property rights. Nonetheless, as shown by (Stigler, 1971), (Peltzman, 1976) and the extensive literature on "regulatory capture" that they have sparked (Dal Bó, 2006), the equilibrium institutional order is rarely a purely competitive order focused on maximizing consumer's welfare.

As we have shown in the previous chapter, because voters have limited incentives to get informed about public policy details, while firms have high stakes in such policy details, regulatory policies often end up serving the interests of the regulated firms rather than the public interest. As Stigler (1971) put it, "as a rule, regulation is acquired by the industry and is designed and operated primarily for its benefit". Firms with political influence may receive various types of privileges, such as direct subsidies, control over entry, and indirect policies affecting complements and substitutes of their own product ("butter producers wish to suppress margarine and encourage the production of bread" [Stigler 1971] or "an interest group wants a particular public good provided" Dal Bó 2006), and price fixing schemes that will help firms price-discriminate (which is impossible if the market it too competitive).

Stigler's theory got the basics of regulatory capture, but did not detail which kinds of firms tend to succeed to capture regulation. Peltzman (1976) further advanced the model in this regard by noting that entrepreneurial politicians put into balance the benefits of producers with the benefits of consumers. The main conclusion is that "regulation will typically entail less than 100 percent producer protection but also less than perfect protection of consumers against market power" (Dal Bó, 2006). In line with our emphasis on entrepreneurship and process, Peltzman (1993) also notes that "the Stiglerian metaphor of government as order-taker seems to obscure a more complex interaction between regulators and regulated. Their relationship is not concretized at conception, but rather seems to evolve over time during which industry interest has to be defined, possibly reshaped by the regulatory institutions, and asserted".

Other authors have further delved into the details regarding information asymmetries involved in creating and monitoring regulation (Tirole, 1986; Levine and Forrence, 1990; Laffont and Tirole, 1991), the details about the interactions between regulatory agencies and legislators, and into the kinds of benefits that politicians and regulators may receive in exchange for providing favorable regulations or threats if they don't (Dal Bó, 2006). Benefits range from straightforward bribes to indirect benefits in terms of future employment opportunities in the regulated industry (the "revolving door" process). Threats usually involve attempts to discredit the reputation of the politician.

The direction in which entrepreneurial energies are directed depends on the preexisting institutional structure (Kirzner, 1985; Baumol et al., 2007; Casper, 2010; Acemoglu and Robinson, 2012; Boettke, 2012; Coyne, 2013). In some economies, the most promising avenue for making profits is to try to serve consumers in a new or better way. For example, Acemoglu and Robinson (2012) compare Bill Gates and Carlos Slim, and note that one made his fortune in an environment of "inclusive institutions" in the United States, while the other in an environment of "extractive institutions" in Mexico. While Gates' entrepreneurship has brought a net benefit to consumers, Slim's entrepreneurship, successfully capturing a government-granted monopoly, is estimated to have created a social cost of $129 billion by 2012 (Acemoglu and Robinson, 2013).

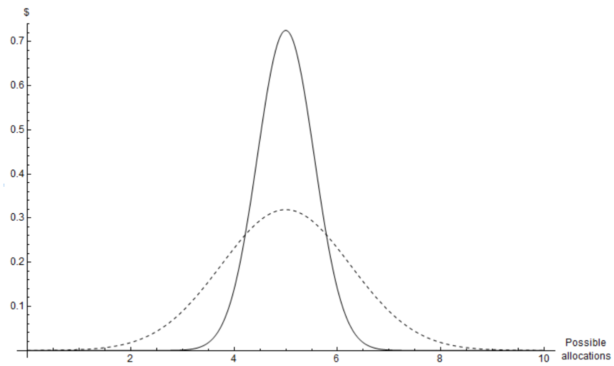
Based on all of the above one may be now in the position to revisit the very idea of "entrepreneurial capitalism". Baumol et al. (2007) define a "successful entrepreneurial economy" as a system in which entrepreneurial activities are directed mainly towards productive activities, keeping rent-seeking activities to the minimum: "government institutions must discourage activity that aims to divide up the economic pie rather than increase its size" (p. 7). They identify four necessary conditions for such an entrepreneurial economy to exist: (1) it should be easy to start and close businesses, the labor market should be flexible such that entrepreneurs can attract workers to new avenues and human capital can be improved, financial institutions should be efficient such that saver's funds are channeled into investment avenues in an undistorted fashion; (2) property rights and contracts should be secure, including for foreign investment, and the justice system should be efficient such that conflicts are prevented or quickly solved; (3) criminal activities and rent-seeking activities should be minimized; (4) the economy should be open such that innovative businesses are forced by the threat of competition to continue to be innovative rather than just stagnate.

Kirzner (1985) explores a variety of possible entrepreneurial distortions that occur as a result of political institutions that depart from the ideal of such an entrepreneurial economy. Casper (2010, p. 343) also notes that "national institutional frameworks tend to promote certain forms of economic organization - and hence innovation - while constraining others". Figure 1 illustrates these possibilities. Market restrictions can reduce the level of innovation by keeping the available resources focused on fewer research avenues. The "varieties of capitalism" literature is more agnostic about the normative ideal of the entrepreneurial economy than Kirzner and Baumol et al., discussing the "coordinated market economy" of countries like Germany or Japan as another possible avenue (see Casper 2010 for a review). From this perspective, "countries develop comparative institutional advantages in the economic governance of certain forms of innovation" (Casper, 2010, p. 343).

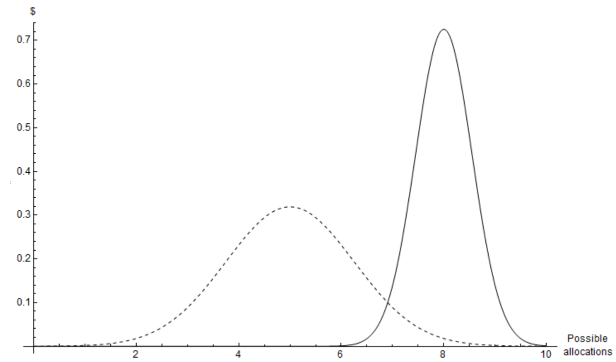
Figure 1a illustrates such a coordinated market economy, which is less innovative overall, and has insti-

Figure 1: Entrepreneurial distortions away from the optimal distribution of investment resources (dashed line: non-distorted; solid line: distortion)

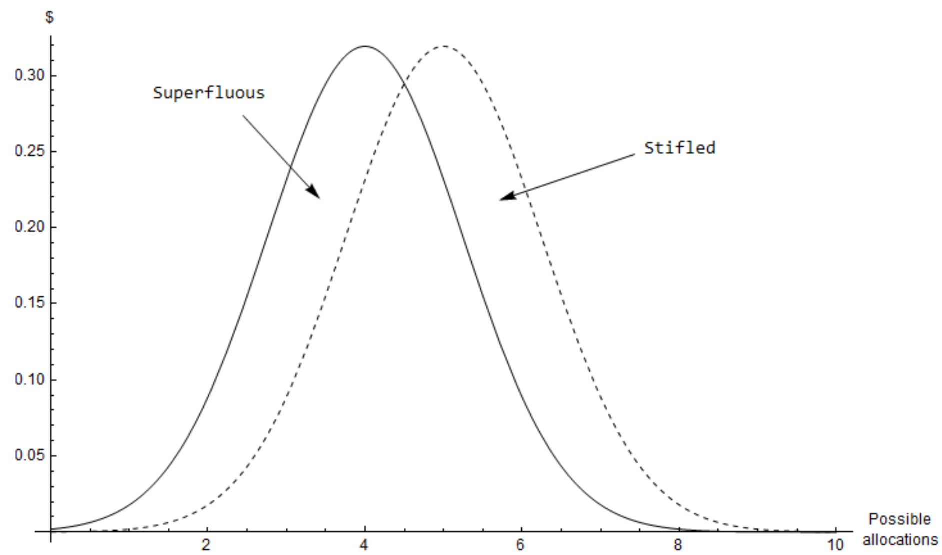
(a) Undiscovered innovations



(b) Subsidizing failure



(c) Superfluous and stifled discoveries



tutions "that facilitate non-market forms of organization that allow incomplete contracts to be adequately resolved and, through so doing, encourage incremental innovation" (Casper, 2010, p. 343). By contrast, figure 1b illustrates an example of clear government failure, in which a failed project, which would not have been pursued on the open market, has now eaten substantial resources, crowding out other possible investments. This often happens when governments try to second-guess the market and "speed things up" by picking the "winners". Massive investments in solar installations in Spain may be an example of this (Gonzalez and Johnson, 2009). Rather than let the normal process of research and development work and wait until solar technology became sufficiently efficient to be a genuine competitor to other forms of energy production, the Spanish government chose to subsidize the relatively inefficient solar technology that existed. Figure 1c illustrates a less obvious government failure, in which resources are nudged in a "superfluous" direction crowding out other possible innovations.

In brief, a closer look at the ways political entrepreneurship may operate in entrepreneurial capitalist economies reveals that the new knowledge economy, information technology based entrepreneurial capitalism, despite its dynamics and creativity (or maybe precisely because of that) is not at all immune to the forces (some of them very innovative and entrepreneurial in their ways) that push in the direction of rent seeking and cronyism.

6 Ideological facets

We have seen so far why entrepreneurial capitalism has to operate on decentralized, decentralization principles. Kelly (1994, p. 194) notes that decentralized self-organizing systems raise a number of concerns: "You can't understand them. You have less control. They don't optimize well." This means that attempts to regulate them are unlikely to be very effective and are often going to backfire, but also that path-dependencies may be a pervasive problem. One may easily conjecture that the ideological frames to give meaning, explain, justify, criticize or legitimize the emerging structures and processes will have an important role in the future developments.

We should further ask about which kinds of ideologies are likely to grow in such a high-paced networked economy. Ideology can also be understood as a type of information filter: rather than following the consequences of a policy change in all details, one uses some broad heuristic about what to support and what to reject. What kind of changes to ideologies may happen as a result of living in a "sustainable disequilibrium"?

Any change to the institutional and political system is bound to have some winners and losers, and it is rarely the case that the losers can be properly or fully compensated. As such, ideological support in favor of institutional changes is providing reasons for why the losers are making "illegitimate claims". In *Is Democracy Possible?*, in the attempt to make sense of the distinction between suffering genuine harm and mere intrusiveness, Burnheim (2006, pp. 3-4) refers to the concept of "legitimate material interest":

> It is desirable that each person or group should have an opportunity for influencing decisions of any matter in direct proportion to their legitimate material interest in the outcome. It is not often noticed that this principle is ineffectual unless the converse is also satisfied. *Nobody should have any input into decision making where they have no legitimate material interest.* The notion of legitimate material interest calls for explication. Roughly by "material" I mean to exclude interests that people have simply because of their intrusive desires about how others should fare, while by "legitimate" I mean to exclude material interests that are not based on entitlements that are morally sound.

The problem of course is that there is rarely a complete consensus with respect to what counts as "legitimate material interest" or "entitlements that are morally sound". This problem is particularly prominent in the case of entrepreneurial capitalism as we see a clash between prudence and creativity. What counts as legitimate prudence? Virginia Postrel (1998, p. 204) notes that

> ... if every voluntary experiment must answer the question, "Are you going to affect the way I live?" with a no, there can be no experiments, no new communities, no realized dreams. A city, an economy, or a culture is, despite the best efforts of stasists, fundamentally a "natural" system. As a whole, it is beyond anyone's control. Any individual effort at improvement changes not just the particular target but the broader system. In the process, there may be progress, but there will also be disruptions, adjustments, and losers.

In the light of what we have said earlier about networks, it becomes apparent that the attempts of preserving the system become increasingly unrealistic. Nonetheless, entrepreneurial capitalism engenders a backlash from people who are reasonably satisfied with the way in which things currently are. At first glance, entrepreneurial capitalism seems to go against the classic engineering heuristic, "if it's not broke, don't try to fix it", and replacing it with "if it's not perfect, try to change it, and see what happens", with the obvious corollary that nothing is perfect. Such an attitude understandably sounds scary, reckless and chaotic to many people, and, hence, there is an attempt to create "[s]tasist institutions [which] shift the burden of proof from the people who want to block new ideas to those who want to experiment. Such institutions seek not simply to compensate for or mitigate extreme side effects but, rather, to treat any change as suspect" (Postrel, 1998, p. 206). By contrast, proponents of entrepreneurial capitalism argue in favor of "permissionless innovation": "the notion that experimentation with new technologies and business models should generally be permitted by default. Unless a compelling case can be made that a new invention will bring serious harm to society, innovation should be allowed to continue unabated and problems, if they develop at all, can be addressed later" (Thierer, 2014, p. vii).

Borsook (2000), a critic of this dynamist "technolibertarian" ideology, notes that at the foundation of this world view is a vision of economic reality modeled after biology more than on anything else, a world of "learning, adaptation, intelligence, selection, and ecological niches" in which "the economy is a rainforest" and "organizations and industries are species and organisms" (p. 32). In her view, "it's precisely in the realm of the material that the cult of the entrepreneur can be shown as the dehumanizing folly it really can be" (p. 156). This is because "Kelly's view of the ideal-world-to-come is scarily de-individualized and overautomated" (p. 36), and the "entrepreneur personality ... by definition is workaholic ... [and] risks (and maybe devalues) family life and health" (p. 41). What such critics ultimately object to is the fact that this world of "decentralization and trial and error and local control and simple rules and letting things be" (p. 32) is a world lacking any sense of collective meaning as the entrepreneur is always a local actor. Borsook also objects to the ideal of "simple rules for a complex world" as they would create a sense of detachment between people and these rules: by minimizing the realm and role of politics, the sense of self-governance, i.e. one's ability to choose the rules that govern his or her collective life, is also minimized.

At first glance, the choice between, on one hand, the dynamism of permisionless innovation and its depoliticized approach to social order, and, on the other hand, the cautiousness of the precautionary principle and the sense of community that it shelters, thus seems to ultimately rest on a value judgment. However, this actually underestimates the dynamist worldview. The deepest perspective on the matter, rather than emphasizing change and experiment for the mere sake and thrill of experiment and of "play" (to use Postrel's term), emphasizes the inherent instability of modern economies. From this perspective, the desire to preserve the status quo is inherently delusional and downright dangerous. The choice is not between dynamism and slow, managed change, but between dynamism and decay and eventual collapse.

First of all, modern complex economies have to face the fact that many of their resources are not renewable. Combined with the fact of diminishing returns, this observation has a radical and underappreciated consequence: "economic progress is necessary not only for improvement in the standard of living, but also to maintain the standard of living at any given level . . . *in the absence of economic progress, the standard of living falls rather than remains stationary*" (Reisman, 1996, p. 70). This is particularly true is the population is growing, as a corresponding improvement in agricultural productivity is needed, but occurs in any case, due to diminishing returns with respect to various raw materials. For example, if oil extraction technologies would not have improved from the 1970s, we would no longer have any oil today. One could see this as an example of the "Red Queen Principle", the idea that one must run just to keep in the same place.

Secondly, the ability to generate the continuous level of innovation required to keep standards of living from falling depends on whether the institutional and political structure is as such that entrepreneurial talents are driven towards productive activities, rather than redistributive or destructive (Baumol, 1996). If one can gain more by engaging in political entrepreneurship than in market entrepreneurship, the system as a whole will eventually fail to satisfy the Red Queen Principle, and decline occurs (Olson, 1982). "[T]he existence of individuals who are motivated to think and to apply the results of their thinking to the economic world" is thus not only an "essential precondition of economic progress" but "also an essential precondition of the *maintenance* of any modern economic system as well" (Reisman 1996, p. 71, emphasis added).

For example, Peter Thiel (2011) has argued that the recent explosion of innovation occurring in communication technologies is to a large extent the result of the fact that everything *else* has been overly-regulated. To put it differently, similar levels of innovation would have been possible in other areas as well, if only entrepreneurial activities wouldn't have been directed so strongly towards rent-seeking activities. The conjunction of technological "low-hanging fruits" being already picked up and the over-regulation of markets that should deliver further innovations have caused a slowdown in economic growth over the past four decades (Brenner, 2003; Cowen, 2011). This slowdown has both economic and political consequences. "The technology slowdown threatens not just our financial markets, but the entire modern political order, which is predicated on easy and relentless growth" (Thiel 2011). The slowdown in economic growth affects the ability to finance welfare state institutions, and, furthermore, if growth slows down significantly, while inequality increases, "[m]any will suspect that the winners are involved in some sort of racket, so we can expect an increasingly nasty edge to our politics" (Thiel 2011; see also Stiglitz 2012).

The background of the dynamist ideology is thus a value-free, Schumpeterian understanding of how the economic world works, and a diagnostic of the causes of some of the major political challenges facing welfare and regulatory states. But, springing from this value-free diagnostic, comes a celebration of perpetual disequilibrium, and a call for the democratization of the entrepreneurial spirit and for a shift in the way in which people perceive "failure". As Lee and McKenzie (1993, p. 10) put it, "failure is not only the output of unsuccessful economic activity; it is also an essential input of a successful economy". While Schumpeter's perspective looks stoic, with creative destruction being an unavoidable *cost* of progress, for dynamists, creative destruction holds excitement, making the world perpetually interesting - a continuous source of wonder even in the social realm. People like Virginia Postrel will show little patience for both "technocrats and reactionaries" who "expect specific outcomes, knowable in advance - not general patterns and an open future" (1998, p. 42). The sense and source of meaning is thus shifted from control and obedience to discovery and creativity. In some sense, Borook's criticism is valid. The dynamist ideology is indeed unapologetically individualist. One's life is no longer expected to have meaning thanks to being integrated in a pre-defined community with a presumably unchanging identity spanning across time, but thanks to the excitement of discovery - of encountering perpetually new thinks, including new ways of social interaction, and new ways of enhancing and redefining one's own identity. One can think of computer role-playing games, in which one enters a newly created shared reality and interacts with other players from around the world, as an imperfect metaphor of this new approach to communal identity in a highly globalized and dynamic world. The old sources of communal identity, in terms of country, ethnic group and religion, may not disappear for a very long time to come, but they are joined by other possibilities. The entrepreneurial world of networks of networks is a fertile ground for the emergence of new sub-cultures and meanings.

7 Conclusion

The idea of an "entrepreneurial capitalism" economic system fueled by the technological revolution and especially by the growth of the new knowledge economy has forced us to revisit and reconsider some important aspects of the ways we think about the micro foundations and institutional arrangements of capitalism. Also, in an information and knowledge based system in which radical change and innovation are central, the ideological dimension gains new relevance. Yet "entrepreneurial capitalism" seems far from being immune to endogenous processes that may undermine and distort it functioning. Despite the fact that in our models and ideal-types, entrepreneurial capitalism is imagined free of rent seeking somehow by definition, it is realistic to assume that rent-seeking is inherent to it as it is to other forms of capitalism. Once this realistic observation is introduced to the picture, a more nuanced view of entrepreneurial capitalism emerges.

The extent to which the information society and its "entrepreneurial capitalism" political economy system will drift into a crony capitalist version of itself or will retain its techno-utopian nature of "out of control" capitalism depends on the interplay of many factors. However, two of them are of special interest: first the likelihood that the regulation of communication technologies is going to be captured (likelihood strongly influenced by the institutional arrangements in place and the public entrepreneurship efforts to organize them) and second, the emerging ideologies that may either give cover to such capture or hamper it. In this respect despite its apparent novelty, entrepreneurial capitalism operates as a variation on the same themes that underlie all other alternative models and cases of capitalism discussed in this book.

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