The Relationship Between Entrepreneurship and Economic Growth: A Review of Recent Research Achievements

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1 Introduction

The emergence of endogenous growth models has attributed to entrepreneurship the role of one of the most important factors deciding about economic development dynamics. Research has been concentrated on the regional aspects of economic growth. Theoretical hypothesis about the relationship between entrepreneurship and economic growth had to be supported by economic reality. In consequence many empirical studies have been realized, mostly during last 10 years. Two main questions have been the object of empirical verification – has entrepreneurship a positive impact on economic development and if so, how strong is it and is the level of entrepreneurship dependent on the level of economic growth.

Any kind of empirical verification, independently of how sophisticated the verification method is, should find and use concrete measures of the analysed phenomena. In the case of economic growth the problem is simple. There are commonly accepted growth measures – GDP or GDP per capita. Also international comparisons are not difficult because of the standardization of GDP statistics. Economic development is also considered from the employment perspective. Entrepreneurial activity, attributed mostly to the SMEs, is supposed to have a positive impact on employment. To find a viable employment measure is not a complicated task, despite of some differences in employment and unemployment statistics between countries.
The main problem is related to defining and measuring entrepreneurship. In general researchers agree that entrepreneurship has a complex meaning – entrepreneurship is multidimensional phenomenon. According to the theoretical background the accent is concentrated on one of essential characteristics of entrepreneurship. For some entrepreneurship is the equivalent of innovative behaviour of entrepreneurs, for others it is the attitude related to risk taking or to opportunities search. Irrespective of definition the question arises how to measure entrepreneurship and evaluate its impact on economic growth. In the majority of empirical studies in this field the entrepreneurship measures are simple and unidimensional. Usually these are new venture or start-up rates. Sometimes entrepreneurship is expressed by self-employment and, occasionally, by innovation indices.

By means of these simple entrepreneurship measures researchers attempt to evaluate the direct impact of entrepreneurship on national or regional economic growth, expressed in terms of GDP, or on economic development, expressed in terms of employment.

The use of start-up or self-employment rates as the most common entrepreneurship measure has some fundamental causes which arise from the SME’s paradigm.

This paradigm is a consequence of observation of the economies of developed countries in the 1980s and 1990s. The rapid expansion of small enterprises during these years has created a widespread conviction that small, new ventures are the most important source of entrepreneurship and as a dynamic and innovative factor, they contribute directly to economic growth. Fortunately at the same time theoretical models of endogenous growth, with entrepreneurship one of their essential variables explaining the creation of economic welfare, have been put forward.

Although some earlier empirical studies do attempt to evaluate the direction and strength of entrepreneurship’s impact on economic growth, we focus our attention on more recent studies, namely those from the last decade.

2 Entrepreneurship and Economic Growth: Evidence from Empirical Studies

There are many recent empirical analyses concerning the impact of entrepreneurship on economic development. Economic growth is analysed at national, regional and industry level. Several measures of economic development are used – GDP per capita, employment or productivity growth. Entrepreneurship is measured either by self-employment rates or by different indices of new firm formation (Table 1).