Social Organization, Entrepreneurship and Economic Growth

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The purpose of this short paper is to examine the following two questions. Why countries such as Albania produce fewer entrepreneurs like Bill Gates? The second one is why an ancient China cannot prolong their prosperity into the modern world in spite of their inventions of paper, compass, gunpowder, etc. The first question relates to types of societies that produce entrepreneurs. The second question is about what kind of entrepreneurship that promotes economic growth.

I. Social Organization and Entrepreneurship

We realize that society that is characterized by chaos, disorder, unlawful, and inability to organize itself socially, like we have seen in Albania, is less likely to have entrepreneurs who are willing to take the risk to invest their capital in order to bring new products to the market. Thurow (1999) argued that a social organization is a foundation for entrepreneurial skills in his wealth pyramid. He defined social organization as an ability to organize socially, maintain public order, build or repair infrastructure, organize and staff school, deliver health services. It is easy to see that a society without the public order will divert their resources to safety, rather than profit making. The rest of the definition is about infrastructure, education, and other supporting factors that will enable entrepreneurs to be successful. We will extend this definition to include other favorable characteristics of society that promotes entrepreneurship. Baumol (1990) attributed the lack of free enterprise and risk taking in Medieval China to the following characteristics: individual freedom, security for private enterprises, legal foundation for individual rights, and guarantee against being penalized by arbitrary exactions from officials or against intervention by the state. Because of the overwhelming prestige and power of the imperial China, the merchants' ambitions turned to becoming a scholar-official and avoid investing their resources to any sort of visible capital stocks.

II. Entrepreneurship and Economic Growth

Once we have societies that produce entrepreneurs, we look at what kind of entrepreneurship that promotes economic growth. Schumpterian believes that innovating entrepreneur plays a major rule in the growth process. But Baumol (1986, 1988) found that imitating entrepreneurship contributed a significant amount to the growth of most economies. Schmitz (1989) defined the role of imitation as the act of transferring and implementing a new technology. The lack of imitating role might explain why lots of invention in ancient China had not grown into big industries. Innovators and imitators require different entrepreneurial skills. Innovating entrepreneur creates new knowledge, so they are usually thinkers and inventors. Whereas imitating entrepreneur brings that knowledge into active use, therefore they have to be risk takers, organizers, and doers. Bill Gates did not invent operating systems, but he brought operating systems into mainstream market and in the process creating a new Personal Computer industry.

III. Conclusion

Society has to be able to organize itself to maintain public order, build infrastructure, and educate their people in order to create an environment where an entrepreneurship can prosper. Then we extend these preconditions to include individual freedom, security for private enterprises, legal rights, and guarantee against being penalized arbitrary by the state. Once we have favorable environment for entrepreneurship, we ask ourselves what kind of entrepreneurs that can promote economic growth. To answer this question, we introduce innovating and imitating entrepreneurs. Only the imitating entrepreneurs, who bring new technologies created by innovating entrepreneurs into the market, directly contribute to the economic growth.

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