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In defense of the entrepreneur

By Rainer Zitelmann

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I first came across the theories of the Italian economist Mariana Mazzucato a few years ago during a debate with an anti-capitalist who argued that it was not [Steve Jobs](#), but rather the government, that was responsible for inventing the [iPhone](#), and that the same applied to all great inventions. Since I know the story of the iPhone's creation pretty well, I immediately realized that this anti-capitalist had completely failed to understand the role of the entrepreneur.

Entrepreneurs are not necessarily inventors, nor are they typically scientific researchers. They are more like artists, using their creativity to take what already exists and turn it into something completely new, namely innovative products that provide value to customers. It would be absurd to accuse Picasso of merely recombining existing colors or to rebut Karl Marx by claiming that he did little more than remix the theories of Hegel, Adam Smith, and David Ricardo.

No successful businessmen, whether Sam Walton of Walmart or Bill Gates of Microsoft, originated their groundbreaking ideas — they adopted them from others. And most inventors, whether of products such as Coca-Cola or technologies such as the operating system later known as MS-DOS, did not become rich from their creations. The true key to financial success lies in the ability to craft a powerful business model around these ideas and effectively meet the demands of consumers in the market.

One notable example is the Coca-Cola recipe, which was invented by the pharmacist John Stith Pemberton. He owned a laboratory in Atlanta where he produced medicines. Among his creations was a tonic infused with coca leaves and cola nuts, designed to alleviate various ailments such as headaches, fatigue, impotence, and weakness. Launched in 1886, Pemberton's tonic was a syrupy concoction and soon proved to be a delightful beverage when mixed with water.

Pemberton failed to recognize the enormous commercial potential of his invention and sold the company and the secret formula for Coca-Cola to several people, including Asa Griggs Candler. In 1892, Candler, along with his brother and two other investors, established the Coca-Cola Company. All in all, it cost Candler a mere \$500. There is a world of difference between being an inventor and being an entrepreneur.

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Mazzucato has many fans because she misunderstands and downplays the role of the entrepreneur and grossly exaggerates the role of the state. This has positioned her at the forefront of the zeitgeist. Former President Barack Obama was an admirer, as is German Minister for Economic Affairs Robert Habeck, who is running the German economy into the ground.

The American economist Deirdre Nansen McCloskey and the Italian political scientist Alberto Mingardi offer a critical analysis of Mazzucato's work in their book *The Myth of the Entrepreneurial State*.

Their main objection is that Mazzucato only highlights individual instances where the state successfully promoted innovation while ignoring the far more numerous cases where so-called "industrial policy" failed. Of course, anyone can cite examples of the state promoting great innovations.

"The trouble with such picking of cherries, though, is that in view of the gigantic increase in public spending since 1900 it would be strange indeed if *none* of the dollars didn't finance *something* technologically relevant," they write.

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Apart from the fact that citing a few examples where the state did play a positive role does not prove the basic thesis, Mazzucato also presents a number of inventions, including the internet, as being the direct outcome of state action, which they were not, as the authors demonstrate in the chapter “The Internet, for Example, Was *Not* Invented by the State.”

If politicians and civil servants possessed the level of ingenuity that Mazzucato suggests, they would have been staggeringly rich long ago, because they would be making all the groundbreaking inventions and innovations in the private sector and reaping the financial rewards. As former President Ronald Reagan once said: “The best minds are not in government. If any were, business would steal them away.”

Mazzucato and her numerous supporters hold an idealized view of politicians while criticizing private entrepreneurs for prioritizing short-term gains. They believe that politicians only ever act to promote the long-term interests of their countries and that politicians are omniscient and possess a level of insight that surpasses that of entrepreneurs when it comes to determining which innovations have a future and which do not. In reality, we all know that politicians are mostly concerned with how they will do in the next elections and are greatly influenced in their decision-making by innumerable lobbyists.

The sheer number of projects promoted by “industrial policy” that later failed miserably is the stuff of legend. And the illusion that politicians and civil servants are smarter than millions of entrepreneurs and consumers is ridiculous. Of course, it is not only government projects that fail — a majority of new products launched by private enterprises also meet a similar fate.

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“But at least it is voluntary, and correctable by failure, which the State can always avoid with additional coerced taxations and the corresponding subsidy to its good friends,” McCloskey and Mingardi write.

When entrepreneurs fail, they are punished by the market — in the worst case they go bankrupt. When politicians fail with an industrial policy measure, they throw even more taxpayer money at the project to conceal their mistakes.

Rainer Zitelmann is the author of the books [The Power of Capitalism](#) and [How Nations Escape Poverty](#).