Chapter 6

DETERMINANTS OF ENTREPRENEURSHIP IN THE UNITED STATES OF AMERICA

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6.1 INTRODUCTION

The United States is well known for its strong ‘entrepreneurial’ culture that spawned just under a million new businesses in 1998. This has not always been the case. As recently as the beginning of the 1990s, there were serious concerns about the ability of the United States to withstand competition in the global economy, create jobs and continue to develop. Lester Thurow bemoaned that the United States was “losing the economic race,”$^1$ because, “Today it’s very hard to find an industrial corporation in America that isn’t in really serious trouble basically because of trade problems...The systematic erosion of our competitiveness comes from having lower rates of growth of manufacturing productivity year after year, as compared with the rest of the world” (Bartel, 1985, p. 23). W.W. Restow predicted a revolution in economic policy, concluding that “The United States is entering a new political era, one in which it will be preoccupied by increased economic competition from abroad and will need better cooperation at home to deal with this challenge”.$^2$
In the influential study, *Made in America*, directed by the leaders of the *MIT Commission on Industrial Productivity*, Michael L. Dertouzos, Richard K. Lester and Robert M. Solow, a team of 23 scholars, spanning a broad range of disciplines and backgrounds, reached the conclusion that for the United States to restore its international competitiveness, it has to adapt the types of policies targeting the leading large corporations prevalent in Japan and Germany.

The 1990s witnessed a reemergence of competitiveness, innovative activity and job generation in the United States. This economic turnaround was largely unanticipated by many scholars and members of the policy community. But what was even more surprising than the resurgence itself was the primary source – small entrepreneurial firms. As scholars began the arduous task of documenting the crucial role played by SMEs in the United States as a driving engine of growth, job creation and competitiveness in global markets (Audretsch, 1995), policy makers responded with a bipartisan emphasis on policies to promote SMEs. For example, in his 1993 State of the Union Address to the country, President Bill Clinton proposed, “Because small business has created such a high percentage of all the new jobs in our nation over the last 10 or 15 years, our plan includes the boldest targeted incentives for small business in history. We propose a permanent investment tax credit for the small firms in this country.” The Republican response to Clinton was, “We agree with the President that we have to put more people to work, but remember this: 80 to 85 percent of the new jobs in this country are created by small business. So the climate for starting and expanding businesses must be enhanced with tax incentives and deregulation, rather than imposing higher taxes and more governmental mandates”.

Because of the strong link between high levels of entrepreneurial activity and economic growth (Wennekers and Thurik, 1999), it is important to understand what makes American people entrepreneurial. This chapter explores the determinants of entrepreneurship in the United States by exploring three key questions: First, what has happened to entrepreneurship in the United States? This is followed by an examination of why it happened the way that it did. Subsequently, the policies and institutions affecting entrepreneurship in the United States are discussed. The latter is important because, as Aoyama (1999) suggests, government policy in the past may have played a significant role in generating the observed prevalence of entrepreneurship. Only selected elements of the three questions are dealt with in the presented chapter.