

C

N

E

CENTER
FOR THE
NEW
ECONOMY

CENTRO
PARA LA
NUEVA
ECONOMIA

ANNUAL
ECONOMIC
CONFERENCE

2012



Adversity Breeds Opportunity: “Trust” and the Social Infrastructure Underlying Successful Entrepreneurial Clusters

Richard M. Locke
MIT

Roadmap



- 1) The Key Questions: Why Entrepreneurship Develops in Some Places and Not in Others?
- 2) Standard Answers: Culture, Key Institutions
- 3) The Limits of These Views
- 4) An Alternative Perspective: Adversity, Opportunity, and The Importance of “Trust”
- 5) An Illustration: The Case of Southern Italy and NE Brazil

Culture Matters



- 1) Some cultures are more “Entrepreneurial” than others
- 2) Overseas Chinese vs. Japanese
- 3) Northern Italians vs. Southern Italians
- 4) United States vs. Scandinavia

Problems with Cultural Analysis



- 1) Cultures, people who supposedly were not entrepreneurial (e.g. Scandinavians, Germans, Southern Italians) today are.
- 2) Since cultures do not change quickly, what else is going on?

The Importance of Institutions



Checklist for Institutions

- Human Capital
- Legal Rules
- Financial System
- Source Organizations
- Labor Market

The Limits of This View



- “Conventional Wisdom” is a stylized description of the US system
- Reality: Entrepreneurship is developing throughout the world, in many places lacking some, if not most, of the ‘so-called’ essential institutions
- Examples: Israel, India, Argentina, Brazil

The Case of Brazil



- Macro-economic and political environments recently stable but still have great challenges
- Does not possess many US-style institutions
- Nonetheless, a “hot house” of entrepreneurship
- How? Why?

An Alternative Perspective



- 1) Adversity Breeds Opportunity / Innovation
- 2) Adaptation of Local Institutions: Human Capital
- 3) Importance of Cross-National Networks
- 4) New Role for Government
- 5) Building Trust

Can One Build “Trust”?



- “Trust,” “Social Capital,” “Cooperation” are important but scarce in many developing economies.
- Can “Trust”/Cooperation be created?
If so, how?

3 Views of “Trust”



- Culturalist
- Game Theoretical
- Economic Institutional

Problems With These Views



- Static
- Abstract
- Pessimistic

My Argument



- “Trust”/Cooperation can be constructed/crafted
- Sequential Process:
 - Self-Interest
 - Government Intervention
 - Self Monitoring

I + G + M = Cooperation

I + G = Dysfunctional Cooperative

I + M = Well Functioning Cartel

G + M = Government Sponsored Fake Cooperative

I = Self-Interest

G = Government Intervention

M = Self-Monitoring

Research Design: Southern Italy and NE Brazil, plus secondary cases



- Data on Economic Development
- Data on “Primary Suspects”
- Field Research

An Illustration



- Mozzarella di Bufala Story- S Italy
- Mango Exporters- NE Brazil



Lessons for Puerto Rico?

