

National Policy Brief

Energizing an Entrepreneurial Economy

Abstract

The federal government not only shapes the economic environment through macro economic policies, but it has a number of development efforts that are important to energizing rural entrepreneurs. Additionally, in this age of global corporations, major companies determine access and cost to essential resources such as banking, telecommunications, and transportation services. The National Policy Brief explores the role that our nation does and can play in entrepreneurial development in Rural America.

Background & Introduction

The United States was born as a confederation of relatively independent states. For the first 100 years of history in the United States, the federal government struggled to create a national bank, a single national currency, free trade among the states, and establish strong fiscal and monetary policies. Economic development may be the purview of the states and their localities, while the federal government shapes our development environment and is actively engaged in development programming.

The Kauffman Center for Entrepreneur-

ial Leadership supports the annual Global Entrepreneurship Monitor research and report. GEM 2000 provides a comparative analysis of 21 industrial countries. GEM asks three basic questions: 1. Does the level of entrepreneurial activity vary between countries and, if so,

by how much? 2. Does the level of entrepreneurial activity affect a country's rate of economic growth? 3. What makes a country entrepreneurial?

The GEM Study finds variability among countries with respect to their entrepreneurial activity levels and a strong correlation

between economic performance and levels of entrepreneurship. Our focus in this policy brief is the third research question – *What makes a country entrepreneurial?* The specific policy recommendations from GEM 2000 are contained in Figure 1 on page 3 of this monograph. By way of summary, GEM found the following. First, sound and progressive macro economic policies that provide a positive business climate and encourage entrepreneurs important.

The second includes a strong educational system that produces skilled and motivated human resources. The third is an

Why Entrepreneurship?

“In the 21st century, we will increasingly rely on the lean and agile entrepreneurship of the small, growth-oriented business – rather than the resources, scale and market size of the large corporation – to fuel our economic growth through the creation of jobs and innovative goods and services.”

The E Generation

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educational system that promotes and develops entrepreneurial orientation and talent (beginning with K-6). Fourth, a strong, active, and open research and development community along with effective technology transfer programs is an asset. Fifth, having access to venture capital is important.

GEM 2000 provides a broad nation to nation comparison. It does not provide insight into the rural/urban differential. The balance of this policy brief addresses how national policy and programs might be evolved to more actively and appropriately support rural entrepreneurs.

National Climate & Infrastructure

Macroeconomic policies related to trade, research and development, monetary and fiscal policies, taxation, and the like impact all entrepreneurs regardless of where they live. GEM 2000, the National Commission on Entrepreneurship and others have issued national policy recommendations to make America even a greater place to be an entrepreneur. We will not address most of these issues in this policy brief, rather we will focus on issues of particular importance to the rural entrepreneur. If only five areas of national climate and infrastructure for rural entrepreneurs could be addressed, the following would be our short list.

Agriculture/Rural Policy. The Federal Reserve Bank's Center for the Study of Rural America argues that for too long

national agricultural policy has dominated American rural policy. The Center goes on to recommend that the United States needs a national rural development policy with meaningful support. To illustrate the point, this year in Nebraska approximately \$2 billion will be paid to agricultural interests in the form of various farm programs. Conversely, less than \$25 million will be invested in rural development, with just a fraction of that invested in entrepreneurial development. Rural development has historically been the charge of the U.S. Department of Agriculture. Yet today, numerous federal

agencies invest more resources in rural development than does USDA (when agricultural programs are excluded). There is a need and opportunity for a *National Rural Policy* with a strong emphasis on helping states and communities support their rural entrepreneurs.

Universal Services.

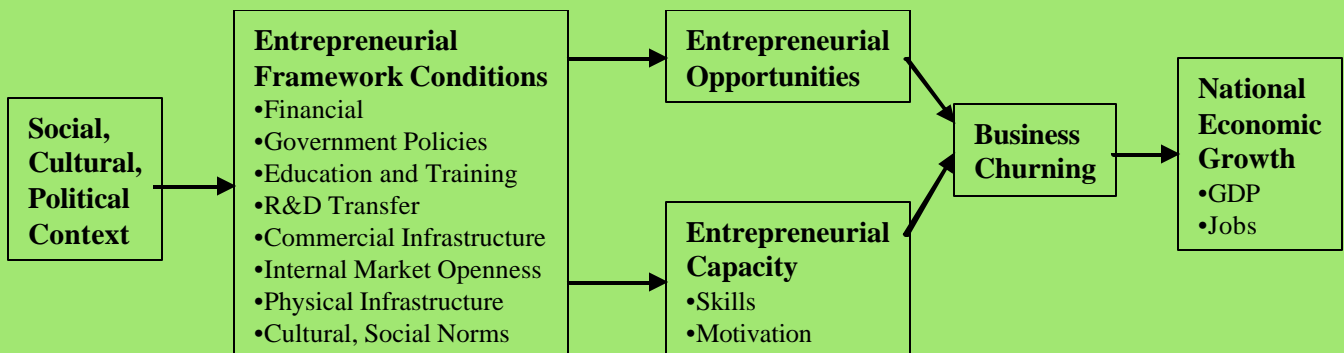
In the American age when many industries and services were regulated, universal service access (regardless of location or size) was a central policy element. America and the world are now in an age of deregulation with emphasis on market solutions to the allocation of infrastructure and services. In this environment scale is very important. High density and low cost markets and consumers, (large scale users) have intense competition with high quality service and the lowest costs. Low density and high cost markets/consumers (most of Rural America) often find limited com-

Community Based

Most economic development is local. Economic development occurs when individuals and communities elect to invest in enterprises that create impacts like new jobs, tax base and multiplier effects. A key consideration for any state wishing to energize entrepreneurs as a development strategy should seriously consider communities as key partners.

Figure 1 - Federal Policy Recommendations from GEM

1. The promotion of entrepreneurship, its role in society and the opportunities it presents for personal gain, appears to be critical for facilitating economic growth.
2. Policies geared toward enhancing the entrepreneurial capacity of a society (i.e., the skills and motivation to pursue opportunities) will have the greatest impact on the level of entrepreneurial activity.
3. Increasing the participation of women in entrepreneurship is necessary for long-term economic prosperity.
4. For the greatest long-term impact, policies should encourage the involvement of people younger than 25 and older than 44 in the entrepreneurial process.
5. Any government committed to sustained economic progress must ensure that all aspects of its economic system are conducive to and supportive of increased levels of entrepreneurial activity. This includes minimizing taxation, ensuring access to labor, lowering non-wage labor costs, reducing the regulatory burden, and making it easier to do business with the government.
6. Policies should facilitate the development of a professional venture capital industry and create incentives for private individuals to invest directly in early-stage businesses.



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<p>Small Business Administration</p>	<p>The U.S. Small Business Administration or SBA is charged with supporting America’s small businesses (defined as 500 or fewer employees). SBA supports three major activities. First, it provides access to capital for small businesses. Second, it supports the Small Business Development Centers across the country (SBDCs provide business counseling). Finally, it promotes awareness and recognition of small business.</p>
<p>Department of Agriculture</p>	<p>The U.S. Department of Agriculture or USDA is a vast agency running programs such as Food Stamps to rural economic development. Three USDA programs warrant noting. First, USDA through Rural Development supports a wide range of development programs ranging from business finance to infrastructure development. Second, USDA supports Resource, Conservation and Development Areas – some of Rural America’s premiere regional development organizations. Finally, USDA supports cooperative development.</p>
<p>Economic Development Administration</p>	<p>The U.S. Economic Development Administration or EDA is charged with supporting area or regional economic development particularly in economically distressed areas. It supports two activities worth mentioning. First, it supports regional development organizations – another core infrastructure piece in much of Rural America. Second, EDA helps regions undergoing economic transition.</p>
<p>Commerce</p>	<p>In addition to serving as home to SBA and EDA, the U.S. Department of Commerce hosts a number of programs to promote American businesses and industry. Often cited as the U.S.’s chamber of commerce, Commerce is active in promoting trade. It supports the Import/Export Bank which helps American businesses export abroad.</p>
<p>Housing and Urban Development</p>	<p>HUD’s primary mission is the development of housing and urban development. However, HUD administers the Community Development Block Grant Program or CDBG. In metro areas, CDBG funds flow directly to the cities. In non-metro areas, states administer the CDBG Program. This program is a primary resource for localities related to business and community infrastructure development.</p>
<p>Microenterprise and Development</p>	<p>Numerous federal agencies including SBA, USDA, and Treasury operate programs that support state and local microenterprise development efforts. Until recently this was an expanding federal program area. Federal support has helped establish microenterprise development programs throughout the United States.</p>
<p>Health & Human Services Etc.</p>	<p>HHS illustrates another role the Federal Government plays in entrepreneurial development. It supports the development of rural health care services through technical assistance and financing. Similar programs in other agencies such as Education, Rural Utilities Services, and the Postal Service contribute to essential services in high cost and low density rural markets.</p>
<p>CDCs CDFIs Enterprise Zones Enterprise Communities</p>	<p>The Federal Government, particularly during the Clinton Administration, was active in supporting area development organizations (with particular focus on areas of chronic poverty). Numerous federal efforts support the creation of CDCs or Community Development Corporations, CDFIs or Community Development Finance Institutions, enterprise zones, and enterprise communities.</p>

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petition, lower quality services, and higher costs. From commercial air service to telecommunications to simple postal service, the divide between haves and have nots is rising. For entrepreneurs who lack scale and are particularly located in high cost and low density markets, access to basic services such as telecommunications or next day parcel service may be more limited and more costly. The federal government is struggling to enact meaningful policies to level the playing field and avoid the creation of pockets of have nots that become the economic and social ghettos of the 21st Century.

Telecommunications.

A great deal has been discussed about the digital divide in America. The digital divide is real, involving a complex set of issues that ultimately result in lower access to information technology (IT) in certain rural and urban communities when compared to suburban and metro communities. Of all the areas where universal service is needed, possibly no area is more important than telecommunications access. The New Economy is rooted in information technology. Every industry, including Old Economy industries like production agriculture, are increasingly dependent upon IT. National efforts to ensure universal access to IT are fundamental to the future of Rural America, and particularly its entrepreneurs.

Health Insurance. The cost of health

care is rising and there are demands that households have health insurance. The quality and cost of health insurance is optimal through larger group plans with significant cost underwriting by employers as a benefit. Entrepreneurs who are self employed or part of emergent smaller companies face a huge challenge in obtaining affordable and higher quality health insurance. The challenge of these enterprises to allocate scarce business capital to underwriting employee health insurance is real and large. National interests should help states explore policy

options that would enable smaller groups to access insurance pools to increase quality and reduce cost. A challenge for our nation seeking to encourage more entrepreneurs is to find ways to make health insurance affordable and accessible to smaller groups.

Capital. Entrepreneurs need capital to create and grow enterprises. They are particularly in

need of venture capital during those critical years when products/services are being developed, markets are being tapped, assets are few, and revenues are just beginning to come in. The Rural Policy Research Institute's recent studies on alternative rural venture capital companies provides clear and compelling insight into how our nation can support the development of appropriate and effective infrastructure to meet the capital needs of rural entrepreneurs. To view the report entitled *RUPRI Rural Equity Capital Initiative: Fund for Rural America Study of Nontraditional Venture Capital*

Support Communities

In this age of eroding federal domestic spending – the chances of major new federal rural development initiatives are unlikely. Possibly the most important first policy action for national policy makers is to review and evolve existing federal rural development programs to support community, regional and state entrepreneurship initiatives.

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Funds, please go to RUPRI's web site at <http://www.rupri.org>

National Support

Development is a local process. State and national development efforts can support or limit localities' development activities. Supporting entrepreneurs is not enough. Support that results in entrepreneurs succeeding, but relocating from inner city or rural communities, may contribute to national prosperity, but will undermine the economic viability of these communities. We have identified five specific policy and program support areas appropriate for national* action.

* We choose the term national to reflect a broader spectrum of players including the federal government, but also major national non-profits like the Ford Foundation or Fannie Mae Corporation, and private national corporations such as banks, airlines, and telecommunications providers.

Innovation Funds

The W.K. Kellogg Foundation's Rural Entrepreneurship Initiative creates an important model and demonstrates clear need. Six innovative initiatives were funded out of 182 initiatives submitted. Hundreds more did not submit given the challenging proposal requirements. Providing additional federal dollars to support qualified innovative initiatives would be a great next step for policy makers.

Regional Targeting.

The federal government (via enterprise zones, etc.) and foundations have tended to target development support to those communities experiencing economic dislocation and persistent poverty. Regional targeting has important policy rationales, but much of Rural America is experiencing economic challenges. Regional targeting has tended to concentrate national efforts in a few areas undermining support for other regions of the country. Consideration

should be given to supporting all rural regions in America with a basic package of assistance that builds local and area capacity for entrepreneurial development.

Capacity Building. The old proverb of "give a person a fish and feed him for a day, but teach a person to fish, and feed him for a lifetime" is the central theme with this recommendation. The federal government has a strong tradition of building state and local/area capacity for development. Development districts, CDBG, CDCs, CDFIs, RC&Ds, CAPs, etc. are but a few examples of capacity building.

Despite being under-supported, this infrastructure exists and it is generally locally owned and driven. Two opportunities present themselves. First, national interests should commit to strategically support the development of local/area development capacity through existing organizations. Second, there is a need for national support and incentives to help focus

this development infrastructure on supporting rural entrepreneurs. [CDBG – Community Development Block Grant, CDC – Community Development Corporation, CDFI – Community Development Finance Institution, RC&D – Resource Conservation and Development Area, CAP – Community Action Program].

Changed Focus. The vast majority of national rural development policies and programs focus on natural resource development (commodities from grain to

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gold) and industrial development. Very few resources support entrepreneurs specifically and directly. Even within the U.S. Small Business Administration, the focus is on the business, not the entrepreneurs. This critical difference is fundamental to refocusing national business support programs to support our next generation of rural entrepreneurs.

Growth Entrepreneurs. Nationally supported business development programs, whether they are a microenterprise program in the Delta or a branch plant expansion in the Midwest, do not generally focus on growth entrepreneurs. We know that a relatively small number of growth companies account for a significant share (see our monograph on “Why Entrepreneurship?”) of growth, job creation, and business innovation. We also know that Rural America tends to have fewer of these growth companies. Federal policy and programs should support all entrepreneurs, but there is a strategic opportunity in providing specific focus and support for entrepreneurial growth companies.

Technology. Technology can be defined as “knowledge, tools and skills” associated with a specific area. The Federal Government and other national interests are actively engaged in developing new technology – technology that can lead to innovations with commercial potential. Technology development tends to be concentrated in urban areas. There is a need to more effectively link rural entrepreneurs with our nation’s centers of technology development. Technology transfer programs tend to result in rural enterprises relocating to urban areas. We need a new generation of technology transfer efforts that enable rural entrepreneurs to access emerging technology

while growing their enterprises in Rural America.

Conclusion

National policies and programs, whether originating from the federal government or a large national corporation, impact Rural America. This policy brief identifies specific areas for national focus that when addressed could positively impact rural entrepreneurs. Recognition of entrepreneurs as a primary development focus in Rural America appears limited in federal and national circles. Enhanced awareness and a stronger understanding of the “E” opportunity would be a critically important first step in more meaningful national support for Rural America’s entrepreneurs.

About the Center

The Center for Rural Entrepreneurship is a RUPRI or Rural Policy Research Institute national research and policy center with founding support from the Ewing Marion Kauffman Foundation of Kansas City, Missouri. Our mission is to *enable every rural resident to achieve his or her full entrepreneurial potential*. This mission will be achieved by collaborating with individuals and organizations engaged in the study, practice and policy of rural entrepreneurship. The Center supports research, field work, and policy development through collaborations with national, state and community interests. For more information on the **Center for Rural Entrepreneurship** contact Taina Radenslaben at 402-323-7336 or taina@ruraleship.org.

