

**USAID ECONOMIC GROWTH OFFICERS WORKSHOP
OCTOBER 15-19, 2007
WASHINGTON, D.C.**

Session Title: Welcome and Opening Plenary

Date and Time: Monday, October 15, 2007, 9:00 a.m.-10:30 a.m.

Type of Session: Plenary

Speaker(s): Carl Schramm & Bob Litan

Moderator: Steve Hadley

Overview of Session:

Bob Litan and Carl Schramm, authors of Good Capitalism/Bad Capitalism, explored the various typologies of capitalism, with special emphasis upon the current type prevalent in the US today, Entrepreneurial Capitalism and its impact upon economic growth.

Speaker's Remarks:



Carl Schramm addresses workshop attendees. Photo by Paul Goodman.

Carl Schramm, President of the Kaufman Foundation, began the presentation by reviewing the essence of American capitalism and challenging the conventional viewpoint that the American model of capitalism is the universal system since the fall of the Soviet Union. He emphasized the need to understand American capitalism and its evolution from what they call “Managerial” or “Bureaucratic” capitalism (with big government, big corporations – a typology more relevant to Europe today) to “Entrepreneurial” capitalism. He emphasized the need to understand all typologies of capitalism and to review what he calls the “software” of capitalism – including the mix of institution and cultural variables.

In conclusion, he noted that there are in fact cultural prerequisites that drive this new economic model of Entrepreneurial capitalism. He raised a number of questions & issues: First, what is it that we expect inside the American economy and what must take place from a cultural perspective when we are in a situation of entrepreneurial capitalism? When today an American is expected to have 4 jobs by the time he/she is 30 years old, what happens socio-politically? You have a highly educated population that now seeks jobs that are fulfilling and are actively involved in creating their own opportunities.

Second we have a culture that engenders risk, as opposed to Europe.

Third, we have a self enforcing cycle – in the US we can take risk because we have full employment. What does this imply about development issues?

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Bob Litan addresses workshop attendees. Photo by Paul Goodman.

Bob Litan broke down capitalism into 4 categories:

- Oligarchic capitalism – all power and money is concentrated in the hands of a few – examples in Latin America, Africa, Middle East
- State-guided capitalism – state doesn't own the means of production but by owning banks, or regulatory measures it directs economic activity – examples in Southeast Asia, China, India, Japan
- Managerial or Bureaucratic capitalism – big dominant firms – examples in Europe, Japan (United States earlier in 20th Century)
- Entrepreneurial capitalism – examples include US, Israel, Ireland

Oligarchic capitalism is the most prevalent form of capitalism in most USAID located countries. It limits growth as those who run those economies only care about maximizing economic benefit for themselves which constrains the overall economic opportunity.

State guided capitalism works because countries have a target to shoot for. They can run into problems the closer they get to the frontier but this focus can cause them to grow.

Managerial capitalism can be successful but you don't see radical innovations in firms. You get refinements but nothing new, thereby reducing opportunities for growth.

Entrepreneurial capitalism enables radical breakthroughs that push other innovations. He sited inventions such as the telephone or computers, whose creation spawned significant growth in other areas.

Some thoughts in regards to how it affects USAID:

- 1) Entrepreneurial capitalism is not just for rich countries –consider examples of India and Brazil.
- 2) Look for systemic reform as the key to fostering entrepreneurship- countries need institutions in place (property rights, judicial systems, employer flexibility in firing) so there are few barriers to entry and positive incentives for entrepreneurship.
- 3) Foreign direct investment is key as the most effective technology transfer is from FDI.
- 4) One way of dealing with Oligarchic Capitalism is encouraging the creation of an entrepreneurial class that can advocate for reforms.

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- 5) He emphasized the need to train in entrepreneurship and highlighted that the Kaufman foundation, working with the British government, will host Global Entrepreneurship Week in Nov 2008. They encouraged USAID to be involved.

Key Points Discussed During Question & Answer Segment:

Q1: In the developing world, by historical accident, some economies are more linked with European model. How does one address this if we want to encourage entrepreneurial capitalism, a more American model?

A1: Path dependence isn't a given and some countries, like India, have skipped over stages of development through emphasis on a more educated technical and engineering class. Go back to the formula – getting rid of barriers to forming businesses, private property and contract enforcement at least.

Q2: Should we teach entrepreneurialism or do we set up the environment for good governance and get out of the way, assuming that with the right business environment entrepreneurship will emerge naturally?

A2: There is a role for training as there are skills that could be refined. But you can train all you want and without environment won't work. They emphasized the need for training from people with business backgrounds – who can impart tested and practical knowledge.

Q3: What distinguishes the process in the US from the developing world is that in the US, corporations grew out of a process of competitive selection and under development of economies of scale. The problem in the developing world is that a set of companies is created through uncompetitive processes – through distortions and government involvement. So a comparison between the US capitalist evolution and developing world is complicated. A critical question is how to ensure the market drives who those companies will be.

A3: The same issue affects countries in Europe, such as France. We need to keep the indigenous entrepreneurs growing somehow to advocate for a competitive atmosphere. Also, in India, higher education was the key.