

Entrepreneurship & The U.S. Economy

Tim Kane

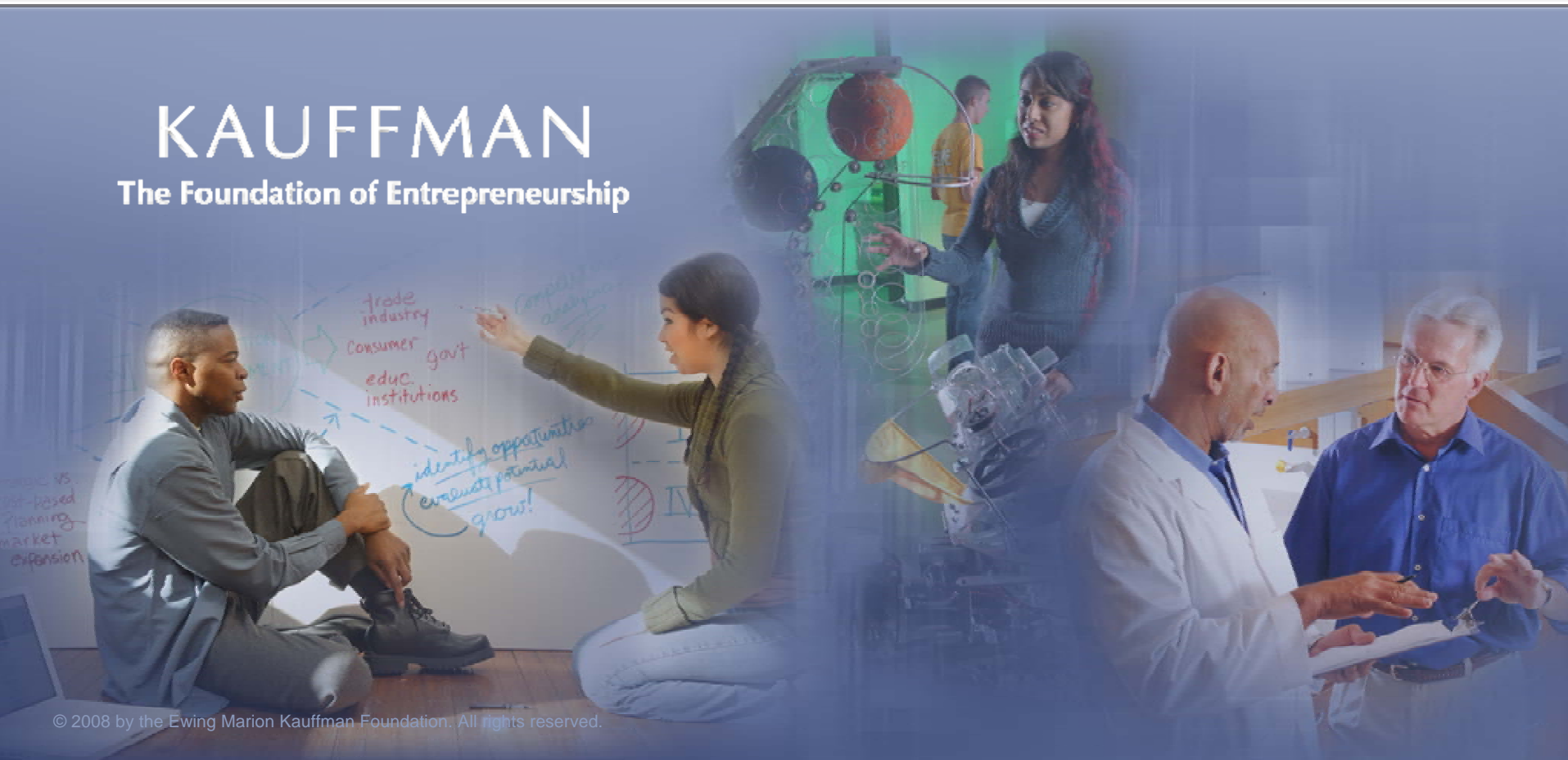
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“Every individual that we can inspire, that we can guide, that we can help to start a new company, is vital to the future of our economic welfare.”

— Ewing Kauffman

KAUFFMAN

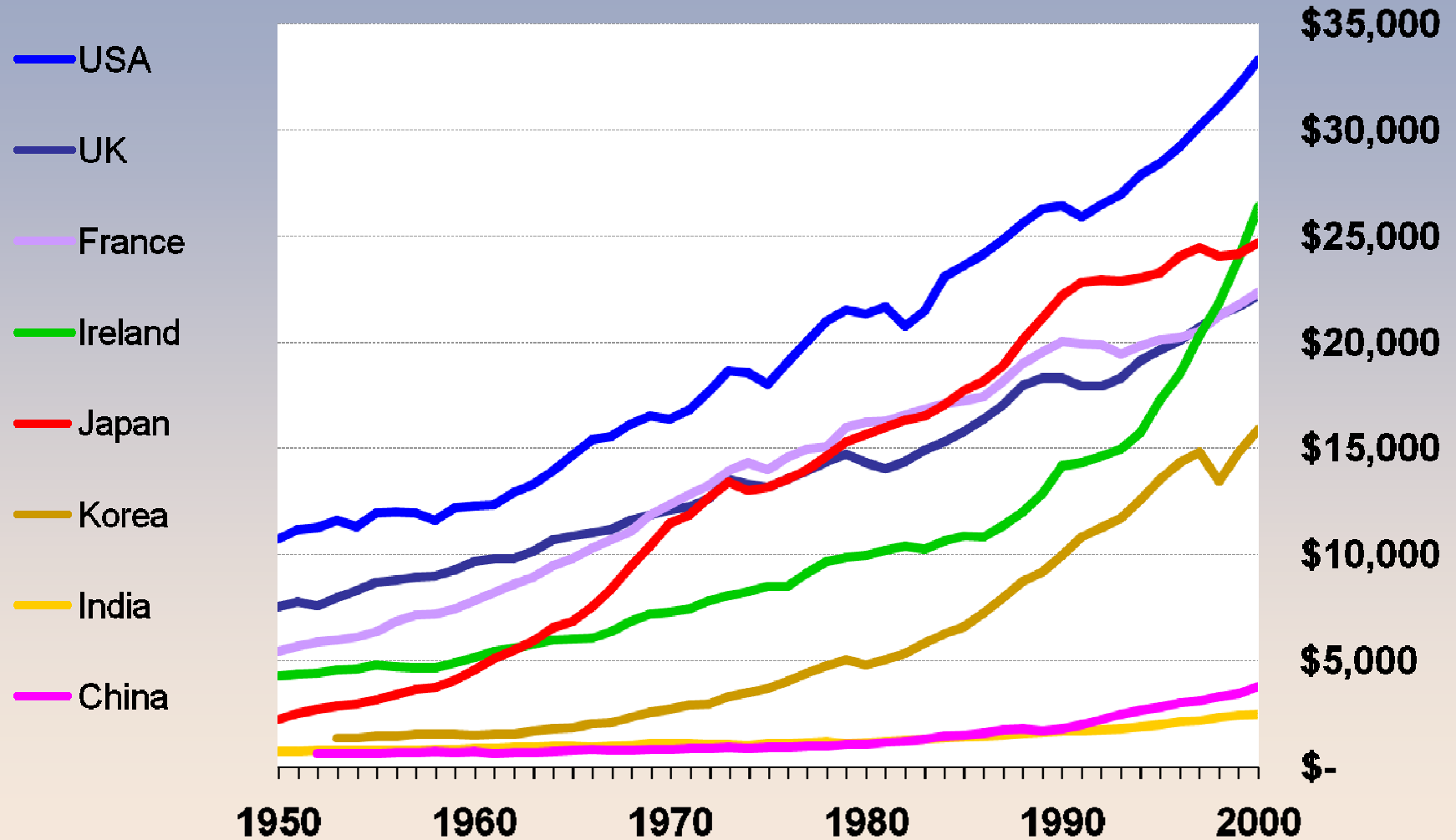
The Foundation of Entrepreneurship



Overview

- The U.S. economy is the strongest production system in the history of the world.
- The recent U.S. recession is deeper than many realized and presents real as well as phantom dangers.
- Entrepreneurship is the key to innovation and further economic growth. (although I may agree with critics of pro-business government policy which is often ineffective, wasteful and counter-productive)
- **Note: Beware mixing apples (entrepreneurship) and oranges (small biz, self-employment, venture capital, etc.). And beware confusing levels and growth.**

GDP per Capita, 1950 to 2000



Source: Penn World Tables 6.1

The U.S. Economy in history

- The U.S. economy has the highest GDP per capita as well as GDP overall. (Let's not quibble about satellite economies like Luxembourg).
- The “threat” to U.S. leadership has been played and found empty many times. Russia 1930-60 grew faster than the U.S., then stalled. Japan 1960-1990. Now China. Always the scare mongers focus on high growth rates rather than productivity levels.
- Conclusion: the world has found a successful state-driven development policy which can achieve 90% of the PPF level. To surpass that ceiling, they need innovation, a.k.a. entrepreneurial capitalism.

Service economy = Startup economy

Percentage of U.S. Workforce



Source: Dallas Fed, 2003 Annual report

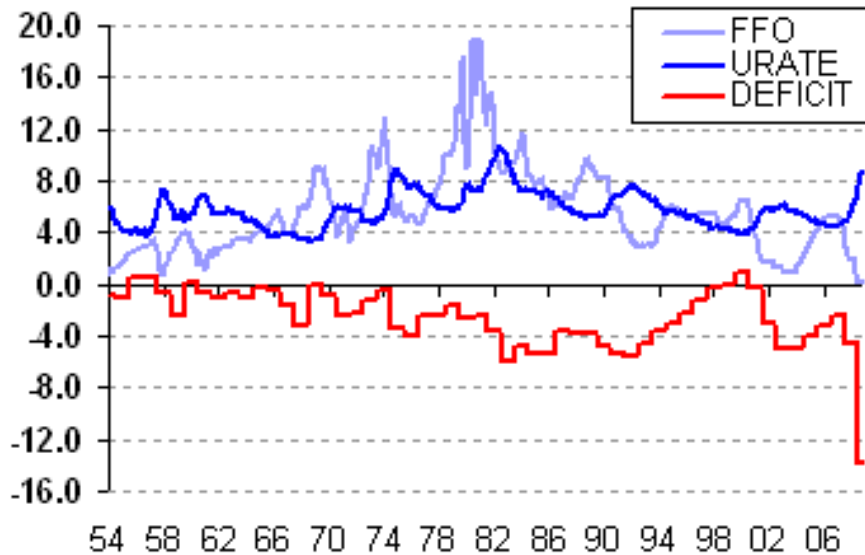
The Recession

- Bubble in 2000s fueled by low interest rates, housing refinance, will not be re-inflated. Nor should it be.
- Aggregate demand stimulus is not the answer.
- Promoting growth in aggregate supply (partially cutting costs, partially promoting firm formation) is the only long-term solution.
- The recovery will take many years.
- Impatience can drive bad policy, especially xenophobic policy against openness to trade, immigration, and the flow of ideas. Worst, it can fuel arguments to subsidize and protect old industries and firms.

Time to call a Depression?

Rates of Economy and Policy

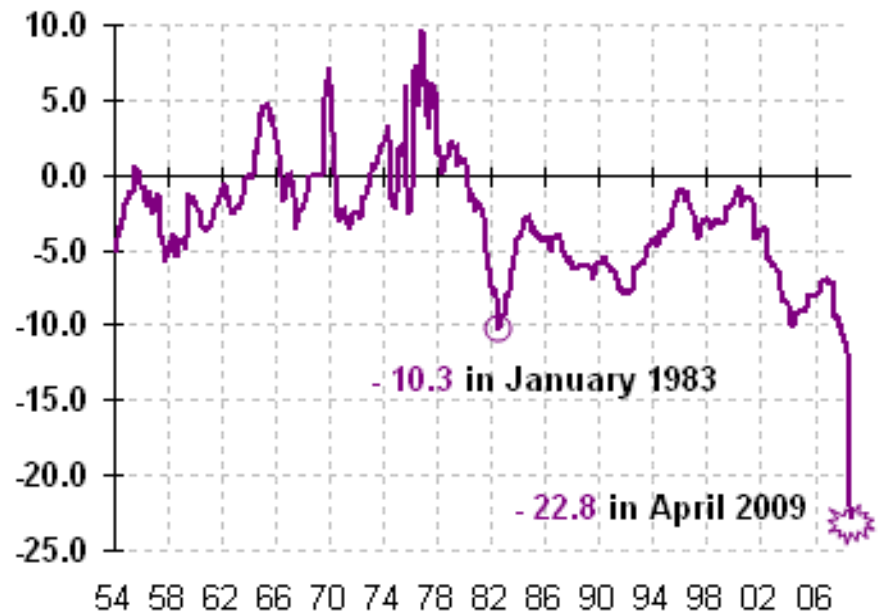
U.S. Unemployment, Fed Funds, and Budget Deficit rates



Source: U.S. FRB, BLS, OMB, growthology.org

Depression Index

Fed Funds - Deficit/GDP - Unemployment Rate



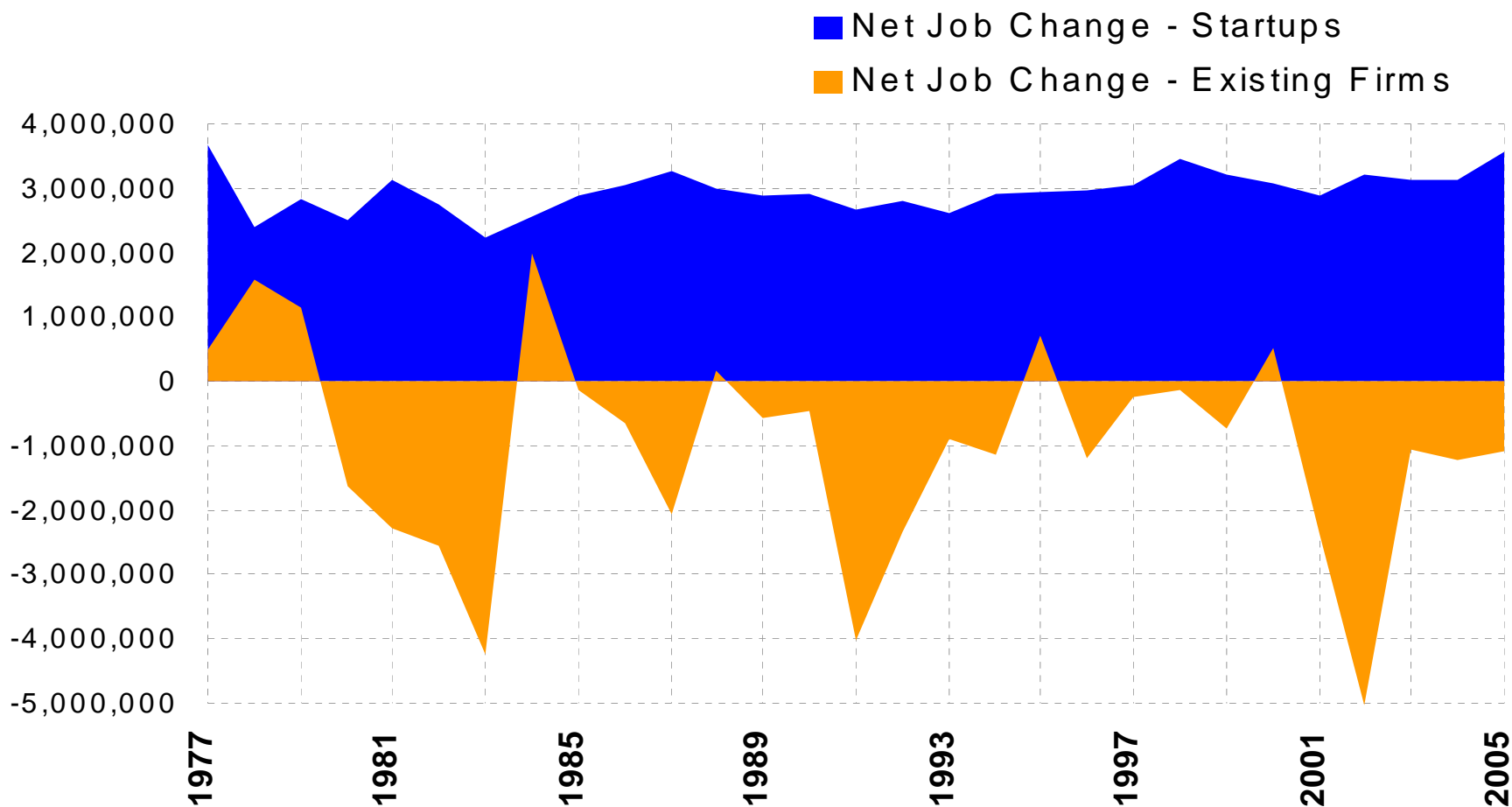
Source: U.S. FRB, BLS, OMB, growthology.org

The Importance of Startups

- My research paper in July 2010
 - http://www.kauffman.org/uploadedFiles/firm_formation_importance_of_startups.pdf
 - All firms avg annual net job creation, 1977-2005: **2 million**
 - Startups (0 yrs old) avg annual net job creation, 1977-2005: **3 million**
- BLS research in August 2010
 - <http://www.bls.gov/opub/ils/pdf/opbils86.pdf>
 - Young firm (0-9 yrs) % of total employment: 27%
 - All firms net job creation, 1994-2009: **15 million**
 - Startups (0 yrs) net job creation, 1994-2009: **64 million**

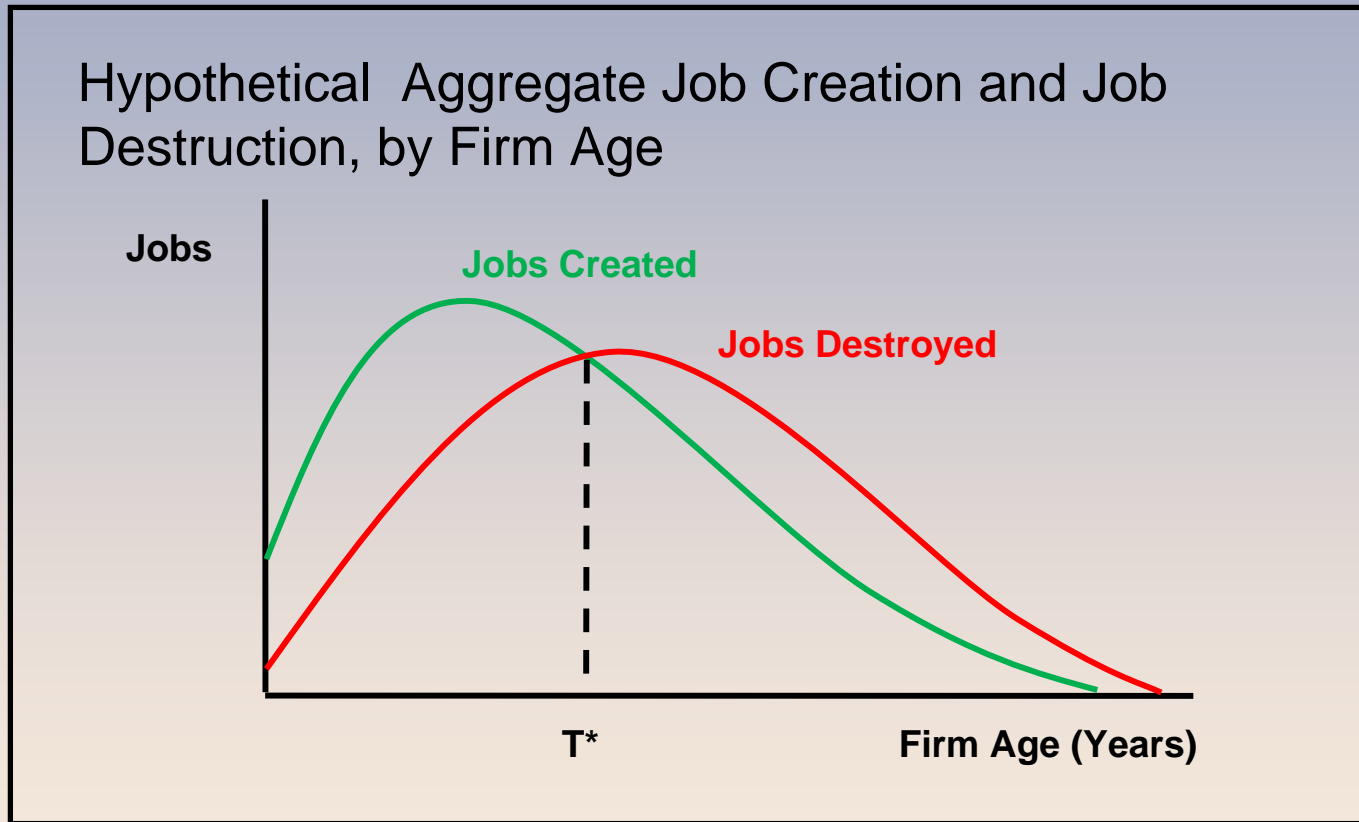
Aggregate JC and JD are *convex*

Startups drive job growth



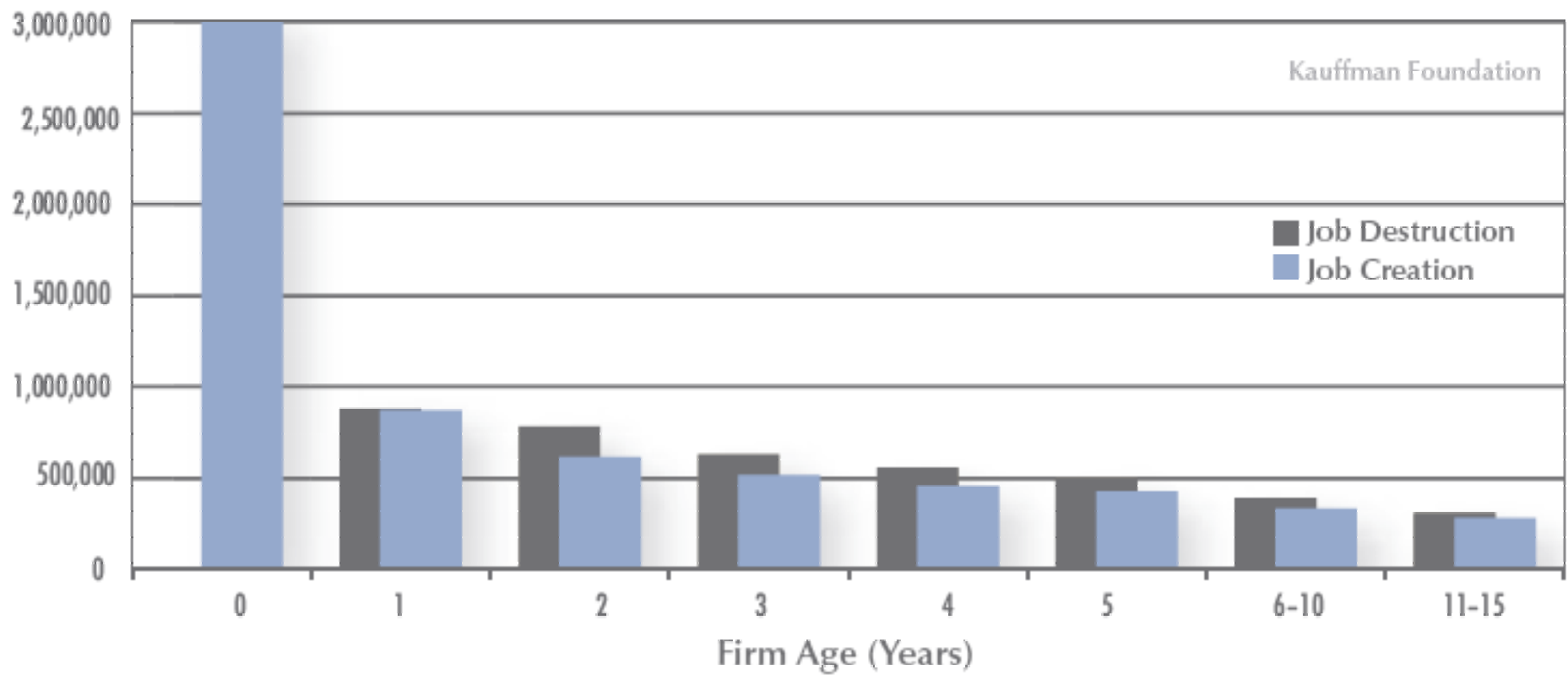
Source: Business Dynamics Statistics, Tim Kane

What does Job Creation & Destruction look like according to firm age?



Aggregate JC and JD are *convex*

Job Creation and Loss by Firm Age
(Average per year, by year-group, 1992–2006)



Source: Business Dynamics Statistics, Tim Kane

The Importance of Startups

- Job Satisfaction. Aka ... dignity, a sense of meaning (contra Marx).
- Innovation externalities ... captured in consumer welfare.
- Learning by doing. Successful entresps often fail multiple times before founding a value-creating firm. Policies that favor employment over entrepreneurship cause job lock and repress growth.
- Contra Schumpeter, big firm R&D is not the source of most innovation. M&A of smaller, newer firms is the source.
- Policymakers cannot and should not subsidize old industries, nor try to anticipate infant industries. This freezes out natural search.