Entrepreneurship and the Welfare State: A Reply

by

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Abstract: It is widely recognized that the supply of entrepreneurial talent is likely to be important for economic growth, innovation and job creation. In Henrekson (2005) it was shown that the supply of productive entrepreneurship is likely to be reduced by the kind of tax and welfare arrangements that prevail in a mature welfare state. Welfare state institutions developed mostly during a period when it was common among politicians and economists to assume that individual entrepreneurship and new firms were of minor importance. However, in an environment where entry, exit and turnover of firms are important for growth, and where scale-economies are less important, this kind of model may be more problematic. There are a number of measures that can be implemented to strengthen entrepreneurial incentives within extensive welfare states but their implementation is unlikely since there are strong vested interests, including the incumbent business elite, defending the current model.

A number of objections against this analysis were raised by James K. Galbraith and Ronald Dore in the previous issue of *Industrial and Corporate Change*. In this reply I address these objections and provide a more detailed exploration of some important issues currently facing the Swedish welfare state.

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Background: The Political Economy of Entrepreneurship

During the first three decades of the postwar period many leading policymakers and economists harbored a strong belief in the desirability of direct government regulation and intervention in the national economy. A growing role for the public sector was with few exceptions seen as an inexorable trend. Scholars such as the Nobel Laureate Jan Tinbergen (1961) even predicted that there would be a convergence between the economies in the West and the centrally planned countries in Eastern Europe. Among Western democracies Sweden was often seen as a precursor in this development.

In the latter half of the 1970s there was instead a renaissance for ideas advocating deregulation of markets and smaller government in the leading industrialized countries**.** These ideas were fuelled by the disappointing effects of public interventions and planning in Europe and the United States, and by the increasingly manifest failure of the socialist bloc. This renaissance coincided with a break in the previous trend of a growing predominance of giant corporations and the waning importance of small entrepreneurial) firms (Loveman and Sengenberger, 1991; Piore and Sabel, 1984).

The literature attempting to explain this break is by now enormous.[1] For our purposes it is sufficient to note that the proposed explanations often point towards the importance of technological development, shifts in consumer demand and deeply rooted structural changes in the economy. In this new economic and social environment central planning and large size seem to have proved a less effective recipe for economic success. There is now also broad consensus that an economic system that evolves successfully for an extended period of time cannot do so without having or introducing "appropriate" institutions (Gerschenkron, 1962).[2] Institutions refer to the rules of the game that govern the conduct of economic activity and that shape "the social structure of payoffs."[3] A particular bundle of institutions, what may be called an institutional setup, characterizes an economic system. Appropriateness may be construed broadly and be judged with respect to a number of aspects of the economy such as distribution of firms across industries, the size of these firms, etc.

Economic institutions are social decisions, chosen for their consequences. Different groups and individuals typically benefit from different economic institutions, which make conflicts over institutional choices a ubiquitous trait of all (democratic) societies. The distribution of political power in society is in turn a function of political institutions and the distribution of economic resources. But since prevailing economic institutions affect the distribution of resources, and because groups with political power today may strive to change institutions in their favor, policies which were initially "appropriate" may persist

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[1] See, e.g., Acs (1999) and Wennekers and Thurik (1999) for an overview.

[2] Institutions have moved to the fore of mainstream explanations for economic performance, especially over the longer term. See, for example, North and Weingast (1989), Rodrik *et al*. (2004) and Acemoglou *et al*. (2005).

[3] The term is borrowed from Baumol (1990).

due to vested interests even after exogenous changes have made these policies "inappropriate".

The Swedish Model and the Entrepreneur: Incompatible Entities?

In Henrekson (2005) I provided an in-depth examination of how the supply of productive entrepreneurship is likely to be affected by the kind of tax and welfare arrangements that may prevail in a mature welfare state. Sweden, allegedly the most extensive of all welfare states, was chosen as the object of the empirical analysis. I argued that the Swedish welfare state early on chose a specific "Swedish Model" of trying to combine ambitious welfare programs and a high tax burden with favorable opportunities for economic growth.[4] But this particular view rested heavily on the assumption that innovative activity was best performed in large established firms and that entry of new firms was unimportant.

Policy and institutions were therefore geared to promoting certain types of activities which could deliver growth in situations where scale economies are important and intrapreneurship can substitute for entrepreneurship. The examination showed how key welfare state arrangements had reduced the economic return to entrepreneurial behavior both in relative and absolute terms. A number of channels contributing to this effect were examined: taxation of entrepreneurial income, muted savings incentives and rules encouraging savings to take forms that withdrew funds from entrepreneurial ventures, comprehensive government service provision and very high tax rates on labor that barred large parts of the economy from entrepreneurial exploitation, schemes for redistribution across individuals and regions and a high level of minimum standard of living guaranteed by the government that rendered necessity entrepreneurship largely pointless, and strict labor security legislation that discouraged mobility of individuals across firms and industries.

The institutional setup thus created an incentive structure where long-term economic progress depended heavily on the success of incumbent large companies, and the feasibility of large-scale government production of highly income-elastic and tax-financed services.

However, if the underlying technological and structural conditions change so that an environment where entry, exit and turnover of firms becomes important for growth and job creation, and where scale-economies are less important, this kind of model is likely to be less appropriate. It turned out that both aggregate economic performance and data on

[4] As stressed by many observers (e.g., Freeman, 1995) the Swedish welfare state can be seen as an economic model, or system, defined by a particular mix of institutions. The mix of institutions and the interactions among them are key determinants of economic performance. For instance, the combination of high marginal tax rates and a narrow pre-tax wage dispersion is likely to discourage labor supply under the Swedish model, but this effect was mitigated by mechanisms that restricted access to highly subsidized services to non-employed persons (Lindbeck, 1982).

firm growth and direct measures of entrepreneurial activity were broadly consistent with the identified structure of payoffs.

Naturally, the extended period of success for the Swedish Model created groups with strong vested interests in this model, notably the labor movement with its two inseparable branches (the Social-Democratic Party and the trade unions) and the incumbent business elite. An institutional setup characterized by high redistributive aspirations, a high general tax rate, but relatively favorable conditions for large incumbent firms could in fact be an endogenous outcome of a political process.[5] As shown in Roine (2006) it is possible to have political equilibria characterized by a coalition where those with the very highest initial resources can agree with those with the smallest initial resources to tax the middle group heavily as long as members of the top group do not pay (full) taxes themselves.[6] Applying a similar logic to the buildup of the Swedish welfare state, the (owners of the) initially large firms could agree with (the representatives of) the workers (i.e. the unions) to have generally high taxes, as long as there were some concessions for them. In fact, such an agreement can even be seen as more beneficial to the large firms than a generally lower tax rate, since high taxes act as a barrier to entry for initially small firms with growth ambitions, but which are too small to be part of the initial coalition.

Although I point to several measures that may provide strengthened incentives for entrepreneurship while retaining the core of the welfare state, including very high tax and government spending levels, such measures are unlikely to be implemented. This can be understood when policy determination is analyzed as an outcome of an endogenous process. The long-term reliance on large incumbent firms and the public sector as the creators of employment opportunities and economic progress (Söderström and Viotti, 1979) have made them seem indispensable. Their dominance has also turned these groups into powerful lobbyists for a continuation of traditional policies. As pointed out by Lindbeck (e.g. 1995) it may be a difficult collective problem to unwind a welfare system in which most individuals have stakes. Similarly, it may be difficult to change industrial policy in a situation where many people have become dependent on the success of the incumbent large firms, and where vested interests have substantial political influence (Henrekson and Roine, 2006).

Apparently (and not surprisingly; after all, scientific discourse thrives on dissent), not everybody agrees with the above analysis. I am really happy to note that the editors of *Industrial and Corporate Change* have decided to publish two comments by James K. Galbraith (2006) and Ronald Dore (2006), respectively. I now turn to a discussion of their objections.

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[5] Roe (2003) provides a highly suggestive analysis of cross-country differences in corporate governance structures. His main conclusion is that “social democracies” (with Sweden as one of the most prominent examples) fray the ties between shareholders and management. To make up for this fact, social democracies require a concentrated ownership structure to function well.

[6] For empirical evidence on the favorable treatment of the very top of the income and wealth distribution, see Roine and Waldenström (2005).

A Reply to James K. Galbraith's Objections

Professor Galbraith begins his criticism of my paper by claiming that I have drawn general conclusions from a single case. This is a complete misunderstanding. I explicitly state from the outset that the analysis is for Sweden only, and that "similar studies are needed for other national settings in order to find out the degree to which the findings in this paper have general validity."

As a case study, it offers a base for discussing many aspects of the particular incentive structures that the welfare state gives rise to. Hence, it is not an argument about how we are best to organize society, which is obviously a much broader question. It is simply an examination of what some kinds of welfare state arrangements do to some incentives likely to be important for some types of entrepreneurial activities. As stated, I warmly welcome careful studies of other countries and evidence-based assessments of whether, how, and to what extent welfare states retard or promote entrepreneurship and innovation. Preferably, this task should for each country be conducted by scholars with insight into the specific economic, institutional and historic background of that country.

The evidence that entrepreneurship in Sweden is weak does *not* rest heavily on the low share of production of care and educational services. Instead, the evidence is drawn from an array of observations traditionally used in comparative studies, notably the incidence of fast-growing firms, the rate of start-up activity and self-employment rates. Meanwhile, in the most recent period the problem of underprovision of government funded and produced services have led to large problems. Newspapers are filled with stories of people dying while queuing for cancer treatment. A new political party, solely focused on the problems in the health care sector won many seats in the 2002 regional elections[7] and is planning to run in the next national election. School performance as measured by numeracy and literacy among adolescents is falling rapidly.[8] There is plenty of evidence that the quality of university programs is down; the number of students has increased by roughly 100 percent in 20 years, while the number of lecturers have increased far less.

The morale and efficiency of Swedish police is low (Holgersson, 2005). Quite disturbingly, the Swedish crime rate has skyrocketed in recent years. Violent crime per capita has increased by a staggering 212 percent in Sweden in 30 years, rising for 24 of the last 30 years. Reported rapes per 100,000 people have increased by 308 percent during the period, serious robberies by 254 percent, and reported store rubberise are up 321 percent. The latter finding suggests that is not just the tendency to report crime that has gone up, since robberies are unlikely to have been left unreported in the past. While international comparisons of crime are always difficult, Sweden recently seems to have surpassed the Unites States in rapes per capita, while the US still has twice as many

[7] The regional government is in charge of the public health care system. In some cases this party got roughly 20 percent of the votes.
[8] For instance, the percentage of students finishing mandatory schooling with incomplete grades has increased from 20.4 % in 1998 to 24.5% in 2005. Source: SIRIS, the National Agency for Education's online information system on results and quality.

murders per capita (compared to seven times as many 25 years ago). All crime statistics are from http://statistik.bra.se.

The very idea of an all-inclusive tax-financed provision of key social services is now so compromised that the upper middle-class is beginning to opt out: Thai and Indian clinics have begun to market their services directly to Swedes who go there and pay cash for treatment that they are in theory entitled to get free of charge from the Swedish public sector, and private health insurance is now growing very rapidly and it is currently estimated that some 4 percent of all employees have private health insurance as part of their employment package.[9] Hence, we are clearly beginning to observe exactly the development professor Galbraith requested as a criterion for the accuracy of my analysis.

Professor Galbraith believes that there is no reason why for profit hospitals in the US should be preferred to non-profit ones. It is a unique attribute of a market economy that such assertions are not only left to the subjective judgment of researchers; they can be tested by consumers themselves. We are restricted to one form of service provision, as in the centrally planned model. In fact, in the US only a small fraction of the health market is served by for-profit firms, non-profit stand for some 70 percent of hospital beds, the remained being shared by public and for profit hospitals. The defining characteristic of a free market is in fact choice, not for -profit motives.

In contrast, the Swedish system does not allow any organizational choice, and limits the amount citizens can spend on health care if they are not satisfied with the public system. Already there are considerable legal restrictions, and the government is seriously considering a total ban on all for profit hospital care (the so-called “stop-law”). Despite what Professor Galbraith seems to believe, the Swedish public is severely restricted in their ability to opt for non-public hospital care. Hence, the “choice” of accepting the system is not particularly informative of preferences and efficiency. Moreover, individual entrepreneurs in the health care sector face huge political risks, since their revenue comes from government contracts and not from clients directly. It has turned out that although politicians may be in favor of private provision of welfare services in theory, they are less encouraging when there is a clear risk that the private provider achieves a higher quality than the government provider (Dareblom, 2005).

However, the rate of personal taxation in Sweden is so high that an average worker pays 62–65 percent of his/her labor compensation in taxes, so the option of just saying no to the highly subsidized publicly provided education or treatment and pay out of your own pocket is simply not open to the average person. To make the point even more clearly, assume that the US government subsidized GM cars so that Americans would get them free of charge and it turns out that people stop buying unsubsidized Toyotas, would that prove that GM cars are better than Toyotas?

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[9] The fact that there are major problems of underprovision and inefficiency in the Swedish health sector of course does not imply that the British, French or American health care sectors work perfectly. It is clear that each system suffers from problems, in the American case those of cost containment, inefficient delivery modes, and most importantly uneven access.

Some would say that the most fundamental of all insights that economics provides is gains from specialization, in particular when combined with the comparative advantage principle. Modern societies are getting increasingly complex, while the cognitive capacity of humans basically remains unchanged (Martens, 2004). Hence, in order for individuals to be able to cope and become successful in an advanced society they must be able to benefit from an increasing number of specialists, the efforts of whom need to be coordinated largely through markets.

High personal taxation is equivalent to the introduction of a tariff creating a wedge between what is economically rational for an individual to what would be rational for society. One often-used example in Sweden is the brain surgeon who, for economic reasons, takes time off to renovate his house rather than saving lives, while at the same time there is high unemployment among construction workers. Davis and Henrekson (2005) provide details on the level of taxation and make a systematic examination how this affects the choice between production in the regular market and in the black market or the untaxed "do-it-yourself"-sector. One salient observation from that study is that total work (paid plus unpaid) is no less in Sweden than in the US.[10] Moreover, it is no surprise that successful Swedish firms in recent decades are often firms – like IKEA and H&M – that specialize in providing products to consumers with low after-tax income but with a low opportunity cost of their own time because of high personal taxation. Hence, the argument proposed by James Galbraith is simply wrong. In the absence of tax wedges, the household would be free to specialize in market work or become homework "generalists", as they saw fit. Taxes distort that choice.

Just as in the case with the public provision of services free of charge I have not made any normative statements regarding what is preferable. I merely pointed out that these mechanisms gave rise to steep distortions in individuals' choices, which has important implications both for the supply of entrepreneurial talent and the demand for entrepreneurial provision of new professional services. That there is such an effect is logically hard to deny, regardless of what one may think of the moral validity or private enterprise or whether a profit motive "degrades" services.

In many instances Professor Galbraith is less interested in discussing the validity of economic mechanisms presented in my paper, and more in providing a moral defence of the welfare state. Professor Galbraith, for example, asks why one should care that financial wealth is low in Sweden, when you do not need financial wealth to make up for all those things the welfare state provides. But that is beside the point in this context, which concerned entrepreneurial start-ups, not whether or not Swedes are rational in having low savings. It seems reasonable that due to lower personal savings someone who realizes that he/she would like to pursue a perceived business opportunity is less likely to have the requisite funds to start a company. This is (given some degree of asymmetric information and credit constraints) part of the explanation why there appears to be relatively little entrepreneurship in Sweden. If Professor Galbraith instead wants to suggest and provide arguments that the positive effects of tax financed insurance

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[10] Similar results in a comparison of time use in Germany and the US are reported by Freeman and Schettkat (2005).

programs outweigh the costs, such as less startup activity, that would be another matter. But the cost side of a cost-benefit analysis does not disappear just because we want to attach a large value to the benefit side.

On a similar note, Professor Galbraith questions the aggregate importance of weak entrepreneurship. The lack of growth to reach a minimum efficient scale (Audretsch, 2002) may be compensated by rapid growth in new product divisions of large firms. Admitting the methodological difficulties of proving causality it is still true that there is a great deal of evidence from business research (e.g. Cressy and Olofsson, 1996 and Wiklund *et al*., 2003) showing that when growth is expected to lead to loss of control for the founder, this has a strong growth-deterring effect. This "control culture" is underpinned by institutions that make it inexpensive for owners to abstain from growth, but this is likely to be detrimental to growth and economic dynamism in the corporate sector.

Professor Galbraith's deficient knowledge about Sweden comes through in some instances. This is certainly understandable; few of us have detailed knowledge of all nations in the world. But it does weaken many of his arguments. One example is the following remark: "Given that the Swedish technology advantage never lay in information processing hardware or software…." Nothing could be further from the truth. This is the very industry that epitomizes Sweden since the mid 1990s. In 2000 Stockholm was named the Internet capital of Europe by the *Newsweek Magazine*. According to *Newsweek* (2000) the Stockholm phenomenon could be explained by "the looming marriage of the Internet and the third generation mobile telephony in Europe." In the 1994–2004 period real value added in Electrical and optical products grew by a stunning 930(!) percent according to official statistics. But despite a low level of small business entrepreneurship in the economy in general, the Swedish comparative advantage in IT is so large that this sector has been the one with the most dynamic startups in recent years.

Finally, Professor Galbraith cites evidence that the US may not be less redistributive to its poorest citizens than many European countries with larger welfare states. That is a highly relevant point in this context. High-tax states do not redistribute so much from rich to poor as one would expect, instead they redistribute over the life cycle and across different states for each individual. In Sweden it is estimated that the bulk of the redistribution concerns intra- and not interpersonal redistribution. According to the most recent official estimate 82 percent of all redistribution is intrapersonal[11] (see also Bergh, 2005). But an important, and in my view grossly neglected, side effect of these large intrapersonal redistributions is the reduction of incentives to productive entrepreneurship.

Professor Galbraith writes that public redistribution policies in the US may be equally inimical to the entrepreneurial drive, and refers to a fall of proprietors' income since the 1950s as evidence. This is however not an accurate description of the US development. Non-farm proprietors' income did fell from 1950 to a low point in the early 1980s, but has since rebounded substantially, i.e. risen during the aforementioned revitalization of entrepreneurship (Piketty and Saez, 2003). Moreover, entrepreneurial income for the rich

[11] See http://www.scb.se/Grupp/allmant/BE0801_2005K03_TI_06_A05ST0503.pdf.

have increased considerably since 1984 (Piketty and Saez, Table III) and for the very richest it is even larger than in the 1950s. This is consistent with the view that small non-entrepreneurial businesses (such as shops, farms and mom-and-pop stores) have waned in importance, while truly entrepreneurial firms have become more important.

A Reply to Ronald Dore's Objections

Professor Dore starts out by asserting that I and other economists assume "some unidimensional vision of mankind as being motivated solely by material self-interest." This is a false representation of my article, bordering on a straw man. The economic literature about entrepreneurship, including everything I have written, proceeds from the premise that material self-interest is *one* important source of motivation, not the only source of motivation.[12] Other motivations clearly enter the picture, such as preferences for being ones own boss and the desire to innovate and create something new. But how and to what extent does that undermine my analysis of the entrepreneurial climate in Sweden? Ronald Dore does not explain this, nor does he even offer any examples.

The complex web of incentives faced by potential entrepreneurs has both monetary and non-monetary elements, and tends to become codified in society in the form of norms and habits. Norms and habits are not cut in stone but may at least partially be endogenous, i.e. the consequence of a certain set of policies, social institutions and economic incentives (see, e.g., Lindbeck *et al.*, 1999). A system that financially penalizes risk taking and success is often more likely than not to reinforce cultural norms adverse to these activities. These norms are in turn likely to reinforce such policies. Institutions feed back on behavior and vice versa, so that both are outcomes of interconnected processes (Schmid, 2004, ch. 4). Institutional changes are likely to be followed by changes in norms and attitudes, as they are in part a culturally codified product of the reward structures in society (Bowles, 1998).

This also helps explaining why Ronald Dore's distinction between "Promethean" and "Glittering Riches" entrepreneurial behavior is largely irrelevant. First, even if money is not an end in itself it is the most important means for an entrepreneur who would like to materialize his/her vision. For example, that liquidity/equity constraints impede business development is one of the most robust findings in the small business economics literature (e.g., Blanchflower and Oswald, 1998 and Parker, 2004). A system that discourages private savings will therefore reduce the opportunity for startup success and future expansion, even for entrepreneurs that are completely uninterested in any material reward.

[12] Professor Dore oddly accuses me of solely paying attention to material self-interest, something that is said to be typical of "mainstream neo-classical economists". For some of my recent work in which I specifically criticize the excessive narrowness of neoclassical economics in the analysis of entrepreneurship, see Bianchi and Henrekson (2005).

Second, the dichotomy between material and non-material goals is in many situations questionable. One can use "Glittering Riches" to make the world a better place (e.g., Bill Gates and his disease eradication efforts), while at the same time receive honor and acclaim through philanthropy (Acs and Phillips, 2002). In other words, financial rewards can be used to purchase and pursue Promethean goals.

Ronald Dore also makes some sweeping comparisons of U.S. and Japanese management practices, allegedly to try to cast doubt on my thesis that certain welfare state institutions are likely to weaken the incentives to supply entrepreneurial effort. First, one major flaw with this comparison is that Japan, in contrast to Sweden does not have an extensive welfare state, in fact it has one of the smallest governments in the OECD relative to GDP.[13] Second, one may note that in the last 15 years (1990–2004) the U.S. economy grew by 52 percent, while Japan grew by a mere 19 percent, (OECD, *National Accounts*). In the same period working-age population grew by 18 percent in the U.S, while it decreased by 1 percent in Japan. Hence, Japan fell behind in both total and per capita GDP. Judging from relative overall performance in the last 15 years, the Japanese model of imitation and incremental improvement as opposed to novel innovations demonstrates inferior performance. If anything, this lends further credence to the thesis in my paper.

More generally, some types of innovations may best be carried out in corporate environments, whereas other types are best carried out in individualistic environments. If so, then an innovation-friendly society will facilitate both (or many) modes of innovation, not just one. If the welfare state chokes off innovation in individualistic enterprises only, it still has a cost even if it sustains innovation in corporate environments just as well as, say, the American model. Part of the problem with the Swedish model may therefore be the one-size-fits-all approach promoted by the welfare state.

Professor Dore also questions the value of economic growth and increased material standard of living for "quality of life". One obvious line of defense against this questioning is that my study did not deal with this much harder question, but rather specifically with the effects on entrepreneurship. Still, one may note that "quality of life" has several measurable aspects that are related to economic success and the policy choices and institutions that create prosperity. There is extensive evidence that higher GDP per capita is associated with better life-quality outcomes on many dimensions – see, e.g., Maddison and Johnston (2002) and the UNDP databases.

Professor Dore is right when pointing out that by providing insurance for bad outcomes, the welfare state can in principle encourage individuals to pursue entrepreneurial endeavors. This is a valid theoretical point shown formally by Sinn (1995), but it is an open question whether it is important empirically. Unfortunately, Professor Dore neglects to point to evidence that this insurance effect is in fact important in practice. A person with first-hand knowledge about the Swedish welfare system knows that giving up a tenured position for self-employment or a job in a newly established firm with uncertain prospects is associated with a high opportunity cost. In particular, if employment with the

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[13] Government outlays as a share of GDP was 38% in Japan and 58% in Sweden in 2005 (OECD, *Economic Outlook*).

current employer has lasted for a long time, and the employer is unlikely to be forced to shut down, the system in reality provides income security for the individual. By contrast, somebody who willingly gives up a tenured position for self-employment may often end up having no more security than what is provided by social welfare, and this presupposes that the individual depletes all her own assets. Hence, the construction of the public income insurance systems in combination with the labor security legislation tends to penalize individuals who assume entrepreneurial risk. Here Sweden differs strongly from Denmark where instead generous welfare systems are combined with weak job security mandates, sometimes called “flexicurity” (Andersen, 2005). As a result, the opportunity cost of giving up a tenured position is lower than in Sweden.

Professor Dore is right about the point that provided that the culture of a society is such that that it approves bold innovation more than bureaucratic conformity, “prestige and power and organizational loyalty can be powerful motivators for innovation”. However, he does not address the question whether or not the welfare state in fact cultivates such a system. As it happens, and given Professors Dore’s argumentation unfortunately for Sweden, it has *not* been the case that this society has developed a culture of respect for (non-monetary) achievement. Quite the contrary, social rewards are given for average performance and for not standing out, whereas “excessive” success is frowned upon.[14] This attitude towards success is in fact by many observers seen as a fundamental trait of Scandinavian societies, and it even goes under a specific name, namely “the Law of Jante”, coined in 1933 by the Danish novelist Aksel Sandemose.[15]

While I enjoyed the exchange, it would perhaps have been even more rewarding to all parties if the critique had been focused on my paper, and not on what professor Dore is upset about in the world more generally. It is, at least at a first reading, difficult to see the precise connection between “the total cultural insensitivity of the Bush administration’s bellicose policies” and my paper about the effect on entrepreneurship of welfare state institutions in Sweden. Neither does there seem to be any direct connection to American “cultural hegemony”, some statements by an American business leader that upset Professor Dore, or for that matter the equally subjective opinions expressed by a retired Italian industrialist. I certainly have sympathy for Professor Dore’s personal feeling about the Middle East policy of the Bush administration. Yet I cannot help feeling that the discussion would have been even more fruitful if it had been geared towards the topics and arguments put forth in my paper.

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[14] A good illustration of the fact that there can be drawbacks to making it generally known that one's company is successful are the annual contests held, first regionally and then nationally, to find the gazelle company of the year. The first selection of candidates is often made on purely statistical grounds, these entrepreneurs are then asked if they wish to participate in the final round. In recent years it has been the rule rather than the exception in certain regions that entrepreneurs do not wish to participate; to feature in a context where one is publicly labelled successful is judged neither good for business nor good for relations with local political representatives, unions, employees or suppliers.

[15] See Henningsen (2001) for an introduction to the Law of Jante. Stenius (1997) provides a good background and Henrekson (2003) illuminates some of the pitfalls for high-achieving entrepreneurs caused by the prevailing political culture, putting great weight on conformity and equality in terms of outcome rather than in terms of opportunity.

Concluding Remarks

There is no single recipe for achieving prosperity. In fact, there is a whole literature out there maintaining that there are “varieties of capitalism” (Hall and Soskice, 2001; Roe, 2003). However, backed by empirical evidence it is claimed by many observers that individual entrepreneurship is more important for growth and prosperity today than in the Fordist era, and also that it is likely to be more important, *ceteris paribus*, at high levels of income (see Carree *et al*., 2002 and van Stel *et al*., 2005). This is not to deny that there are difficult definitional issues involved and that entrepreneurial activity is more difficult to measure and make analytically tractable than many other economic variables.[16]

It is obviously important that we learn more about how entrepreneurship is affected by different institutional setups, something which can be achieved both through in-depth studies of particular systems and through comparative work such as studies based on the rapidly developing GEM data base (Reynolds, 2005). To further our understanding of the functioning of society and the economy, I would like to suggest enquiries where entrepreneurship is treated as a factor of production distinct from labor and human capital. The total supply of entrepreneurship and its distribution across (productive, unproductive or destructive) activities (Baumol, 1990) is likely to be influenced by the institutions defining a particular economic system. More specifically, the Swedish welfare state system is characterized by extensive regulations, tax wedges of roughly 60–65 percent for average workers and by an extensive public sector, all of which give rise to complicated incentive effects for individuals and organizations. That such a large welfare state has far-reaching effects on the structure of payoffs is obvious.

While many of the effects are intentional, some negative side effects are unintended, and some of these can be highly detrimental. Equally importantly, many welfare state systems were designed for a different and more stable economic environment, and may be less appropriate when the economic system is exposed to shocks and deep-seated changes in the underlying structural conditions. Adaptation and improvements in the design of programs and policies would therefore, in my view, make it possible to reduce many negative side effects without having to give up much of the core aspirations of the welfare state model. When such mechanisms can be adequately identified by scholars they should be acknowledged, rigorously analyzed and if possible dealt with, whatever one might feel ideologically about the welfare system.

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[16] See Bianchi and Henrekson (2005) and Barreto (1989).

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