7. Concerting entrepreneurship: an international public good

Peter J. Boettke and Christopher J. Coyne

There is little contention that entrepreneurship is the driver of economic growth (Leff, 1979; Kasper and Streit, 1998; Kirzner, 1985; Boettke and Coyne, 2003). Globalization – specifically, ever-expanding technologies and avenues into economic markets throughout the world – characterize today’s economic environment in which the entrepreneur must act. This ever-growing interdependence is illustrated by the relationship between the United States (USA) and the European Union (EU).

The relationship between the USA and the EU can be described as cooperative, but cautious. The cooperative element is clearly illustrated by the growth of the trading relationship between them, as summarized in Tables 7.1a and 7.1b.

Table 7.1a US–EU trade from 1991 to 2001 (billions of US dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total trade</th>
<th>US exports to EU</th>
<th>EU exports to USA</th>
<th>US trade deficit with EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>201.9</td>
<td>108.5</td>
<td>93.4</td>
<td>15.2</td>
</tr>
<tr>
<td>1992</td>
<td>209.0</td>
<td>107.7</td>
<td>101.3</td>
<td>6.5</td>
</tr>
<tr>
<td>1993</td>
<td>207.1</td>
<td>101.5</td>
<td>105.6</td>
<td>(4.1)</td>
</tr>
<tr>
<td>1994</td>
<td>227.3</td>
<td>107.8</td>
<td>119.5</td>
<td>(11.7)</td>
</tr>
<tr>
<td>1995</td>
<td>255.6</td>
<td>123.7</td>
<td>131.9</td>
<td>(8.2)</td>
</tr>
<tr>
<td>1996</td>
<td>270.6</td>
<td>127.7</td>
<td>142.9</td>
<td>(15.2)</td>
</tr>
<tr>
<td>1997</td>
<td>298.3</td>
<td>140.8</td>
<td>157.5</td>
<td>(16.7)</td>
</tr>
<tr>
<td>1998</td>
<td>325.4</td>
<td>149.0</td>
<td>176.4</td>
<td>(27.3)</td>
</tr>
<tr>
<td>1999</td>
<td>347.0</td>
<td>151.8</td>
<td>195.2</td>
<td>(43.4)</td>
</tr>
<tr>
<td>2000</td>
<td>385.1</td>
<td>165.1</td>
<td>220.0</td>
<td>(55.0)</td>
</tr>
<tr>
<td>2001</td>
<td>378.8</td>
<td>158.8</td>
<td>220.0</td>
<td>(61.3)</td>
</tr>
</tbody>
</table>

Note: US International Trade Administration, data available at http://www.ita.doc.gov/td/industry/otea/usfth/tabcon.html. Note that Austria, Finland and Sweden joined the EU in January 1995, but are included in all years in the table. Figures in parentheses indicate a negative balance.
European–American trade and financial alliances

Table 7.1b  US–EU trade, main products in 2001 (Euro mm and %)

<table>
<thead>
<tr>
<th>EU Imports Products</th>
<th>Value</th>
<th>EU Exports Value</th>
<th>US share of EU total, by products</th>
<th>US share of EU total, by products</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chemical products</td>
<td>28407</td>
<td>38781</td>
<td>36.7</td>
<td>27.3</td>
<td>10374</td>
</tr>
<tr>
<td>Transport. Materials</td>
<td>32317</td>
<td>52448</td>
<td>29.7</td>
<td>32.1</td>
<td>20131</td>
</tr>
<tr>
<td>Machinery</td>
<td>74556</td>
<td>65283</td>
<td>27.3</td>
<td>21.9</td>
<td>(9273)</td>
</tr>
<tr>
<td>Agricultural Products</td>
<td>9260</td>
<td>10743</td>
<td>11.2</td>
<td>17.4</td>
<td>1483</td>
</tr>
<tr>
<td>Textiles and Clothing</td>
<td>1870</td>
<td>5861</td>
<td>2.6</td>
<td>13.9</td>
<td>3991</td>
</tr>
<tr>
<td>Energy</td>
<td>2229</td>
<td>8922</td>
<td>1.5</td>
<td>37.3</td>
<td>6693</td>
</tr>
</tbody>
</table>


As Table 7.1a illustrates, total trade between the USA and the EU increased year after year in the 1990s. In 2001, the USA was the top trading partner with the EU in terms of total trade.\(^1\) Table 7.1b highlights this relationship in terms of the major products traded between the two. To further highlight the importance of the relationship between the EU and the USA, consider foreign direct investment by both the EU and the USA.

Table 7.2  US–EU foreign direct investment position on a historical cost basis, 1999–2002 (millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>US FDI in the EU</th>
<th>EU FDI in the USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>564.0</td>
<td>582.0</td>
</tr>
<tr>
<td>2000</td>
<td>609.7</td>
<td>814.0</td>
</tr>
<tr>
<td>2001</td>
<td>632.8</td>
<td>861.3</td>
</tr>
<tr>
<td>2002</td>
<td>670.0</td>
<td>862.6</td>
</tr>
</tbody>
</table>


As Table 7.2 indicates, both US foreign direct investment in the EU and EU foreign direct investment in the USA have steadily increased since 1999. Moreover, it is estimated that 4.9 million US jobs of which EU-owned firms directly provide 3.8 million, are supported by EU investment in the USA.\(^2\) As the data above indicate, the transatlantic relationship is continually strengthening. As the two economies become more and more intertwined,
a firm understanding of the connection between entrepreneurship and the economic, political and social environments becomes critical.

Understanding entrepreneurship within these contexts is no simple task. As will be discussed below, entrepreneurship can manifest itself in a multitude of ways and settings. To illuminate this, consider the case of the firm which is critical to the success of the transatlantic relationship. As Loasby (2002) contends, the firm ultimately exists because knowledge is incomplete, fragmented and often difficult to express in a usable form. Given the realization that the entrepreneur and firm are critical to the learning process, it must be recognized that a complete understanding of the learning process and the incentives that influence this process is largely undeveloped (Garrouste, 2002). Incentives that influence the continually evolving learning process, both within and between firms, stem from the structure of the firm itself as well as the political and social environment in which the firm’s agents must act. Of the utmost importance is the realization that competition between firms coexists with great potential for increased efficiency via cooperation and coordination of entrepreneurial activities (Dunning and Boyd, 2003). Such collaborations between firms can be viewed as an international public good. Furthermore because the learning process is integrated into the wider economic and political system, policies in other areas (education, labour laws and so on) may have a significant impact on the learning process itself (Archibugi et al., 1999; Lundvall, 1999).

Understanding this learning process requires a broader understanding of the effects of policies undertaken and their impact on entrepreneurship in the transatlantic relationship.

The cautious element of the relationship between the USA and the EU arises because increased trade, although presenting many opportunities for all parties involved, has also raised many political, social and economic issues (Fischer, 2000, p. 128). These issues are not new as they mirror in some fashion many of the tensions that have been present since the beginning of the US–EU relationship. The relevant issues include, but are not limited to, different laws and regulations in the different regions, the fear of monopoly and collusion, changes to ‘ways of life’ and ‘unequal distributions’ when borders are opened, and changes in standard of living.

In this chapter, we address many of the aforementioned issues. We begin with a general consideration of the notion of entrepreneurship. This theoretical rendering is critical since it provides the foundation for analysing the impact of various political, social and economic considerations on entrepreneurship. After setting forth an understanding of entrepreneurship, we consider entrepreneurship as a public good. We then turn to a discussion of destructive competition: the idea that entrepreneurship is destructive to jobs, progress and the established way of life. Also considered is the
role of the entrepreneur in establishing trust in areas where social capital may be deficient. Finally we will discuss the role of government in the transatlantic relationship.

At the basis of our analysis are two methodological frameworks which we employ to better understand the dynamic relationship between the EU and the USA. The first approach, market process theory, emphasizes the market as a continuous process which requires one to recognize that temporality, incomplete knowledge and hence error and uncertainty are fundamental categories of all economic action.3 Given the presence of uncertainty, entrepreneurs (and all economic agents) must always speculate to some degree on what the future will bring. As time passes and new data become available via entrepreneurial discovery, past uncertainty is removed and new uncertainty is introduced.

The second methodological approach is a comparative institutional approach which recognizes that the institutions in which entrepreneurs must act differ between geographic locations.4 Furthermore, not only are these institutions distinct, but they are grounded in the historical occurrences of a particular region. Examples include, but are not limited to, differences in laws, social protection from the state, government policies, tendencies towards cooperation versus competition and corporate governance (Hall and Soskice, 2001). Throughout this chapter, emphasis will be placed on the similarities and differences between the institutional structure in the USA and the EU and the impact on entrepreneurship. In this sense, this chapter can be seen as an extension and complement to the varieties of capitalism approach set forth by Hall and Soskice. The varieties of capitalism framework attempts to analyse institutional similarities and differences in order to better understand such things as economic and political capabilities, complementarities strategies and challenges (ibid., pp. 1–2).

THE NOTION OF ENTREPRENEURSHIP

Entrepreneurship has received much attention in the literature. Instead of recapping this extensive discussion here, we offer a brief overview of the notion of entrepreneurship. Doing so will provide a solid foundation for the analysis that follows in the rest of the chapter.

We must first note that entrepreneurship does not describe a distinct group of individuals. Rather, following Mises (1949, pp. 252–3) and Kirzner (1973), entrepreneurship is an omnipresent aspect of human action. Economic decision makers do not simply react to given data and allocate their scarce means to realize given ends. The entrepreneurial element in human action entails the discovery of new data and information, discovering anew
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each day not only the appropriate means, but also the ends that are to be pursued (Kirzner, 1973, pp. 30–87). Moreover, the ability to spot changes in information is not limited to a selective group of agents – all agents possess the capacity to do so. Every economic actor makes an estimate of the uncertain situation of his forthcoming action. This is not to deny that some agents are more alert to opportunities, but rather to assert that all agents have the ability to be alert.

The entrepreneur has been characterized as an innovator (Schumpeter, 1950, 1961), an arbitrageur (Kirzner, 1973), one who bets on ideas (Brenner, 1985; Mokyr, 1990) and as a forecaster and capitalist (Rothbard, 1962). It is reasonable to conclude that each of these elements plays a role in the notion of the entrepreneur. No matter what the notion of entrepreneurship, one can envision the entrepreneurial process as consisting of three distinct moments:

1. serendipity: this involves the initial recognition of the idea. The entrepreneur need not actively and continually search for new ideas. Instead, the entrepreneur who is alert to an unrecognized opportunity for profit can be said to discover that opportunity;
2. search: after the entrepreneur recognizes the idea in the previous stage, he engages in active search to gain more knowledge about the idea as well as its feasibility;
3. seizure: after recognizing a potential idea and deeming the idea feasible via active search, the entrepreneur bets on or seizes the profit opportunity through action.

The entrepreneur (in discovering previously unexploited profit opportunities, consciously organizing business affairs and actively capturing profits) pushes the economy at any point in time from an economically (and technologically) inefficient production point towards an economically (and technologically) efficient point. Moreover, in discovering new technology and new production processes which use resources in a more efficient manner, the entrepreneurial process shifts the entire production possibility frontier (PPF) outward (Kirzner, 1985). The tendency towards the efficient allocation of resources given a fixed stock of technical knowledge, coupled with the shift of the PPF, represents the essence of economic growth: an increase in real output due to increases in real productivity.

Given that entrepreneurs are always among us, it is critical to distinguish between productive and unproductive entrepreneurship (Baumol, 1990, 2002). Although often overlooked, it is the allocation of entrepreneurial activities that is of the utmost importance. Productive entrepreneurship is characterized by entrepreneurial actions which are transformative; that is,
catalysts of economic progress. Entrepreneurship aimed at productive ends either moves the economy towards the production possibilities frontier or shifts the PPF outward. In stark contrast, unproductive entrepreneurship is characterized by rent seeking, the evasion of laws and regulations and organized crime, actions which do not spur economic progress. Consequently these activities do not produce anything per se, but rather involve transfers of the current stock of resources. Unproductive entrepreneurship does not increase efficiency but rather increases deadweight losses through resources expended in securing transfers.

Whether or not entrepreneurial talent will be expended in a productive or unproductive direction is a function of the institutional environment within which individuals operate. The most fundamental notion of entrepreneurship we have discussed is the alertness an individual demonstrates in pursuing opportunities to better their current condition. It is within the human capacity to be alert to those opportunities that drive economic progress, but we must recognize that the institutional context within which individuals act will determine what opportunities it is in their interest to be alert to. An institutional environment that rewards productive entrepreneurial activity through the lure of pure profit will entice actors to be alert to such opportunities. On the other hand, an environment that rewards unproductive entrepreneurial activity through the reward of rents via predation will entice actors to expend effort in predatory behaviour. To realize the wealth-creating benefits of entrepreneurship, an institutional environment which wards off predation and rewards actors who satisfy consumer demands with profits must be securely established.

In other words, if we want the entrepreneurial moments of serendipity, search and seizure to be moments in a process of wealth creation, we must also institute rules of the game (and their enforcement) which make the payoff for productive activities higher relative to the payoff for unproductive activities. Such rules include security in private property and the freedom of contract. Absent the security of property and contract, gains from exchange will not be exploited and the entrepreneurial roles of ensuring efficient resource use and spurring innovation will be thwarted. The ‘spirit of entrepreneurship’ will not be eradicated but will be shifted towards unproductive ends.

Admittedly measuring or quantifying entrepreneurship is a difficult task. Various proxies have been used, including self-employment rates, business start-ups and ownership rates (Audretsch, 2002). However none of these perfectly captures the essence of entrepreneurship. The difficulty in measuring entrepreneurship stems from the fact that, by its very nature, it is a heterogeneous activity which can take on many shapes and forms. Attempting to apply a homogenous quantification is bound to lead to
problems of misrepresentation and mischaracterization. This poses a problem, then, for those trying to develop policies based on past or current quantities of entrepreneurship.

However there is a solution to this problem, focusing on the institutional mix which unlocks the entrepreneurial aspect of human action, as described above. That is, the question that should drive policy is this: what institutional structure best allows an individual to undertake productive activities in the form of innovation, arbitrage, betting on ideas and so on? The ability of individuals to act entrepreneurially, as well as the direction of their activities towards productive or unproductive ends, is directly affected by the institutional mix (political, economic and cultural) they act within. The institutional structures will encourage or discourage the general direction of entrepreneurial activities.

Of course, this also raises the critical issue of differing institutional structures in different regions and how those differences affect the opening of borders to entrepreneurship. There are both costs and benefits to the gradual integration of national markets. On the one hand, there are increased opportunities for trade, transnational production and the potential for efficiency gains via coordinated entrepreneurial efforts. However, on the other hand, the gradual integration of national markets leads to changes in competitive dynamics resulting from concentration trends.

The insights addressed above also have an impact on the potential for the standard competitive equilibrium framework that has been employed to understand these issues. The potential for such a framework must be considered in the context of national markets becoming more open and intertwined with other national markets. As entrepreneurship, trade and transnational production increase, an interdependent economic system is formed. As these dynamic changes have occurred, the market efficiencies and failures, as identified in the standard equilibrium model, have changed. As a result, the theoretical framework must be revised to incorporate these realizations.

ENTREPRENEURSHIP AS AN INTERNATIONAL PUBLIC GOOD

Having established what the notion of entrepreneurship entails, we now turn to a discussion of entrepreneurship as an international public good and the potential for market failure in providing this good. To begin with, it is necessary to clarify the theoretical meanings of ‘market failure’ and ‘public goods’.
Standard economic theory begins with the foundational assumptions of full and complete information, zero transaction costs and given prices which are beyond the manipulation of any one or group of individuals. Given this framework, economic theory dictates that individuals will exchange goods and services until all mutually beneficial exchanges are exhausted. This is a situation of Pareto optimality: any further exchange or redistribution would make some better off but would also reduce utility for others. In short, given these assumptions, the market is capable of reaching an efficient outcome.

The formal proofs of economic theory demonstrate that, under conditions of general competitive equilibrium, the economic system will simultaneously achieve (a) production efficiency – all cost technologies are employed, (b) exchange efficiency – all mutually beneficial exchanges from trade are realized; (c) product-mix efficiency – agents receive the bundle of products they are willing to pay for. Following from these simultaneous efficiencies are the two fundamental welfare theorems: an economy in general equilibrium is Pareto efficient, and any Pareto efficient distribution of resources desired can be achieved via the market mechanism.

Economists compare the market with the standard of the two welfare theorems when determining the presence or absence of a market failure. If a market does not meet this optimum, it is then considered a failure. Simply put, economists use the term ‘market failure’ to describe those situations where voluntary exchanges fail to obtain the efficient outcome. A good that produces a negative externality is an example of a market failure.

To understand the notion of public goods, consider a good that produces a positive externality. Further assume that (a) consumption of the good by one individual does not reduce the amount available for other consumers. That is, there is non-rival consumption; and (b) it is not technically possible to prohibit free-riders. If these two criteria are met, the good is then characterized as a public good. The most common example of this is national defence. The sense of security derived from a programme of national defence does not reduce the defence available to others. Once the service is produced, other citizens cannot be prohibited from enjoying the sense of protection. The issue then turns to the incentive structure present for agents to produce the optimal or efficient level of public goods. Standard theory dictates that the incentive will be lacking because non-payers cannot be excluded. While the production of the public good will not be non-existent, output will fall far short of the optimal level owing to the existence of free-riders. Even when the market does produce the public good, it is argued, it will not produce the socially optimal or efficient amount. The standard solution to this market failure is for government production of the good to make up for the shortfall. Having provided this theoretical...
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framework, we can consider entrepreneurship in terms of public goods and market failure theory.

Entrepreneurship cannot be considered a pure public good. Returning to the public good criteria established above, there are aspects that are both rival and excludable. However, there are significant benefits in terms of spillover that are non-rival and non-excludable. The public characteristics of entrepreneurship could be viewed as similar to the discussion of Sanford Grossman and Joseph Stiglitz (1980) regarding the public characteristics of information. But this would be to miss essential features of the entrepreneur’s role in coordinating market exchange. Grossman and Stiglitz argued that efficient conveyance of information would be underproduced in a competitive economy because, once private information is revealed in a market transaction, it becomes public information. Thus private actors will reveal less information than would be publicly optimal to achieve an efficient equilibrium.

Grossman and Stiglitz are led to this conclusion precisely because they fail to recognize the entrepreneurial element in the market process. The Walrasian system to which they are reacting presupposes a pre-reconciliation of all plans prior to exchange activity and, in so doing, all excess supply and excess demands are corrected. This theoretical perspective overstates the role played within the market economy by equilibrium prices and underestimates the role that disequilibrium prices play in generating market adjustments by economic actors. In short, prices serve a role precisely when reconciliation of plans must be worked out through exchange activity. Furthermore, assuming the individual private agent, given his current stock of information and knowledge, is indeed supplying information at the private optimal level, there is no way for any external party to calculate the optimal social stock and hence to claim that it is over- or undersupplied. To do so would require complete and perfect knowledge that one cannot possibly possess. What must be realized is that the continual disequilibrium that characterizes the market is the very thing that provides the incentive for entrepreneurs to obtain and exploit new information leading to continual market adjustments.

Given this rendering of the public good aspects of entrepreneurship, the key question is whether entrepreneurship will be undersupplied in view of these public good characteristics. Let us first consider the benefits of entrepreneurial activities and then, within that context, consider whether entrepreneurship is indeed undersupplied. As discussed above, the entrepreneur is continually alert to new profit opportunities, whether they are through arbitrage or through innovation. Thereby he raises the general standard of living for those around him as well. This occurs on several levels. By constantly introducing new goods and services to the market, the
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entrepreneur does not benefit only the buyer who is directly involved in the exchange. Consider, for example, the introduction of the computer. With the advent of personal computers and widespread access to the Internet in many households, new buyers and sellers, who were previously unaware of each other, were connected. In short, new markets were opened. By drastically lowering barriers to search, information and communication, the computer and Internet increased the number of buyers available to sellers and sellers available to buyers. From the comfort of their homes, consumers could order products for direct delivery from sellers located hundreds or thousands of miles away. The benefits of the initial transaction extended far beyond those involved in the initial transaction – the developer and subsequent buyer and seller of the computer. Entrepreneurs in addition to the initial entrepreneur who created and sold the computer were able to introduce their products and services via the Internet.

The public benefits related to the computer do not end here. The advent of the personal computer and the Internet also drastically lowered the cost of communication, both within geographic borders and beyond. The introduction of new technology expands the opportunity sets of individual agents, allowing them either to undertake new activities or to accomplish already existing activities faster than before. The result is that economic agents can dedicate their time and efforts to different activities where those who were not involved in the initial entrepreneurial act can and do benefit. For example, individuals can now do all their holiday and food shopping over the Internet at any time that is convenient, saving time involved in travelling, walking around stores, standing in queues and so on.

The same reasoning applies to firms who can now communicate with each other with and clients over the Internet, providing a plethora of new goods and services to an ever-expanding, worldwide market. Moreover technology increases the opportunities for partnerships between firms, allowing them to exploit new cooperative comparative advantages. In short the initial entrepreneurial act creates significant spillover effects. The potential for collaboration between firms and entrepreneurs is a significant international public good. Firms have an incentive to share relational assets and become more oriented towards innovative forms of complementary entrepreneurship. Furthermore, entrepreneurial coordination can overcome the problem of deindustrialization associated with international entrepreneurship (Dunning and Boyd, 2003).

We have now highlighted how the introduction of a good or service by an entrepreneur opens new markets by introducing buyers and sellers who may not have been previously aware of the exchange opportunity. But the activity of one entrepreneur also benefits other entrepreneurs in another fashion: the dispersion of knowledge throughout the market.
Market process theory informs us that entrepreneurs have varying degrees of knowledge and uncertainty. Each entrepreneur observes the world through a different lens and, hence, views opportunity, uncertainty, risk and so on differently than others. The particular knowledge of one entrepreneur is not the same as that held by others. Additionally, where one entrepreneur is more certain regarding an opportunity and outcome, others may not be. One can see then how the market process is continually progressing with the discovery of new knowledge and the removal of uncertainty. As one entrepreneur acts according to his stock of knowledge and uncertainty, others observe his activities and incorporate them into their stock of knowledge. Entrepreneurial activity spills over for all to observe and act on as well. The market process forges ahead as entrepreneurs in the current period build on the innovations and knowledge discovered by those in previous periods. The result is that the arrow of economic progress continuously moves forward.

A certain narrow reading of economic theory might suggest that, since the individual entrepreneur does not capture or internalize all the benefits from his activity, entrepreneurial activities will be undersupplied. But it must be realized that this does not mean that most of the benefits are not internalized. In fact, as we hope the preceding paragraphs have suggested, our historical experience with markets defies what narrow economic theory might dictate. Entrepreneurs capture profits by exercising the knowledge they have of ‘time and place’ and revealing the information they are in possession of through their actions in the marketplace. It is true that, once entrepreneurs introduce a good to the market, others outside the exchange will benefit. It is true also that, once entrepreneurs reveal information, it is in a fundamental sense now publicly available and free to others. However, as long as the private benefits are large enough, even if all the benefits are not internalized, we will still get the efficient level of entrepreneurship.

In fact, despite the public good characteristics, there is a strong incentive to be the first to market. At least in the short run, the first to market will earn supernormal returns. Only after others enter the market will those profits be eroded. In other words, entrepreneurial profits earned exclusively by the first to enter the market constitute the full internalization of that entrepreneurial act. Profits fall as more entrepreneurs act on the public information and enter the market. If we think sequentially, each subsequent entrepreneur internalizes the full benefit of having appeared in the market when he does: after some entrepreneurs but before others. Simply put, the lure of that pure profit from that initial recognition of the opportunity is enough to bring forth action and generate a series of market adjustments to better satisfy the demands of consumers. To continue with our example of the computer, its introduction created many new entrepreneurial opportunities:
new hardware, software, and so on. The fact that all these future profit opportunities were not captured by the initial entrepreneur did not prevent the introduction of the computer.

It is our contention that the spillover aspects of entrepreneurship will not cause an underproduction of entrepreneurial activities. Rather it is because these spillovers generate pecuniary benefits to those who are alert to the opportunities to realize gains from exchange that market economies realize, not only the degree of efficiency that they exhibit, but also the continual pressure to innovate (Baumol, 2002). In the context of the transatlantic relationship, there are many opportunities for concerted entrepreneurship. These collaborations have the potential to create significant positive spillover effects, benefiting both economies. This of course assumes that the institutional structure is such that the relative payoff for productive activities is greater than that for unproductive opportunities, so that cooperative potentialities can be exploited in an efficiency-enhancing manner.

**CREATIVE DESTRUCTION: THE IMPACT OF ENTREPRENEURSHIP ON MÉTIS**

We now turn to a discussion on the notion of destructive competition, the idea that increased levels of entrepreneurship lead to disruptive and growth-retarding effects at home. It is often argued that globalization leads to the destruction of a region’s ‘way of life’: jobs, industries, culture and the rest. We frame this issue in the context of métis to gain analytical traction. Métis, a concept passed down from the ancient Greeks, is characterized by local knowledge resulting from practical experience. It is one’s way of life or knowledge of ‘how to get things done’. It includes such things as skills, culture, norms and conventions, which are shaped by the experiences of the individual. This concept applies both to interactions between people and the physical environment (such as learning to ride a bike) and to the interactions between people (such as interpreting the gestures and actions of others). The notion of métis is tacit, in that it is not one that can be written down neatly as a systematic set of instructions, but rather is gained only through experience and practice.

In terms of a concrete example, think of métis as the set of informal practices and expectations that allow ethnic groups to construct successful trade networks. For instance, orthodox Jews dominate the diamond trade in New York City (and many other locales), using a complex set of signals, cues and bonding mechanisms to lower the cost of trading. The trade would not function nearly as well if we simply dropped random traders into the same setting; that difference can be ascribed to métis. This locus of informal rules
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is self-enforcing in that an overwhelming majority of traders are better off by sticking to the established rules which work to facilitate coordination. Firms, too, have a distinct métis, as highlighted by the recent attention that industrial clusters have received. In these clusters, the sharing of both tacit and codified knowledge by facilities within close proximity opens up many possibilities for complementary entrepreneurial ventures. As firms become more and more linked, the unique pre-relationship métis evolves and adapts to include the experiences of the cooperative relationship. Intercorporate trust therefore becomes central as it facilitates the interaction and exchange of knowledge between firms. For instance, the building of international production systems by transnational enterprises has extensive effects in terms of knowledge sharing between firms and entrepreneurs. Métis can be seen as an informal, common knowledge that allows individuals and firms to coordinate on a specific equilibrium offering high returns (Hall and Soskice, 2001, p. 13). The link with entrepreneurship as a public good should be highlighted. As entrepreneurs interact in different regions, there is significant spillover in terms of métis for others to observe and incorporate into their activities. To illuminate this point, consider that US firms in Europe have been adapting well to opportunities for representation in the EU’s business associations.

Given this understanding of métis, we can link it to one of the most widespread criticisms of globalization: the claim that it destroys the way of life of certain groups of individuals. By introducing American products in Europe, an American entrepreneur destroys part of the European métis and replaces it with American métis. The effects of increased entrepreneurship are even more destructive, it is argued. Not only is métis affected, but so too are jobs and industries in the country that is importing the products of the foreign entrepreneur. Furthermore, critics often choose some distribution (based on trade surplus, deficit and so on) at some point in time and discuss the ‘distributions of globalization’. More specifically they are concerned with the potential for an ‘unequal distribution’ due to globalization.

It is our contention that it is wrong to view changes in métis as destructive to the progress or ‘way of life’ of a geographic area. Métis is not a static concept that was created at some specific point and remains in that permanent state forever. Rather one must view the path of métis as a process that is continually changing. Over time, it is both created and destroyed.

Additionally, changes in métis are not necessarily due primarily to entrepreneurship. As people move between and/or introduce new products or services to regions, they bring with them a unique métis based on their personal experiences that influences and changes the existing métis. It is critical to remember that the current ‘way of life’ that critics of globalization are so quick to defend was not always in its current form. Rather the current
'way of life' evolved over time, destroying some métis while creating new ones and, through this process, arrived at its current state. This is the only way that man can progress. As Cowen convincingly argues, globalization allows for both increased homogeneity and heterogeneity of culture (métis). While some parts of the market become more alike, others become more different (Cowen, 2002, p. 16). In this regard, it is important to note that the EU, absent any relationship with the USA, has a continually changing métis as new members are accepted into the union.

The understanding of métis set forth here offers key insights into the potential problems of differing institutional structures in different geographic regions. For instance, Hall and Soskice (2001, pp. 8–21) distinguish between 'liberal market economies', where firms coordinate their activities via competitive market arrangements, and 'coordinated market activities' where firms depend more on non-market relationships, such as networking and strategic collaboration, to build competencies. The means of coordination within these two distinct spheres can be viewed as métis that has developed within these unique economies and institutional structures.

Anyone who views these differing institutional structures as being in permanent conflict falls into the fallacy of viewing métis as a static stock of knowledge. Rather applying the view of métis as a continually changing process forces one to realize that the current stock of métis has developed over time and will continue to develop as entrepreneurs from these different regions interact. There is no reason to assume that, over time, entrepreneurs (without interference preventing them from doing so) will fail to integrate aspects of the different institutional structures into their stock of métis, forming a completely new and distinct one. The key question then becomes determining the best way to form new métis. Should the government take an active role or should it focus on providing institutions which allow participants to interact and converge over time on a new and unique métis? By its very nature, métis cannot be planned by external parties. Emphasis should therefore be placed on developing an environment where parties with differing métis can interact productively, with the result being a new and unique métis.

It cannot be disputed that an opening of borders to international entrepreneurship has a distinct economic effect. It is true that jobs in the foreign country may be both created and lost. Companies and entire industries may be replaced. This, however, is an unavoidable result of economic progress. Those who lose their jobs because of a foreign entrepreneur are free to reallocate their labour towards other ends, which are more highly valued by society.

Economics dictates that if the desired ends are increased wealth and the efficient allocation of resources, unhampered entrepreneurship – within
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a general institutional framework – is the means to achieve the ends. Economics can say nothing of substance regarding the ends in themselves. It cannot judge them to be good or bad, moral or immoral; all it can do is analyse the validity of means in achieving desired ends. It has nothing to say when those who may lose their jobs to international competition claim that this is ‘unfair’ or ‘unjust’.

The fear then of ‘destruction’, meaning a loss of certain jobs, businesses and industries, is very real in the presence of unhampered international entrepreneurship. But it should be clear that this is the only way for a country (and mankind as a whole) to progress. Surely the producers of the horse buggy and whale oil could have been protected from the threat of entrepreneurship and the resulting innovations, but this would have been at the expense of modern forms of transport, electricity and economic and social progress. If economic and social progress are the desired ends, governments must be careful not to concern themselves with the ‘distributions of globalization’ at any one point in time. Rather focus must be placed on establishing a broad institutional framework which allows the market process – and the entrepreneur as the central figure of the process – to take its course.

THE WEAKNESS OF STRONG TIES AND THE STRENGTH OF WEAK TIES: THE ENTREPRENEUR AND SOCIAL CAPITAL

One of the key issues in opening borders to international entrepreneurs is the issue of trust or social capital. Notions and levels of trust differ across regions and geographic locations. This leads to the critical issue: will those in one geographic region trust entrepreneurs from other regions given differences in institutions, métis and so on? Will there be a general deficiency of trust? And how will this affect the entrepreneurial process and the benefits of uninhibited entrepreneurship? In this section we will attempt to address these issues.

The issue of trust is an important one because it influences the social sphere in which one interacts and exchanges. If one trusts one’s family or a close group of people, the extent of potential trading partners is severely limited. We refer to trust, and hence trade, within a small group of people as having strong bonds. The bonds are strong in that each party in a transaction knows the other quite well and deals with them on a frequent basis as part of their family or close social group. If, on the other hand, trust is more widespread, that is, beyond a small group of people, then trade can take
place within a much larger group of people. This case is characterized by weak bonds. While there is a trading bond with many partners in this case, the relationship, or bonds between them, is weak in that they are not directly related in terms of a family or small community unit. It has been postulated that those countries with high social capital, that is, with weak bonds, are more successful than those with strong bonds because the range of potential trading partners is drastically increased (see Fukuyama, 1995). However a specific mechanism for developing weak bonds over strong bonds has not yet been explored. It is our contention that the entrepreneur is the mechanism through which weak bonds, and hence economic development, occur.

Before moving on to explore the connection between entrepreneurship and trust, we must clarify what exactly the notion of trust entails. The framework we employ to consider trustworthiness in the case of the entrepreneur is the encapsulated interest account as put forth by Hardin (2002). This analytical construct dictates that agent A trusts agent B because it is in agent B’s interest to take agent A’s interests into account. The requirements for trust, however, are more stringent: both parties must want a continued future trading relationship. It is a combination of encapsulated interests and the desire for continuous dealings that forms the concept of trust.

The link between the entrepreneur and trust is a logical one. The entrepreneur, driven by the profit motive, has the incentive to satisfy the consumer in such a way that repeated interactions take place in the future. Notice that the two requirements set out above are fulfilled. As the encapsulated interest theory dictates, the consumer trusts the entrepreneur because it is in the entrepreneur’s interest to take the consumer’s interests into account. The entrepreneur wants to maximize his profits and the only way to do so is to satisfy as many consumers as possible. Furthermore it is in the entrepreneur’s interest to continue to meet the needs of the consumer over time (to engage in continuous dealings) in order to continue to gain profits.

In reality, the difficulty with the above theoretical rendering is that information is not perfect and therefore it is not always easy to determine if it is in the interests of others to take your interests into account. In short, there is an issue of credibility or trustworthiness due to a lack of information. How does one know that the entrepreneur is interested in continuous dealings, let alone in taking the interests of the other individual into account? The entrepreneur is continually attempting to solve this problem in three ways, two of which are direct and one of which is indirect.

The first is specifically related to the entrepreneur’s own business endeavours. He is continually making efforts to signal to current and potential clients that he is credible, that it is in his interest to take their interests into account and that he wants a continued trading relationship.
He signals in a number of ways, including advertising, displaying testimony from past customers, offering warranties, memberships, credit, return/exchange policies and so on. All of these efforts are aimed at fulfilling the two requirements for trust defined above.

In addition to the above, there is an indirect way in which entrepreneurs increase the general level of trust. Specifically we can link the discussion on the public good aspects of entrepreneurship to our discussion here of social capital. Recall that the activities of entrepreneurs, while not pure public goods, in many cases have significant spillover effects. The entrepreneur, via innovation, is continually lowering the costs and barriers to communication. By doing so, he makes it cheaper not only for himself, but for others, to communicate their credibility and trustworthiness to potential consumers. For instance, the entrepreneur who develops a new, creative form of advertising to market his business provides a spillover benefit to both other entrepreneurs and consumers who are able to benefit from the new advertising technique.

The issue of trustworthiness can also be linked to our discussion of métis. The knowledge gained from practical experience includes who is trustworthy and who is not. As economies and societies progress and métis expands, this information is known by more and more people. As progress occurs and new information technologies are introduced, the cost of obtaining information about others decreases, making trustworthiness more transparent. As borders are opened and entrepreneurs interact with consumers, the métis of each group, including the notion of trust, is altered in such a way that people learn how to ‘get things done’.

The third way that entrepreneurs increase trust is by directly entering the business of information dissemination. These entrepreneurs offer customers transparency and information regarding others. Examples include Consumer Reports magazine, industry and product newsletters and consumer credit agencies. Certain entrepreneurs also offer customers a rating system for a specific industry to signal trustworthiness, credibility and quality. Standard and Poor’s and Moody’s, for example, rate companies on the basis of their investment quality. Michelin is famous for its reviews of hotels and restaurants in various countries throughout the world. Underwriters Laboratory is a non-profit business that objectively tests products for a fee and offers a seal of approval to those products deemed safe. Where enough consumers demand information regarding others, entrepreneurs, driven by the profit motive, will rise to meet the need.

One can now see why we have chosen the title for this section. While strong ties are beneficial in that one has specific and detailed knowledge of one’s trading partner, they are costly in that there are severe limitations on the range of potential trading partners and, hence, economic progress. Weak
ties, on the other hand, despite the lack of specific information, provide strength in terms of the economic fabric of social cooperation. They allow for an increased range of trading partners and, hence, more opportunities for mutually beneficial exchanges and economic progress. We have argued that the entrepreneur serves as the mechanism through which weak ties are extended. He is constantly introducing new technologies that reduce the costs, and hence barriers, to communication and trust. Moreover there are significant spillover effects of the introduction of such technologies that allow many parties to benefit. Of course the success of the entrepreneur in carrying out this function of establishing weak ties is directly linked to the institutions – rule of law, private property and so on – that allow him to operate productively in the first place.

THE ROLE OF GOVERNMENT IN THE NEW ATLANTIC ECONOMIC PARTNERSHIP

Possible Roles of Government

The role of government is, without a doubt, of utmost importance to the success of the transatlantic relationship between the EU and the USA. The critical question is what specific roles and activities the governments should undertake in this context. There are two issues that will be covered here. The first is the creation of an environment that allows entrepreneurs to act successfully towards productive ends and the second is the fear of monopoly and/or collusion due to the opening of borders. It is with these concerns in mind that we must consider the role of the government.

One can consider two possible roles for the EU and US governments: they can either assume the role of a referee or that of a player. As a referee, the government is limited to enforcing general, endogenously emergent, institutional rules. Its capacity as ‘institutional builder’ is restricted to the mechanisms of enforcement and its presence in the social order is passive. As a player, on the other hand, the state not only enforces endogenously emergent rules of the game but also actively creates these rules and the institutional composition of society itself. In this capacity, government intervenes and exogenously imposes institutional order from above instead of merely providing a network of enforcement for indigenous institutional arrangements that evolve spontaneously from below.

It should be obvious that the role assumed by the government has a direct impact on the level of entrepreneurship that manifests itself in a specific economic environment. If the government takes an active role in shaping the economic environment, this will potentially suffocate some
aspects of productive entrepreneurship and direct entrepreneurial efforts towards perverse ends via unproductive entrepreneurship. For instance, when the government assumes the role of player, it makes itself vulnerable to pressures from special interest groups seeking favours via direct interventions in the economy.15

For example, both the US and the EU governments are subject to lobbying on the part of the agriculture and aerospace industries and provide them with subsidies and other favours.16 Another example that is relevant for EU policy is the powerful unions and their concern with competition from lower wage workers from East and Central Europe. The divide between Old and New Europe can in fact be rendered intelligible by reference to the power of interest groups to block the dynamic force of markets as instruments of social change. The Old Europe is committed to taming the transformative thrust of markets, while the New Europe has embraced markets as a prime vehicle by which to destroy the old institutional structures which produced economic backwardness and political repression for two generations. The battle line being drawn concerns whether government will be a force for change or a force for interest groups. Paradoxically government as a force for beneficial social change is best conceived as a referee. If the government assumes the role of a referee and enforces the general rules of the economic game – a well defined and enforced private property structure, a stable rule of law, minimal intervention in the economy and so on – one would expect productive entrepreneurship to flourish and unproductive entrepreneurship to decline.

The Market Process and the Role of Government

Having defined the two potential roles for government, it is beneficial to clarify the context in which governments operate to better understand their impact on entrepreneurship. Recall that market process theory dictates that we view the market as a continuous process which requires one to recognize that temporality and uncertainty are fundamental categories of all economic action. Furthermore, uncertainty, due to changing conditions and data, is purely a market phenomenon, one which all economic actors must deal with and one which cannot be removed. The entrepreneur must be recognized as an intricate part of the market process. He is continually discovering previously unknown data and removing the uncertainty inherent in the market.

Inherent uncertainty must be differentiated from created or structural uncertainty, which results from instability in man-made institutions. Such things as unstable political institutions, unstable economic institutions and unstable legal institutions would all serve to illustrate the notion of structural
uncertainty. When the government becomes a player in the market, it runs the risk of undertaking activities that lead to structural uncertainty. If the goal is increased economic progress via entrepreneurship, the focus of government should be on creating a stable environment for the market and hence productive entrepreneurship. This requires stable and generalized institutions rather than continuous interventions.

**Government Intervention**

Both the US and the EU governments may feel the need to intervene actively as players in the transatlantic relationship. Gains in European productivity may be seen as a threat by the USA, whose policy emphasizes relatively open markets with the underlying expectation that they will be advantaged by relatively higher efficiencies. On the other hand, the EU is concerned about the concentration of US firms in Europe. It is feared that European firms lag behind the US in technological innovation and are disadvantaged by unfavourable taxes and labour-related costs. This fear of creative destruction was discussed in an earlier section. If the goal is to promote economic progress, governments should undertake activities that minimize structural uncertainty. That is, they should provide a general framework of secure and enforceable property rights and a stable rule of law.

Yet another perceived intervention and regulation is to protect consumers of each geographic region. This issue is made more difficult because of differences in culture and values as well as regulatory objectives which make convergence a moving target. Examples include the EU’s ban on beef hormones that are critical to US beef production, the EU’s greater restrictions on genetically engineered crops as compared to the USA and differences in environmental protection. For example, the USA has much more stringent laws protecting dolphins and turtles, while the EU has stringent laws regarding eco-labelling (Vogel, 1997). It may be argued that what is necessary is a harmonizing of regulations, but, to the extent that the differences are due to differences in public opinion, such attempts will be difficult. For example, the populace in the EU places a higher value on fuel conservation and food purity than is the case in the USA, which could result in difficulty coordinating on laws that appease all involved (ibid., p. 61).

While there is no doubt that such disputes will continue, the government bodies must be sure not to use regulations as trade barriers or to favour interest groups. Regulations should protect the property of those within a geographic area. Where health, safety and protection of private property are at stake, there is potential for government involvement. However there should be great caution as to the extent of government involvement in
this area. Where health, safety or property issues are not at stake, the
government should remove itself from the process. Furthermore, where
there are private means of safety and/or health certification, government
need not get involved.

To illustrate this, consider EU Commission regulation No. 1677/88,
which states the degree of curvature of EU cucumbers as part of their
quality standards. This regulation clearly does not deal with safety, health
or property rights and, as such, is an unnecessary intervention. Of course,
this does not illustrate all government involvement, but is rather meant to
illustrate what can happen when governments take on the role of player.
When political favours and rent seeking characterize the political and social
environment, entrepreneurship shifts from productive to unproductive ends.
Instead of innovating, efforts are expended on rent-seeking activities. The
market has an inherent mechanism for quality control as manifested through
the preferences (and hence purchases) of consumers and the impact on
profits and losses. This mechanism should be free to operate to the greatest
extent possible. Finally, by myopically restricting policy choices to regulatory
and interventionist options, the potential for government agents to further
entrepreneurial learning and coordination will not occur. One example of
these potentialities is SEMATECH, which is a collaborative effort among
the leading US semiconductor companies with government. The programme
has been relatively successful and has been singled out as a role model for
government–industry collaboration (see Spencer and Grindley, 1993).\textsuperscript{18}

\textbf{Collusion and Monopoly}

The fear of increased collusion and/or monopoly is yet another issue related
to the increase in complementary entrepreneurship between the USA and
the EU (see Boyd and Rugman, 2003). The EU has laid out its regulation
of cartels in Article 85[81] of the European Community (EC) Treaty which
prohibits agreements that affect trade between the member states where they
have as their objective the prevention or distortion of competition within
a single market. Likewise the EU has clarified its competition policy as it
relates to monopoly and has specified a list of abuses in Article 86[82] of
the EC Treaty, including selling at extremely high prices, predatory pricing,
restricting production, discriminating against certain customers, refusing
to supply the product in particular cases, imposing exclusive purchasing
agreements and strengthening a dominant position via merger with a
competitor. It is our contention that the fear of collusion and monopoly
has been overstated in both the USA and the EU.\textsuperscript{19} The market process
approach offers key insights into the issues of collusion and monopoly.
To reiterate, the key is to view the market, not at a static point in time, but rather as a continually evolving process.

The common argument against cartels is that they restrict output or restrict competition. Such restrictions, it is claimed, injure consumers. However, as long as there are free entry and exit from an industry (that is, the lack of government enforcement of the cartel agreement), a cartel is unstable for several reasons. The first is the chiselling effect of members cheating to obtain more of the profits from the cartel. In the absence of an effective enforcement mechanism, the cartel, as a result of the chiselling effect, will eventually break down. Furthermore, if there are increasing profits in an industry, one would expect a tendency for others to enter that field. The critic may vociferously object and claim that entry is not really free because not anyone can enter at any moment they choose. This, of course, confuses freedom of entry with the ability to enter. Just because there is free entry does not mean that each and every person is able to enter for reasons of personal capabilities, monetary or capital resources and so on.

Turning to monopoly, the neoclassical price doctrine states that a certain quantity of a good, when produced and sold, leads to a competitive price. A monopolist or cartel can, if the demand curve is inelastic at the competitive price, restrict quantity and raise the price. However the market process approach demonstrates that there is no such thing as a competitive price as neoclassical theory dictates. And, if no competitive price is discernible, there is no possible way to determine a monopoly price which is higher than the competitive price.

The reason why no competitive and hence monopoly price is discernible is that, while neoclassical theory assumes a given supply and demand curve with a resulting competitive price, in reality the demand curve is not given to the producer. Rather the producer must discover demand through the market process and continuous discovery of changing information and data. As this discovery process continually unravels, there is no way of telling if a producer, in changing output and price from period to period, is moving above or below the competitive price. In this sense, even what one would term a monopolist is an entrepreneur, as he is continually discovering new data and meeting the demands of consumers to avoid new entrants eroding his market share.

It is true that the efforts of government must focus on maintaining a competitive environment, but what this requires is not monitoring of the market environment at a specific point in time to determine the degree of competition. Rather, to truly foster an environment of competition, all barriers to entry must be removed by government. This means that all subsidies, tariffs and other special political favours which restrict the entry of competitors must be removed. Until the ultimate goal of removing
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barriers is met, any efforts by both the USA and the EU in this area should be to lower the costs and resource misallocation resulting from multijurisdictional antitrust enforcement. As long as standards differ across borders, inefficiencies will continue to exist (Evenett et al., 2000, pp. 20–23).

CONCLUSION

We have argued that unhampered entrepreneurship is critical to fully capturing the positive-sum gains that exist in the transatlantic relationship. Toward this end, we explored the role of entrepreneurship in economic progress, in the context of a public good and in the development of métis and trust. We also discussed the role of government and the potential impact of assuming various roles. We can now put forth some general guidelines for the achievement of a successful transatlantic relationship in the context of entrepreneurship.

1. **Focus must be placed on the market process instead of the planning process.** The entrepreneurial–competitive market process serves systematically to ensure a tendency towards an allocation of society’s resources which reflects consumer preferences, as well as alerting consumers to hitherto unattainable possibilities for fulfilling those preferences. Given the inherent uncertainty of the market and localized knowledge of specific geographic areas, entrepreneurship and the allocation of resources cannot be planned by central governments. Rather governments should focus on creating an institutional framework that allows the entrepreneurial aspect of human action to manifest itself.

2. **There is a tradeoff between economic progress and other, competing ends.** Economics dictates that, if efficiency and economic progress are the ends, unhampered entrepreneurship is the means. If other ends (protecting domestic jobs, maintaining a current ‘way of life’ and so on) are valued more highly than efficiency and economic progress, the transatlantic relationship will fail both to yield ‘economic development’ and to contribute to the expansion of ‘world trade and closer economic relations’.

3. **The consumer is the captain of the economic ship.** It must be remembered that, in an unhampered market, entrepreneurs are at the whim of consumers. It is only through serving the consumer that the entrepreneur makes a profit. The allocation of resources and the resulting changes in ‘ways of life’ cannot be blamed on entrepreneurship per se, but are solely due to consumer preferences. As Mises wrote, ‘They [entrepreneurs] are at
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2.22

the helm and steer the ship. A superficial observer would believe that they are supreme. But they are not. They are bound to obey unconditionally the captain’s orders. The captain is the consumer’ (1996, pp. 269–70).

4. Differences in métis are only short-term barriers to development. It is critical to remember that métis is not static. When borders are opened, the indigenous populace gains experience from interacting with foreigners. As these interactions continue, there is synergy between the domestic and foreign métis that creates a new and unique métis. It is true that this may take time, but it must be realized that this unique métis is beyond the grasp of any single mind (or group of minds) and cannot be planned.

5. Opportunities for unproductive entrepreneurship must be minimized. Unproductive entrepreneurship does not result in increased efficiency or economic progress. Rather it results in transfers of existing wealth as well as large-scale deadweight losses. In order to avoid unproductive activities, the payoffs to productive entrepreneurship must be relatively higher than unproductive entrepreneurship. It is critical to realize that, when government takes on the role of a player, these opportunities increase. Instead, the focus should be on a general framework (private property, a stable rule of law and so on) that applies equally to both private citizens and political agents and which allows productive entrepreneurship to serve its function.

NOTES

* We would like to thank Gavin Boyd, Peter Leeson and participants in the conference on Alliance Capitalism in the New trans-Atlanitc Economy, St. Mary’s University, September 26 and 27, 2003 for helpful comments. We acknowledge the financial assistance of the J. M. Kaplan Fund to support our research. The usual caveat applies.


3. For detailed expositions of the market process, see Kirzner (1992) and Boettke and Coyne (2003).

4. We follow the New Institutional use of the term ‘institutions’ to mean both formal and informal institutions.

5. For more on the institutions necessary for entrepreneurship, see Boettke and Coyne (2003).

6. In standard welfare economic theory, the term ‘efficiency’ is equivalent to Pareto optimality.

7. A negative externality occurs when a voluntary exchange between two agents negatively affects the utility of a third agent. The third agent bears some of the cost without compensation and hence the outcome fails to meet the Pareto optimal standard.


10. For a discussion of national values and culture and how they affect cooperative and competitive interaction between firms, see Boyd (2003, pp. 26–9).

11. For a discussion of the trends in expanding the international production system, see the 2000 World Development Report by the United Nations Conference on Trade and Development.

12. One can see a connection with the discussion here of métis and Dunning’s (2003) discussion of R-assets.

13. One could take issue with the use of the term ‘coordinated market economies’ to describe those situations where non-market mechanisms are used, given that it is the very presence of a price system – a market mechanism – that coordinates the activities and plans of economic actors.

14. This terminology is borrowed from Granovetter (1973).

15. For an example of this, see The Economist, 26 July 2003, which addresses the excessive business regulation in the USA: business regulation is a $1 trillion annual industry of rent seeking. The article also addresses the influence of special-interest groups on business regulation (page 12) and the excessive financial regulations in the EU. The EU regulations are so cumbersome that, in many cases, even the government fails to follow them (page 51).

16. Under the Uruguay Round Agreement the ceiling for domestic farm subsidies is $19.1 million for the US and $62 million for the EU. Furthermore, it is estimated that the EU spends approximately $5 billion in subsidizing exports each year, while the US spends around $200 million. (Source: US Embassy Press release #66/02, June 25, 2002, available at http://www.usa.or.th/news/press/2002/nrot066.htm).

17. It should be noted that there are many areas where the USA and EU cooperate: for example, regarding mutual recognition of standards in the areas of drugs and medical devices.

18. For more on technocratic contributions to the evolution of technology based corporate linkages, see Macher et al. (1998) and Ham et al. (1998).

19. Although we do not go into detail here, the USA has competition/anti-trust policies similar to those of the EU. For more, see the Department of Justice, antitrust website at http://www.usdoj.gov/atr/. See also, Boyd and Rugman (2003).

20. Note that the fact that the demand curve is not given leads to problems not only with determining the competitive price but also in regulating monopolies. For more on the problems of neoclassical monopoly theory as well as applied case studies, see Armentano (1982).

21. Venit and Kolasky (2000) contend that there has already been considerable convergence between the competition policies of the USA and the EU.

22. These are a few of the ‘major fields’, as laid out at the EU–US Summit in Madrid, 3 December 1995.

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