



Episode 466: What Is Entrepreneurship, and Can It be Taught?

Guest: Matthew McCaffrey

WOODS: It seems to me, a layman, really, when it comes to this stuff, that studies in entrepreneurship and entrepreneurship programs of the sort that you are involved in over at the University of Manchester seem to be on the rise, seem to be growing; there seems to be more interest in it. Is that a faulty impression, or am I right about that?

MCCAFFREY: Oh no, that's definitely correct; especially in the last 30 years, there's been just an explosion of interest in entrepreneurship and entrepreneurship programs in universities, in so-called university incubators that try to launch business ideas and so on. So there's definitely been a great increase in interest in entrepreneurship.

WOODS: Now, what exactly is entrepreneurship, both from the point of view of the colloquial usage, which we hear the word used, but also in the way the Austrians use the word? The Austrians have their own unique way of understanding what entrepreneurship is all about, whereas I think the average person thinks entrepreneur is somebody who starts a new business.

MCCAFFREY: Right, well it's a good question and much debated in the literature. But I think you're right; when most people talk about entrepreneurship and enterprise in everyday language, what they mean are people who start new businesses or maybe people who are particularly creative or innovative or who just do things differently, people who shake up the economy in one way or another. But economically speaking, especially from the perspective of the Austrian school, entrepreneurship has a much narrower, more specific kind of meaning. To mean the people who really try to wrestle with the uncertainty of the world and the people who arrange the economy — often in new and innovative ways, although not necessarily — but the people who try to arrange the economy in such a way as to produce goods and services that improve the lives of consumers. And the big key to that is dealing with this uncertainty of the future, is something that many Austrian economists, especially people like Ludwig von Mises, emphasize over and over again, this specific entrepreneurial problem of trying to cope with the future.

WOODS: And in particular, it's future — well, it's a variety of things — but the future state of consumer demand is one thing, but then also you have to somehow anticipate where consumer prices will be, how you'll be able to get away with pricing your product, what the cost of your inputs will be over time. So it's not just that I can't

know for a fact what the future holds in terms of what consumers are going to want by the time I bring my product to market, but it's a whole constellation of forces that can't be known to me, and the entrepreneur somehow has to work his way through that thicket. Now as you say, given that this is what economists, particularly since Frank Knight, called uncertainty, and it's therefore not an exact science. It's not like I can do a mathematical equation and become a great entrepreneur. The question naturally arises, and I'm sure this also heavily debated, can you teach entrepreneurship to somebody? You can teach them what it is, but can you teach somebody to be an entrepreneur?

MCCAFFREY: Well, this is the big question that's being debated right now and has been for the past couple of decades. The answer is, well, like most answers to economic questions —

WOODS: Yes and no?

MCCAFFREY: Yeah. It depends on what exactly you mean by "teaching entrepreneurship," because there's certain aspects of the process that can definitely be taught, but then there are others that it certainly seems that we can't really get a grip on. So for instance, if you want to talk about sort of the nuts and bolts of starting a new business, then yes, a lot of these things can be taught. You can teach people about how to navigate the regulatory environment. Can you actually legally start this business? You can teach people how to think about the financial side of a new business, which is always a problem for new entrepreneurs. So these sort of things I think can be discussed; you can certainly learn about them. But the big part of entrepreneurship, the key part — that is, being good at predicting future events, as you just described, this whole host of relevant factors that you have to somehow get a grip on in advance — this is a part of entrepreneurship that I really don't think can be taught, and I really don't think that there's any sort of course you can take or book you can read that will somehow make you into a successful entrepreneur, that will give you this insight into the future that not many people seem to have.

WOODS: Okay, I can accept that answer; that does seem to me to be right. On the other hand, it seems that even if I can't learn it through some kind of manual, on the other hand, maybe I can pick something up by observing other entrepreneurs and getting some ideas from them, and in my own case, that's really how I've been able to build up what I have here. I mean, I have several different streams of income, and I always have several projects I'm working on; I'm always trying to expand my reach. And most of what I've done has been pretty successful.

But a lot of it, I wouldn't have thought of if I hadn't found myself in a position where I'm not getting a regular salary from anywhere; I'm on my own, so I've got to sit down and figure out what to do. And a lot of times you come up with your best ideas when you are really up against the wall; you've got to figure out how you're going to support yourself, and what I've done is I've looked at how other people do things. I've watched people who are entrepreneurs in my niche, whether it's podcasters or online educators or whatever, and I've looked at ways they drive traffic. I mean, for example, I give

away a free eBook to get people on my mailing list. I wouldn't have thought of that before. But it turns out that's hugely successful; you get way more people on your list. And then once they're on your list, you can reach them forever; you can talk to them forever.

I mean, there are so many ideas that I've gotten, and then once I've gotten those ideas, those have spurred further ideas, which have spurred further ideas. So by imitation at first, I think I expanded my entrepreneurial skills, and then that seems to have sparked a kind of creative passion in myself that made it possible for me to go on, but I certainly didn't sit down and read a book on entrepreneurship. I don't think that would have done me any good at all.

MCCAFFREY: Right, and I think the sort of process that you went through that you just described is something that's very common for entrepreneurs, because as you say, many successful entrepreneurs don't sort of sit down and read a manual to become successful. But what they can do is, as you described, develop certain skills that are well-suited to entrepreneurship over time, maybe by learning from other entrepreneurs or maybe just sort of getting into the game on your own as soon as possible and developing your skill sets and your habits of thinking in that sense. So there's definitely something to be said for experience as a teacher, of course.

WOODS: Yeah, that's what I was thinking. Now, what about, when I think about what it is the entrepreneur is doing, anticipating the future, it is hard to understand frankly how that can be done. It's not to say that we can know nothing whatsoever about the future, so you're completely adrift. You do have some basis for judging what the future is going to be like based on what the immediate past and the present are like. But it seems like it would be hard to convey in words what an entrepreneur is doing when anticipating the future, which is of course by definition not a scientific endeavor. I mean, it must be hard even analytically even to understand or explain exactly how the entrepreneur is doing what he's doing. We can describe what he's doing, but how is he doing that? How is he figuring out what the future is going to be like must be a difficult thing to teach.

MCCAFFREY: It's actually sort of incredibly difficult, and it's funny, because when I teach my students about uncertainty and about the difference between sort of ordinary risk and uncertainty, the true uncertainty that entrepreneurs bear in the market, I sort of go through a list of these many different factors, and I ask my students, is this just a simple risk that we can account for or is this a more radical uncertainty that entrepreneurs have to deal with. And it's funny to me, because it turns out that everything on the list is uncertainty, because that's simply what all the relevant factors out in the marketplace are for most entrepreneurs. And because of this, it's an incredibly difficult — it's difficult enough for entrepreneurs to try and do it in the real world, let alone to sort of sit people down and try to come up with some type of formula for figuring out the uncertainty of the world. So I think you're right about that.

WOODS: All right, let's talk about some of the books that you have here. The paper that you have here, which we're going to be linking to on the show notes page, TomWoods.com/466, it's a paper on entrepreneurship education; it's a paper that describes some of the sources that somebody in your position might want to use to try to convey some of these ideas to students and what we can learn from these various sources. You've got a whole bunch of them here. Let's start with the work, *Bourgeois Dignity*, by Deirdre McCloskey, who's been a guest on this show — I'll link to that conversation also on the show notes page. Explain what her thesis is, because of course she's going to say that a lot of the explanations for why the West is as wealthy as it is rely on factors that are common to other societies that are not as wealthy, so they can't seem to be the explanatory factor. But she's identified an explanatory factor that is central to the area in which you teach.

MCCAFFREY: That's right, and so McCloskey's main thesis is that the Industrial Revolution and the wealth of the West, so to speak, come from ultimately an entrepreneurial revolution that happened historically. And her thesis is that this revolution happened because of the change of ideas and the change in rhetoric that occurred in the decades and in the centuries leading up to the Industrial Revolution, where people for the first time begin to really embrace the notion of innovative behavior in the marketplace and accepted the dignity of commerce and the dignity of entrepreneurship and started to really embrace those ideas. And then eventually, that sort of snowballed into the great growth and wealth creation that we've experienced in the West.

WOODS: Well, what was the situation like then before people had this recognition of the entrepreneurial function?

MCCAFFREY: Prior to this, there was very often various brands of skepticism about success in the marketplace, and in fact, very often it came with a certain amount of social stigma, whereas the types of success that were really valued were not in the marketplace, but for instance, in service to government, to a state, or perhaps to religious organizations and other prominent institutions that really, I think, sort of channeled people's innovative behavior before people were really able to channel it into the marketplace.

WOODS: All right, yeah, I definitely want to get into that in a minute, the different forms that the entrepreneurial spirit can take, given the institutional structure in which it operates. I definitely want to talk about that. But let's say something about entrepreneurship education or even just business school education these days and what that is conveying to students about the moral worth of what it is they are about to do.

MCCAFFREY: Well, unfortunately a trend that I think many people have noticed in business school education is that there actually really isn't much of a moral foundation for entrepreneurship, for commerce, for just understanding business in general. In fact, unfortunately, sometimes the very notion of commerce and trade and entrepreneurship in the sort of ordinary market setting are met with a kind of

skepticism, even, which invites the question, why we would teach these things in the first place. But I think one of the ways you can see this is through the very recent emphasis on all types of essentially not strictly for profit entrepreneurship. So there's a huge emphasis now in the literature on social enterprise and green entrepreneurship or maybe conscious capitalism — you know, there are many, many synonyms and variations on these themes. But I think what these types of program show is that business school education is actually skeptical of sort of ordinary for-profit market entrepreneurship, and this is why it's promoting all of these alternatives, as if there were something particularly wrong, or at least sketchy, about just doing ordinary business as an entrepreneur.

WOODS: Matt, you hit on a point a moment ago about the different forms that entrepreneurship can take, and I think we're thinking in part of the idea of political entrepreneurship, and that takes place all the time whenever you have a state. But also before we get to this McCloskey moment, we might say, where there was a widespread social appreciation for what entrepreneurs were doing, the entrepreneurial spirit would be channeled, instead of in the service of consumers, would be channeled in the service of somebody else, political rulers and so on and so forth. And at least one of the readings that you recommend in your paper hits on this particular point.

MCCAFFREY: That's right. There's a now famous essay by William Baumol, titled "Entrepreneurship: Productive, Unproductive, and Destructive," and this is the sort of theme that Baumol plays on in this paper, that it's not so much that we see great increases in the amount of entrepreneurship in society, it's more that entrepreneurial talent is channeled into different parts of society depending on the kind of institutions that we have. So the kind of rules, the kind of rewards and punishments for different behavior that exist in society, those play a really important role in encouraging different types of entrepreneurship.

So for example, and this occurred many times in history, Baumol's example is China's medieval period, where you have a society that doesn't really value market entrepreneurship, and in fact sometimes penalizes it, but rewards greatly, in terms of both wealth and social prestige, service to government, or instance, service and success within a bureaucracy. And of course, as basic economic logic tells us, when you reward people for certain types of behavior, they're going to tend to engage in that behavior more than they otherwise would. And this is what happens with entrepreneurship, and this is why you see some societies with huge amounts of unproductive entrepreneurship or political entrepreneurship; it's very often because the rewards in that society very much favor that kind of behavior, that kind of service to government, rather than service to consumers through the market.

WOODS: All right, and that brings us to the famous essay by Mises on profit and loss, which is going to talk about precisely the kind of entrepreneurial behavior that is rewarded on the market. The impression that you get from just listening to ordinary people talk about this, they seem to think that people who are in business can just behave arbitrarily and do whatever they want and take advantage of the public and

not really have to concern themselves with market feedback, because they're just so darn powerful, they can do whatever they want. I'm sure they all wish they were that powerful, that all they had to do was introduce a new product and come up with a clever ad for it and it automatically sells. Everybody would love to be in that environment, but that's not actually what exists. What is the situation that Mises describes?

MCCAFFREY: Well, Mises makes this point numerous times through his writings, and I think he makes it very well: the idea that ultimately in the marketplace it's the consumers who are sovereign. It's not entrepreneurs who are making arbitrary decisions and can sort of increase their own wealth at the expense of consumers at their leisure. No, of course, when you have markets that are unregulated, where you don't have interference between consumers and entrepreneurs, and where you don't have governments protecting entrepreneurs from the wishes of consumers, in those kinds of markets it's ultimately those consumers who produce profit and loss for entrepreneurs, because it's their satisfactions on which everything else depends.

And so entrepreneurs are always in this sort of very tenuous position, where they're constantly in danger of going bankrupt, unless they can continue to do a good job of dealing with uncertainty, of predicting the future, of predicting what consumers are going to want. If they don't do that, then they lose their shirts very quickly – unless of course, they have some kind of recourse to protection from government.

WOODS: Is there some particular way that the Austrian understanding of entrepreneurship can help people who are not Austrian but are of good will and want to understand the phenomenon to understand it better? Like for instance, what kind of differences do you encounter when you're talking about entrepreneurship in mixed circles, between the things you're saying and the way you conceive of the entrepreneur and the way somebody more in-line with mainstream economics thinks of this subject?

MCCAFFREY: Sure. Well, one of these we've hinted at already, this definitional distinction between sort of the common language definition of entrepreneurship and the way that Austrian economists use it, because this isn't actually just true of – it's not just in sort of academics versus non-academics. Many academic researchers of entrepreneurship have these very broad definitions of entrepreneurship as well, where essentially entrepreneurship is whatever you want it to be. So obviously this doesn't really help discussion very much, because you very often end up talking about quite different things.

In addition to that, there are also sort of broader philosophical or even moral issues pertaining to business. Lots of mistaken ideas about, as you just indicated, the runaway greed and exploitation of entrepreneurs versus the reality of being sort of at the merciless whims of consumers all the time. So this is another big distinction, and very often you see confusion between sort of genuine market entrepreneurship and entrepreneurship as it occurs in the so-called mixed economy, where in fact, it's not just consumers and entrepreneurs and entrepreneurs are forced to satisfy consumers,

but where there's intervention as well, and so entrepreneurs can often get away with or are even incentivized to hurt consumers or to provide them with worse service than they otherwise would.

WOODS: Well, what do the Austrians mean when they say something like, the classical economists, like Adam Smith, really had no room for the entrepreneur in their way of understanding the economy? What does that mean? How can there be no room for the entrepreneur?

MCCAFFREY: Well, there are a few different ways to think about this. One of the most important is to think about entrepreneurship in light of change, because entrepreneurs do radically transform the economy from moment to moment in their efforts to satisfy consumers. But not all economists have sort of fully embraced the notion of sort of dynamic entrepreneurial change in the economy. And this is actually one very common Austrian critique of mainstream economics, is that it doesn't allow room for the entrepreneur, because it takes a relatively static view of economic affairs, and when it does think about that change, it's always in a very mechanical way.

So for instance, you can feed more capital into the economy and produce some growth — that's a simplification, but as a general idea it's all right — but without really thinking about how actual individual human beings are behaving on the ground and the actual decisions that entrepreneurs have to make from day to day in the face of uncertainty to figure out how to best use their limited resources in order to satisfy consumers. Not all economists have been willing to accept the importance of this and really incorporate it into their theory. Sometimes this incredibly complicated process we've been talking about, sometimes it's just kind of assumed to take place or assumed away in order to make room for other parts of theory.

WOODS: If you could recommend one text — it doesn't have to be a book; it could be an article — that best sums up the Austrian view of the entrepreneur, which one would you choose?

MCCAFFREY: Well, you already mentioned Mises' essay, "Profit and Loss," which I think is a classic and deserves to be very widely read. I would also give a recommendation to the work of Frank Fetter. Frank Fetter is a great, underrated Austrian economist, so-called American Austrian, and he wrote a number of textbooks, in particular one called *Economic Principles*. It's actually the centenary of the first publication this year. And even 100 years later, Fetter's textbook exposition of entrepreneurship is really just one of the best out there. He has a number of just wonderful chapters; they're incredibly clearly written, and he expresses what I think ultimately became the sort of Austrian approach to entrepreneurship, even before people like Mises had had their say. So I would recommend Fetter. He's a little more out of the way; he's not as well known as some of the other economists, but he's very well worth reading and still interesting, fascinating to me, at least, even 100 years later.

WOODS: Well, Matt, I appreciate your time today on this important topic. I'm sympathetic to that McCloskey view, even though she conveys it in an extremely

convoluted and roundabout way in that book of hers. But all the same, the importance of the entrepreneur, his role in the economy, his role in improving the standard of living, these are all things that are not appreciated, sometimes even in the profession itself, oddly enough. So it makes it all the more important what you're doing at the University of Manchester and in your writing, so thanks again.

MCCAFFREY: Well, thank you very much for having me.