

Entrepreneurial Capitalism and the End of Bureaucracy:
Reforming the Mutual Dialog of Risk Aversion

By Carl J. Schramm
President and C.E.O., Ewing Marion Kauffman Foundation
Batten Fellow, The Darden School, University of Virginia

American Economic Association
2006 Meetings

Boston, Massachusetts
January 6, 2006

Copyright, Carl J. Schramm, 2006. All rights reserved.

Entrepreneurial capitalism, like the end of the Soviet system, came upon us quite by surprise. By entrepreneurial capitalism I mean the system of markets energized by a shift from industrial and labor capital to intellectual capital that has been forced by a continuously increasing rate of technology development and continued efficiency gains in capital markets. These forces have allowed the formation of new technology-related businesses by individuals who can, in many cases, act without enormous quantities of financial capital, and who bring their innovation to markets eager to embrace new products and services that, in turn, yield yet more innovation.

That we can describe such an economy would come as news to a scholar who understood nothing more than economic literature as it was formed by Keynes, Schumpeter, Galbraith and Drucker. Each presented a view of national economies headed down an inevitable path that would end with bureaucracy stifling capitalism, or perhaps substituting itself for market decision making. (Schumpeter suggested that capitalism might even be transmuted to socialism through the workings of bureaucracy.) In each case, the fallacy may be laid to a tendency to underestimate either the importance or the resilience of the entrepreneur. Despite being overlooked or explicitly written out of our economic drama, it turns out that entrepreneurs are resilient in ways never appreciated. Indeed, we are now coming to understand that they have an evergreen role to play. They appear to be the sustaining force of democratic capitalism. Thus, in addition to being a species that is apparently hard to see and difficult to exterminate, they play a central role in the undisputed objective of our managed economy, namely, growth.

Keynes raised the expectation that market economies could be managed in a way that would prove to be not only effective but *predictable*. To his credit, he strengthened our theoretical understanding of monetary policy and provided a new grounding for public budgets, complete with a rationale for deficit spending.

During and after the Great Depression, his vision of how an economy could be managed was embraced with such force that its grip would not dissipate for at least forty years. What Keynes and his followers did not grasp, however, was that much of an economy's vitality comes from the creative, disruptive (and inherently *unpredictable*) work of entrepreneurs in bringing new technologies and business methods to market. Schumpeter, meanwhile, recognized this fact very clearly, yet in his capstone book *Capitalism, Socialism and Democracy* he worried that entrepreneurs were becoming a dying breed. Large firms would inevitably squeeze out smaller firms, he wrote, and this along with other factors would eventually cause market economies to decay as the important role of the entrepreneur was made obsolete.

Schumpeter echoed his contemporary and early enthusiast, Max Weber, in identifying the growth of bureaucracy in large firms as a fateful metamorphosis which in turn would be encouraged by expanding governmental bureaucracies. Weber saw the end of the entrepreneurial spirit as the direct result of scale within firms. The need for predictability would require rules that would make innovation and spontaneity, the very essence of firms at their birth, a less and less welcome characteristic. Government's rule-making authority would be tilted in favor of large-firm consolidation with less concern for protecting the consumer in the marketplace. The inconsistent history of our antitrust experience reflects the tension between unpredictable market outcomes and predictable large-firm economics.

At the end of the 1960s, Galbraith presented a modernized view of how predictability could be achieved by advancing anew the idea of a planned economy. In his book *The New Industrial State*, he erected a vision of balanced institutions wherein big business, big labor and big government would manage growth and price stability. Needed regulatory authority would be built into the federal system, while emerging technologies were developed by existing firms. Industrial consolidation became all but official policy. As to the role of the

entrepreneur, Galbraith spoke clearly: “Everyday discourse...recognizes this change [the setting aside of the entrepreneur]. It replaces the entrepreneur, as the directing force of the enterprise, with management.”¹ As the century drew to its last quarter, Peter Drucker became the successor voice for industrial consolidation and trust in scientific management. He, too, spoke explicitly of the demise of the entrepreneur in the face of a corps of professional business administrators whose ability to establish large scale systems of control would permit firms to grow infinitely large. As late as 1993, he declared the entrepreneur as all but irrelevant – “they have almost ceased to matter.”² They have been “replaced by “professional managers,”” he wrote, citing Alfred D. Chandler as his authority.³ Indeed, Drucker extolled the efficiency of corporate bureaucracy.

Thus, in the last century, theorists moved from lamenting the loss of the entrepreneurial function to seeing entrepreneurs as unnecessary. In their stead had arisen the professional and managerial class (Galbraith’s “technostructure”) running large-scale firms. The rise of bureaucracy was seen by some as a necessary evil, but by others as furnishing the staff of stewards needed to support professional management.

Before proceeding, it must be said that our disciplinary forebears might be excused for their focus on predictability as the superordinate goal of policy. The Great Depression produced a trauma that few disciplines have ever internalized as academic economics did. Similarly, the economic chaos of the Weimar era that gave birth to European fascism was never far from mind, nor in later years was the terror of stagflation that brought the American economy to the brink of central planning. With economists knowing that human welfare could hang on their prescriptive analyses, it is no wonder that they strove for equilibrium in their theorizing, and that economic policy (almost by default) came to be seen as a

¹ John Kenneth Galbraith, *The New Industrial State* 84 (1967)

² Peter F. Drucker, *Post-Capitalist Society* 6 (1993)

³ *Ibid* at 5, citing Alfred D. Chandler, *The Visible Hand* (1977)

matter of achieving equilibrium by balancing big government, big business and big labor. Indeed, it was from this perspective that respected economists could credit the Soviet system with an efficacy which it never really had.

We owe a great debt to our colleague Will Baumol for his insistence upon the obvious importance of the entrepreneur to the capitalist system. In *The Free Market Innovation Machine: Analyzing the Growth Miracle of Capitalism*,⁴ Baumol reaffirmed Schumpeter's insight that the entrepreneur is the prime mover of economic activity. The insight may seem obvious at the present time, given that we now have iconic entrepreneurial figures all around us. But even while our economy is undergoing profound change at the hands of these people, as theorists we have yet to develop a framework with which to understand the new world ahead and to puzzle through its implications, such as the one considered here: namely, the future of bureaucracy.

Elsewhere I have proposed part of such a framework⁵ and will now expand upon it for the sake of examining bureaucracy and its role in economic and political life. When we think about the economic model that prevailed through the last century, which I will refer to here as industrial capitalism (a term that roughly embraces other descriptors including "big-firm" capitalism,⁶ bureaucratic capitalism⁷, and the more Marxist nuance of "money" capitalism), we can see that it was indeed composed of three central players as Galbraith suggested. Big labor, business and government coexisted and encouraged a balance of power as a means of achieving equilibrium or predictability. Galbraith described the balanced duopolies amongst any two players as "countervailing" power relationships.

⁴ William Baumol, *The Free Market Innovation Machine: Analyzing the Growth Miracle of Capitalism* (2004)

⁵ Carl J. Schramm, "Building Entrepreneurial Economies," *Foreign Affairs*, July-August 2004, at 104.

⁶ A term favored by Baumol, private correspondence.

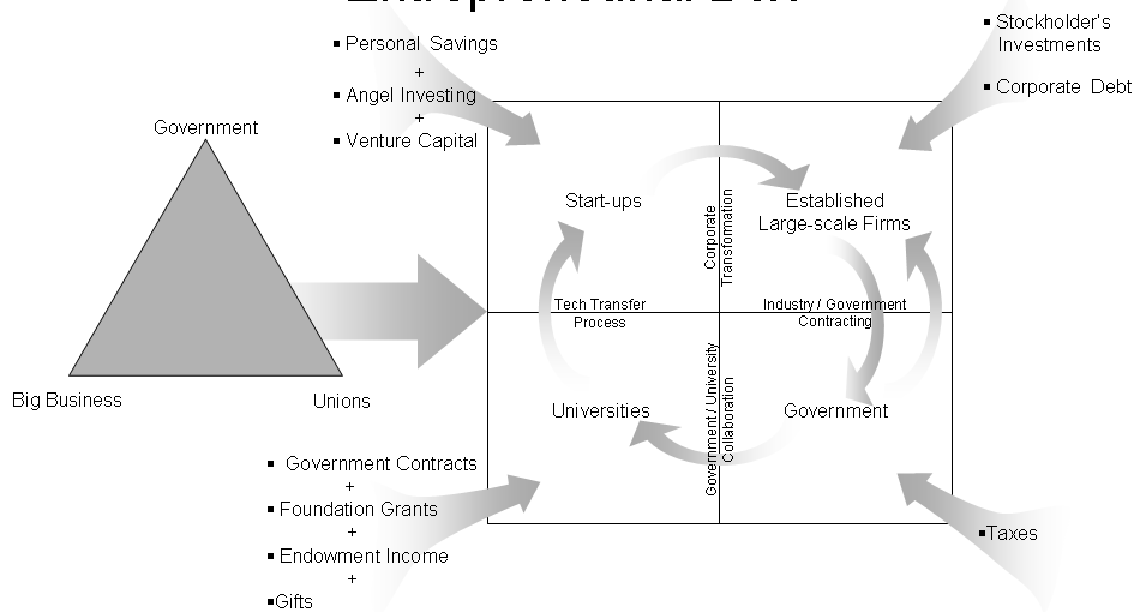
⁷ See Carl J. Schramm, *The Entrepreneurial Imperative* (forthcoming 2006).

This institutional troika was disturbed during the 1970s and 1980s by several forces that include international economic pressures, tectonic shifts in political power within the U.S., and an unprecedented expansion in human capital that resulted in an unexpected discontinuity in the rate of technological innovation. Contrary to what Schumpeter and others suggested, the American (as well as the British and Irish) economies did not progress toward a more socialist solution. Rather, it now appears that a new alignment of institutional forces emerged to allow a resurgence of entrepreneurial activity. Organized labor lost its former influence as the number of industrial workers in the U.S. declined. Large firms remained important factors in the economy, but those that survived the turbulence of the 1970s and 1980s were not the same kinds of large firms that had existed before: the restructuring movement made many of them leaner and more outsourced rather than heavily staffed and tightly integrated; it made them more flexible and dynamic. And, government ceded a large measure of control as political leadership called for the deregulation of many industries, including telecommunications, airlines, energy and capital markets.

We can envision the shift from industrial capitalism to entrepreneurial capitalism (a positive descriptor of the “post-industrial” period) with the aid of Exhibit 1. Here we see the emergence of an economy driven by *four* institutions. Large firms and government continue to be prominent, although playing their parts differently. (One of the key roles of government in the new system is the funding of basic scientific research, which it has been doing increasingly since World War II, and which is now seen as pivotal.) Organized labor fades from the picture, while entrepreneurial firms and universities assume roles of much greater importance (the latter, in large part, because of their creation of intellectual property that is routinely commercialized). In the emergent system there is less of a concern for equilibrium among the four institutions. Rather, each appreciates its dynamic role in moving the economy forward in ways that cannot be foreseen. Indeed, one hallmark difference between the two economic systems is that the predictability and order of bureaucratic capitalism is being replaced by the unpredictable and

“messy” nature of entrepreneurial capitalism. The illusion of certainty and control that attended the balanced trivet of big companies, unions and government is replaced by the disruptive forces of entrepreneurs who have little taste for certainty. Moreover, entrepreneurs display an active antipathy toward bureaucratic control, as we shall see.

From the Industrial Triangle to the Entrepreneurial Box



The concept of bureaucracy provides an interesting perspective on the evolution of the nature of the economy. The search for equilibrium (or predictability, or differently, the minimization of risk and surprise) and its inevitable preference for large firms and consolidation, provided a powerful rationalization for bureaucracy, both public and private. Galbraith, Durkheim⁸ and Drucker justified bureaucracy by articulating their views that as economies mature they inevitably rely more and more on large institutions. The solution to purposeful management of such institutions is to provide professional management through professional bureaucracy. Business school curriculum was reformed in the 1950s to embrace

⁸ See Emile Durkheim, *The Division of Labor in Society* (1933)

this role for managers. (Alfred P. Sloan's *My Years With General Motors* emerged in the 1960s as the universal text in these schools. It is a manual for traditional large-firm bureaucracy.) Regarding public institutions, new schools of public administration developed to teach the methods of professional bureaucracy.

Bureaucracy has been criticized continually.⁹ However, the phenomenon is so taken for granted that the question of its future is seldom considered.¹⁰ Even von Mises could provide little in the last chapter of his *Bureaucracy* other than a lament as to its inevitability.¹¹ For the most part we have educated ourselves to see bureaucracy as a necessary evil, a self-protecting and self-enhancing institution permanently embedded in complex economies. And given the long-held belief that not much can be done about bureaucracy, it has occupied little in the way of analytic attention. There are well accepted theories of why it exists; none are mutually exclusive. The most important seems to be that it is necessary for organizations to achieve scale and maintain the organization's authority and purpose as it grows. Others suggest bureaucracy exists to ensure fairness, especially within the public sphere; or, to maintain and store information that is needed for the organization to proceed. Nearly all theorists see it as orthogonal to human creativity and innovation.¹²

Bureaucracy however can be looked upon like other dynamic social phenomena. Although it is often perceived, like the universe, to be continuously expanding,

⁹ See, e.g., William H. Whyte, *The Organization Man* (1956); James Q. Wilson, *Bureaucracy: What Government Agencies Do and Why They Do It* (1989); David M. Gordon, *Fat and Mean: The Corporate Squeeze of Working Americans and the Myth of Managerial 'Downsizing'* 33-60, *passim* (1996); Jason Jennings, *Think Big, Act Small* 116-117 (2005).

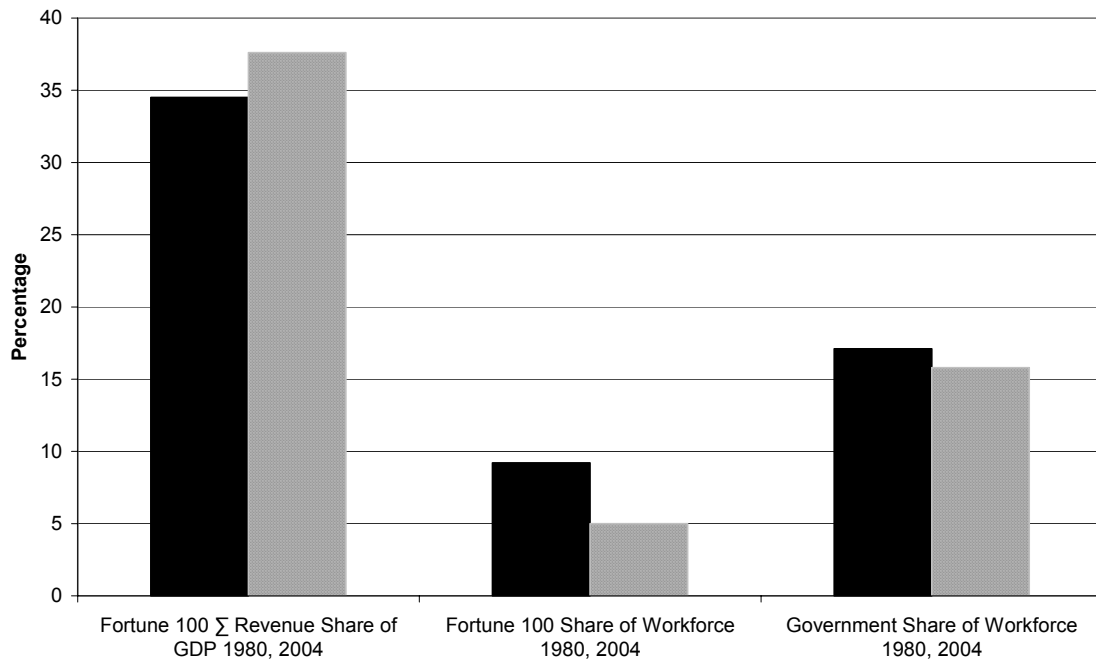
¹⁰ Cf., Jesper B. Sorenson, "Bureaucracy and Entrepreneurship," unpublished paper, Massachusetts Institute of Technology, June 2005. This paper finds that employees of large firms are less likely than other members of the workforce to become entrepreneurs.

¹¹ See Ludwig von Mises, *Bureaucracy* (1944).

¹² For a broad canvassing of works exploring the benefits and drawbacks of bureaucracy, see Paul S. Adler, "Two Types of Bureaucracy: Enabling and Coercive," 41 *Admin. Sci. Q.* 61 (March 1996). See also Schumpeter, *Capitalism, Socialism and Democracy* (1942) and *Imperialism and Social Classes* (1951); James E. Rauch, "Bureaucracy, Infrastructure, and Economic Growth: Evidence from U.S. Cities During the Progressive Era" (NBER Working Paper, December 1994); W. Edwards Deming, *Out of the Crisis* (1982).

there are reasons to believe that it may contract, in part because some of its justifications may no longer hold. As our economy evolves into a new form, moving from industrial capitalism to entrepreneurial capitalism, the predicates for bureaucracy may themselves be changing. This transition may not become immediately apparent, although private sector productivity gains¹³ may suggest that bureaucracy is slowly eroding within firms while it makes its last stand within governmental institutions. (See Exhibit 2).

Exhibit 2



Bureaucracy is, in its essence, a means of communication whose purpose is to reduce risk. Within organizations, the risk-averting dialogue is articulated in rules that bound the behaviors of people and control processes. There is also an inter-institutional dialog that establishes rules which similarly limit individual decision making in order to reduce risk and to comply with larger social objectives

¹³ Since 1980, employee headcount within *Fortune* 100 firms as a share of the civilian workforce has fallen in half, even as revenue in these firms has grown by more than 350%. At the same time, employee headcount within government has risen in absolute terms and remained at a steady percentage of the civilian workforce (see Exhibit 2).

articulated by the legislature. Necessarily, by constraining risk, bureaucratic rules are perceived as unfriendly to entrepreneurs. It is not an overstatement to say that both in private firms and in government agencies, entrepreneurs have oft been hunted down and eliminated. Their disruptive behavior presents a challenge to the goal of predictable (low-risk) outcomes.

In industrial capitalism the inter-institutional bureaucratic dialog blossomed during World War II and continued to grow during the Cold War. The economy during this period was characterized by extensive cost-plus government contracting and rules protecting unionized workers (e.g., Davis-Bacon). Bureaucracy developed as a common idiom for rule-setting. While their objectives may have been different, government and private-firm bureaucracies engaged in an ongoing dialog with clearly articulated rules of engagement. Government bureaucracy was nominally committed to ensuring value in government purchasing while industrial bureaucracy was committed to expanding government-firm relationships and monitoring efficiency within the firm, in large measure to comply with government expectations.

With the re-ignition of modern entrepreneurial capitalism, the nexus among the three dominant institutions was disturbed and necessarily the purpose of their bureaucratic conversation was as well. Indeed, we might think of the present time as one where bureaucratic norms are being reexamined and largely resisted or discarded in large firms. The wrenching reform of American manufacturing led to what we now recognize as non-hierarchical or “flat” organizations. Relations between big firms and labor also are not as bureaucratic as they once were, in some cases because the unions have shrunk or been displaced, in others because concessions have been made on matters such as rigid work rules and staffing levels. And of course the new entrants, the entrepreneurial firms, are aggressively non-bureaucratic. Weber saw this when he wrote: “The capitalist entrepreneur is, in our society, the only type who has been able to maintain at

least relative immunity from subjection to the control of rational bureaucratic knowledge.”¹⁴

As for the nature of the bureaucratic dialog between government and business, that too has changed markedly in the last forty years, but not necessarily for the better. The federal government’s side of the dialog largely has moved from accounting oversight of federal purchasing (minimizing the risk of ill-spent public monies) to dictating larger social objectives that firms should seek, and to curtailing corporate behaviors that are seen as putting the society at risk of unacceptable outcomes or externalities. Not only do these directives impose financial costs on firms, but they also in many cases spawn the growth of new bureaucracies *within* the firms. The enforcement of occupational health and safety standards is a case where the government engages in such precise behavioral prescription that compliance requires a new staff within the company. Likewise the Sarbanes-Oxley standards, meant to prevent investor fraud, have provoked the mustering of armies of specialists to ensure internal compliance. Indeed, one could look at the bureaucratic conversation as having become distinctly hostile to business firms.

And, just as the dialog between the federal bureaucracy and business has changed, the conversation within government bureaucracies themselves has changed. Since the coming of the Great Society in the 1960s the federal bureaucracy has effectively directed state government behaviors regarding, *inter alia*, public roads, housing, discrimination (including race, gender, disability, age, religion, and sexual preference), the provision of health care to the poor, drug usage, and environmental protection. The infamous phrase “unfunded mandates” refers to the imposition by the federal government of new programmatic responsibilities, often defined by the courts and by the bureaucracy in terms of rights, that are made without coincident federal budget resources. In fact, it could

¹⁴ Max Weber, *The Theory of Social and Economic Organization*, Talcott Parsons, ed., 339 (1947).

be said that federal directives to the states (and also to business firms) have a new and most convenient sort of “risk-avoidance” effect: they allow federal office-holders to minimize *political* risk by appearing to cater to all sorts of constituent groups clamoring for protection.

This observation suggests an historic perspective on the changing nature of bureaucracy through time. Through the post-Civil War period the federal bureaucracy grew slowly. It began to gather weight as the Progressive movement saw the federal government as an instrument for rebalancing economic interests amongst regions of the country and between classes. Herbert Hoover’s “associative state” was based on a similar belief in bureaucracy’s superior ability to operate as a more enlightened force than the traditional three branches in adjusting interests. World War II brought forth an enormous expansion of bureaucracy and its role in balancing the interests of the people (government), business and unions. In the postwar period, bureaucracies in each of the trivet institutions understood their common purpose in strengthening a predictable economy. As the Great Society emerged, the federal bureaucracy became more active in advancing an affirmative program of redressing social and economic wrongs through direct transfer payments and specific programmatic initiatives. Finally, as entrepreneurial capitalism has emerged and as business has reassessed the value of its bureaucracy, indeed seeing it as an obstacle to entrepreneurial action, the federal bureaucracy has found itself pursuing a different agenda and speaking in the imperative in the inter-institutional dialogue.

This trajectory of the changing nature of bureaucracy, from a cooperative system of interacting bureaucracies sharing a joint goal of minimizing economic risk to a system where governmental bureaucracy is in ascendance even as it changes its role to minimizing political risks, provokes reflection on several implications for public policy and areas for future research. Obviously, entrepreneurial capitalism is dynamic. Relative to industrial or bureaucratic capitalism it is messy, and its

course is less predictable than in previous periods where government actively sought to affect certain outcomes. There is less concern for which particular firm's interests are affirmed. The political power of entrepreneurial firms and the need for large firms to engage in a symbiotic relationship with entrepreneurial firms has reduced the ability of established firms to rely on government to protect their interests. And, as noted, the focus of bureaucracy is shifting from protecting against economic risk to protecting against political risk by expanding individual rights.

From the perspective of political economic theory the propositions presented here suggest that bureaucracy to enforce economic order is less and less important. If firms can reduce their bureaucracies to only good economic effect, then there is a question as to whether government bureaucracy should be permitted to evolve into a new role – one of enforcing political rights. Of course, this is really a question for the legislature, which bestows through delegation its powers to implement permanent bureaucracy. Just as the legislative process faces the problem of finding it difficult to repeal or even modify previous legislation that presumably had some effect on the intended area of change, bureaucracy may be even less able to adjust to changed circumstances. For example, command and control regulation is the most comfortable of bureaucratic devices. When such tactics do not succeed, bureaucracy appears incapable of falling back and readjusting its strategy. Rather, it seems to reflexively redouble its unsuccessful approach. The expansion of bureaucracy and its changing political focus suggest the need to study the continuing legal theory of delegation. Moreover, in reflecting upon the areas of failure of government programs, the larger question of intervention by the Congress and the Courts in routine decisions of daily life emerges. Also worthy of investigation is the way in which bureaucracy seems to find incentive systems abhorrent, apparently because they affirm “messy” markets and make programmatic results less certain. This tendency can be seen clearly in the area of school reform, where there has long been resistance to market-based measures such as

vouchers. These measures are meant to give all schools an incentive to improve, but they also undeniably threaten the *status quo* by their potential to trigger the evolution of our school systems in unforeseen directions. Or as Drucker wrote: “That the school will now increasingly be *in* society may therefore be as radical a change as any ... Schools will have to become ‘open systems’.”¹⁵

There are further effects to be contemplated as well. The transition of the bureaucratic dialog between business and government from accounting to “social goal” compliance has had profound implications for employees of the firm who maintain the conversation with government. When the discussion focused on matters related to accountancy, employees of the firm understood that their role was to represent the firm’s interests. But as the nature of the bureaucratic purpose of government has changed, the firm must now employ specialists to ensure that it is not violating various regulatory expectations. The training of these specialist “compliance” officers is such that their loyalty to the firm is attenuated. They are members of a profession who ostensibly keep their firm from behaviors that government would find offensive. But in fact, their function is to enforce government edicts within the firm. Their allegiance is thus implicitly given over to government’s objective. Such employees represent the insertion of political officers within private corporations. Whistle blowing programs, mandated by government in many instances, makes the presence of government within the firm undeniable.

Compliance with social goals (or put another way, the enforced pursuit of social goods) is costly in every way. Looking to a non-profit entity illustrates the point. Private universities are compelled by the federal government to comply with a large number of social goals. Government’s power to enforce is related to its funding of various programs, most often unrelated to the social goals that government seeks to advance. Thus, the university has compliance personnel to oversee multiple minority programs relating to race, physical disabilities, mental

¹⁵ Drucker, *Post-Capitalist Society* 204 (1993)

health, learning disabilities, athletics, health and safety concerns, sexual harassment, and the nature of how conversations are conducted within the university. These programs require enormous resources to administer, often to no effect on the underlying human behavior. And yet all the expenses involved do not relate to the essential purposes of the university, namely, to teach and to advance learning. The non-instructional budgets in virtually every university have ballooned in the last twenty years under bureaucratic directives related to social goals, while the number of instructional personnel has remained largely unchanged.

To summarize all of the foregoing: organizational theorists might examine the issue of divided loyalties within firms as a result of the changing nature of bureaucratic objectives as well as the economic cost of growing public sector bureaucracy in terms of its implications on productivity. And, political scientists might examine modern issues surrounding the problem of regulatory delegation and its cost implications for society.

There are multiple related issues in administrative law. But one stands out. It should now be obvious that as Congress imposes a regime of “social goals” on business, it appears to do so without any understanding that the costs of such programs are real and consequential. It may well be that there is a parallel to the imposition by Congress on state and regional land-use statutes, such that any change in use often requires a costly “environmental impact statement.” Perhaps the Congressional Budget Office or the Government Accounting Office should be empowered to judge every new legislative proposal related to social goals in terms of its bureaucratic overhead costs. Such an analysis, reported to Congress on every proposed regulatory enactment, might create a culture of awareness within the Congress of the effects of their action on the continued expansion of entrepreneurial capitalism.

Capital theorists should find the growing importance of entrepreneurial firms, especially high technology companies, of interest to financial markets. There is growing evidence that many new high-technology firms do not need venture capital as their predecessors did thirty years ago.¹⁶ One reason is that some new fields (notably software) are not very capital-intensive. Another reason is that firms of all types can often be started and grown with fewer employees and less resources than were needed in the past — partly because of various labor-saving and cost-saving technologies, and partly because of the advent of the “virtual” corporation, which outsources its manufacturing and/or other functions from the start. The idea of starting and scaling firms without bureaucracy has significant implications for capital markets. One immediate question is whether, as a result of this shift, the current glut of investment capital worldwide will continue. Of equal interest is the question of whether, in a time where information is nearly free, investors will keep looking to large conglomerate firms to diversify their risk by operating a portfolio of companies. Many small investors are now armed with enough information to diversify their portfolios without delegating the task to managers of holding companies.¹⁷ Indeed the highly diverse, patchwork conglomerate is already becoming a thing of the past as many firms have “refocused” on “core competencies,” and it may well be that one of the central reasons for large firm consolidation must be examined.

For those interested in organizational theory, the perspective of Max Weber regarding the nature of entrepreneurial firms as charismatic organizations can provide fertile research issues. Weber suggested that it is difficult for a firm to remain “charismatic” (i.e., animated by the original energy of its entrepreneurial period). However, we are now seeing a number of mature firms appear to be successful at continuous innovation and change. Firms such as Johnson and

¹⁶ See, e.g., Rebecca Buckman, “Many Internet Start-Ups Are Telling Venture Capitalists: ‘We Don’t Need You,’” *Wall Street Journal*, Oct. 31, 2005 at C1; John Battelle, “Building a Better Boom,” *New York Times*, Nov. 18, 2005 at A29.

¹⁷ See, e.g., John Authers, *Market Comment*, FINANCIAL TIMES, December 21, 2005, at 19 (noting that instruments such as quantitative investment strategies, arbitrage, and hedge funds have reduced volatility and caused equity markets to become more efficient).

Johnson, General Electric, 3M, and IBM have innovated and grown over many decades while producing value for their shareholders. In each case, it could be argued that management has established a culture that has been unusual in its embrace of disruptive technologies and business ideas. Weber might consider such managers as charismatic. This perspective on management talent is seldom discussed in contemporary business literature, yet Weber provides a comprehensive theory that suggests that entrepreneurial capitalism, driven by charismatic entrepreneurs, does not tolerate bureaucratic decision making.

Finally, for those interested in international development, the dialog on bureaucracy and its implications for entrepreneurial activity that one might hear in the U.S. would be difficult to find within the confines of European governments, and especially within the hyper-bureaucracy of the European Union. Economic growth is related to freedom from the constraint of bureaucracy. This is a perspective that many in Europe do not appreciate. Slow growth rates are increasingly linked to advanced command and control bureaucracies, especially those that seek to impose cultural goals. And, in the end, the E.U. experience provides yet a more chilling reflection. Bureaucracy, when left to itself, whether in government or within the firm, defaults to interests and goals that are not congenial to productivity or to the operation of efficient firms in a capitalist system.

As we look to the future, it may be that bureaucracy, at least within the firm, will continue to erode to the benefit of investors and consumers. Government, if it continues to redefine the bureaucratic conversation and to enlarge its approach to regulating for “social goals” that it presumes markets will not deliver, will, largely unwittingly, retard the evolution of a form of capitalism that can inevitably strengthen democracy, propel growth, and contain the reach of government itself.