

BOOK REVIEW

PUBLIC POLICY, PRODUCTIVE AND UNPRODUCTIVE ENTREPRENEURSHIP: THE IMPACT OF PUBLIC POLICY ON ENTREPRENEURIAL OUTCOMES

GREGORY M. RANDOLPH, MICHAEL T. TASTO, AND ROBERT F. SALVINO JR. (EDS.)
CHELTENHAM, U.K.: EDWARD ELGAR, 2017, 176 PP.

PER L. BYLUND

Entrepreneurship is a double-edged sword. On the one hand, it has become almost universally recognized over the past few decades that entrepreneurship is the engine of economic change, the generator of economic growth, and the main cause of job creation. Consequently, policy is often used in different ways to support entrepreneurs to thereby create benefits from the positive effects of entrepreneurship.

On the other hand, as William Baumol (1990) famously identified, the outcome of entrepreneurship is not necessarily productive

Per Bylund (per.bylund@okstate.edu) holds the Records-Johnston Professorship in the School of Entrepreneurship at Oklahoma State University.

and a boon to the economy. Rather, entrepreneurship can be both productive and unproductive—and even destructive—depending on the institutional framework in which it takes place. Where the institutional “rules of the game” (North, 1990) can themselves be exploited for profit, entrepreneurs find themselves in a zero-sum game competing for the privileged position without producing value for consumers. Similarly, the framework for entrepreneurial action can be a source of uncertainty that harms the functioning of the market process (Bylund and McCaffrey, 2017).

Using policy to support entrepreneurship, therefore, is a balancing act between helping facilitate productive entrepreneurship while avoiding incentives that lead to unproductive behavior.

The recently published collection of essays *Public Policy, Productive and Unproductive Entrepreneurship: The Impact of Public Policy on Entrepreneurial Outcomes* aims to shed light on how public policy impacts entrepreneurial outcomes. The underlying yet implied question, with obvious policy implications, is this: under what circumstances does entrepreneurship contribute to raising our standard of living? To use Russell S. Sobel’s words from the foreword, the book’s eight essays “highlight both the potential and actual negative consequences of policies that encourage unproductive entrepreneurship” (pp. xii–xiii).

In the first essay (chapter 2) following the editors’ introduction, Joshua C. Hall, Robert A. Lawson, and Saurav Roychoudhury argue that economic freedom is critical to create an “entrepreneurial environment,” that is, an economic culture within which entrepreneurship thrives. Relying on insights from the *Economic Freedom of the World* reports, the authors demonstrate that economic freedom is empirically correlated with many measures of entrepreneurship. And, consequently, they conclude asking “would it not be prudent to at least consider eliminating the various government policies that stifle [entrepreneurship]?” (p. 7)

The second essay, by Pavel A. Yakovlev and Saurav Roychoudhury, analyzes the effect of specific types of regulatory burdens on business of varying sizes. They also argue that there is a link between migration and entrepreneurship, as both involve risk taking, and thus that countries that offer an institutional environment that facilitates entrepreneurship can benefit from both domestic and immigrant entrepreneurs.

The book's third essay looks at the relationship between regulation and entrepreneurship from the point of view of the regulator. The authors, James Fetzner and Gregory M. Randolph, provide an overview of challenges that regulators face due to the nature of the political process with respect to the design, implementation, updating and reforming of regulations.

Chapter 5 studies committee-based efforts in the United States Congress intended to increase entrepreneurship by supporting small business growth. The real effect, however, as revealed by the studied data, is that states represented on these committees experience *lower* levels of entrepreneurship. The author Matt E. Ryan concludes the chapter by noting that this suggests that "more politics leads to less entrepreneurship" (p. 76)—even though the intended effect is the exact opposite.

In chapter 6, Michael T. Tasto looks at how state spending on firm recruitment and economic development programs affect employment and find a positive relationship. States that do not spend on similar programs consequently lose and may thus be compelled to create such programs while other states increase their spending to stay ahead in a "race to the bottom." Also, the author argues, such state-level spending can be taken advantage of by entrepreneurs engaging in unproductive or destructive behavior to capitalize on the offered subsidies.

The next essay is a transcript of Peter G. Klein's testimony before the US House Committee on Financial Services in May 2012. Klein analyzes the Federal Reserve from the point of view of organizational economic theory offering a "reasonable, pragmatic, realistic view" (p. 108) of the central bank. The essay thus focuses on a specific institution and its implications for entrepreneurs, finding it both inefficient and ineffective.

The second to last essay introduces morality and human nature in the analysis of regulations. Authors Robert F. Salvino Jr. and Michael Latta argue that "Morality and economic actions may converge, but for this to be so over the long-run, the actions and their desired outcomes cannot violate human nature" (p. 111). They find that individuals need to be free to engage in economic actions to thereby "express and defend his or her moral purpose." This applies to policy as well, as policy designed without regard for economic and moral costs disrupts rather than supports entrepreneurship.

In the final chapter, Gregory M. Randolph and Marek Rivero discuss informal institutions and entrepreneurship. The development and evolution of informal institutions remains understudied in the literature and these processes are thus poorly understood, which is problematic for policy making. The chapter discusses the definition, measurement, and analysis of informal institutions, and what this means for policy.

Overall, the book offers little that would surprise Austrians or economists used to public choice analysis. The chapters elaborate on and analyze the measurable burden of regulation on entrepreneurship using various types of data, but do not venture far from the near-obvious (to praxeologists) unintended consequences of policy or inefficiency of policy-induced reallocation of resources. The chapters also do not make any theoretical contributions regarding how entrepreneurship and policy are (inter)related.

But this is not the purpose of the book and should therefore not be considered a major weakness.

This collection of essays is best described as a primer on the topic indicated in the book's subtitle: the impact of public policy on entrepreneurial outcomes. Each of the eight essays targets a specific aspect of policy effects on entrepreneurship, and they each contribute in their own way to the common conclusion that entrepreneurship is a double-edged sword that can be both productive and unproductive—depending on the institutional rules of the game. And they paint a broad yet consistent picture that should be of great help to those familiarizing themselves with the study of entrepreneurship and policy.

REFERENCES

- Baumol, William J. 1990. "Entrepreneurship: Productive, Unproductive, and Destructive," *Journal of Political Economy* 98, no. 5: 893–919.
- Bylund, Per L., and Matthew McCaffrey. 2017. "A Theory of Entrepreneurship and Institutional Uncertainty," *Journal of Business Venturing* 32, no. 5: 461–475.
- North, Douglass C. 1990. *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.