

Entrepreneurs and their impact on jobs and economic growth

Productive entrepreneurs can invigorate the economy by creating jobs and new technologies, and increasing productivity

Keywords: entrepreneurs, job creation, economic growth, competition, innovation, regulation

ELEVATOR PITCH

Entrepreneurs, creators of new firms, are a rare species. Even in innovation-driven economies, only 1–2% of the work force starts a business in any given year. Yet entrepreneurs, particularly innovative entrepreneurs, are vital to the competitiveness of the economy and may establish new jobs. The gains of entrepreneurship are only realized, however, if the business environment is receptive to innovation. In addition, policymakers need to prepare for the potential job losses that can occur in the medium term through “creative destruction” as entrepreneurs strive for increased productivity.

KEY FINDINGS

Pros

- ⊕ Entrepreneurs boost economic growth by introducing innovative technologies, products, and services.
- ⊕ Increased competition from entrepreneurs challenges existing firms to become more competitive.
- ⊕ Entrepreneurs provide new job opportunities in the short and long term.
- ⊕ Entrepreneurial activity raises the productivity of firms and economies.
- ⊕ Entrepreneurs accelerate structural change by replacing established, sclerotic firms.

Cons

- ⊖ Only a few people have the drive to become entrepreneurs.
- ⊖ Entrepreneurs face a substantial risk of failure, and the costs are sometimes borne by taxpayers.
- ⊖ In the medium term, entrepreneurial activities may lead to layoffs if existing firms close.
- ⊖ A high level of self-employment is not necessarily a good indicator of entrepreneurial activity.
- ⊖ Entrepreneurship cannot flourish in an over-regulated economy.

AUTHOR'S MAIN MESSAGE

Entrepreneurship is important to economic development. The benefits to society will be greater in economies where entrepreneurs can operate flexibly, develop their ideas, and reap the rewards. Entrepreneurs respond to high regulatory barriers by moving to more innovation-friendly countries or by turning from productive activities to non-wealth-creating activities. To attract productive entrepreneurs, governments need to cut red tape, streamline regulations, and prepare for the negative effects of layoffs in incumbent firms that fail because of the new competition.

