Why we should encourage everyone to become an entrepreneur

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Why we should NOT encourage everyone to become an entrepreneur

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Entrepreneurship is “hot”

- MBA students want to do it
  - Both traditional and social entrepreneurship
- Scholars want to understand it
  - 200+ endowed faculty chairs for those who can develop new insights and teach effectively
- Policymakers want to encourage it
  - Are new ventures the key to reigniting economic growth?
- But are we getting too caught up by the hype?
- Or can entrepreneurship really “save the world”?
- My perspective
  - Scholarly---from a business school professor that studies entrepreneurship
  - Policy—from my stint in government
  - Practical—from an adviser and participant in entrepreneurial ventures
  - U.S. focused—my experience, not necessarily where our focus should be
Access to credit and capital is one important concern for aspiring entrepreneurs

• Access to capital/credit
  o Quick aside: should we be talking about entrepreneurs or small businesses or both?
  o young vs. small businesses-My WSJ op-ed on how gov’t policy is all about small when it should be about young

• Where do new business owners get initial funding from?
  (Conventional Wisdom)
  o 3 Fs (Friends, Families, and Fools)
  o Bank debt
  o Home Equity
  o Maxing out credit cards (Perhaps the most “inclusive” of the 4 options?)

• Do we know credit cards are an enabler of entrepreneurship?
  o We think we do, but would be great to have an experiment!
  o Use a Supreme Court Decision in 1978 that triggers credit card deregulation across states
  o We find that as states deregulate credit card interest rates, entrepreneurship increases, particularly among African-Americans
  o Stronger effects in states with a history of racial discrimination
So perhaps increasing access to credit can foster inclusive growth.....

- NYT Magazine (2-16-2014)
  - “How Credit Card Debt Can Help the Poor”
  - >70% of Americans have a credit card and most of us borrow money for big purchases
  - Innovations to help low income Americans grow savings and credit
  - Twin Accounts where locked saving account is paired with loan repayment

- But, conventional wisdom tells us to encourage savings, not more borrowing....
  - “Subprime” business models
    - Mortgages
    - Some corners of for-profit education
    - Association between credit card debt and consumer bankruptcy

- Another important question: What is the quality of these new businesses?
  - Not clear at all that we should encourage everyone to be a founder
    - Lots of MBA students are joiners, no shame in that
    - Programs that seek to maximize the number of new businesses or the self-employment rate might be missing the boat
    - What is the policy rationale for subsidies for small businesses when new businesses and large businesses like Wal-Mart are responsible for a disproportionate share of net job creation?
The challenge is how to strike the right balance in our efforts to foster inclusive growth through entrepreneurship

• Perhaps we should accept that everyone should NOT be an entrepreneur
  o But instead use programs to help individuals discover and apply their talents in the best way, whether through a startup or something else

• Think harder about metrics in this space
  o What are we really trying to encourage? (think: stats on home ownership)
  o Is the process of entrepreneurship as important as the outcome of business formation itself?

• Remember that the typical U.S. small business is valued in the millions, not billions
  WhatsApp/Instagram=Lebron James/Carmelo Anthony

• Many small businesses will never grow significantly and nearly half will fail within five years

• Armed with a realistic assessment of the small business sector and a dispassionate view on what outcomes we are looking for, we will increase our chances of spurring inclusive growth
THANK YOU

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