

The discrimination of blacks has increased the number of jazz composers

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An interview with economist William Baumol (1922), emeritus Professor and Senior Researcher at New York and Princeton Universities, well-known for his analysis of the production process, of monopolies and of growth within differing economic systems. Baumol argues that economic growth isn't the result of competition in prices, but of competition in innovation. Under unfavourable social conditions – for instance, when law and order is not upheld - talented individuals do not pursue innovation, but become involved in unproductive activities. This stunts economic growth. In this interview, William Baumol also discusses the possible causes of the Japanese economic stagnation, his nomination for the Nobel Prize, lists what he sees as the "most significant" economic discoveries....

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The rule of law is essential

• In your article ‘Entrepreneurship: Productive, Unproductive, and Destructive’ (1990) you argue that a society which does not support innovative activities forces people to redirect their talent into substitute activity with negligible or negative social return such as crime, financial speculation, litigation. Is it well known that the more backward Russia has been very successful in chess playing, while the more advanced Western Europe and the US have been producing technological innovation. Is chess playing a substitute activity for the talented?

Talented individuals can enter all sorts of occupations. But entrepreneurship is a special sort of talent. The entrepreneur is often not the inventor but the one who takes the invention and makes sure it is put to use in a way that gives him wealth, power or prestige. Entrepreneurs become chess players only if it is a high prestige activity in the society and, preferably, if it is well rewarded.

• You say that the rules of game are the underlying factor which determines whether gifted persons choose to go in for productive or unproductive activity. Does this mean that people like Al Capone, Bin Laden or Hitler were just as intelligent as Edison, Einstein or Stravinsky?

Of course, Einstein and Stravinsky were not primarily entrepreneurs, and entrepreneurs are not always brilliant people. They are characterized by ability to organize, persuade others, and willingness to take risks. Their talents may be great but are very different from those of researches or composers.

• So you make a difference between ‘talent for the arts and sciences’ and ‘talent for business’. But surely gifted people are much more likely to be successful both in business and in the arts and sciences than people without talent. In 1904, the psychologist Spearman discovered the so called ‘g factor’ which causes positive correlations among individual differences in performance, even in very different cognitive tasks (see link [HERE](#)). Thus Spearman argues that there is talent is universal, individual specific types of talent for different areas of human activity do not exist. That may be true but I am not qualified to judge. I suspect, however, that not all psychologists agree with Spearman on this point

• Surely if gifted people have no access to any high prestige activity, they may decide to go in for playing chess – because although this activity may not be prestigious, it provides them with intellectual challenge.

I agree with you in general, but I think people differ considerably in their preferences and that some people are ready to sacrifice many things, including interest and enjoyment in what they do, to obtain wealth, power or prestige.

• If Edison had been born in Africa, in the Middle Ages or somewhere he could not use his talent, what would he have done with his life? Are mental disorders such as paranoia, mania or schizophrenia alternative pathological activities for people who cannot apply their talent to any creative activity?

I don't know what Edison might have done. He might have designed better suits of armor or better weapons. I can't answer your last question - I am not a psychologist.

• Maybe the other people would have killed Edison because they would not have understood his thinking. Or maybe, they would have been afraid that he would become more successful than they. What is the role of the social background (envy, law, values, culture) in the process of innovation?

The social background is crucial. For example, I argue that the rule of law is essential for a society that not only creates many inventions but puts them to widespread and effective use.

• Both Salvador Dalí and van Gogh were comparably brilliant painters. While the former became rich and famous, the latter was poor and unknown (in his lifetime). Does this mean that Dalí was more intelligent than Gogh or that Dalí lived in a more conducive environment?

No, to me it means that van Gogh had little business ability and much artistic talent, while Dali was an effective and dedicated businessman with (in my view) somewhat less artistic talent.

• According to some IQ studies black people are on average less intelligent than white people. However these 'less-smart' blacks have been able to create jazz - a very complicated music. Is jazz also an alternative activity for talented individuals?

I am more than sceptical about the studies that claim black people are less intelligent than others. Many blacks are talented in other ways as well, and many are very intelligent. However, I would say that the work of a talented jazz musician is closer to that of Stravinsky.

• But the blacks were discriminated against in the US. They could be neither entrepreneurs nor scientists nor artists. Maybe this is why some of them have redirected their talent into 'unofficial' music – (jazz) or sports (basketball). What do you think of the view that if the blacks had not been discriminated against, they would have devoted less time to jazz and more time to other activities?

While even during the period of greatest discrimination some black people succeeded as scientists, artists and entrepreneurs, the number was small. I am sure you are right that this served to increase the number of jazz composers and performers.

• After the fall of communism in Eastern Europe, many people there became rich as because of whom they knew rather than through their talent. Are money and social success really reliable criteria to assess talent and intelligence (i.e. the more money one has the greater talent he has)?

Absolutely not. There are many stupid rich men who obtained their wealth by accident, brute force or unimaginative crime. And of course there are many brilliant people who are not rich.

• What is the most reliable criterion to measure talent and intelligence?

You must ask the psychologists, not the economists.

Innovation requires collaboration and competition

• The Japanese have been very successful in adopting new technologies. But, since the 1990s, Japan has been struggling economically. Why?

I am not an expert on the Japanese economy, but I understand that the main source of its economic problems are institutional and macroeconomic behaviour, notably the way in which the banks select those to whom they will lend money. Also, innovation in Japan seems to be characterized by large firm activity, unlike North America where inventions like the airplane, the telephone, etc. were first created by private individuals, with most such inventions afterwards greatly improved by large firms. Japan, perhaps as a consequence, seems to be much better at improving inventions than at creating them in the first place.

- **Why has China's economic performance been improving for the past two decades - despite its democratic deficit?**

I think economic performance is stimulated more directly by the presence of a market economy than by democracy, though either of these tends to lead toward the other.

- **George Soros in his book *Soros on Soros* (1995) says that communism imploded from within and that the same can happen with capitalism. Does the Enron affair or the default of Argentina mean that 'pure' capitalism cannot survive? Is it necessary to reform capitalism?**

No system can be expected to survive forever, but I see no evidence that capitalism will die very soon. Of course it is desirable to reform capitalism, by forcing accounting firms to be more honest, protecting the environment, helping poor people, etc. But that is not why capitalism seems likely to survive for a considerable time period.

- **What are your predictions regarding Euro-Dollar exchange rate?**

I have no idea.

- **You emphasize that economic growth depends on innovative activities that require collaboration rather than competition. Is state intervention inevitable if innovation is to take place?**

State intervention can help growth and the innovative process, particularly when government pays for innovation and basic research that private business will not carry out voluntarily. But none of this intervention is required to obtain the benefits of collaboration among firms, that the firms usually arrange for themselves. Incidentally, I think the growth process requires both some collaboration and very vigorous competition among inventive firms at the same time.

- **Solow's growth theory implies convergence, while Lenin's theory of imperialism argues that developed countries and regions grow at the expense of less developed ones. The gap between the rich and the poor has been generally increasing. Does this mean that Lenin's theory was right?**

The evidence indicates that over the last half century, the richest 10 to 25 countries have been converging. There has also been some convergence among the poorer countries among themselves but they have been falling further behind the wealthiest economies. I do not, however, think this is attributable to what Lenin's model claims to be the problem. For example, in many backward economies stupid military juntas have effectively done many things that prevented growth.

- **Gérard Roland ascribes the unexpected output fall (at the beginning of the transition process in the former communist countries) to the disruption of output following liberalization. Surely it takes some time for one efficient enterprise to find another efficient enterprise and for both of them to start producing. So the aggregate output falls due to time spent by searching. What is your explanation of the output fall in the transition economies?**

I think the Roland explanation is a valid part of the story, but it also takes time for managers to learn how to manage efficiency, to be guided by market demand, to reorganize the firm. And workers have to learn not to follow the maxim 'we pretend to work and they pretend to pay us'. Remember, after World War II it took even the miracle economies of the Far East 10 to 20 years to begin to catch up.

- **Economist Jaroslav Vaněk (Emeritus Professor at Cornell University) says in one interview that fame in the field of economics is artificial. In his view Americans openly talk about the 'Chicago mafia' which apparently influences who will win a Nobel Prize. You have been proposed for the Nobel Prize a few times. Is Vaněk right?**

I know I have been proposed for the prize, but I don't think there is a Chicago mafia that controls what happens in Stockholm. It may be relevant that last month I was the first academic economist to receive in Stockholm the prestigious International Award for Entrepreneurship and Small Business Research.

- **Some people say that the science of economics stagnates and that economists focus on mathematical computations unrelated to reality. What are the greatest economic discoveries and which problems should today's economists investigate?**

It is impossible to determine what the greatest economic discoveries are. I would include the value theory of the classical economists, the theory of the firm of A.A. Cournot, Ricardo's law of comparative advantage, Walras' general equilibrium theory and Keynes analysis of employment and inflation. There is no limit to what should be studied, but to me an important priority is analysis of the reasons the free market economies have achieved productivity, innovation, living standards and growth unequalled for any length of time by any other type of economy, ancient or recent.