

**McCloskey – Mingardi
vs. Mazzucato:
Dig deeper to find gold**

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Book launch of M&M: “The Myth of
the Entrepreneurial State”

Fundación para el Progreso
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Introduction

- I celebrate FPP's translation of McCloskey and Mingardi's challenging book
- I thank the Foundation for inviting me to provide some comments on the book, on occasion of FPP's book presentation
- I take this opportunity to remark both on M&M's book and on Mazzucato's work

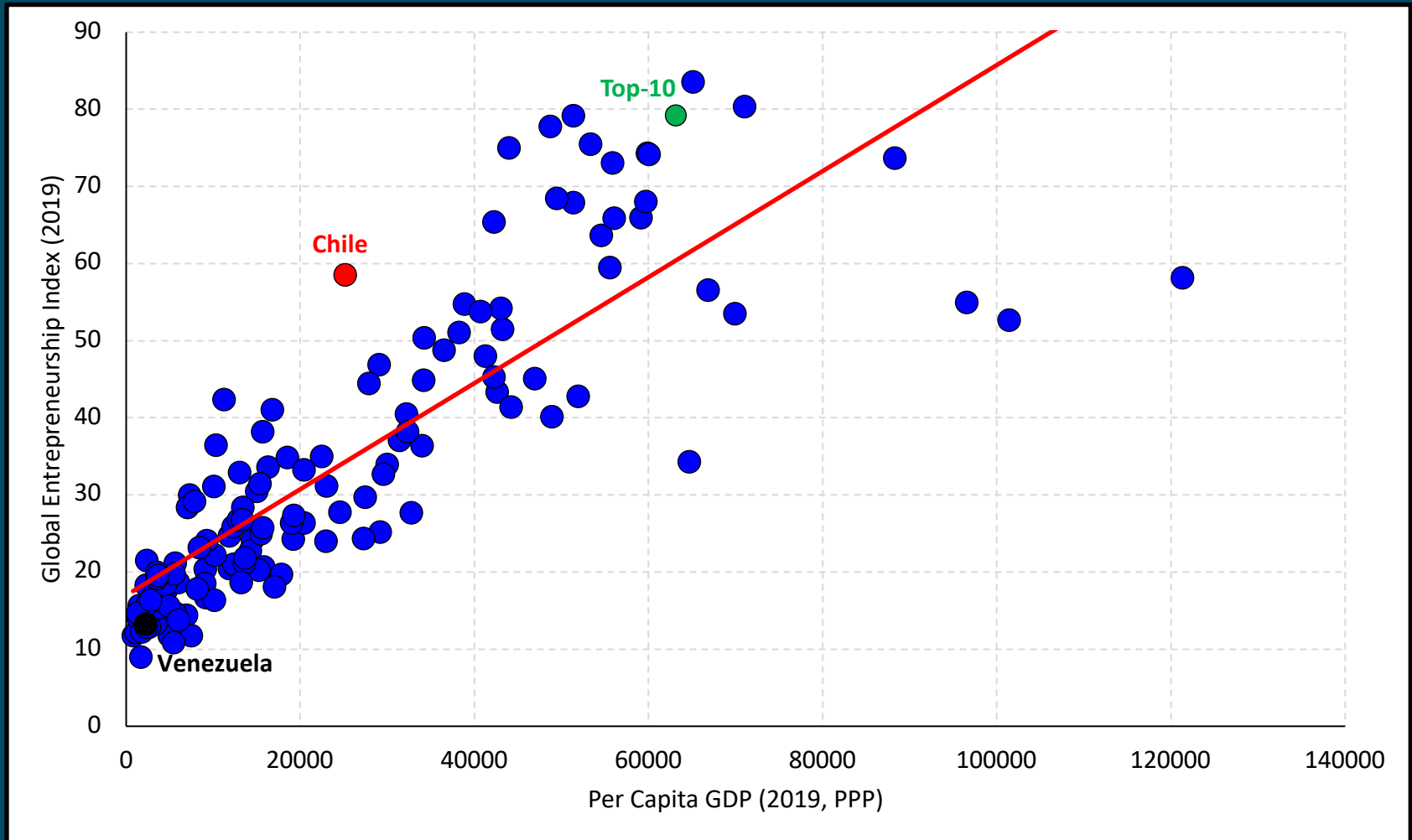
Mazzucato (2013): “The Entrepreneurial State”

- **Mazzucato’s core ideas:**
 - It is the government or state (not the private sector) that undertakes the riskiest parts of the innovation process
 - Then the private sector free-rides on state innovations
 - Governments shoulder risks, create markets, drive innovation, fuel economic growth, when governments operate at the strength they should
 - Governments should be compensated for their risky investments (royalties, equity, for-profit investment banks)
- **Methodology:**
 - Arguments based on product and company examples (Apple, GPS, LCD displays, among others)
 - Author does not provide rigorous empirical evidence

McCloskey and Mingardi (2021): “The Myth of the Entrepreneurial State”

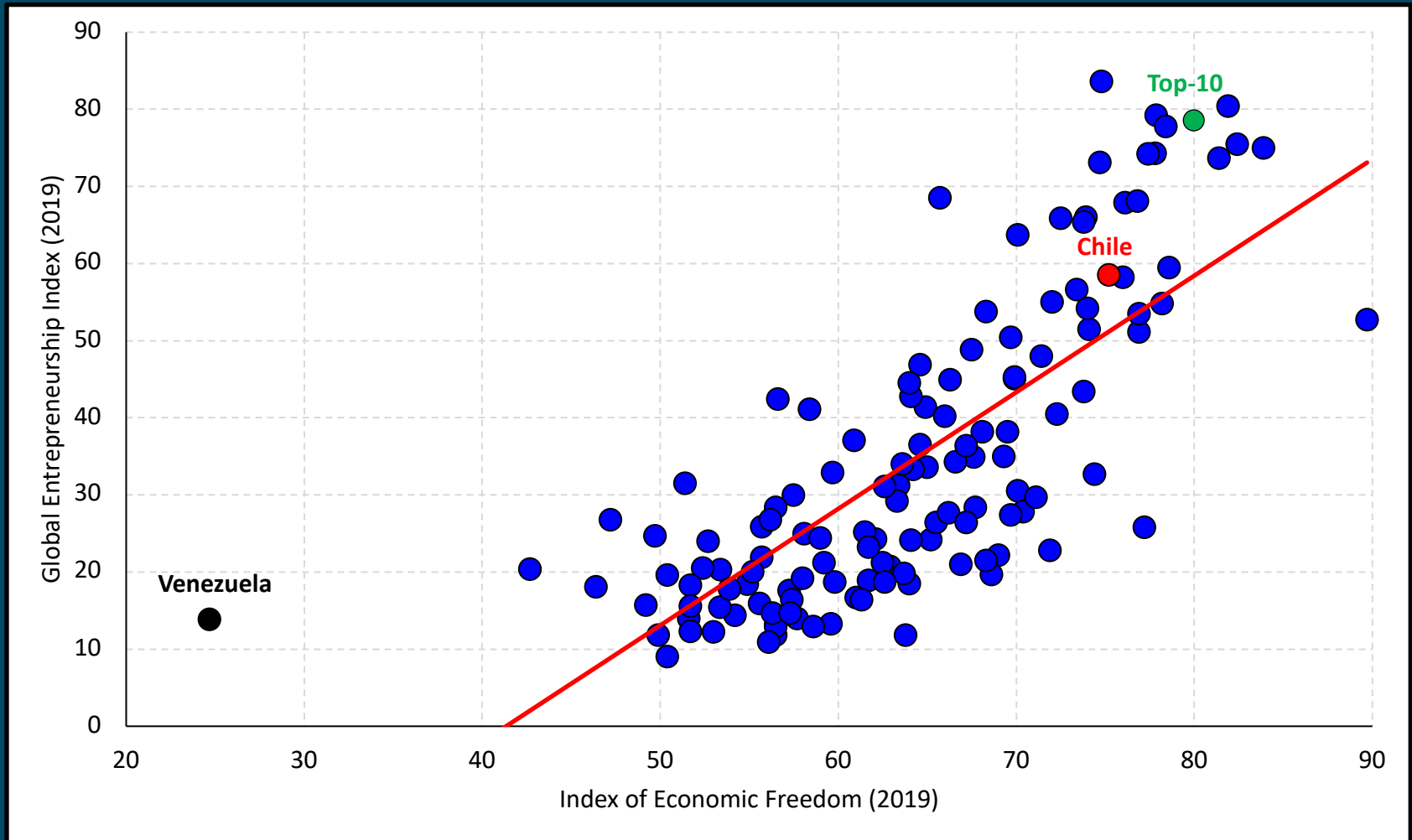
- **M&M’s core ideas:**
 - Deny the notion that the government is the key entrepreneurial and innovative force in the economy
 - They make the opposite point, describing process termed “The Great Enrichment”: massive private sector-led entrepreneurship that reduces poverty and improves quality of life.
 - Govs. can neither engage in this process nor attain its goals
 - Governments have a role to play – but not the conductor’s
- **Methodology:**
 - Counter-arguments based on corporate examples (Apple, GPS, among others)
 - Authors do not provide rigorous empirical evidence

Bi-variate association I: Development correlates with entrepreneurship



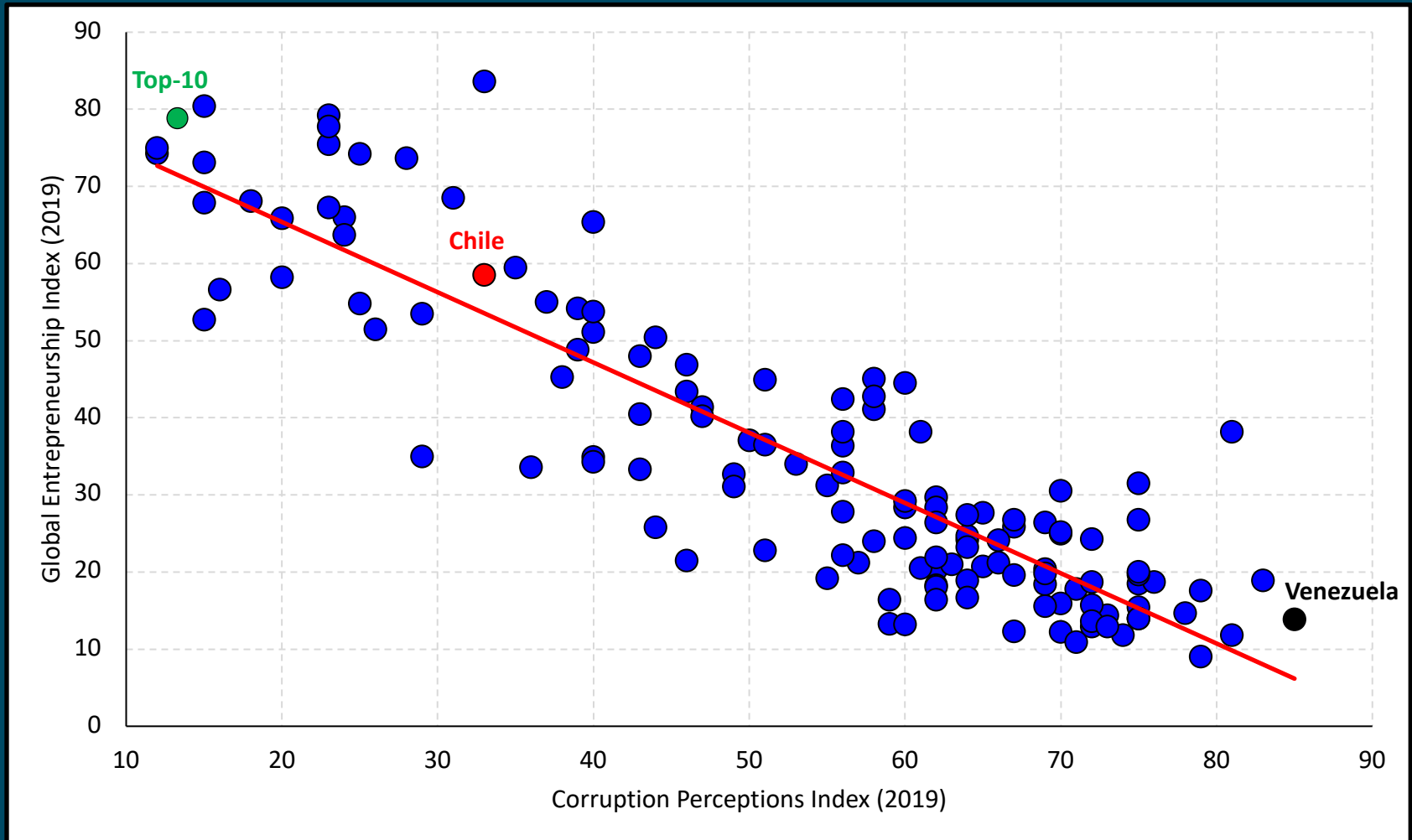
Sources: GEDI and FMI (2021).

Bi-variate association II: Economic freedom correlates with entrepreneurship



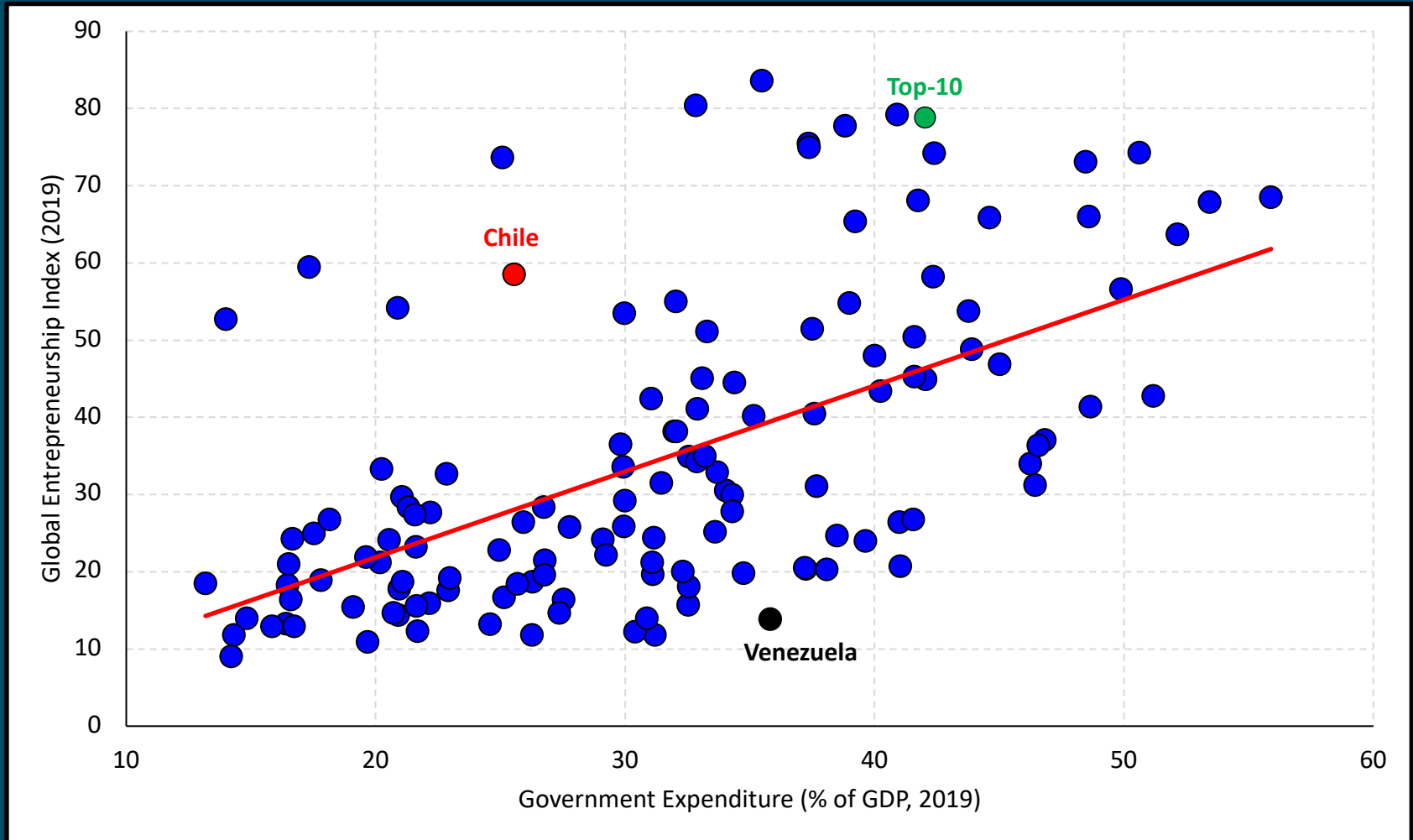
Sources: GEDI and The Heritage Foundation (2021).

Bi-variate association III: Corruption correlates with entrepreneurship



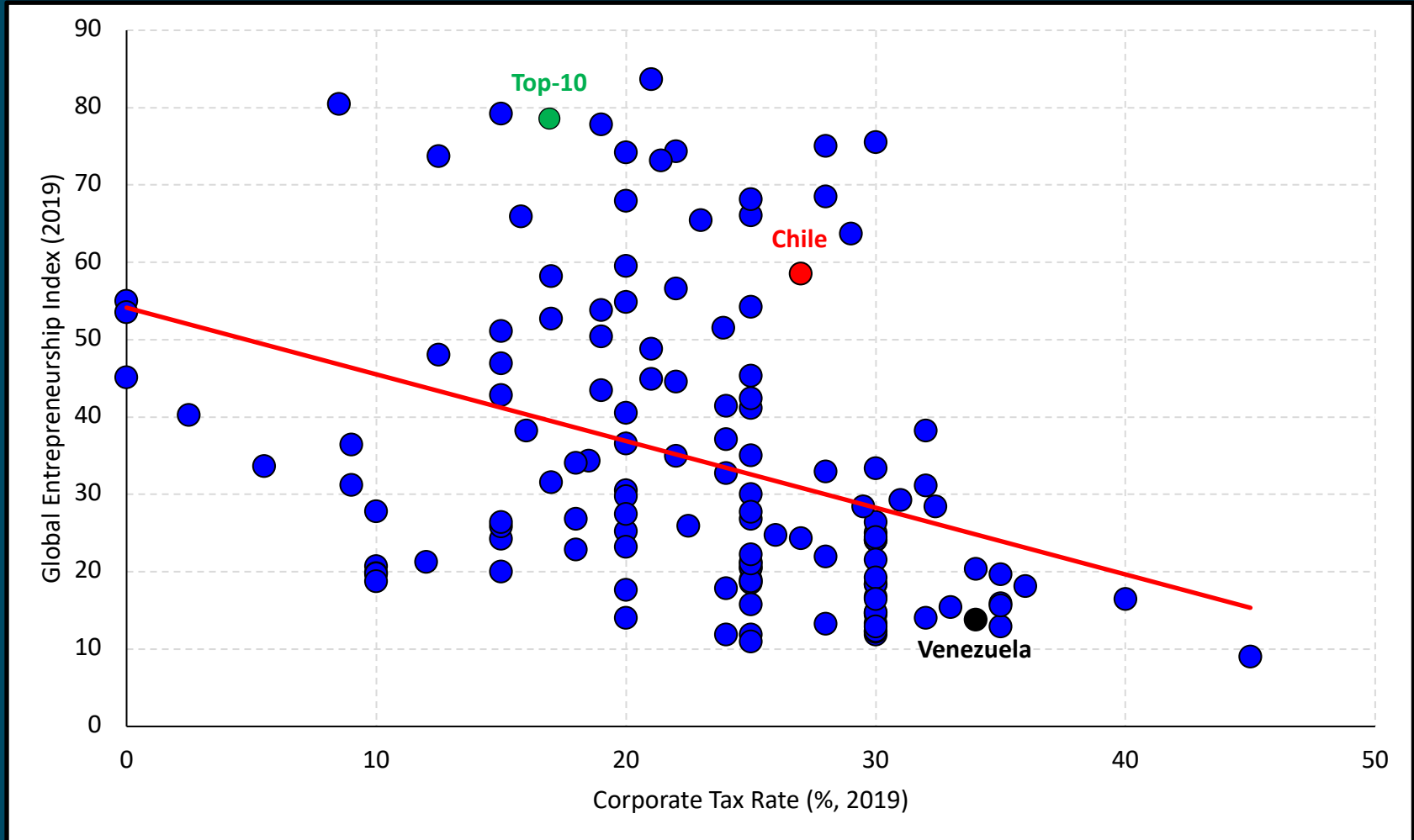
Sources: GEDI and Transparency International (2021).

Bi-variate association IV: Government size correlates with entrepreneurship



Sources: GEDI and FMI (2021).

Bi-variate association V: Corporate tax rate correlates with entrepreneurship



Sources: GEDI and World Bank (2021).

Multi-variate evidence I: Effect of government size on entrepreneurship

1. **Aidis et al. (2014): “Size Matters: Entrepreneurial Entry and Government”**

- Negative significant relationship between government size and entrepreneurial activity: Parker (2004), Henrekson (2005), Koellinger and Minniti (2009)
- Large government financed by high taxes reduces incentives for entrepreneurs
- Entrepreneurship depends negatively on government size and on corruption, and positively on economic freedom

2. **Islam (2017): “Entrepreneurship and the Allocation of Government Spending”**

- Negative significant relationship between government size and entrepreneurial activity
- Positive significant relationship between government spending on public and social goods and entrepreneurship

Multi-variate evidence II: Effects of gov. size and entrepreneurship on ec. growth

- Larger government size lowers economic growth and larger entrepreneurial activity raises growth (Djankov et al., 2006; Hanusch, 2012; Messaoud and Teheni, 2014)
- “Good” business regulations contribute to higher growth
- Policy implications for governments – do reforms that improve business environment for the private sector:
 - reduce business costs by cutting red tape
 - lower institutional, legal, and political risks
 - raise competitive pressure by strengthening anti-corruption and pro-competition regulation
 - improve access to business financing
 - reform labor market legislation and administration
 - improve access to information

Multi-variate evidence III: Institutions and entrepreneurship

- *“Institutions are the rules of the game in a society, or more formally, institutions are the constraints that shape human interaction”* (North, 1990)
- Institutions (e.g. the government) play a key supportive role in promoting entrepreneurship opportunities (Aldrich and Fiol, 1994; Hwang and Powell, 2005; Welter and Smallbone, 2011; Valdez and Richardson, 2013)
- Well-designed and well-implemented regulations and policies support entrepreneurial activity; badly designed and implemented regulations inhibit entrepreneurship (Aidt and Dutta, 2007; Minelli and Modica, 2009; Buera et al., 2013; Buera et al. 2015)

Complementary reforms to spur private-led entrepreneurial activity

1. Provide a fair legal system: property rights and contract law, intellectual property
2. Streamline business registration: in New Zealand it takes half a day, while in India it takes 2 years
3. Foster a diverse financing ecosystem, supporting new sources of capital
4. Government co-investment in education encourages entrepreneurship
5. Simplify tax laws: countries with lower tax rates and simpler and more predictable tax filing attract more new companies
6. Governments should provide public goods consistent with horizontal industrial policy, avoiding vertical industrial policy

Conclusions

- Both books present opposite proposals about the role that governments should play in engaging directly in entrepreneurial activity; Mazzucato: close to 100%, vs. McCloskey and Mingardi: close to 0%
- (Unsurprisingly I am closer to McCloskey and Mingardi than to Mazzucato)
- However, they coincide in the role of government in generating public goods and good regulations for promoting private entrepreneurship
- Yet both books fail in presenting theory-based, empirically rigorous evidence in support of their hypotheses and policy prescriptions
- Hence both **should dig much deeper to find gold**

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