

Peter Vogel (PhD candidate)  
Entrepreneurship & Technology Commercialization  
EPF Lausanne  
Switzerland

## Essay

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### Entrepreneurs: The Creators of Tomorrow's Jobs

*What if 10% of the bailout payments had been invested in seed funding startups and supporting small firms, instead of supporting large banks and firms?*

As an entrepreneur as well as a PhD student in the field of entrepreneurship, in thinking about the decisions made by politicians during the recent economic crisis to help the economy recover, I started thinking about the role that entrepreneurs play.

Entrepreneurs are the ones that are implementing change through their innovative ideas. But these people alone cannot be held responsible for creating the next steps in societal evolution. There are many varied factors that influence entrepreneurship, ranging from economic and political to socio-cultural ones. Therefore, when discussing entrepreneurs as the agents of change, it is at least as important to discuss the environment in which they want to, or have to, create these changes. Which are the changes that have to happen on a political level to foster entrepreneurship and promote entrepreneurially-minded people in their endeavors?

This essay constitutes a critical reflection on this issue in the context of the current economic crisis by looking at decisions made by policymakers to partially re-establish the *status quo ante*, bridging to the importance of entrepreneurship and entrepreneurs as the driving motors for economic, technological and social change. To sum up, an explanation is given for why policymakers should put more emphasis on the entrepreneurs and not so much on the economic giants, and tangible suggestions are made for future policy incentives.

#### Economic Crisis

To create the contextual framework for my arguments, I have chosen the current economic crisis as this is the most recent example of how politicians have failed to be role-model entrepreneurs.

The past years have been dominated by the worst financial crisis since the Great Depression in the 1930s<sup>1</sup>. It has led not only to the break-down of some of the major banks but subsequently also contributed to a threatening situation for firms in other industries. In the United States alone the unemployment rate has doubled from December 2007 (5%) until December 2009 (10%)<sup>2</sup>. Some experts believe that the peak in unemployment is yet to be reached in mid-2010<sup>3</sup>.

Governments around the world have committed more than \$2.6 trillion to immediately bail out banks and jump-start growth<sup>4</sup>. By doing so, they promoted the preservation of the *status quo ante*, being anxious about but also lacking the concepts for major changes. In addition, they also moved back into the economic playground in an attempt to stabilize the economic turmoil. This step was unexpected as the role of the state had become in many industrialized countries around the world one of a rather supervisory instrument for economic activities. But instead of leading to major changes in the system (like after the Great Depression), these political interventions were only methods to adjust and control the pre-crisis system by direct government involvement in major banks and companies. The question arises whether or not this step was the right one or whether lessons should be learned for the future with potentially alternative scenarios.

Joseph Stiglitz, 2001 Nobel Prize laureate from the University of Columbia, claimed that “we have little to lose, and much to gain, by breaking up these behemoths, which are not just too big to fail, but also too big to save and too big to manage”. He emphasized the importance of “not going back to the world as it was before the crisis” but rather thinking about “the kind of system we want to have going forward”<sup>5</sup>.

### **Economic Renewal**

Through a constant renewal process in the economy most old firms get replaced by new firms.

On average only 3 percent of companies survive longer than 75 years<sup>6</sup>. There are only a few exceptional firms, the Methuselahs, which have survived for several centuries such as Kongō Gumi (founded in 578 A.D.), Royal Delft (1653 A.D.), and the Swiss winemaker Fonjallaz (1552 A.D.).

This low percentage clearly indicates that there is a constant change taking place in the economic world. It is exactly these processes that lead to the renewal of the actors in this economic play that allow mankind to advance by economic, technological and social alterations of existing solutions. These new actors identify opportunities based on information gathering, sorting and recombining. There are various sources of renewal through which entrepreneurs identify and explore opportunities: urbanization, population dynamics, educational infrastructure, and technological, political, regulatory, socio-demographic as well as economic changes<sup>7</sup>.

Periods of economic crises speed up this renewal process as extensive opportunities are created and innovative startups are born while consumers critically judge existing products and services of established firms. Well-over half of the 2009 Fortune 500 firms, and just under half of the 2008 Inc. firms, began during a recession or bear market<sup>8</sup>.

So who are these people that keep the wheel of economic renewal spinning and what are the environmental factors that influence this process?

### **The Old View on Economic Growth and Prosperity and the Rising Awareness of Entrepreneurship**

Several decades ago, public policy was only looking at great corporations as the engines for economic growth. What has happened since then and what is the current belief?

Robert Solow, who won the 1987 Nobel Prize for his work, had described physical capital and labor as the two factors influencing economic growth. Based on this theory, western economists and

policy-makers clearly focused on large-scale enterprises as small firms were less efficient, had lower levels of employee compensation and were rarely involved in innovation<sup>9</sup>.

Following the globalization Paul Romer added the knowledge capital in addition to physical capital. Still, entrepreneurship had no real place in this knowledge-based Romer economy<sup>10,11</sup>.

It was researchers such as Birch<sup>12</sup>, Acs, Audretsch, Baumol, Litan, Saxenian, and Shane that have brought forward the importance of entrepreneurship, adding the endowments of entrepreneurial capital to those of labor, physical and knowledge capital. According to Edward Lazear (Stanford University), the entrepreneur is the single most important player in a modern economy<sup>13</sup>. Audretsch had found a positive and robust correlation between entrepreneurship and economic performance in terms of growth, firm survival, innovation, employment creation, technological change, productivity increases and exports<sup>14</sup>.

As a result, policymakers started to realize the importance of entrepreneurship. One example of policy action to support entrepreneurship was the 2000 Lisbon Proclamation from the European Council of Europe which made it clear that, in order to ensure prosperity, Europe wants to become the world's entrepreneurship leader by 2020<sup>9</sup>.

*"Entrepreneurs sense opportunities and take risks in the face of uncertainty to open new markets, design new products, and develop innovative processes."*<sup>15</sup>

Entrepreneurship is a primary source of job creation, prosperity and economic competitiveness<sup>16</sup>. In fact, the average US net employment growth rate between 1980 and 2005 would have been negative when neglecting those jobs created by newly founded firms<sup>17, 18, and 19</sup>. In 2003, SMEs accounted for roughly 66% of employment within the EU (34% from micro enterprises with less than 10 employees)<sup>20</sup>. In addition, job creation from startups is much less volatile and sensitive to downturns than job creation in the entire economy<sup>8</sup>. Entrepreneurship has direct economic, social and political benefits. It creates new companies which ensure economic competitiveness; it creates new organizational forms within the newly established firms transforming their employees to more valuable and more productive citizens; it has a socioeconomic impact as well as a peaceful function in establishing cross-border relationships, integrating immigrant and marginal communities, and distributing shares in the economy to a broader community<sup>16</sup>.

Coming back to the question who these people are that drive economic change and renewal, we have strong evidence suggesting that it is the entrepreneurs who ensure that the economic wheel continues to turn, generating jobs, bringing prosperity and perspectives to our society.

### **Political Implications and Suggestions to Foster Entrepreneurship**

Based on this information, I would like to come back to the question asked in the introduction. Which changes have to happen on a political level in order to make sure that entrepreneurs will continue to strive to make a change in society?

Promoting entrepreneurship is a difficult and multi-faceted issue, as there is no "one best way" to foster opportunity identification and exploitation as well as the successful establishment of a company. It is important to understand the underlying conditions that entrepreneurs face in particular countries, regions or industries in order to establish functioning support programs. Various factors influence entrepreneurship as well as the personal decision to become an entrepreneur: Economic factors include wealth of society, economic stability, functional stock markets, capital availability and taxes; political factors are related to the freedom of people, laws, property rights, a

functioning infrastructure, administrative burdens, as well as centralization of power; some socio-cultural issues are norms, entrepreneurial education, and the availability of role models.<sup>7, 16</sup>

As a result of policy activities undertaken during the current economic crisis experts have debated on what has to be done to quickly heal our system, the solution of which was all but satisfying. Instead of changing existing structures to improve the system, the *status quo ante* was to a large extent re-established leaving the new generation of leaders with the risk of a repetition of what we have just experienced.

So what can policymakers really do and what do they have to do, in order to make a real change of the entire economic system and not only for a few firms? Coming back to the framework I have set, namely the current economic crisis, I want to address and suggest immediate actions as well as long-term actions.

#### **a) Immediate actions**

- Financially support startups with bailout money  
The Monitor Entrepreneurship Survey found that 52% of entrepreneurs worldwide said there is sufficient capital to grow a firm, but only 37% said there is enough seed funding to actually start a firm. Governments could promote a large variety of startups with controlled seed funding, bringing innovation and change to society as well as creating tomorrow's jobs, most likely accelerating the healing process in the post-crisis phase. This can be done by dedicating just a small percentage of the bailout package to startups. First programs are already under investigation. The US government is currently debating about dedicating a \$30 billion bailout package to small firms, thus clearly signaling that it is the small and new firms which constitute the future of the economy<sup>21</sup>.
- Support the unemployed transition to self-employment  
Governments in modern industrialized societies face critical challenges to reduce unemployment, often relying on market based approaches, or on regulatory and institutional approaches<sup>22</sup>. Various countries have established programs designed to support the transition of the unemployed into self-employment. Yet, there are still large variations across these programs.

#### **b) Long-term**

- Create room for entrepreneurship in the economy  
Increase the accessibility of markets for entrepreneurs by lowering the entry barriers and preventing predominant market positions of major players. Governments have to promote competitive, open, and flexible markets which are critical issues for innovation and entrepreneurship.
- Increase financial and information resources  
As described above, it is mainly seed funding which is required to successfully launch the average startup. Therefore, more emphasis should be put on seed funding, subsidies, grants and loans rather than venture capital, which mostly benefits the growth of a firm but not its establishment in the first place.
- Subsidize R&D  
This will be an important step to promote the gathering of leading technologies within a country to establish a self-accelerating environment of R&D.
- Development of an entrepreneurial culture  
It is important to educate the entrepreneurs of tomorrow early enough, as certain personality traits associated with successful entrepreneurship can be formed, modified and trained, if only started early enough. Therefore, children and students should be exposed to entrepreneurship by their teachers and professors as well as media.
- Decision-making

The fact that an opportunity exists does not in itself imply that an individual will exploit it. It is rather the entire environment in combination with the existence of an opportunity that causes the person to decide to exploit this opportunity. Issues such as taxation, social security as well as bankruptcy policies must be adjusted in order to lower the psychological and administrative hurdles for people to move into self-employment.

In this brief essay I aimed to express my personal opinion on the importance of entrepreneurship for the future advancement of society, based on some historical, theoretical as well as practical insights. Instead of moving back to the time of Solow and Romer, the political leaders should be visionary entrepreneurs themselves, taking the risk of facing uncertainty to let the wheel of economy spin in order to lead and initiate a renewal process.

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