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Book Review

DAVID A. HARPER (2003) *Foundations of Entrepreneurship and Economic Development*, New York: Routledge, 267 pp.

The notion of entrepreneurship has been one of the central constructs of Austrian theory since its beginnings. Menger emphasized the information element and the act of will involved in entrepreneurship although he viewed it as a special labor service (1871:160). While there has been debate regarding Menger's influence on Schumpeter's notion of entrepreneurship, there is little doubt that Austrian elements are clearly present in his theoretical rendering (see Kirzner 1979: Ch. 4). The entrepreneurial function was also recognized as a critical element of the market process by later Austrians, including Mises (1949:251–256, 289–301, 303–311) and Rothbard (1962:56, 463–501). Kirzner, building on Mises' work in this area, dedicated most of his research program to developing a complete rendering of the entrepreneurial function. David Harper's new book, *Foundations of Entrepreneurship and Economic Development*, continues this tradition of recognizing the entrepreneur as the prime mover of economic change.

Harper seeks to extend the work of Kirzner and those who preceded him to the realm of economic growth and development. Harper does so in an interesting fashion. He surveys and incorporates the relevant literature from both the Austrian School and the New Institutionalists with a focus on how that literature can assist us in understanding the legal, political, economic and social institutions which influence entrepreneurship. The most unique and interesting theoretical contributions are the inclusion of social psychology and cultural considerations into the already existing entrepreneurial framework.

In his consideration of the psychological determinants of entrepreneurship, Harper analyzes the cognitive factors which influence alertness. He focuses on two key determinants of alertness. The first is the individual's locus of control or belief that a behavior will lead to an outcome. The second determinant is one's self-efficacy belief, the belief that one can or cannot produce the relevant actions. The key point of Harper's analysis is that an entrepreneur's alertness will be heightened the more convinced he is that profit opportunities are dependent upon certain actions in a specific setting and that he is capable of undertaking the necessary steps to obtain profit.

Harper rejects the cornerstone hypothesis that individualist societies are more conducive to entrepreneurship than group-oriented societies. This rejection is in line with Mises' original rendering of the notion of entrepreneurship, which he saw as an omnipresent aspect of human action (1949:252–253). Part of this rejection stems from the fact that the cornerstone hypothesis is grounded in a neutral, one-dimensional scale for measuring and comparing entrepreneurship across cultures. As Harper points out, entrepreneurship is a "complex perceptual faculty" and there is no suitable scale for measuring it across cultures.

I would like to raise some general issues with the implications of Harper's book and the current state of entrepreneurship within the Austrian tradition. Other than putting forth some "tentative claims" regarding the degree of entrepreneurship across cultures, the author provides little in terms of how others can utilize his work. After indicating that there is no means of measuring entrepreneurship across cultures, the author does not offer a viable alternative for applying his framework. This problem goes beyond Harper and is indicative of the Austrian school in general. Austrians have a strong theoretical rendering of the notion of entrepreneurship; Harper clearly adds to this body of theoretical work. However, in order for Austrians to make a more substantial contribution to both the larger academic and policy spheres, more is needed. Specifically, some means of analyzing the institutional environment in different geographic areas to assess the impact on entrepreneurial alertness is necessary.

While it is true that entrepreneurship is omnipresent, the environment in which the entrepreneur acts impacts his alertness to opportunities. The ends toward which entrepreneurial activities are directed can be either productive or unproductive. Productive activities—arbitrage and innovation—constitute the very essence of economic growth and progress. These activities are positive-sum in that they benefit not only the entrepreneur, but also other members of society as well. In contrast, unproductive entrepreneurship involves such things as crime, rent-seeking and tax evasion. These activities are zero or negative-sum. They lead to a profit for the entrepreneur, but fail to provide a benefit for others. Given this realization and Harper's conclusion that there is no suitable means of testing entrepreneurship across cultures, how can Austrians contribute beyond the theoretical?

Austrians can make a significant contribution in development policy and academic literature by undertaking the descriptive narrative. In other words, what is needed is the application of the existing theoretical framework of entrepreneurship through fieldwork. This fieldwork entails detailed case studies and ethnographic data intertwined in a narrative to understand the everyday life of those in developing countries. Through the use of surveys, directed interviews and participant observer behavior, one can offer key insights into why productive entrepreneurial activities are or are not being undertaken. Policies and exogenous institutions that fail to align with the indigenous culture will rarely stick over time. As such, understanding the indigenous nature of the developing culture is critical.

Readily available examples of this type of approach can be found in the works of Hernando de Soto (1989, 2000) and Emily Chamlee-Wright (1997).[1] The latter provides the argument made here—that the Austrian framework is more conducive than its neoclassical counterpart to incorporating and undertaking cultural analysis. In these works, the authors utilize the ethnographic method in analyzing the plight of Peru and Ghana respectively. It is only through utilizing such an approach that the authors are able to provide such a rich analysis of what truly underlies the stagnation in these countries. De Soto has been extremely successful in applying the ethnographic approach and continues to serve as a consultant to governments throughout the world.

It is important to realize that alertness to profit opportunities is omnipresent across economic agents as well as political agents. If the payoff to adopting and maintaining perverse policies is relatively high as compared to adopting wealth-enhancing policies, we would

expect those in political positions to engage in the former. Ethnographic research can potentially offer insights into not only the impact of various policies on economic agents, but also why past attempts at policy reform have failed and how such policies can or cannot be effectively implemented within a certain set of political institutions unique to a specific country.

Raising these issues is not meant to detract from the contribution of the book. Harper has made a significant addition to the Austrian theory of entrepreneurship. Given this rich theoretical framework, the development and refinement of which should continue, Austrians must emphasize the application of entrepreneurial theory in order to take the next steps in terms of policy and academic relevance. In short, Austrians must be more entrepreneurial about entrepreneurship.

Note

1. Elsewhere, Harper is engaged in similar ethnographic research. See for instance, "Extending the Analysis: The Dominican Republic," available at: http://www.mercatus.org/pdf/materials/432.pdf.

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