

Economic Success Linked Statistically to Entrepreneurship and Self-Employment, New Study Demonstrates

How to create next Silicon Valley or Research Triangle? Successful entrepreneurial business clusters are an integral part of these regions. Helping policy makers understand the secrets to re-creating this success is the subject of a recently published Kauffman Foundation paper, *Entrepreneurship and Urban Success: Toward a Policy Consensus*. The paper advises local, state and regional policy makers to adopt regional policies aimed at fostering entrepreneurially driven growth and eliminate regulatory hurdles to forming new business.

Specifically, the authors find that urban success, as measured by employment growth across and within metropolitan areas, is statistically linked with entrepreneurial activity, as measured by average firm size and self-employment rates. According to study co-author, Ed Glaeser, Glimp professor and director of the Taubman Center for State and Local Government, John F. Kennedy School of Government, Harvard University, "Local entrepreneurship depends, in part, on attracting entrepreneurial people, and this requires quality-of-life policies that attract these people,". By analyzing data from County Business Patterns, the authors of the paper find two evidences that suggest the correlation between entrepreneurship and urban success. First, as entrepreneurship becomes more frequent (firm size falls), employment grows faster. Second, a strong positive relationship exists between metro employment growth and the self-employment rate in the different metro areas. What's more, the paper indicates that policies promoting local entrepreneurship and business climate, such as quality-of-life policies, could provide considerable returns in that "entrepreneurial networks" may have "spillover" effects that stimulate the formation and growth of successful new companies.

Accordingly, the paper provides recommendations on how to promote new economic growth and innovation, as well as how to lower barriers for individuals to form and sustain businesses that drive growth. The paper argues that "firm-chasing", a policy commonly practiced across the country, results in largely a zero sum game in fostering economic growth. When one city encourages firms to locate new plants and succeeds, some other place loses in the process. Instead, the paper advocates that regional policies centered on encouraging the formation of entrepreneurial business clusters by streamlining local regulatory approvals and discouraging progressive taxation at the state and local levels.

Specifically, the paper suggests strategies in seven areas critical to promoting entrepreneurship including: education, local policies toward crime and amenities, physical infrastructure spending, legal infrastructure, general and targeted aspects of the tax code and targeted spending on entrepreneurial activities. In the end, the report recommends government interventions based on cost-benefit analyses. The least attractive options involve policies that target spending either on research programs or on particular industries or particular firms because few localities have the requisite expertise to make good targeting decisions.

To download a copy of the report, please visit www.kauffman.org/policy.