



NEW AMERICA FOUNDATION

WORKFORCE & FAMILY PROGRAM

HONORING AMERICA'S ENTREPRENEURIAL CULTURE

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In his famous work on American democracy, Alexis de Tocqueville observed that "Boldness of enterprise is the foremost cause of [America's] rapid progress, its strength, and its greatness."¹ This observation, made in the mid-1830s, is one with which few of those who comment on economics and American commerce today would disagree. The "boldness of enterprise" that Tocqueville referred to is entrepreneurship, the process of innovation, which, under conditions of risk and uncertainty, results in the creation of a new venture.² Economists such as Joseph Schumpeter have argued that entrepreneurs are essential to the success of markets.³ The new enterprises they start grow to be the small and medium-sized businesses that are a driving force behind America's economic progress and job growth.

Entrepreneurs and small businesses create approximately 75 percent of net new jobs in the United States and represent 99.7 percent of all American employers.⁴ In 2001, they represented 97 percent of all identified American exporters.⁵ They drive higher growth rates of GDP per capita.⁶ At a time when the global economy increasingly rewards high technological innovation, they provide close to forty percent of the jobs in the United States' high technology sectors.⁷ According to researchers at Florida International University and the University of Michigan, 23 million Americans in 2005 either started a new business or were managing a firm less than four years old. They also found that African-Americans and Hispanic-Americans were twice as likely to be creating or managing a start-up business as were whites.

Small enterprises succeed in America largely due to the entrepreneurial culture of our nation. Entrepreneurship is such a valued concept that the term has reached a variety of sectors. The Manhattan Institute has started a program on social entrepreneurship to look at the growing numbers of new, small enterprises in the social sector. The Hudson Institute's Center on Employment Policy is doing an excellent lecture series on entrepreneurship. Writers Gregg Vanourek and Chris Gergen are looking at its

application to individuals and groups. The creation of Europe's "Lisbon Agenda" is recognition that more entrepreneurship is needed in Europe.

The Ewing Marion Kauffman Foundation has been an American leader in supporting entrepreneurship. Its President and CEO, Carl Schramm, commented recently that one reason why the U.S. has created 30 million net new jobs in the past two decades while Europe has failed to add a single additional new job to its workforce is partly because "Europeans are not starting and building enough small and medium-size businesses," while Americans are. Schramm explains that "for nearly three decades in the U.S., the smallest firms have accounted for almost all net job creation."

Small enterprises are now part of the global economy. Companies that used to see foreign trade as selling from Ohio to Indiana are now trading products around the globe. While there have been high profile layoffs in larger American companies in recent years, General Motors recently announced it would lay off 30,000 workers in the next two years, for example, recent start-ups and rapidly growing small businesses in the U.S. have more than made up for the lost jobs in America's shrinking big companies, lowering our unemployment rate to 4.7%. As Schramm notes of America, "Three-quarters of the Fortune 100 companies last year did not exist on the 1980 list."

There is broad bi-partisan recognition in America of the importance of small businesses to the U.S. and of the need for America to support entrepreneurs. This week, the U.S. Chamber of Commerce is hosting its "small business days," to focus on small business issues in the nation's capital. At the same time, on May 10, 2006, The New America Foundation's Workforce and Family Program held a conference, "Keeping the American Economy Strong: Policies to Support American Entrepreneurs and Small Businesses." Speakers included Jennifer Perkins, U.S. Senate Small Business Committee; Diana

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Furchtgott-Roth, Hudson Institute; Christopher Gergen, Co-Founder, Smarthinking.com; Tami Gurley, U.S. General Accounting Office; Jack McDougal, U.S. Department of Commerce; Roy Ranthum, Special Assistant to the President for Economic Policy; Thomas Sullivan, U.S. Small Business Administration; John Arensmeyer, Small Business Majority. This group discussed the most pressing needs of small businesses and entrepreneurs as well as some of the most promising solutions to help them.

We discovered that there are a number of reforms that Congress should focus on, but that American policy makers would be wise to remember that America's economy is strong today in no small part because of the entrepreneurial culture of our nation. Small businesses and entrepreneurs are doing well and are able to compete and succeed in today's global economy. America has relatively free markets and a very productive workforce. These enterprises succeed because regulations and barriers to risk taking in the U.S. are low, capital is available and America's market economy rewards risk-takers and profitable businesses. Small businesses are concerned about a number of important policy issues. Health care is now the #1 issue for small business and America must both contain costs and increase health care coverage through broader availability of insurance and pooling. Fiscal concerns are still important to small enterprises, with low taxes, the complexity of the tax code and access to capital still critical for small enterprises. Investments in human capital have never been more important. Education reform is critical, increasing the number of H1B visas so that more highly skilled workers can come to the U.S. is important, and the President's American Competitiveness Initiative would bolster scientific research and math and science education to strengthen our workforce. Yet while these issues must be addressed by government to help strengthen the competitive climate in which small enterprises operate, Congress and the White House must recognize that it is America's entrepreneurial culture that is at the heart of our success. This recognition should give policy-makers appropriate restraint and caution to avoid creating policies that inhibit the creativity and flexibility that America depends upon. Rather, our leaders should honor our entrepreneurial culture by remembering that it is our small enterprises that are the backbone of our economic prosperity and, as de Tocqueville noted, America's strength and greatness.

¹ Alexis de Tocqueville. *Democracy in America*. http://xroads.virginia.edu/~HYPER/DETOC/ch3_18.htm.

² For this definition, see http://westaction.org/definitions/def_entrepreneurship_1.html.

³ Joseph Schumpeter. *Capitalism, Socialism, and Democracy*. (New York: Harper & Row, 1942). See also Steven F. Kreft and Russell S. Sobel, "Public Policy, Entrepreneurship, and Economic Freedom". *Cato Journal*, Vol. 25, no. 3 (Fall 2005), pp. 595–596.

⁴ "Small Business Statistics". *United States Small Business Administration*. www.sba.gov/aboutsba/sbastats.html.

⁵ Geoff Williams. "The Power of Small Business". *Entrepreneur*. (May 2004), pp. 39–43.

⁶ "Global Entrepreneurship Monitor: the Definitive Study of Entrepreneurship in 2005". *AScribe Newswire*. (January 13, 2006).

⁷ "Small Business Statistics". *United States Small Business Administration*. www.sba.gov/aboutsba/sbastats.html.