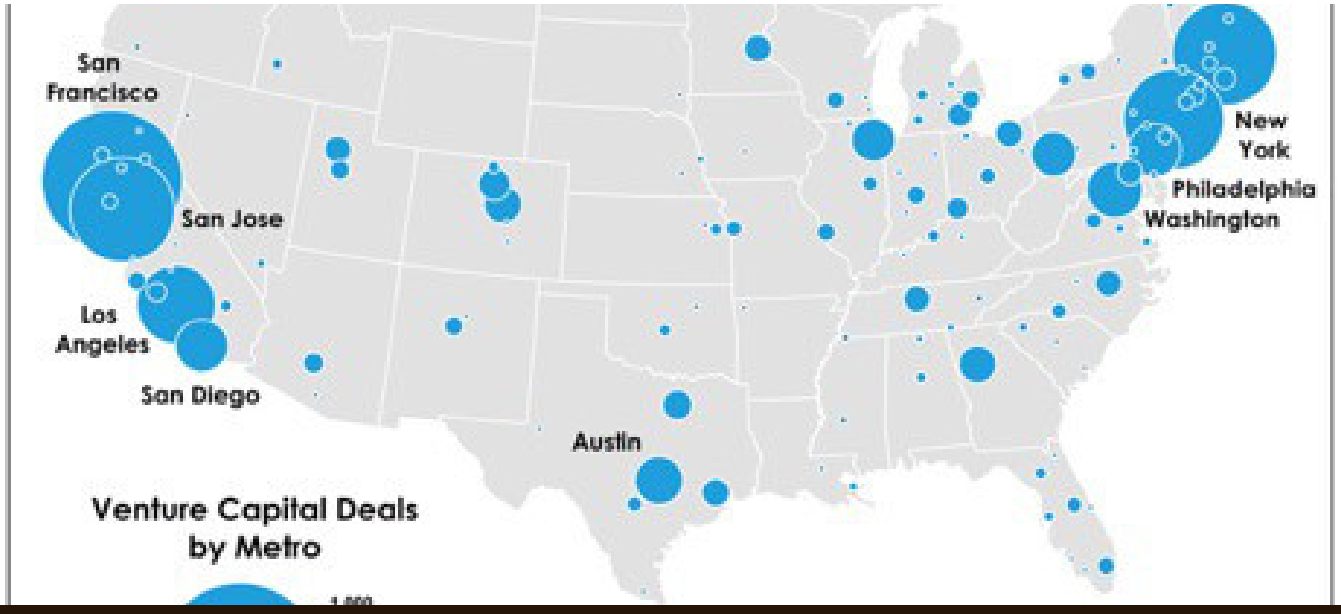


The Limits to Entrepreneurship: Why Innovation Won't Solve Poverty

Posted on June 20, 2016 by Mark Popovich

"Entrepreneurship" generates big buzz and the cacophony is enormously positive. Legions of leaders, organizations, and politicians promote entrepreneurship as an alternative pathway to a better life for the poor, disconnected, and left behind. For example, Steve Case, who made a fortune with AOL, launched a multiyear "Rise of the Rest" campaign with bus tours and "grass roots" campaigns highlighting the "growth of start-up communities in pockets of the country not generally known … for producing tomorrow's next big companies." With a White House sendoff, Case led well-promoted business pitch competitions in Baltimore, Buffalo, Cincinnati, Detroit, Manchester, Nashville, and Philadelphia.

House Leader Paul Ryan is mostly the opposite of Steve Case politically. But Ryan's economic plan is founded on the idea that growth begins with "the creativity and entrepreneurial spirit of the American people." In response to Obama's 2016 State of the Union Address, Ryan tweeted, "The answer to poverty lies in entrepreneurs and innovators who are actually making a difference, community by community."

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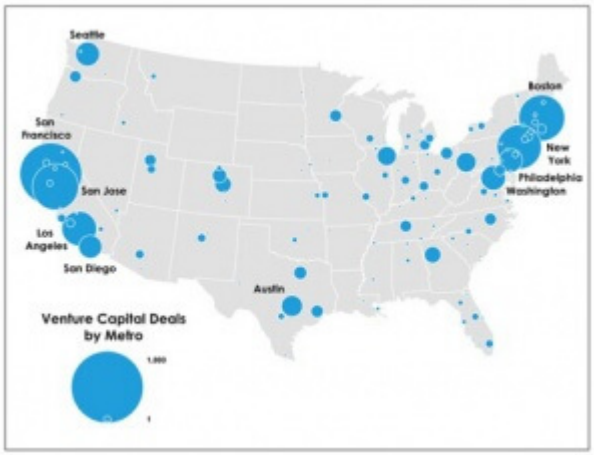
Cultural icons are held up as evidence that entrepreneurship can lead creative young people out of poverty toward the sweet life of luxurious living, fame, and fortune. Just model yourself on Jay Z!

Can starting your own business rocket someone from the near bottom to near top of the economic pyramid? It might work for a few lucky, hard working, dedicated, amazing individuals, maybe. Some do indeed generate new economic opportunities for themselves – and, in a very few cases, even for others in their community. But that isn't even half the story. All too often, the results are much less rosy. It's not a secret: most entrepreneurs fail. And those with too little can ill afford more loss.

I've learned that lesson through years of work as a senior political advisor, campaign organizer, wonkish researcher, and philanthropy innovator. My entrepreneurship "street cred" is based in six original field research projects on entrepreneurship in harsh rural economic climates of the late 1980s and early 1990s. We traveled light, from rural Iowa during the farm bust following a historic ag-export fueled boom to North Dakota as communities staggered through an inevitable bust after (another) drilling boom. We visited persistent poverty areas in Arkansas' delta counties and Aroostook County in noncoastal, northernmost Maine — places that struggled then and now without a glimpse of "boom times." We searched for entrepreneurs using varied business models, market niches, and means. We pioneered methods to measure their numbers and their effect on local economies. We also talked with them about their motives, means, advances, struggles, and losses. Since then, I've also studied business innovators at different stages of development, learning about their strategies for attending to their business bottom line while also generating good opportunities for workers and their communities.

For the overwhelming majority of people in or near poverty, "entrepreneurship" is simply a fancy way to spell "hustle" and "bootstrap." Few of the great winners of the entrepreneurship derby realize that for many in the precariat, this is the ultimate flimflam in the cloak of artful words and seeming disregard of some pesky facts.

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- Entrepreneurship Is Driven by the Fortunate: According to the Kauffman 2015 Index of Start Up Activity, eight of every ten new entrepreneurs came out of another job, school, or other labor market status. Only two of ten started their businesses while unemployed. And those who did were more likely to start companies with lower growth potential.

- The Poor Have Less to Invest and Can Not Afford Losses: A comprehensive survey by the Federal Reserve yields a clear snapshot of the income and wealth of American households. Less than one third of those with incomes annually under $40,000 could afford to cover an emergency expense of $400 using cash or credit card that they pay off at the end of the month. The reasons they are so constrained are equally clear. 70% spend more than they earn, and more than half (53%) have absolutely no savings. Starting a business or keeping one going entails myriad unexpected expenses and reversals.

- High Failure Rate: According to Fortune, 9 out of 10 new businesses fail. That is scary enough odds, but the “growth rate” for firms is actually negative. In one recent year, 400,000 business started in the U.S., but 470,000 firms closed. That statistic masks a good deal of human disappointment, frustration,

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and real personal and financial loses. Blues singers tell that if you have nothing then you have nothing to lose. But when it comes to the time, sweat, and funds plowed in to any enterprise startup, the rich are not like the rest of us. Their opportunity cost calculation is markedly at odds with our experiences. And for the precariat, this desperate road often deepens losses and dilutes opportunity.

- Entrepreneurship Is a Declining Force: Start-up activity in the American economy has been on the decline for a good while, though it dropped further and faster when the Great Recession hit and has bounced around the bottom since then.

- Entrepreneurship Is Mostly White and Male: The groups who have been left out the longest and furthest – women and people of color — are not reaching the "opportunity rung" of business startups. As of 2014, only 37% of entrepreneurs were women, and the gender gap has actually grown over time. While entrepreneurship rates are higher for Latinos and Asians than Whites or Blacks in the U.S., the predominance of whites in our society means that most entrepreneurs are white.

- The Financial Fuel for Startup Growth is Geographically Concentrated: The Martin Prosperity Institute analyzed the number and value of venture capital deals in 100 metro areas for 2012. As the map below demonstrates, venture finance concentrates in California, Northeast urban regions, and to a lesser extent the Pacific Northwest. Venture finance is not the only way to fund entrepreneurship, but it provides key support for promising ideas and businesses to scale for growth and impact. The relative desert in the rest of the country suggests the fuel stations for developing new businesses are harder to find. Availability is slight to none in those communities where it may be needed most.

Finally, we need to look beyond the statistics on business startups and get real about the underlying meaning and effect. *When is an Entrepreneurial Start Up Business a Good Business*? My experience with new startup owners from a broad

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slice of society suggests that many are pursuing intriguing ideas. Some are skilled business managers to boot. But most are cobbling together survival strategies. Being an entrepreneur means combining resources to support the family's needs. A spouse cleans houses and kids help make and sell crafts on Ebay or Etsy. After the season ends for landscaping work, the father operates a cash-only snow plow service, collects and delivers aluminum scrap to recycling, and picks up a few jobs as a day laborer, waiting to be selected from a long line of workers available in a Home Depot Parking lot. Is it a way of life? For too many, yes. But it is hardly a living. And it is certainly far from the security that working long and hard and playing by the rules should yield. Does their future look bright because they've started four or five "new businesses? Hardly. They barely keep from drowning financially as debt waters rise and income stagnates.

Robert Rich notes that "the dominant American myth involves two kinds of actors: entrepreneurial heroes and industrial drones – the inspired and perspired." Steve Case and Paul Ryan believe the "inspired" entrepreneurs are the solution to poverty. Others see hard work and sacrifice – the perspired –as the bootstrap solution for many. Neither approach confronts the fact that the rules of our economy in this era are sharply skewed towards the wealthy and against all others. People living in or near poverty face that reality every day.

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