

E.J. Reedy
Director of Research and Policy
Ewing Marion Kauffman Foundation

Making Entrepreneurial Growth Vibrant Again
July 28, 2015

Congressman Hoyer and other distinguished members of the Democratic Caucus, thank you for inviting me to speak to you about the work of the Ewing Marion Kauffman Foundation, the changing economy, and the central role of entrepreneurship in creating economic opportunities for all Americans.

Our founder, Ewing Kauffman, believed that educational success and entrepreneurial growth were the key pathways to helping individuals achieve economic independence. The Kauffman Foundation works to make this vision a reality. Yet today, American entrepreneurship needs your attention.

In the five years since the formulation of the Make It in America agenda, the U.S. economy has rebounded. Venture capital investments are near all time highs. Business accelerators in America have skyrocketed. There are now more than 5,000 entrepreneurship courses in universities across the United States.¹ We should rightly celebrate the return of so much opportunity-seeking and entrepreneurial activity.

New, young, and growing companies represent the principal sources of job creation and innovation in America. It is *young* businesses, not necessarily small businesses that create the most jobs.² Similarly, startups are responsible for a disproportionate share of innovative activity,^{3 4} which creates not just wealth for the entrepreneur, but rising standards of living for all.^{5 6 7}

¹ Wendy E.F. Torrance and Jonathan Rauch, "Entrepreneurship Education Comes of Age on Campus: The Challenges and Rewards of Bringing Entrepreneurship to Higher Education," *Ewing Marion Kauffman Research Paper*, August 2013, at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2307987.

² John Haltiwanger, Ron S. Jarmin and Javier Miranda, "Who Creates Jobs? Small vs. Large vs. Young," *Review of Economics and Statistics*, 2013
http://www.mitpressjournals.org/doi/pdf/10.1162/REST_a_00288

³ Natarajan Balasubramanian and Jeongsik Lee, "Firm age and innovation," *Industrial and Corporate Change* October 2007. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1314522;

⁴ Jesper B. Sørensen and Toby E. Stuart, "Aging, obsolescence, and organizational innovation." *Administrative Science Quarterly* March 2000. <http://www.jstor.org/stable/2666980>

⁵ Joel Mokyr, *The Lever of Riches* (Oxford University Press, 1990), pages 302-303

⁶ David S. Landes, Joel Mokyr, and William J. Baumol (Eds.). *Invention of Enterprise: Entrepreneurship from Ancient Mesopotamia to Modern Times* (Princeton University Press, 2012)

⁷ William J. Baumol. *The Free-Market Innovation Machine: Analyzing the Growth Miracle of Capitalism* (Princeton University Press, 2004)

But, that entrepreneurial activity is unevenly spread socioeconomically, demographically, and geographically. Despite over six years of economic recovery and expansion, rates of business creation remain well below historical average. Other indicators of “economic dynamism” show cause for concern as well.^{8 9}

The current unprecedented slump in entrepreneurship has contributed to broader economic challenges such as stalled labor force participation, low productivity growth, and wage stagnation. To renew economic growth, we need to make America entrepreneurial again.

Just as you and other Members of Congress are exploring solutions to these economic challenges, so too is the Kauffman Foundation. We are in the middle of a two-year initiative that seeks to develop new ideas to solve many of the biggest economic challenges facing our country through entrepreneur-led growth.

Our New Entrepreneurial Growth Agenda will address:

- The need for increased economic competition,
- The role of entrepreneurship in accelerating upward economic mobility,
- The challenge of smart regulating in an era of increasing technological complexity and change,
- The skills needed to succeed in the coming economy, and
- The practical means by which government is equipped with the resources to do all of this.

The agenda will be released at our annual State of Entrepreneurship Address in Washington in February 2016.

It will touch on many components of public policy, and although the agenda is still being finalized, I'd like to highlight several areas of policy that research shows are important to entrepreneurship and growth.

Prioritize Growth and Innovation in the Tax Code

The structure and design of the tax code shape entrepreneurial decisions. Research from the Tax Policy Center shows¹⁰ that existing tax incentives for investment aimed at small businesses don't always achieve their goal. The tax

⁸ Ewing Marion Kauffman Foundation. “2014 State of Entrepreneurship Address: Fostering a Faster-Growing Entrepreneurial Economy” *Ewing Marion Kauffman Foundation*. 2014 http://www.kauffman.org/~media/kauffman_org/research%20reports%20and%20covers/2014/02/state_of_entrepreneurship_address_2014.pdf

⁹ John Haltiwanger and Steve Davis. “Labor Market Fluidity and Economic Performance” *NBER Working Paper Series* 2014 https://www.richmondfed.org/~media/richmondfedorg/conferences_and_events/research/2014/pdf/labor_markets_conf_2014_haltiwanger_paper.pdf

¹⁰ Joseph Rosenberg and Donald Marron. “Tax Policy and Investment by Startups and Innovation Firms.” *Tax Policy Center* 2015 <http://www.taxpolicycenter.org/UploadedPDF/2000103-Tax-Policy-and-Investments-by-Startups-and-Innovative-Firms.pdf>

code limits the ability of startups to use tax losses. Some provisions, like Section 179, benefit startups differently depending on how firms use capital. Along with the overall complexity of taxes, especially for new and first-time business owners, research suggests tax design makes a difference for entrepreneurs.^{11 12}

Welcome Immigrants

Immigrant entrepreneurs make jobs for Americans. Immigrants are more than twice as likely to become entrepreneurs as native-born Americans.¹³ Kauffman research suggests that changes to immigration law, including the creation of a visa for immigrant entrepreneurs, can boost economic growth and job creation.¹⁴

Embrace Regulatory Evolution

Regulators should follow the lead of entrepreneurs and embrace disruption. Research suggests that the layering of regulation atop regulation can, over time, create rigidities that overwhelm and burden young firms.¹⁵ Technological innovation occurs at an ever-increasing pace and regulation must keep up. That means regulatory bodies need to be nimble in order to respond and adapt to new innovations and business models created by entrepreneurs. Policy ought to be formulated so these innovations are not suffocated, but rather given an opportunity to compete. Often, that means updating or getting rid of old regulation as much as it does enacting new rules.

Enable Innovators to Create New Technologies

At its best, intellectual property law facilitates innovation. Yet, firms can use patents and other forms of intellectual property in inefficient and anti-competitive ways that make incremental or follow-on innovation by others a more challenging

¹¹ Ibid.

¹² Donald Marron and Joseph Rosenberg. "How Much Do Taxes Affect Startup Investment Incentives?" *Ewing Marion Kauffman Foundation 2015*. <http://www.kauffman.org/blogs/policy-dialogue/2015/march/how-much-do-taxes-affect-startup-investment-incentives>

¹³ 2015 Kauffman Index: Startup Activity. *Ewing Marion Kauffman Foundation 2015*
http://www.kauffman.org/~media/kauffman_org/research%20reports%20and%20covers/2015/05/kauffman_index_startup_activity_national_trends_2015.pdf

¹⁴ Dane Stangler and Jared Konczal. "Give Me Your Entrepreneurs, Your Innovators: Estimating Employment Impact of a Startup Visa." *Ewing Marion Kauffman Foundation 2013*
<http://www.kauffman.org/what-we-do/research/2013/02/give-me-your-entrepreneurs-your-innovators-estimating-employment-impact-of-a-startup-visa>

¹⁵ Michael Mandel and Diana G. Carew. "Regulatory Improvement Commission: A Politically-Viable Approach to U.S. Regulatory Reform" *Progressive Policy Institute*. 2013
http://www.progressivepolicy.org/wp-content/uploads/2013/05/05.2013-Mandel-Carew_Regulatory-Improvement-Commission_A-Politically-Viable-Approach-to-US-Regulatory-Reform.pdf

and costly process.¹⁶ Research suggests that intellectual property law should be balanced¹⁷ so as to maximize incentives for innovation.

Encourage Competition

Disruption and innovation must be allowed to happen. For entrepreneurs to bring new ideas to life, they need a level-playing field on which to compete. Laws and regulations can create barriers, which may keep entrepreneurs out or make it harder for them to gain traction because the playing-field is tilted in favor of older firms.¹⁸

Entrepreneurs embody the spirit of “making it” in America. They dream new ideas and work to bring them to life. In the process, they create economic opportunity for themselves and others.

Entrepreneurship should be at the heart of any plan that seeks to spur economic growth and job creation. As you update the Make It in America agenda, please consider the Kauffman Foundation a resource. Thank you again for this opportunity to speak to you. I look forward to your questions.

¹⁶ Jason Wiens and Chris Jackson. “How Intellectual Property Can Help or Hinder Innovation” *Ewing Marion Kauffman Foundation* 2015 <http://www.kauffman.org/what-we-do/resources/entrepreneurship-policy-digest/how-intellectual-property-can-help-or-hinder-innovation>

¹⁷ Dan Burk and Brett McDonnell “The Goldilocks Hypothesis: Balancing Intellectual Property Rights at the Boundary of the Firm” *University of Minnesota Law School* http://scholarship.law.umn.edu/cgi/viewcontent.cgi?article=1181&context=faculty_articles

¹⁸ Nicole V. Crain and W. Mark Crain. “The Impact of Regulatory Costs on Small Firms.” *Small Business Administration: Office of Advocacy* [https://www.sba.gov/sites/default/files/The%20Impact%20of%20Regulatory%20Costs%20on%20Small%20Firms%20\(Full\).pdf](https://www.sba.gov/sites/default/files/The%20Impact%20of%20Regulatory%20Costs%20on%20Small%20Firms%20(Full).pdf)