Peace, Prosperity and Pro-Growth Entrepreneurship

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Introduction

- “Entrepreneurship has emerged as the engine of economic and social development throughout the world” - Audretsch and Thurik (2004:2)

- ‘A key obstacle to growth in low-income environments is an inadequate level of entrepreneurship in non-traditional activities’. - Iyigun and Rodrik (2004:1-2)

- “What impoverished entrepreneur would work day and night to build a new firm knowing that robber barons will seize it at the first signs of profit?” — Fogel et al., 2006:541

- “Business success in a developing economy requires….how to take advantage of legal loopholes and who to bribe” — Munshi, 2007 :1
Types of entrepreneurship

- ‘Entrepreneurs are defined, simply, to be persons who are ingenious and creative in finding ways that add to their own wealth, power, and prestige’ - Baumol (1990:987)
- Productive, un-productive and destructive entrepreneurship
- Productive entrepreneurship: opportunity driven or necessity driven ( & lifestyle entrepreneurs)
- High-potential growth productive entrepreneurship
Entrepreneurship and peace & prosperity?

- Empirical evidence from 37 countries participating in the 2002 Global Entrepreneurship Monitor finds significant evidence for ‘the existence of entrepreneurial activities that do not contribute to economic growth’.

- ‘At times the entrepreneur may even lead a parasitical existence that is actually damaging to the economy’. - Baumol (1990:894)
Entrepreneurship and War

- Growth and warfare in Middle-Age Europe
- the ‘unprecedented prosperity enjoyed afterwards by the countries on the losing side of the Second World War’.
- Has much of the U.S.’s growth after the Second World War been due to technologies emerging from war contexts? (Ruttan, 2006).
- Foreign firms and entrepreneurs in many African conflicts Nafzinger (2006:16)
Entrepreneurship during War

- Even during periods of war and conflict there is evidence of substantial entrepreneurship at work, fulfilling a threefold role in:
  - Sourcing funds to sustain conflicts
  - Overcoming the adverse impacts of conflict
  - Exploiting profitable opportunities arising from conflict (illegal mining and smuggling, preferential rationing systems, theft of humanitarian supplies, banditry and predation on civilians.)
Entrepreneurship after War? - I

- Many war participants, including rulers, warlords, and smugglers develop substantial business interests during the war.
- This not only makes the achievement of peace in many cases difficult (as these participants profit more from war than peace) but will also have a significant impact on the post-conflict economic success.
  - Many war-time entrepreneurial activities provide capital for post-war investment,
  - Provide a means for wartime actors to obtain political power after the war; and
  - Provide incentives for entrepreneurs to undermine government institutions.
Entrepreneurship after War? -II

- Destruction of infrastructure, flight of human and financial capital creates challenges for post-war entrepreneurship (funding, education, skills, infrastructure).
- There is no automatic peace dividend from the end of a civil war, and there could also be a ‘war overhang effect’ – depending on length of war (Collier, 1999).
Entrepreneurship after War?-III

- Transition process itself can create unfavourable outcomes
  - New opportunities for rents
  - Patronage / limited access orders
  - Regulatory capture
- Continued military spending divert resources
- Macro-economic stability, good governance and institutional reform may not lead to automatic resurgence of private sector
Conclusion

- There is not a lack of entrepreneurship in fragile states or post-conflict states.
- ‘Entrepreneurship’ is not necessarily intrinsically good or bad, but depends for its effects on the structure of incentives that a particular time and society offers.
  - These structures and incentives can result in either a ‘rent economy’ or a ‘productive economy’
How to change incentive structures for pro-growth entrepreneurship?

- Raise the costs of conflict and benefits of cooperation.
- Institutional reform from conflict – limited access order – open access order (‘very difficult’ – North)
- Other difficulties:
  - ‘Entrepreneurship in developing countries is arguably the least studied significant economic and social phenomenon in the world today’. - Lingelbach et al., 2005
  - Lack of quantitative data, and measurement difficulties w.r.t. entrepreneurship in fragile states and post-conflict states constraints policymaking and institutional reform.
- However, certain lessons from EE-FSU, African literatures.
Lessons from the literature

- Understanding the context of poverty and conflict
- Understanding institutional reform (process and phases) and entrepreneurial responses
- Engage displaced communities, minorities and entrepreneurs
- Enlarge market size and market access
- Improve Human and financial capacity
- Government-private sector support modalities
  - The developmental state & private sector development
  - Removal of obstacles
  - Support inputs, not outputs
  - Entrepreneurial ventures vis-a-vis small business support
  - Decentralisation

These are discussed at greater length in the paper
The prognosis

- The average rate of growth in a cross-country sample of post-conflict states for the five years following was 5.9%.
- The private sector share of GDP in increased in most EE-FSU countries from around 0% in 1989 to over 65% by 2001.
- In China, the growth in entrepreneurship, as measured by self-employment, was explosive, not only in the richer coastal provinces, but also in the rural areas, where the number of self-employed increased by more than 30 million between 1988 and 1995.
- In Africa, in the mobile phone sector, where government regulation has been limited and private entrepreneurs the major initiators, the number of mobile phone users have increased from about 2 million in 1998 to over 100 million by 2006.
- Many firms are small and micro, which has disadvantages, but also advantages.
- New firm creation may be more important than existing firms.
Final remarks

- Entrepreneurship is ever present in fragile and post-conflict states. It is not lacking as some would claim.
- Unproductive and destructive entrepreneurship implies that the establishment of peace may not automatically result in prosperity, and might even cause a relapse into conflict.
- To prevent this, efforts to increase the supply of entrepreneurship itself may be less important than efforts to change the allocation of entrepreneurial effort into productive entrepreneurship.
- For the latter, six dimensions have been outlined, and the need for further research on entrepreneurship stressed.