

HOW ENTREPRENEURS

fuel creative
destruction

In 1983, Peter Drucker wrote ‘it is [Joseph] Schumpeter who will shape the thinking and inform the questions on economic policy for the rest of this century, if not the next thirty or fifty years.’ George Gilder would agree. Gilder is one of the world’s most influential supply-side economists. His previous works, particularly his 1993 book *The Spirit of Enterprise*, have drawn heavily on Schumpeter’s theory of creative destruction. Much of his latest offering, *Knowledge and Power: The Information Theory of Capitalism and how it is Revolutionizing Our World*, does the same.

Knowledge and Power is a challenging and powerful critique of standard blackboard economics and its focus on order and equilibrium. Gilder’s project is to map information theory—with its emphasis on dynamism and disorder—onto traditional economic interest like competition and markets. The key, for Gilder, is to create an economics of information with human creativity and new technology the central element of progression and human development.

According to Schumpeter, creative destruction is the process of industrial mutation ‘that incessantly revolutionises the economic structure from within, incessantly destroying the old one, incessantly creating a

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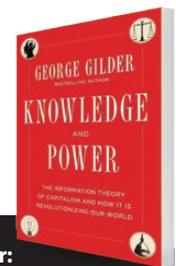
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new one’, a process that is ‘the essential fact about capitalism.’ In the same way that Schumpeter’s entrepreneurs are creators of opportunities, Gilder’s entrepreneurs are creators of knowledge—the central actors in a capitalist system he sees as an information system. In unveiling his information theory of capitalism, Gilder argues that in an economy ‘everything useful or interesting depends on [these] agents of change.’

Information theory was created by Claude Samuels and Alan Turning in the 1930s and is a branch of applied mathematics relating to the qualification and transmission of information. Pertaining to economics, Gilder sees the key insight of information theory to be the grading of information by the degree it is unexpected—i.e. its entropy. He sees the entrepreneur as an agent of change constantly involved in the process of trial and error in an attempt to create surprising, high-entropy information that will disrupt the status quo and generate growth beyond what was previously available.

A symbolic example of this process is Qualcomm, a corporation encountered by Gilder in 1993 through

**Knowledge and Power:**

The Information Theory of Capitalism
and How it is Revolutionizing our World

by George Gilder

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his work as a journalist for *Forbes* ASAP. At the time, Qualcomm was working on a method of information transfer to overcome the restrictions imposed by the physical carrying capacity of an analogue connection. Seemingly restricted by the laws of physics, Qualcomm was able to overcome these issues by moving into a system of code-based wireless transfer. In his book *The Qualcomm Equation*, Dave Mock notes that Gilder’s early support of the company’s investigations gave it credence and helped it win investment—to the ire of those ‘who contended that code-based wireless was a complete fraud with the subversive intention of mulcting billions of dollars from unsuspecting investors.’

Qualcomm’s transformation of the ‘physical scarcity of ‘bandwidth’ into an abundance of wireless communications’ is a clear example



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of the creative destructive power of entrepreneurs. By ‘transcending the laws of physics by the laws of information’ the company was able to act as a key force for economic growth.

Through their discovery of new knowledge, Gilder places the creative entrepreneur at the very centre of economic growth and progress. He contends a key failure of economics thus far has been its inability to grasp this idea, a failure that has seen economists ‘council governments to attend to everything except what matters most: the environment for innovation.’

Through his application of information theory, Gilder also stresses the important role a small but effective government can play. As a low-entropy actor, government—through the protection of trade routes, reasonable regulations, stable currencies, modest taxation and reliable protection of property rights—provides the predictable base from which high-entropy activities can occur. By providing a clear and stable channel for the movement of information, limited and steady government provides the environment for innovation by private citizens and operators. Unfortunately,

Gilder finds this is seldom the case. In most countries, government is the most common source of destructive noise that interrupts the channel from which entrepreneurs discern information. As a centripetal power, government’s attempts to impose order distract entrepreneurs from their purpose, while obtaining by fiat the entrepreneur’s rightful profits.

Which brings us to the central thesis of Gilder’s book: that power must not be taken away from those with the knowledge to use it effectively. That is, successful entrepreneurs who have created businesses and driven the growth of jobs, markets and wealth—and all the positive societal benefits that stem from them—have thus proven themselves the most capable to reinvest the profits. Capitalism succeeds, therefore, not with a system of sticks and carrots, but by linking knowledge and power.

To illustrate this point, Gilder tells the story of Warren Buffet and his concern that his personal tax rate of seventeen per cent was unfairly lower than that of his secretary. Leaving aside the validity of this statement, and his failure to take into consideration corporate income tax

and other levies, Gilder argues that this is exactly the way it should be as wealth can only grow when those who created it remain in control of it. As such capitalism prevails because it assigns the exacting task of re-investment ‘to people like Warren Buffet rather than to people like his secretary.’

With this key point, Gilder also articulates the clear misunderstanding that underpins socialism. By attempting to seize capital and redistribute it to the population, socialism disconnects knowledge and power. This, according to Gilder is the great secret of capitalism, ‘detached from a capitalist, there is no capital.’

At the heart of Gilder’s thesis is the refreshingly optimistic idea that growth and development are truly unlimited. As the real source of wealth is knowledge, new players and technologies will always emerge that will disrupt old paradigms and continue to drive prosperity. Gilder’s writing can sometimes take a conversational tone as he moves from topic to topic whilst picking-up and dropping threads of thought in a somewhat arbitrary fashion. But the text represents a new and interesting take on the school of economics and an impassioned defence of the morality and power of the free market. [R](#)