FEE's Essential Guide to

Entrepreneurship

Part 1: What is Entrepreneurship?

FEE FOUNDATION *for* ECONOMIC EDUCATION

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What is Entrepreneurship?

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Contents

Introduction

In this 3-part series, we have compiled some of our best articles on entrepreneurship.

Entrepreneurs have a passion for creating value. They discover ways to contribute to the world around them, and they set to work making it happen. Whether you're a full-time employee at a large corporation or the owner of a small software company, being an entrepreneur is about creating value and offering that to consumers.

What is entrepreneurship? How do you become a successful entrepreneur? Who are the heroes we can look to as examples of entrepreneurial success? These are a few of the questions we aim to answer in this series.

The first article in this guide is titled, "Entrepreneurship is for Everybody" — because that's exactly what it is. Everyone, from the part-time warehouse laborer to the Silicon Valley mogul is an entrepreneur. It's not about the profit you generate, but the value you create.

Entrepreneurship is one of the most rewarding journeys you can embark upon. With these guides as inspiration, we want to invite you to begin thinking of yourself as an entrepreneur.

Entrepreneurship is for Everybody

Dan Sanchez

Entrepreneurship is for everybody. That may strike you as an exaggeration. "Surely not everyone is cut out to be an entrepreneur. It takes a certain kind of person to launch and run a business. Most people are better suited to earn their livings as employees."

This formulation of entrepreneurship is far too narrow. Everyone is the sole proprietor of an enterprise: namely your own career. You are the CEO of "You, Inc."

- Like any entrepreneur, you have customer(s): in this case, your "employer(s)."
- Like any entrepreneur, you have a product to sell: in this case, your labor.
- Like any entrepreneur, you spend money to create, improve, and market that product. You purchase human capital-enhancing products and services from suppliers like training programs, programming books, and online course providers. You also use your labor to barter for valuable experience in the workplace. When you buy a suit for interviews, you are spending money on marketing your product.

All these costs could exceed your resulting "sales" (your additional pay), and in that case you incur losses, just like any entrepreneur. Or your sales could outstrip your costs and net you a profit.

To successfully manage your career, to truly thrive in the labor market, requires all of the character traits normally attributed to people who are "cut out" for entrepreneurship:

- a passion for value creation

- innovativeness
- insight into and anticipation of the wants and needs of "customers" (employers)
- good judgment as to what will satisfy those wants and needs
- vision
- imagination
- alertness to opportunity
- the ability to cope with uncertainty and risk
- initiative

It is tragic that most people don't think of their careers as enterprises, or of themselves as entrepreneurs. Instead they too often have an "employee mindset." According to this mindset, all of the above qualities are only required of their entrepreneurial betters. The employee himself doesn't need a passion for value creation; the boss decides for him how he is to create value by assigning him specific tasks. It is for the employee to dutifully perform those tasks, and that's it.

With such a "worker drone" attitude weighing them down, too many people find themselves in a rut in their career and their lives. They see work, not as an exciting opportunity for advancement through value creation, but as a drudgery to be endured. Keep your head down, do your assigned work, learn the routine, hope to get incremental raises for time served, and pray you don't get laid off.

Imagine if Steve Jobs had treated his customers (buyers of Apple products) the way most workers treat their customers (buyers of their labor services). "Well, they keep asking for the Apple II computer, so I'd better just focus on continuing to give it to them." He would have never developed the iMac, iPod, iPhone, iPad, etc. The world, and more to the point, he himself, would have been much poorer as a result.

Consumers of personal tech care more about value than about any particular product per se. Similarly, any boss who is himself an entrepreneur, as opposed to a bureaucratic functionary, cares more about value creation itself than about rule following and task completion per se.

Workers should see task assignments not just as responsibilities, but as starting points: clues for potential opportunities for greater value creation. This may involve going above and beyond the original tasks. It also may involve innovating altogether different ways of doing things.

A bureaucratic boss would be annoyed by such deviations from routine as uppity insubordination, and as needlessly creating extra hassles. An entrepreneurial boss would eagerly embrace the value-adding innovations, and facilitate the creation of more innovations by giving the innovator a bigger role. She would also know that other entrepreneurial bosses would happily bid away the innovative worker's services if given the chance; so, to prevent that, she would increase the worker's pay.

By intelligently and assertively pursuing value creation (and by staying on the job market), the entrepreneurial worker finds him or herself in high demand, and so is faced with greater opportunities: for higher pay, better benefits, better working conditions, more fulfilling work, a more fulfilling life.

This mindset is not only financially rewarding, but invigorating as well. Human beings are not constituted to be programmed automatons or beasts of burden to be yoked and driven. When we relegate ourselves to such a role, we become dejected and neurotic.

Our nature is to be purposeful actors, to be intrepid discoverers, to boldly undertake ventures ("entrepreneur" is derived from the French equivalent of the English word "undertaker," which was the term used by Adam Smith). Taking on life as an entrepreneur is what makes us fully come alive.

Down with the employee mindset. All workers should consider themselves "self-employed." Your boss is your (current) customer (maybe one of several), not your "employer." You are the ultimate employer of your own labor. Only you are ultimately responsible for your own value creation, your own pay, your own career. You are the entrepreneur in control of "You, Inc." Entrepreneurship is for everybody.

The Entrepreneur on the Heroic Journey

Dwight R. Lee and Candace Allen

"What do you want to be when you grow up?" This was a question that adults regularly posed to all of us when we were young. Generally, even as children, we imagined ourselves becoming like those whose accomplishments we respected or whose qualities we admired. At a time when sports figures, Hollywood personalities, musicians, and even politicians vie for the hearts of the young, why not honor those among us who provide the energy and strength behind the invisible hand of economic progress?

Entrepreneurs are, in fact, heroic figures, and their accomplishments are worth celebrating. All of us are better off because entrepreneurs have been willing to attempt what others knew couldn't be done, and then persist in the face of adversity. Their visions extend beyond existing horizons, and eventually expand the realm of the realistic, transforming one generation's dreams into the next generation's necessities.

Who Are Heroes?

Who is a hero? For some, a hero represents a person who embodies such age-old values as honesty, integrity, courage, and bravery. For others, a hero is someone who is steadfast or who sets a good example. To many, being a hero means sacrifice, even of life itself, for the sake of others. Increasingly, many people find heroic those who simply gain notoriety or attention.

However, Joseph Campbell, an expert on world mythology, would probably find all of these definitions to be incomplete. Campbell contends that every society celebrates heroes, and in doing so, honors the past, energizes the present, and shapes the future. In studying most known cultures, Campbell has discovered that though details of the heroic path change with time, the typical journey of the hero can be traced through three stages. In our view, the entrepreneur travels through all three.

The first stage involves departure from the familiar and comfortable into the unknown, risking failure and loss for some greater purpose or idea. The second stage is encountering hardship and challenge, and mustering the courage and strength necessary to overcome them. The third is the return to the community with something new or better than what was there before. Ultimately, the hero is the representative of the new — the founder of a new age, a new religion, a new city, or a new way of life that makes people and the world better off.

The Modern Entrepreneurial Hero

In our modern world, the wealth creators — the entrepreneurs — actually travel the heroic path and are every bit as bold and daring as the mythical heroes who fought dragons and overcame evil. With conventional virtues, the entrepreneur travels through the three stages of the classic journey of the hero to achieve unconventional outcomes and should serve as a model of inspiration and guidance for others who follow.

In the first stage of the heroic journey, the entrepreneur ventures forth from the world of accepted ways and norms. He asserts, There is a better way, and I will find it! Unlike those who are overwhelmed by the challenges of their immediate world, the entrepreneur is an optimist, able to see what *might* be by rearranging the world in creative and useful ways. The entrepreneur refuses to accept the conclusions of others about what is or is not possible.

In this first stage, risk-taking entrepreneurs are motivated by many factors. Some want to become rich or famous. Others desire to better themselves, their families, or their communities. Some seek adventure and challenge. Regardless, they are characterized by energy, vision, and bold determination to push into the unknown.

In the second stage the entrepreneur finds himself in uncharted territory. Everything is at stake. The entrepreneur sacrifices for an idea, purpose, vision, or dream that he sees as greater than himself. Comfort and security become secondary.

Entrepreneurial action is often controversial. An entrepreneurial educator, for example, might leave the state school system to find a better way to provide education to youngsters as an alternative to government schooling. Yet, former colleagues might see him or her as a traitor. Regardless of what the entrepreneur sacrifices during this stage of the heroic quest, he is impelled into risky, unfamiliar territory. He must be resilient in the face of mistakes or failure.

In this discovery stage, the entrepreneur often encounters those who have a stake in maintaining the status quo. Business opponents may even turn to the state, as Netscape has pushed the Justice Department to hound Microsoft for alleged predatory behavior. Professor Don Boudreaux, writing in the *Wall Street Journal*, sees this anticompetitive tactic as a serious abuse of the legal and judicial system in an attempt to prevent entrepreneurs from bringing new products and services to consumers.

The third stage of the classic heroic journey begins when the entrepreneur returns to the community with his product, service, or new process. By buying the new offerings, the customer acknowledges the entrepreneur's success. The more profit that is generated, the greater the value of wealth produced. Thus, profits are the entrepreneur's reward for increasing benefits to individuals in society. Serving in the capacity as wealth creator, the entrepreneur becomes a social benefactor.

The true heroic entrepreneur will continue to anticipate future challenges. He is no ordinary business person whose main priority is keeping one step ahead of his competitors and maintaining market share. Nor does he seek government subsidy or protection. For him, the quest is to venture forth again and again into the unknown to create and bring back that which other individuals value.

The Bold Quests of Individuals

Not all people who venture forth on such heroic quests succeed. Approximately 80 percent of new businesses quickly fail. But over three-quarters of all new jobs each year come from firms no more than four years old. Though large, well-established corporations are more visible, one finds the most entrepreneurial action and risk-taking activity in small business ventures. Hermann Simon, author of *Hidden Champions: Lessons from 500 of the World's Best Unknown Companies*, argues that many little-known, super-performer companies made up of two, three, or more highly entrepreneurial folks have control over 50, 70, and even 90 percent of the world-wide market for their products. For example, St. Jude Medical has 60 percent of the world's market for artificial heart valves. Today, those *individuals* (or small groups of them) who are embarked on the bold quests are the ones who are changing the face of society so rapidly. And we can look to the future with optimism, since opportunities abound for further entrepreneurial adventure.

In fact, the changes we have witnessed in our lives since we were children are likely to pale in comparison to the changes we will see in coming decades. Yet, while entrepreneurs are essential for this progress, seldom are entrepreneurs hailed as heroes. To the contrary, typically they are ignored in textbooks, or castigated as robber barons. It's no surprise, then, that most adults know far more about successful politicians than about successful entrepreneurs, and most admire the former more than the latter. How can a society continue to prosper when it views those who transfer wealth as more heroic than those who create it?

Why are entrepreneurs seen as looters and exploiters rather than as heroes? One reason is the political bias against them. As government control over the economy has grown, so has the incentive for politically influential interests to disparage entrepreneurs. Few, if any, economic forces are more disruptive than entrepreneurship. But while this creative destruction, in Joseph Schumpeter's words, is essential to general progress, it harms some individuals and groups whose wealth is tied to the status quo. Each group wants to gain protection against progress that imposes costs on itself. The larger government becomes, the more it acts as a force against progress. While the entrepreneur with a superior idea can draw large numbers of customers from existing corporate giants in market competition, he can't mobilize large numbers of citizens against government obstacles to that competition.

Of course, entrepreneurs can often overcome political obstacles, but such effort diverts attention and energy from the creative activities that propel economic progress. Moreover, political opponents of economic change frequently vilify individual entrepreneurs. Thus, instead of celebrating entrepreneurs who do the most to push back the frontiers of the possible, the public often seems to single them out for condemnation.

Another reason entrepreneurs are criticized is that the connection between their innovations and economic progress is often indirect and difficult for most to recognize. For example, few people understand the great contributions made by Michael Milken and Bill Gates. Special-interest groups with a stake in the status quo can exploit this lack of understanding to depict entrepreneurs as rapacious scoundrels.

Indeed, few people understand how capitalism works. Most tend to focus on the concentrated costs inflicted by market competition, while taking for granted the diffused benefits made possible by that competition. Trying to explain the workings of the invisible hand is not an easy task. Educating the public is made more difficult by intellectuals who use their positions in academia to criticize capitalism and the entrepreneurial energy that propels it.

Why Individual Entrepreneurs Matter

Even many staunch supporters of the free-market system diminish the importance of entrepreneurs. The economists who have developed the subdiscipline referred to as the new economic history have been among the most effective at explaining the causal links between the market and economic progress. Yet many of these new economic historians dismiss the role of entrepreneurs. For example, Robert Thomas of the University of Washington argues that individual entrepreneurs, whether alone or as archetypes, just don't matter. According to Thomas, a successful entrepreneur is no more important to the economy than the winning runner in a 100-yard dash is to the race. The winner gets all the glory, but if he had not been in the race, the next runner would have won by crossing the finish line a fraction of a second later, and the spectators would have enjoyed the race just as much. Thus, if Henry Ford, Ted Turner, or any other successful entrepreneur had not made his pioneering contribution, someone else would have quickly done so. So, as Thomas tells the story, it is hard to justify special celebration of their accomplishments.

Thomas's view is incomplete. Go back to his race analogy. The argument that a given entrepreneur's accomplishments would, in his absence, quickly be achieved by others assumes an environment that encourages entrepreneurship. If the runners themselves, their training, and their efforts during the race are simply taken as givens, it is no doubt true that removing the winner of the race would do little to reduce the benefits of winning. But the identity of the runners and their preparation and efforts can't be taken for granted. Competitors are influenced by treatment afforded the winner. When champion runners receive public esteem, those with the greatest talent are more likely to become runners, train hard, and run faster. Similarly, public attitudes affect the entrepreneurship process.

Of course, the entrepreneur profits financially if he is successful, which is one reason critics discount the role of public acclaim. Money is obviously important in directing his efforts into those ventures in which his talents have the greatest social value. But this actually strengthens the case for celebrating entrepreneurs. Failing to do so emboldens politicians, and their special-interest clients, who are constantly looking for justifications to tax away the financial gains of successful entrepreneurs. It is no coincidence that, over the past century, as public respect for entrepreneurs has eroded, so have the constitutional barriers against what is best described as the punitive taxation of economic success.

Thus, just as the society that doesn't venerate winners of races will produce fewer champion runners than the society that does, the society that does not honor entrepreneurial accomplishment will find fewer able people engaged in wealth-creating activities. And that society will be less well off than the one which perceives the wealth creator to be a hero.

One last factor helps explain why entrepreneurs are seldom viewed as heroes. When defining a hero, people often focus on self-sacrifice, rather than benefits received by other individuals and society. Yet the vast majority of entrepreneurial efforts do fail, often with significant loss to the entrepreneur. And when the entrepreneur succeeds, he receives his reward only after having enriched everyone else even more.

Conclusion

Economists tend to focus on what can be seen — the measurable aspects of the economy and mechanical understanding of the marketplace as an efficient resource allocator. But abstract economic models seldom inspire. To paraphrase Schumpeter, economic efficiency is a poor substitute for the Holy Grail. In human entrepreneurs, in contrast, people, particularly the young, can see and appreciate those heroic qualities that continuously create a better world.

Some may criticize romanticizing the entrepreneur. But societies are shaped by the ideals they embrace. If one of our children or grandchildren wanted to emulate an entrepreneur who heroically struggled in uncharted territory and ultimately changed the world for the better, we would be proud.

Liberty and Entrepreneurship

Brian Crowley

Once upon a time, in ancient Greece, sailors were transporting a cargo of natron, a washing powder, somewhere in the Mediterranean. They stopped to prepare a meal on a fine white sandy beach. Lacking stones on which to support their kettle, they used lumps of natron to hold the kettle over the fire. The heat from the fire fused the natron and the sand, creating glass. For all we know, similar accidents may well have occurred elsewhere without anyone seeing and appreciating what had happened. In this case, however, the accident and an intelligent observer worked together to bring a highly valuable creation to humanity, increasing, not by design but by happy circumstance, our power to achieve our purposes.

The nameless sailor who saw the shiny crust that had formed under the fire and whose mind rushed on to the possibilities implicit in this discovery was an entrepreneur. He had discovered, by accident, a single bit of useful information, one of nature's slumbering secrets. By seizing it, experimenting with it, and then exploiting it, he unknowingly unleashed a series of powerful transformations and innovations. It became possible to have both warmth *and* natural light in buildings. Pots could be glazed. The seeds of mason jars, petri dishes, and the great stained glass masterpieces of Chartres had been planted.

Multiply this ancient example across all the many fields of human activity and we gain a new perspective on the entrepreneur's trade. Part of our human character is an urge to chafe against and try to transcend the limits on our freedom to realize our dreams. We want constantly to expand the areas in which we are not merely subject to mute and uncontrollable forces, but in which we control our actions and remake the world nearer to our heart's desire. When we are successful, we expand the realm of freedom, not only for ourselves, but to all to whom we make our knowledge available.

In this natural history of freedom, the entrepreneur's role is often neglected or overlooked because the contribution, while central, is little understood. Just as the ubiquity of the air we breathe masks its indispensability to life, so too the workaday character of the entrepreneur's contribution passes unremarked.

If it is true that human beings chafe against their limitations, then one way of defining the entrepreneur is as the person who makes experiments in transcending our limits, rather than merely contemplating them, who strives to make the first candle and thus to transcend the darkness. Entrepreneurs are the drones of the knowledge discovery process, the footsoldiers in our never-ending battle to beat back the frontiers of human ignorance.

Knowledge and Power

Knowledge *is* power. When we master nature's secrets, we can put her forces in our service rather than be subject to them. We can build skyscrapers, travel to the moon, or send information around the globe in the space of a heartbeat. And the more we know, the better we are able to outwit governments and other powerful human agencies that want us to live according to their priorities rather than our own. This crucial information-gathering and dissemination function is one of the great contributions of the entrepreneur's work.

I am frequently struck, however, in the academic literature about the entrepreneur, by the degree to which his role is over-rationalized, how he is reduced to a logical type or to some supposedly exhaustive inventory of his knowledge and techniques. The entrepreneur defies such easy classifications precisely because his role is played out at the confluence of the two great bodies of human ignorance — ignorance about the world we inhabit and ignorance about ourselves.

We as a culture pride ourselves on an impressive body of knowledge about all these things, and so such emphasis on our ignorance does not sit well with many of us. Yet this may just be precisely the overweening arrogance of the ignorant at work. While we pride ourselves on our knowledge of the physical world, for example, in fact much of it is brought to us by entrepreneurs who happened by chance to witness some accident and understood at least part of the practical significance of what they saw. Here the unpretentious and deeply untheoretical role of the entrepreneur shines through most clearly.

The Greek sailor who discovered glass is merely the earliest recorded example that I know of this principle at work. Many other discoveries that were the fruit of fortuity have changed the course of human life for the better. The telescope, aniline dyes, photography, x-rays, the discovery of the relationship between electricity and magnetism, the curing of rubber, the telephone, the phonograph, welding, steel-making, and penicillin are only a few choice examples. We knew nothing about the potential of the physical world to supply us with such wonders until someone stumbled upon them and *really* saw what they meant. We could not have sought them directly without knowing what they were, and had we known what they were, we would already have discovered them!

Markets and Incentives

Because we know and understand our world so poorly, we can never have a comprehensive overview of the resources at our disposal. We simply don't know the potential of the world and the people who surround us. In these circumstances, markets and a regime of private property have the curious and unintended effect of multiplying the knowledge available to us. Markets do this by creating an incentive to seek out the opportunities that our unique knowledge of time and place reveals to us, making potential "knowledge entrepreneurs" of us all.

Consider a man I know who makes Scottish highland paraphernalia, things like sporrans, daggers, and bagpipe fittings. One day he was reading the newspaper and his eye happened to fall on a call for tenders from an aircraft manufacturer looking for subcontractors to make aircraft parts. He ran his eye idly over the advertisement. Suddenly, he realized that with the equipment he had for making highland paraphernalia, he had the capacity to make the aircraft parts that were described there. In that brief moment, this entrepreneur's understanding of himself and his capabilities was transformed; he now saw himself not only as a maker of daggers and sporrans, but as an aircraft manufacturing subcontractor. He now employs a number of people in the aircraft parts business, as well as carrying on his traditional activities.

A second example comes from a town near where I live. This town, originally founded on coal mining, had been in decline for decades following the closure of the mines. One snowy winter's day, a man was out walking his dog in the town and noticed a patch of ground where the snow had melted and steam was rising. His curiosity was piqued and on investigation he discovered that the mine shafts underneath the town had filled with water that was being heated geothermally. A chance surface leak, together with a man who was not content merely to see, but able to observe, transformed this town. An entire industrial park has been built on the exploitation of this cheap, plentiful, but strictly local and accidental source of energy.

Both of these examples illustrate just how limited is our knowledge of the physical world. More important than this kind of ignorance, however, is our ignorance about that most basic force of the economy: human wants, needs, and desires.

If the economy is, as it should be, about satisfying these wants and needs, the primary question must be: How do we know what these wants and needs *are?*

What people want depends on what they know — about themselves, their resources, and the real choices open to them. To discover what people really want, we must be constantly striving to offer them ever-changing choices, letting them know that these choices exist. Since by its very nature this information can never be complete, we are embarked, in a free economy, on a permanent quest for knowledge. This quest is for knowledge about our fellow humans: about their expectations, their wishes, their desires, and their thoughts. These determine their economic actions, and therefore the value of goods, services, and money.

Joseph Schumpeter wrote about the "creative destruction" inherent in capitalism, the ceaseless questing change that seethes within a market system. That change is driven by the twin forces of the constantly changing nature of human needs and the constant discovery of new knowledge that is one of the chief roles of the entrepreneur. The destructiveness of this process of change, can, of course, be deeply disquieting, so that the transformative work of the entrepreneur is often resisted by political authorities in the name of the preservation of a comfortable status quo.

Yet change which at first looks destructive often brings great and quite unexpected benefits later. No one, not even the entrepreneurs who spark these changes, can foresee all the consequences of what they have unleashed.

Consider in this regard something as simple as the invention of the motorcar. No one foresaw the myriad social transformations that would be wrought by this invention as people began to see and exploit its potential. Certainly its inventors were no better at crystal-ball gazing than anyone else; they believed that the total number of cars in the world would be forever limited by one insurmountable obstacle: the number of members of the working class intelligent enough to be trained as chauffeurs.

Yet the car was nearly to destroy, for example, the horse industry. Almost 20 million horses lived and worked in North America at the turn of the century, creating work for blacksmiths, livery boys, and makers of nails, harnesses, and saddles. Hay and oats were major cash crops. Of all this, almost nothing remains today. Local institutions like the rural school and church fell victim to the school bus and the Sunday drive. City centers shrank, suburbs blossomed, hemlines, drive-ins, and highways went up — barns, travel time, and (arguably) sexual mores came down. Millions of individual ideas, adjustments, desires, and innovations all conspired to work a transformation on the face of society which even the most prescient could not have envisioned. Indeed, many lawmakers early in the century resisted the automobile's rise, fearing the economic and social transformations they dimly sensed would come in its train.

Now we may find Zimbabwean chrome and Malaysian tin, French tires and Dutch chemicals, Taiwanese steel and German robots running on American software being used by Canadian workers under Japanese management to make cars for export to the Far East. Most of the jobs performed in the manufacture of a car didn't even exist at the turn of the century, and now the industry, directly or indirectly, employs millions of people in literally every corner of the globe.

A similar transformation occurred as thousands of feudal peasants moved from the countryside to the city during the Industrial Revolution. If authorities had had the power to stop such social transformations, to prevent entrepreneurial experimentation, some immediate suffering might have been prevented and some established interests protected. But we would still be working the land, and few of us would have horses, let alone automobiles.

The Entrepreneur as Subversive

And so the vital link between entrepreneurship and liberty begins to emerge. In this connection, my earlier definition of the entrepreneur — "the person who makes experiments to try to transcend our limitations" — suddenly assumes a decidedly subversive hue, especially in the context of authoritarian or totalitarian political orders.

After all, the obstacles to achieving our goals can be intentionally man-made, and such restrictions will be just as tempting to defeat as natural ones, thus expanding again our potential for free growth. When Chinese students in America wanted to pierce the censorship at home about what was happening at Tiananmen Square, one method they chose was to program a computer systematically to dial telephone numbers in China, enabling them to locate fax machines throughout the land to which information was dispatched. China had permitted fax machines as part of its drive for economic growth, not realizing the subversive potential of the network they had created. But to the eyes of the entrepreneur seeking to transcend his limitations, it was an engraved invitation to fill an unforeseen need.

As the cascading effect of the entrepreneurial impulse sends powerful ideas sweeping across societies, these ideas are incrementally altered, redirected, refined, improved, and expanded. Dirigiste or authoritarian governments — governments that want to dictate outcomes and shape their society rather than facilitate exchanges of goods, services, and information which will be put to unknown and unknowable purposes — will suffer one of two fates. They may suppress changes driven by entrepreneurs, in which case their society will stagnate as they are unable to integrate and use vast quantities of knowledge. Only knowledge known to and approved of by rulers is permitted to be used in such societies, and that body of knowledge is always infinitely more limited than the knowledge possessed by the population as a whole. The pressure for change in such societies will become unbearable as they fall inexorably behind their more entrepreneurial and experimental competitors. Alternatively such regimes may recognize the need for entrepreneurs to promote growth, but will find their own power as rulers incrementally undermined and transferred to those empowered by the innovations. Of course, these two hypothetical examples describe roughly what happened in the former Soviet Union and the People's Republic of China, respectively.

The only regime which cohabits easily with a society in which entrepreneurship is allowed to work its magic of social, cultural, *and* economic transformation is a regime of limited government. Such a government accepts its own citizens' ability and right to make responsible choices about their own lives and how to live them. And, of course, it is necessarily optimistic that the bad side-effects of the entrepreneur's free experimentation and innovation will themselves give rise to corrective experiments and innovations. A society which is congenial to the twin impulses of entrepreneurial creativity and freedom realizes that both emerge from incremental experimentation, a constant seeking of improvement, and not from the imposition of a grand design from above.

Can You Teach Entrepreneurship?

Per Bylund

Entrepreneurship programs are spreading rapidly across America and are attracting a growing number of students. But one question keeps coming up: Is it really possible to teach entrepreneurship?

The answer is both yes and no.

Entrepreneurship can be many things. The practical how-to's of starting and running a business can be taught, and so can the logic of how to think about business opportunities. And although the key element of opportunity recognition probably lies beyond the capability of formal education, we can sharpen the skills of students who have that inclination.

One of the difficulties with studying and teaching entrepreneurship is that it is an elusive concept. The entrepreneur is anything from superhero to struggling small business owner. The entrepreneur is the innovator, the disruptor of markets, the winner-against-all-odds — but also the common business man, mom-and-pop store owner, franchisee, or even self-employed contractor.

What is entrepreneurship, really? The simple fact is that we aren't entirely sure. But we're getting close.

We know that entrepreneurs embody the market's change agents; they're the force that disrupts the status quo, creates value, clears markets, and equilibrates the economy.

It's in the process of "creative destruction" that we find the entrepreneurs — both as visionaries who bring radical change and as everyday producers who work far from the limelight with constant but marginal improvements. What they have in common is that they produce goods and services under uncertainty. When they succeed, it is because they recognized opportunities that the rest of us didn't fathom.

The "opportunity" lies at the heart of entrepreneurship research, and is making its way also into teaching. While an important concept, it also underlines the difficulty of teaching entrepreneurship. What exactly is an entrepreneurial opportunity? How do entrepreneurs recognize it? And more to the point, can we *learn* to "see" or create opportunities and then exploit them?

After recognizing opportunities, they start businesses. This practice has traditionally been taught in business schools, and involves putting together a business plan, doing market analysis, and making forecasts for a specific market segment.

This is important — the craft of entrepreneurship. It takes knowledge and skill to play the game well.

A surprisingly large part of business skills relates to understanding and meeting requirements placed on businesses by government and its agencies.

As a budding entrepreneur, you need to figure out how to start your business, what licenses are required, how to keep track of your cash-flow, and when and how to pay your taxes.

The vast number of legal restrictions on business create a minefield for the entrepreneur and a burden that must be carried when starting and running a business. Entrepreneurship includes handling employees, leading the business, knowing the rights and duties you have toward your employees, suppliers, customers, and contractual partners.

There are non-governmental "musts" as well.

Entrepreneurship includes identifying your customers, what price you can charge, and how to secure funding for your business prospect. Banks commonly require a formal business plan to consider a loan application, investors need forecasts, and others require that you sell or pitch your business idea. Skills on how to conduct market research, estimate turnover and profitability, form an effective team, and how to price your product are also teachable and we cover them in our **Entrepreneurship and Emerging Enterprise curriculum** at Oklahoma State.

But there is a crucial element of entrepreneurship that no one has figured out exactly how to teach because it involves *tacit knowledge*: the creativity and imagination that are necessary components to recognizing an opportunity. We might call it entrepreneurial *judgment*.

This is surprisingly akin to the traditional object of liberal education: to develop analytical skills or "critical thinking." To be successful in entrepreneurship, which deals with the unknowns of future market situations, the most important quality is the understanding or "gut feel" for where an opportunity will present itself.

This requires alertness to trends in the marketplace and especially the ability to imagine the future.

Particularly important in this is our Imagination in Entrepreneurship course (EEE 3663). Students learn to understand market processes through small-scale startup projects and by meeting with members of the entrepreneurial community. We use in-class exercises that are designed to provoke and tease their imaginative thinking and test their boundaries. We push them out of their comfort zones asking "why" and "what if" and turning their reasoning upside down.

All of these important skills are developed and strengthened in in-class, hands-on exercises in the classroom and beyond. The purpose is to produce students who are willing and able to learn from failure, who are not afraid to fail, and who are excellent thinkers and doers.

Students in 3663 have had some considerable successes, such as **Billy Goat Ice Cream**, a startup begun by two students. Another is **Life Out of the Box**, an idea two students refined after taking 3663 online. And of course, not all entrepreneurial ideas work out. One student thought that workout pants made of bamboo would fly, but it didn't and he gave it a mercy killing. A huge part of entrepreneurship is learning from failure.

Entrepreneurship education changes the role of the business school — from supplier of skilled labor through vocational training in business matters to an application of the enlightened citizen ideal within the realm of business and market.

Perhaps this provides an answer the question of whether entrepreneurship, seen as more than the practical skill of starting a business, can be taught in universities. I think it can.

Why Are So Few Millennials Entrepreneurs?

Zachary Slayback

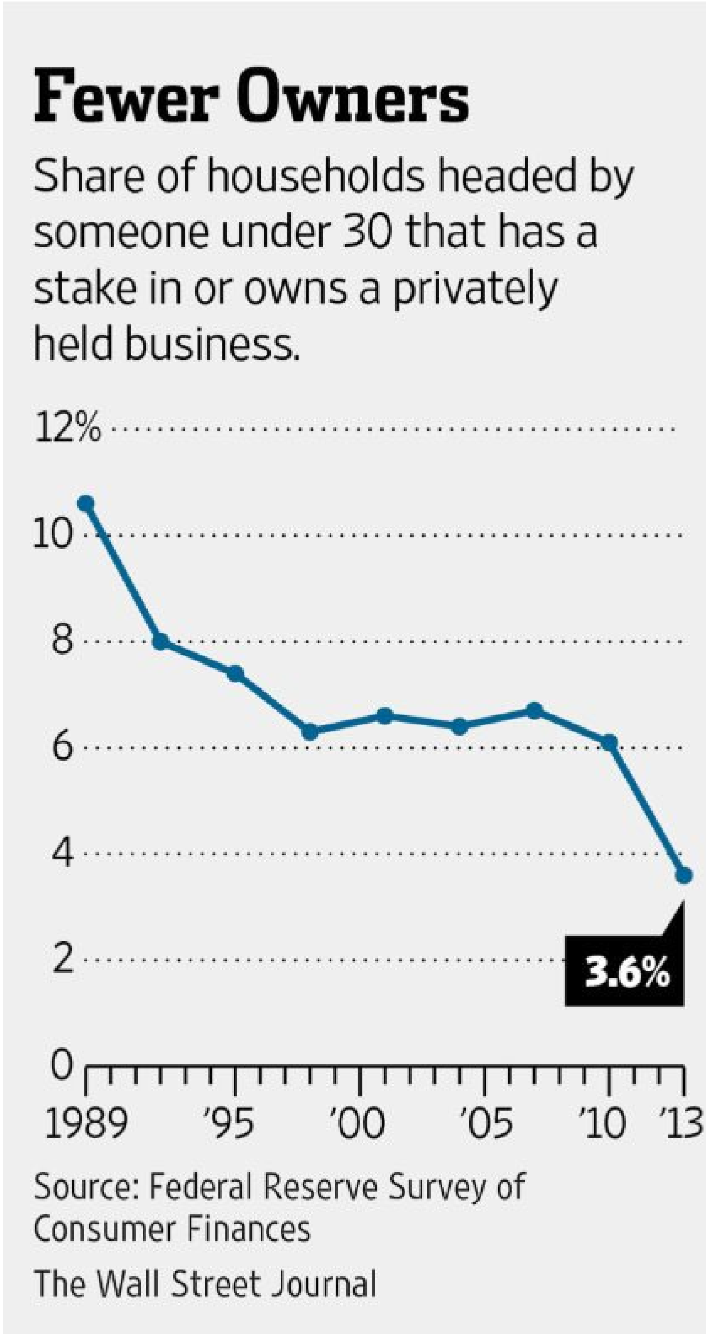
There's a popular trope right now that a ton of young people are founders and entrepreneurs. Thanks to a handful of young founders with a disproportionate impact (ala Mark Zuckerberg) and cultural figures like HBO's *Silicon Valley,* you can easily trick yourself into believing that entrepreneurship is all the craze among young people. Hacker meetups, entrepreneurship clubs and majors on college campuses, and the sudden growth of incubators and accelerator programs can present some sexy fodder for this case.

But this is all misleading. Entrepreneurship among young people is actually relatively *uncommon.* Relatively few young people today own stock in a private company — and a good chunk of those who do likely aren't entrepreneurs anyway, but rather work for companies who issue equity to their employees.

According to the *Wall Street Journal* (behind a paywall, google the title to gain access to the article), the percentage of young Americans who are entrepreneurs dipped to less than 4% in 2015:

> Roughly 3.6% of households headed by adults younger than 30 owned stakes in private companies, according to an analysis by *The Wall Street Journal* of recently released Federal Reserve data from 2013. That compares with 10.6% in 1989 — when the central bank began collecting standard data on Americans' incomes and net worth — and 6.1% in 2010.

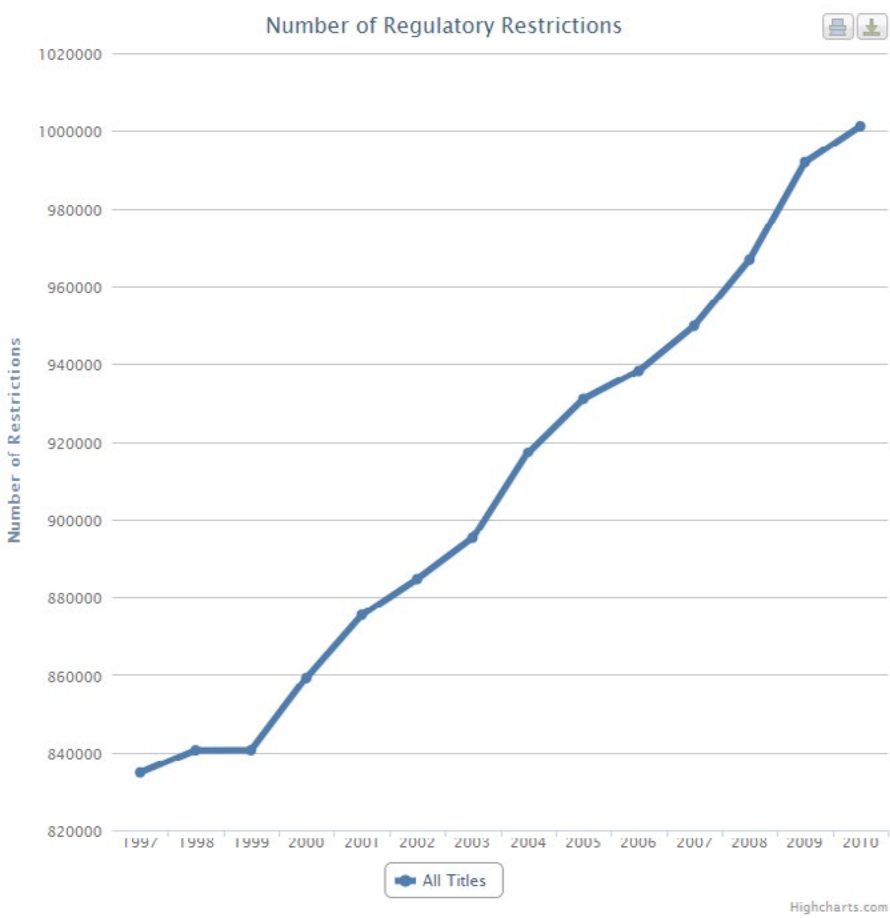
The *Journal* offers a couple of hypotheses as to what is behind the dip in entrepreneurship among young people, including stiffer competition in the age of the Internet, lower savings rates among young people in the aftermath of the recession, a decreased appetite for risk, and changes



in bank lending policies. These all are possible contributing factors, but I suspect that formal institutions play a larger role in the decline in business ownership.Between local, state, and federal regulations placed on everything from who is **allowed to braid hair to who can tell you what color to paint a wall and where to place a door** and a schooling culture and system that encourages young people to waste away the first 22–30 years of their lives away from the market, the systems placed upon young people today create a climate extremely hostile to entrepreneurship and economic growth.

Regulated To Economic Death

Americans today are the most regulated and taxed in the country's history. While some tax rates have dropped in recent years, they've been offset by **increases elsewhere** and the unprecedented and **massive growth in the bureaucracy**. It's harder today to simply start a business because of **the number of regulations** with which **one must comply**. It was once possible to start a business whenever you realized you were on to something that solved problems for people and for which they would pay you, but the immense regulation of small businesses today makes the barrier to entry so much higher that plucky young upstarts are much less likely to be able to get off the ground.



A few decades ago, Tina may have started a small salon out of her basement when she realized that she had a knack for designing nice and fun haircuts for her friends and family and also realized that this could earn her some extra money for her kids. She'd clear some space away in the basement, put up a sign advertising her service, and even have her nephew man the front desk as business picked up. Not so today. Today, she'd have to pass a number of boards and certifying examinations saying that she is qualified to provide this service (never mind if customers thought she was qualified — it was her competitors who would judge her boards and exams), get a commercial license from her local government, incorporate as a business, get a federal EIN for tax purposes, buy a regulation-friendly sign, and hire staff at a much higher price than her nephew was willing to do the work. And that's just to get off the ground and get started.

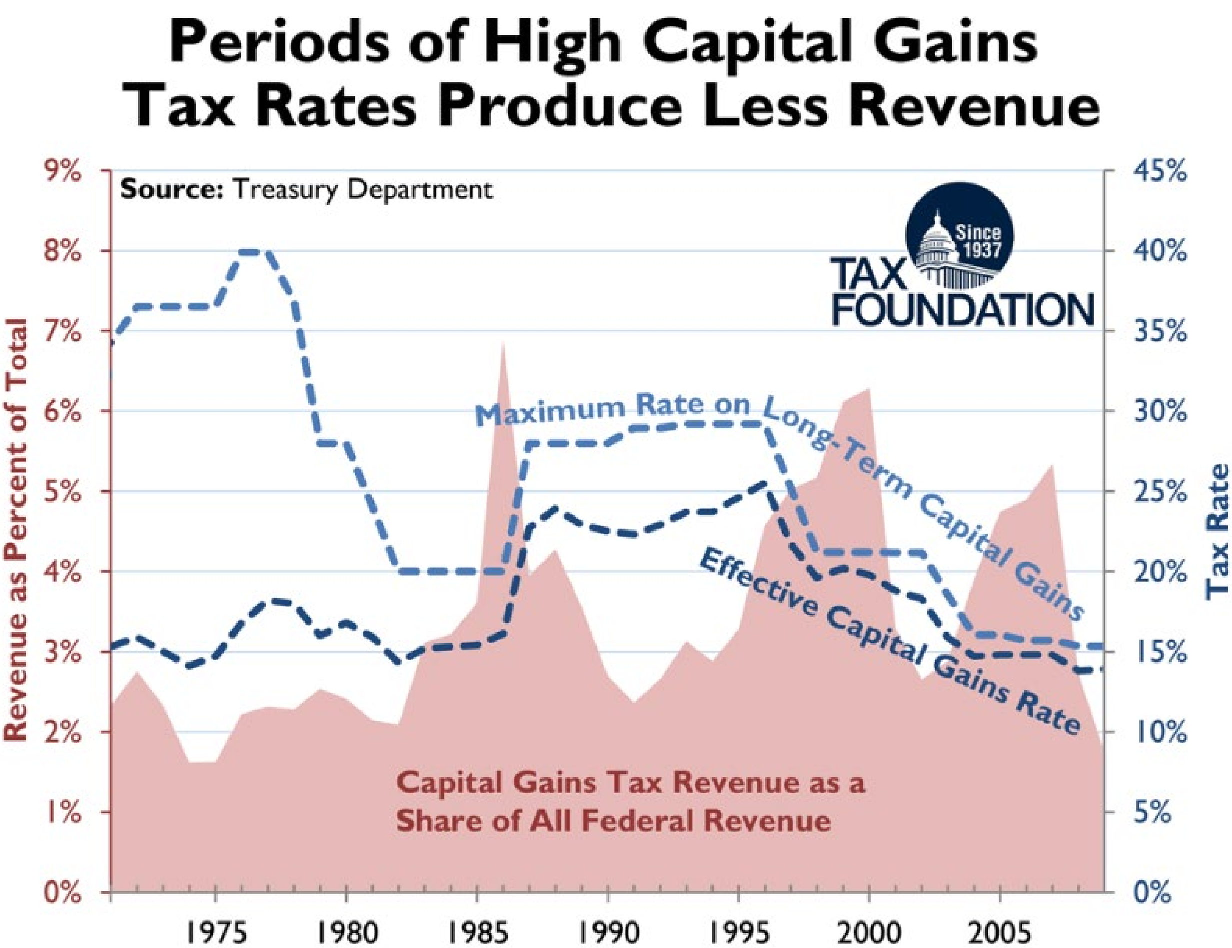
Is it any wonder that Tina doesn't go into business today?

Taxing Investment

One of the most nefarious taxation schemes to small business and entrepreneurial growth is the capital gains tax. Used in this election cycle to refer to taxes on "hedge fund managers" (a boogeyman of choice in Election 2016), the capital gains tax is, simply put, the tax on gains from investments. This applies to all sorts of investments, not just millions of dollars made from trading in some dark room like in *The Wolf of Wall Street*. **If you flip a house**, you have to pay a capital gains tax. If you invest in commodities (i.e., oil, gold, silver, sugar, copper), you have to pay a capital gains tax. If you start a business that issues dividends, you have to pay a capital gains tax.

Most investments (including launching a small business) come with a certain level of risk and are only made if the would-be investor can expect a minimal growth on the payout. If they know that half of their profits are going to be taxed away by the feds and the state government, many people will decide to forego the investment in the first place. Why work twice as hard at creating a profitable business so that you can keep just as much (if not less!) than a waged job would provide?

I have a good friend who flipped a house when he was 16 years old. He and a few friends put all the money they had saved up together to buy an old house. With a loan from the bank, they owned the house and renovated it heavily. They ended up selling it for a 3x ROI. By the time the state and federal taxes were through, they each received a few thousand dollars over their initial investment. At that point, *it would have been wiser to go work at McDonald's for a year* rather than work on the house.

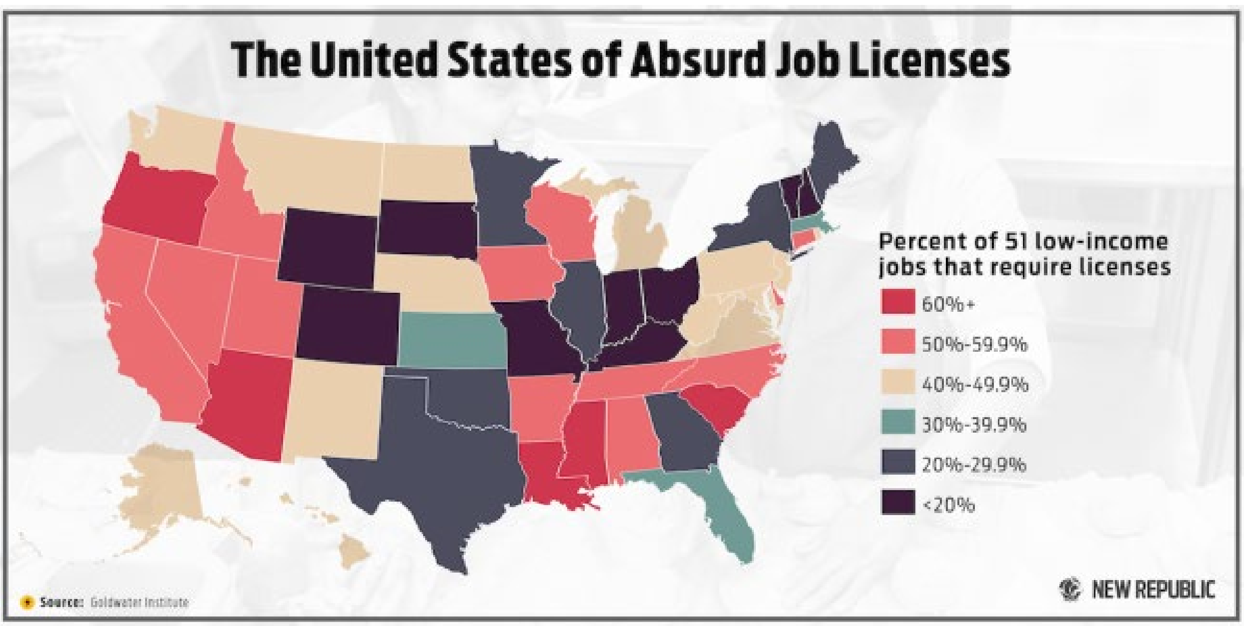


People invest less when they know that more of their returns will be taken from them.

If you have to pay an income tax and a capital gains tax on everything that you worked so hard to build as a small businessperson, what incentive remains to start in the first place? Sure, there are stories about being the one in charge of your work and how good that feels, but you have to pay your bills at the end of the day. Young people know this too well after years of little-to-no financial education and then seeing the FICA taxes on their paychecks the first few times.

Occupational Licensure and Cost Of Working

It's not uncommon to have to pass tests in certain states in order to do your trade. If you're a doctor or an airline pilot, this might make intuitive sense. But what about a florist? Or a hair braider? An interior designer? How about these 102 lower-income occupations?



Defenders of occupational licensure will usually find fringe cases where being "properly qualified" to do a job would have supposedly prevented a negative outcome or will point to how hard they had to work to get to where they are today, but these licenses are almost always just some kind of rent-seeking by firms currently in the market trying to keep out potential competitors. Most of these boards and exams are designed and/or judged by existing firms (would-be competitors) and can be extremely costly.

Going back to our hairdresser, Tina, she would have to pass her state qualifications before she can dress hair for people. If she wanted to do cutting at her shop, there's a good chance she'd have to pass another set of tests and requirements before she can offer that radical service. This means she'll have to find the time to go to classes, the money to pay for classes and offset the cost of not working while taking classes, and hope that she passes the examination at the end of the classes.

She may, then, **be forced to join a union** and pay union dues on top of everything else. (Consider **this case** of a woman who wasn't even trying to launch a caretaking business and was forced by the SEIU to join a caretakers' union while caring for her ill son.)

Growing Your Business

Let's say you're a young person who has decided to bear the brunt of the capital gains tax on top of an income tax, the brunt of the regulations declaring how you can and cannot make your living, and even the brunt of any occupational licensure, now it's time to build your business. After operating for a few months, you realize you could use an extra set of hands around your studio to help organize and clean up. You have a friend who is willing to do it in his spare time for a little gas money on the side.

Not so fast! This gas money doesn't cover the minimum wage that your friend is entitled to by law. If you fail to pay him this and the department of labor finds out, you'll be slapped with fines making business impossible for a firm of your size.

So you decide to pay him a minimum wage. Your margins continue to shrink but you could use the extra hands around. As you grow, you could use a second specialist to join you. You have to cut your friend in order to pay for the specialist. The combined cost wasn't worth the marginal addition in value.

It's time to open a second location. Hooray! You've been impressive in your growth and can reinvest some of your profits into a new location. You'll employ more people, serve more happy customers, and all the while grow as a business.

You want to move into the next county over where there is a larger customer base. You find the property, have an agent hired, and are ready to go when you look into the regulations. This new county requires a number of additional licenses to do business and levies a county tax on "corporations." The voters likely thought this meant some company that has offices all over the world and employs people in suits to eat babies — but it turns out that your business is, too, a corporation. You pull back your plans for expansion and settle on staying in your county.

Tech: A Free Domain?

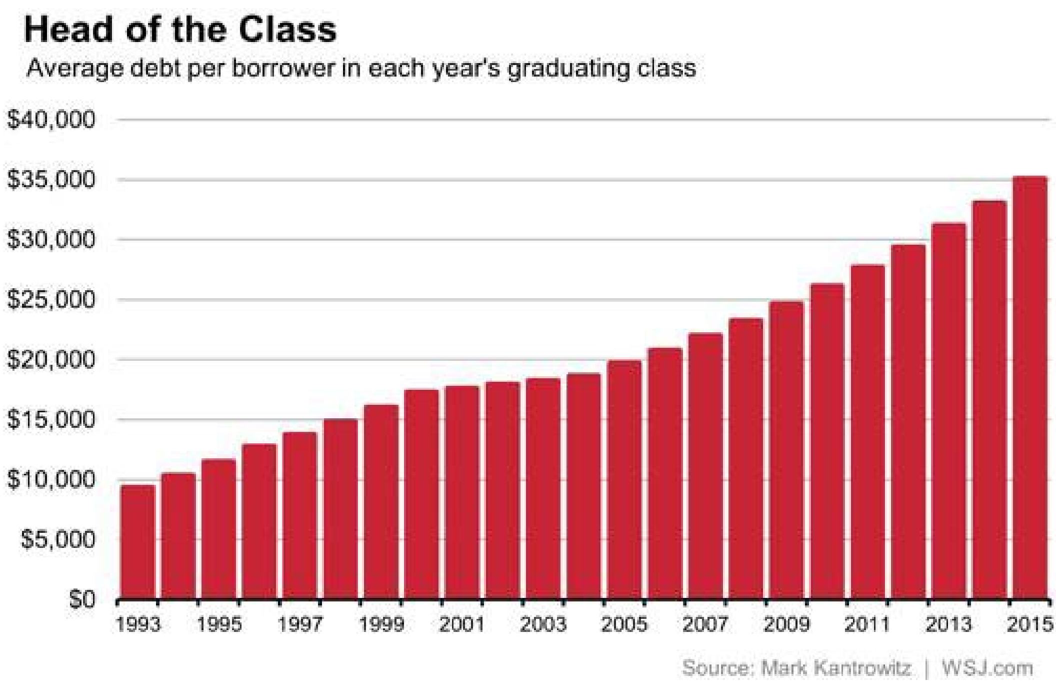
The heavy regulations and taxes placed on trade-based and investment-based businesses might explain why more young people are interested in launching tech companies instead of these traditional operations. Government regulators are notoriously slow to figuring out new technologies (I still have to pay my municipal sewage bill by mail) and the decentralized, low-cost nature of the Internet makes it harder to levy regulations on firms based there instead of a brick-and-mortar location. It should be no surprise, then, that this area is more prone to seeing startups than elsewhere. The regulations levied on a digital marketing firm are fewer than those of a traditional ad agency or for a logistics app instead of a taxi service. Software engineering is a totally new trade compared to construction, and the forces at play stifling construction have yet to develop for software engineering.

As government regulators and rent-seekers learn the ropes of Internet-based firms and as their tracking technologies improve, expect to see it become much harder to create a tech-based product and company.

Drowning in Debt

Legal and regulatory barriers to entry likely discourage a good number of would-be entrepreneurs who are lucky enough to get that far in the planning process. Unfortunately, for more and more young Americans, debt from student loans takes a higher priority than entrepreneurial planning.

Increasing costs of college combined with easy-money from government-backed agencies and banks have made it that around 71% of graduates in 2015 had student loans (up from 64% in 2005 and up from < 50% 20 years ago). The average borrower in 2015 has more than $35,000 in student loan debt (source). And the trends are just pointing to these numbers increasing.



Launching a risky venture with no guarantee of return on investment is hard enough without debt — it's nearly impossible when you have hundreds of dollars of student loans to pay back every month. Even if you can get the loans deferred, you still have to worry about whether or not you'll get to the income levels needed to pay it off in the future.

The Philadelphia Fed **reported** a strong negative correlation between business formation for businesses with one to four employees and student loan debt. **Similarly**, areas with a high amount of student loan debt also see the smallest growth in small businesses.

Most small businesses are funded with personal debt in the form of small loans from banks and acquaintances and credit card debt, not huge venture capital pushes as depicted in recent media. Crushing student loan debt makes it harder to manage a $10,000 line of credit on a credit card or a loan from a bank.

But if we recall the WSJ report showing the decline in business ownership between 1989 and 2015, we'll see that the biggest dip happened *before* the recent spike in outstanding student debt. The growth in lifetime-crushing student debt likely contributes heavily to the decline in the past 15 years, but the fact that a large dip happened before this period might indicate that *the problem isn't that fewer people can't start businesses* but rather that *people don't want to start businesses* (**source**).

Young people are more likely to take a "safe" and "stable" job than own a business, recent data **indicate**. There are a variety of additional factors that influence this, but one of the largest is the level at which young people are schooled. The current generation of recent graduates and young professionals is more schooled than any generation before them. Despite this, a **growing skill gap** and **discontentment with work and personal life** plagues them.

An actual screenshot of the Google results for "Millennials are" when doing research for this post.

Over-Schooled And Over-Coddled: Risk

The preference of a "safe" and "stable" job (assuming there is such a thing) over owning a business is likely a consequence of **being more risk averse** than **prior generations**. Young people today grew up in a weird paradoxical world of being rewarded for everything and being instilled with an intense fear of failure.

Being told that you deserve a reward just for participating creates an odd sense of resentment to even trying in most children. Children are smart enough to know when they are being talked down to, and adults giving them awards for not doing their best feels patronizing, even to a six year old. Why work harder if it is just going to result in the same kind of reward? Why try to get somebody to praise you if they'll do it when you fail anyway?

As children grow older and move into the competitive middle school and high school environments, failure takes on a new tone. Failing at school — which takes up the vast majority of a young adult's life from 6 AM–5 PM most days for the first 18 years — amounts to failing at much of life. Failing an exam or a class translated into failing out of the top echelon of the schooling world — you wouldn't amount to much in school, wouldn't get into a university of your choice, wouldn't get the job you wanted, and would be relegated to an unhappy existence for the rest of your life. Many, many schoolchildren **would rather cheat** on exams and risk being caught than risk failing the exam outright.

Even in the extracurricular world, young adults are overworked and overscheduled. Between competition from peers and pressure from parents, a young person competing in anything from soccer to quiz bowl can't afford to fail. The cost of being found out as a cheater or as a flake are lower than the perceived costs of failure.

A healthy level of risk-tolerance is necessary for success in business. Even traditional businesses have to take risks in taking out loans, trying out new products, and offering services in the community. **Most successful entrepreneurs are courageous** — a trait that school and a coddling parental generation can beat out of young people.

Over-Schooled: Degree Inflation

Most business owners held some kind of other job before launching their business. If they're working in the startup world and are offering a new and unique service, chances are even higher that they worked for years in a specialized field before launching their product or service. **The spike in degree inflation** has made it harder to enter the workforce at a younger age. Jobs that had no or minimal credentialing requirements just a few years ago now require a BA or a graduate degree. It's not uncommon to find internships that require a graduate degree.

Getting your foot in the door and gaining experience as a young person is harder than ever. For many entrepreneurs, this experience at another firm was integral to their own venture. This means that would-be entrepreneurs find themselves putting off ventures for years while they complete the formal education requirements to gain the experience they feel is necessary before launching.

Add in the additional factor of life happening and more would-be entrepreneurs drop from the pool. Having 5 years of experience might have made you 27 before out-of-control degree inflation, but today it very well may make you 33 because you had to spend a few years working internships and getting a graduate degree to get that entry level job. Now you have a wife, a baby, a mortgage, and some debt from school, adding more constraints on the flexibility you need to launch a company. You decide to stay at your old job for your family and keep on your way.

Over-Schooled: Schooled Minds

One final factor that I suspect contributes to the decline in entrepreneurship is the effect that schooling has on thinking differently. Successful entrepreneurs (and successful people in general) cite thinking differently than the pack as one of the most important factors for their success. Whether it's making an investment will pay off big time or going to work somewhere that has a lot of potential for growth, these people all set themselves apart first by their thinking that allowed them to make these decisions. They then had the work ethic to carry through and execute on these ideas.

Schools **are notorious** for promoting conformity of thought and making people resent the idea of working hard. They promote homogeneity of thought through mandatory curricula and separating young people by age. This is no hippie-dippie, new agey bullshit, either. Think about it in terms of economic thinking.

A young person in school has a strong incentive to mold their way of thinking to that of the people around them. In class, they are rewarded for meeting and exceeding expectations on rubrics and standardized tests. Try as they may, it is nearly impossible for teachers to develop a standard curriculum that promotes difference in thought. Smart students know what their teachers want from exams and will give it to them. The cost of doing things differently is much higher than the cost of conforming to standards and expectations. If you do things differently, expect to pay the cost.

In the lunchroom and in the halls, little is different. Having different opinions or lifestyle tastes earns a child or young adult the ridicule of peers and the displeasure of being an outcast.

To succeed in the schooling environment requires nearly the exact opposite as succeeding in the marketplace — an above-average work ethic is the only arguable shared trait. Schools reward conformity in thought and problem-solving. They reward conformity in tastes and desires. The kid who wants to go off and do something entirely different than his peers is shunned or at least finds it difficult to make friends. The young adult who solves problems differently than the textbook is slowed down and made to feel inferior. Having a definite focus is discouraged, especially if it does not relate directly to exams. — instead, focus on getting good grades and getting out of school to succeed.

Success as a young entrepreneur requires an element of **deschooling** — **unlearning the bad habits** built up during school. In fact, many affluent entrepreneurs *were not high-achieving students in school.*

The Devil's in the Institutions

The factors that contribute to whether or not somebody decides to launch a business can be broken down into if they can and if they want to. Increases in taxes and government regulations — especially those on small business owners and tradespeople — combined with an immense spike in student loan debt and stricter lending policies by banks make it harder for those who want to start businesses to even get off the ground. An ever-growing schooling regime that rewards conformity of thought and heavily penalizes risk-taking creates a generation of people who don't even want to become entrepreneurs anyway.

To see the next (and current, lost) generation of business owners, value-creators, and innovators take off, freedom to experiment, fail, and the opportunity to try different things need to be reclaimed.

Afternote: Geoff Graham, founder of GuildQuality, has a good piece on the same topic **here**. He adds factors like having parents who are entrepreneurs and the growth of Intellectual Property regulation, as well.

I suspect that this demographic factor — having parents who are entrepreneurs begets being an entrepreneur yourself — has even wider implications than the immediate children. Growing up with entrepreneurship in your household makes it seem less daunting, but so does growing up with it in your community. Fewer entrepreneur parents not only mean fewer entrepreneur children, *it means fewer entrepreneurs in general* as the profession moves further and further away from the average young person.

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