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Entrepreneurship and Social Responsibility Research: A Double-edged Sword of Economic Welfare and Social Challenges

Guixin Ma

High School attached to Western University of Technology, Xi'an,710000, China;

Abstract:

It is widely accepted that successful entrepreneurs create both waves of innovation and prosperity and environmental and social challenges. Using economic theories such as Solow's growth model, Schumpeter's theory of economic development, and externality theory, this article will explore how the wealth creation and consumption of successful entrepreneurs drive innovation and economic growth, as well as the environmental, social, and financial challenges they bring, thereby providing a balanced analysis of how successful business people affect the world. The results suggest that successful business people can benefit society significantly when they consume wealth, such as creating jobs and promoting economic growth. However, making profits in some industries can lead to environmental degradation, and high-risk investments can exacerbate social inequalities. Therefore, the government needs to introduce a series of policies to mitigate the negative impact of entrepreneurs.

Keywords: Successful Business people; Economic Welfare; Societal Challenges.

1. Introduction

In today's society, successful business people are often seen as the drivers of economic growth. Their actions have a widespread impact on the economy, creating waves of innovation and prosperity but also stirring up environmental and social challenges. This essay explores the multifaceted implications of successful entrepreneurs on society, examining how their wealth creation and expenditure stimulate innovation and economic growth, while also giving rise to environmental, social, and financial challenges. By examining the contributions and the potential pitfalls associated with their actions, this essay aims to provide a balanced analysis of how successful businesspeople shape our world. Are they the benefactors of modern society, driving progress and growth, or do their endeavors come with hidden costs that society must bear?

2. Social benefits created by successful business people

The Solow Growth Model (Feldstein et al., 1992) posits that long-term economic growth is driven by capital accumulation, labor or population growth, and technological progress. The formula is:

$Y=A\cdot K^{\alpha}\cdot L^{1-\alpha}$

Y is the total output (GDP),

A is the level of technology,

K is the capital stock,

L is labor,

α is the output elasticity of capital (typically between 0 and 1).

This model suggests that technological development is the driving force for economic development. Successful businesspeople often drive innovation and provide essential services that enhance the quality of life for many. For example, Elon Musk's SpaceX and Starlink projects have revolutionized internet accessibility by providing satellite internet services to remote areas (CNBC, 2024). The Marubo tribe in Brazil, previously underserved by traditional internet services, now has network coverage, bridging the digital divide and offering new opportunities for education and economic development (The Economic Times, 2024).

Joseph Schumpeter's economic development theory (Schumpeter& Swedberg, 2021) emphasizes the role of innovation and "creative destruction" in driving economic growth. Successful entrepreneurs often engage in entrepreneurial activities that disrupt existing markets and create new industries. Successful entrepreneurs invest in startups and innovative ventures, fostering new technologies and business models. For example, companies like Google, Amazon, and Apple have built entire ecosystems around their products and services, generating millions of jobs worldwide (CNBC, 2019).

Pharmaceutical companies, hospitals, and medical device manufacturers provide employment opportunities and contribute to improved healthcare services and advancements in medical technology, benefiting communities worldwide. Companies involved in renewable energy, such as solar power, wind farms, and hydropower projects, not only address environmental concerns but also stimulate local economies by attracting investments, driving innovation, and promoting sustainable development. Manufacturing companies across various sectors, including automotive, aerospace, and consumer goods, play a pivotal role in bolstering local businesses and communities. Similarly, hotels, restaurants, travel agencies, and entertainment venues not only attract tourists but also drive consumption while providing vital support to transportation, retail, and other associated industries—thus exerting a multiplier effect on the local economy.

Many successful entrepreneurs engage in philanthropy, using their wealth to support various social causes. Through the Bill & Melinda Gates Foundation, Bill Gates has invested billions in global health initiatives, including reducing the incidence of malaria in sub-Saharan Africa by 50% since 2000 (Koch et al., 2019). Warren Buffett donated significantly to health and education, and Mark Zuckerberg invested in education reform (Broad, 2017). Such philanthropic efforts can have profound impacts, addressing systemic issues and improving the lives of countless individuals.

When successful entrepreneurs spend their wealth, it can stimulate economic activity. The Keynesian multiplier effect (Investopedia, 2023) explains how initial spending can enormously increase total economic output.

$$K= \frac{1}{1-MPC}$$

K is the multiplier,

MPC is the marginal propensity to consume.

This model indicates that an initial increase in spending can lead to a more considerable overall growth in national income and economic output, depending on the MPC. For example, when an individual spends \$1 million on a luxury yacht, if the MPC is 0.3, this person injects \$1 million into the economy. Yacht builders and suppliers, the recipients of this income, spend 30% on other goods and services. This secondary spending generates further rounds of expenditure, with each subsequent round being 30% of the previous one. Thus, the initial \$1 million spent by the wealthy individual could ultimately contribute a \$14,000 increase in national income. This case illustrates how even spending by more affluent segments of society can have a magnified effect on the broader economy. However, the impact is generally smaller compared to spending by lower-income groups due to the more negligible MPC. However, this model assumes that the economy has idle resources (Boyes, 2014). In a fully employed economy, the effect of additional spending might be less pronounced. Additionally, the nature of the spending matters; expenditures on luxury goods may not have as broad an impact as spending on infrastructure or essential services, which tend to have higher multipliers due to their wider-reaching economic benefits.

Despite the contribution of successful entrepreneurs to economic development, the Gini coefficient, which measures income inequality, is rising in many countries. This disparity can lead to social unrest and undermine monetary stability. Thomas Piketty (2014) used the formula $r>g$ to understand the dynamics of wealth and income inequality. When r, the average annual rate of return on capital, including profits, dividends, interest, and rents, exceeds g, the economic growth rate, wealth tends to accumulate faster for those already owning capital, leading to increased inequality. This situation can create a feedback loop where the wealthy become wealthier, thus concentrating wealth and economic power. This may contribute to the high-income cohort's lower marginal propensity to consume, meaning they spend a smaller fraction of their income, leading to lower aggregate demand and suppressing economic growth (Carroll et al., 2017). Figure one shows the income changes of Sweden's top 0.1% and the bottom 90% for the last 30 years (Lundberg & Waldenström, 2018).

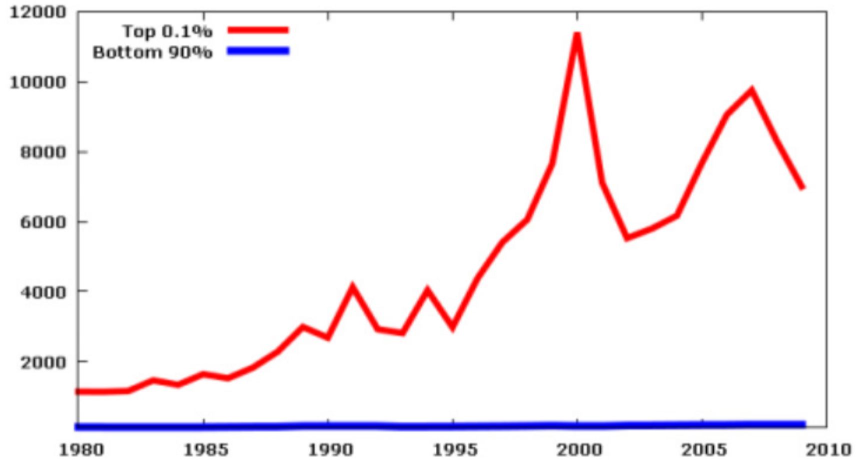

Figure 1 Top 0.1% & Bottom 90% average income +capital gains

3. The societal challenges posed by successful business people

Meanwhile, high-risk and high-return investments by wealthy individuals can introduce market instability (Van Vliet& De Koning, 2017). For example, speculative investments in real estate or stock markets can lead to bubbles and subsequent crashes, disrupting economic stability that spreads globally. The housing market crash had far-reaching consequences due to their exposure to mortgage-backed securities, leading to bank failures, bailouts, and a severe credit crunch. The overall impact includes declining consumer spending, increased unemployment, and a prolonged recession (Weller & Karakilic, 2022). This example serves as a reminder of the potential risks associated with uncontrolled investments and the need for proper market regulation and risk management.

Furthermore, large enterprises can sometimes engage in monopolistic practices, stifling competition and innovation among smaller players. Google's market power, for example, has raised concerns about stifling competition and limiting consumer choices (PBS, 2023). Antitrust laws and regulations, such as those enforced by the European Commission against Google for anti-competitive practices, are crucial to maintaining competitive markets and ensuring that innovation benefits the broader economy (European Commission, 2023).

Industries like mining and chemical manufacturing often deplete natural resources and cause ecological damage. Excessive groundwater extraction to meet industrial and urban water demands can lead to water scarcity, adversely affecting local agriculture and ecosystems (Esteban & Albiac, 2011). Environmental economics proposes that the cost of negative externalities, such as pollution and resource depletion caused by economic activities, can be corrected by Pigouvian taxes (Main, 2010). The tax equals the marginal external cost (MEC) of the negative externality. Imposing Pigovian taxes can internalize these externalities, making businesses bear the total social cost of their activities. Accurate measurement is crucial because if the tax is too low, it will not effectively discourage harmful activities. If set too high, it could unduly burden businesses and disrupt economic activities. However, the far-reaching impacts of pollution are difficult to quantify.

Lastly, wealthy business people can influence policy-making and government decisions significantly, potentially leading to corruption and unfair competitive advantages. In South Korea, the chaebol-government relationship fosters mutual dependence and corruption (Council on Foreign Relations, 2018). In the US, legalized lobbying and campaign donations skew policy priorities (Center for American Progress, 2014). In Russia, the fusion of business and political elites leads to a lack of transparency and widespread corruption (Yakovlev, 2006). This relationship generates a mutual dependency, where politicians rely on the economic performance of chaebols to bolster their political careers. In contrast, chaebols depend on political connections to maintain and expand their market dominance. This influence is evident in sectors like healthcare, energy, and finance, where lobbying efforts have shaped regulatory frameworks to favor corporate interests (Seymour & Seymour, 2013). While the specific dynamics differ, the core issue across these countries is the undue influence of business interests on political decision-making.

4. Government interventions

To respond to the above phenomenon, the government needs to implement stricter regulations on lobbying activities to ensure transparency and accountability. The government should impose caps on the amount of money that can be spent on lobbying to limit the influence of wealthy corporations and individuals, and meanwhile, promote reform financial laws to reduce the influence of money in politics. In addition, lobbyists should publicly disclose their activities, including the issues they lobby on and the amount spent on lobbying, which requires the government to provide public funding for political campaigns to level the playing field and reduce candidates' dependence on large donors. The government should also impose more extended cooling-off periods for former government officials before they can engage in lobbying activities to prevent conflicts of interest. Most importantly, the government needs to establish or strengthen independent anti-corruption agencies with the authority to investigate and prosecute corruption cases. Greater public participation in the political process should also be encouraged to ensure policies reflect the broader public interest.

The government needs to combine the top-down and bottom-up models to develop the economy and achieve a balance. The formal refers to decisions and initiatives involving substantial initial investments and large-scale projects driven by the upper levels, and the latter relates to initiatives originating from the lower levels of the hierarchy. Through a top-down approach, the Chinese government implemented economic reforms by setting up special economic zones in coastal cities and offered tax incentives, relaxed regulatory environments, and infrastructure support to foreign investors (Wu et al., 2021). Muhammad Yunus and Grameen Bank exemplify the bottom-up approach by providing small loans to start businesses, and this microfinance empowers individuals and fosters grassroots entrepreneurship (Esty, 2017).

Unlike the top-down approach, bottom-up initiatives typically face higher per-unit costs for production and distribution and, therefore, are less competitive. Meanwhile, the dependency on a top-down approach is not without limitations. Hong Kong's MTR Corporation, which dominates the real estate market through its rail and property model, exerts control over prime retail spaces (Aveline-Dubach & Blandeau, 2019). While this model is efficient in urban planning, it stifles competition and innovation, as smaller businesses cannot compete with the supermarkets on the same level. The development of Hong Kong's West Kowloon Cultural District is an example of integrating both the top-down approach undertaken by the government and the bottom-up approach initiated by the local businesses, artists, and cultural organizations (Raco & Gilliam, 2012).

5. Conclusion

In conclusion, successful business people can significantly benefit society when making spending money. Their entrepreneurial activities drive innovation, provide jobs, and contribute to economic growth. Their expenditures, whether on consumption or philanthropy, can stimulate economic activity and support social causes. However, the profit-making processes of some industries can lead to environmental degradation, and monopolistic practices can stifle competition. Additionally, conspicuous consumption and high-risk investments can exacerbate social inequalities and introduce financial instability. Therefore, while successful entrepreneurs can benefit others, the government needs to mitigate the negative impacts of their actions through responsible business practices, fair competition, and thoughtful spending.

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