

All Entrepreneurship Is Social

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Let's not overlook what traditional entrepreneurs contribute to society **BY CARL SCHRAMM**

OVER THE PAST decade or so, the term *social entrepreneur* has become a fashionable way of describing individuals and organizations that, in their attempts at large-scale change, blur the traditional boundaries between the for-profit and nonprofit sectors. Given the ceaseless appearance of innovations and new institutional forms, we should welcome a new term that allows us to think systematically about a still-emergent field.

One danger, however, is that the use of the modifier *social* will diminish the contributions of *regular* entrepreneurs—that is, people who create new companies and then grow them to scale. In the course of doing business as usual, these regular entrepreneurs create thousands of jobs, improve the quality of goods and services available to consumers, and ultimately raise standards of living. Indeed, the intertwined histories of business and health in the United States suggests that all entrepreneurship is social entrepreneurship. The pantheon of model social entrepreneurs should thus include names such as railroad baron Cornelius Vanderbilt, meatpacking magnate Gustavus Swift, and software tycoon Bill Gates.

THE STEW OF POVERTY

People tend to think that advancements in health care, for example, are the achievements of either government or the social sector. More recently, they note how the work of social entrepreneurs is improving population health, particularly in developing countries.

Yet the experience of the United States demonstrates that business entrepreneurs have done as much—if not more—for American health in the past century and a half as did medicine or public health. In the middle of the 19th century, most of the U.S. population was ridiculously poor by today's standards. Americans not only had low incomes, but also spent the bulk of their money on life's basics: food, clothing, and shelter. What they purchased, moreover, was of questionable quality. Because there was no refrigeration or ability to transport foods over long distances, most people subsisted on a kind of stew that, by all accounts, was simple and tasteless. A poor diet meant poor nutrition, which meant poor health.

Clothing was also neither plentiful nor desirable. With little production of new clothing, the average American wore the same clothes over and over again. And they seldom washed these clothes—or themselves—because they lacked indoor plumbing. This was not the only failing of American homes: They were often poorly ventilated, meaning

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that most people's lungs labored to breathe air made dirty by cooking and heating fires.

Because of these poor conditions, Americans' lives were short, and their deaths were usually caused by disease. Yet since 1850, life expectancy for Americans has risen remarkably quickly, from below 50 years to 78 years today. Likewise, annual mortality rates have plummeted, from around 23 deaths per 1,000 people in 1850 to eight in 2009, with infant mortality markedly falling. Meanwhile, infectious diseases have receded as a primary cause of death.

Many factors played a role in these changes, from improvements in sanitation to upticks in education. (The practice of medicine played a noticeably small role here and, in fact, probably did more harm than good for many years.) But one important factor is often overlooked: the increased consumption of higher-quality goods and services. As entrepreneurs invented and distributed these improved goods and services, they deserve considerable credit for the rise in Americans' health and longevity.

THE ENGINES OF WELL-BEING

One innovation that fueled prosperity, well-being, and further innovation was the American railroad system. The spread of railroads in the 19th century permitted something nearly unprecedented in human history: conquest of the weather. Better movement of people and goods reduced the vulnerability of the population (especially in rural areas, which still dominated the country) to cyclical vagaries. Even in the depths of winter, consumers could purchase food from afar.

The food people ate improved dramatically as well. Long-distance transportation of food required advances in refrigeration and canning. Gustavus Swift pioneered the refrigerated railroad car and built a meatpacking company that was, at one point, among the largest American companies in terms of gross revenue. As a result, consumption of meat, dairy products, fruits, and vegetables increased. No longer were Americans consigned to eating an unappetizing stew.

Railroads also facilitated the rise of large-scale national companies and allowed a geographically disparate country to purchase new and better goods and services. Consider, for example, the contributions to American health and welfare made by just two companies: Sears, Roebuck and Montgomery Ward. Their first catalogs were only single sheets of paper, but in short order they grew to in-

“Income is the best medicine,” observed Muhammad Yunus. Because regular entrepreneurs create jobs and improve goods and services, they are good for your health.

clude thousands of items. By making products such as iceboxes and better farm tools widely available, these companies empowered Americans to improve their lives.

Similarly, factory production of clothing and its national distribution in new department stores—created by men such as Harry Selfridge, Alexander Stewart, and John Wanamaker—reduced prices and increased access. Economists have estimated that from the mid-1800s to the mid-1900s, the real value of goods and services available to the average American increased by 700 percent.

The cascade of goods available to everyday consumers continued in the 20th century. The Dallas Federal Reserve has chronicled the steep declines in the amount of work Americans had to perform to afford staples like chicken, eggs, and milk. In 1919, for example, an American had to work 10 hours to afford a basket of 12 food items. By 1997, the work time required to purchase this food basket had fallen to two hours.

The falling costs and increasing quality of food, clothing, and shelter made Americans healthier and more resistant to disease. Accordingly, stature and life expectancy have risen at unprecedented rates from the late 19th century forward.

The lesson of this brief history is not that entrepreneurs can singlehandedly solve all the world's problems. Public health measures such as establishing regular trash collection and building reliable infrastructures for clean water played vital roles in improving American health, as did scientific research in areas such as vitamins and

vaccines. But we would be remiss if we did not count people such as Vanderbilt, Swift, and Wanamaker as social entrepreneurs.

Today, we might also count as social entrepreneurs people such as Bill Gates—in his capacity as Microsoft founder rather than as philanthropist—as well as the late Don Fisher, cofounder of the Gap. Through his dogged pursuit of a vision of personal computing, Gates has revolutionized work and communication across the world. The impact on relationships and quality of life has been considerable. Meanwhile, the Gap has democratized high-quality clothing.

Entrepreneurs typically generate a surplus benefit above and beyond the profits they reap, finds the eminent Yale University economist William Nordhaus. Nordhaus has calculated that entrepreneurs capture only about 2 percent of this surplus, with the remainder passed on to society in the form of jobs, wages, and value. By creating so much value that does not accrue to themselves, regular entrepreneurs are also social entrepreneurs.

CALLING ALL ENTREPRENEURS

What might be today's equivalent of the railroad and its beneficial social impact? Diseases continue to plague most developing countries, so it is understandable that alleviation of them attracts the attention of social sector organizations (although there is consid-

erable debate over whether these organizations are devoting enough attention to the right diseases). Yet it very well could be the case that the most transformative event in the economic trajectory of developing countries is not the spread of vaccines, but the spread of cell phones.

Cell phones cannot cure diseases, but they can spur the development of new business models, new companies, new technologies, and, thus, economic growth. Among businesses, cell phones also facilitate the scaling up of networks, firms, and innovations. They allow people to dream big, rather than focusing only on staying afloat.

Several studies in the past few years have found that a 10 percent increase in cell phone penetration in developing countries would increase the annual growth rate of per capita gross domestic product (GDP) by nearly 1 percentage point. If that does not sound like much, consider that a country growing by 2 percent per year would double its per capita income in 36 years. If its growth rate rose to 3 percent, income would double in 24 years. At 4 percent per year, wealth per person would double in only 18 years. The economic multiplier effect of cell phones is enormous.

Such growth would in turn improve health and nutrition by allowing people to consume better goods and services. As Nobel Peace Prize winner Muhammad Yunus, founder of Grameen Bank, has observed, “income is the best medicine.”

This is not to say that public health and vaccination are unimportant in developing countries—far from it. But in the coming decades, it will be regular entrepreneurs—those who start and grow companies—who will be lauded for their role in improving society. Specific individuals and firms stand behind the technological innovations that make growth possible. Entrepreneurs, it turns out, are good for your health. ■