



CULTIVATING EMOTIONAL INTELLIGENCE

Why Entrepreneurship Is the Engine of Economic Development

Entrepreneurial activity, or in other words, the creation of new businesses, is what supports local economies, what supports our country's GDP, and what helps the stock market continue to grow. So why is it that entrepreneurship is such a powerful engine of economic development?



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March 3, 2021 5 min read

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We often hear that entrepreneurship is important, but it's hard to overstate just how vital entrepreneurship is for the economy at large. Entrepreneurial activity, or in other words, the creation of new businesses, is what supports local economies, what supports our country's GDP and what helps the stock market continue to grow.

So why is it that entrepreneurship is such a powerful engine of economic development?

It's actually more complex than you might think.

Small businesses, new businesses and job growth

First, the evidence suggests that small businesses created by entrepreneurs are [disproportionately responsible for job growth](#). Small companies create more than 1.5 million jobs annually in the United States, which translates to 64 percent of total new job growth.

Why are new jobs so important? Economic growth is partially dependent on job growth. More available jobs lead to more people working, and more people working leads to higher GDP. On top of that, more people have recurring income and can better provide for their families.

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This can also create a kind of cascade of entrepreneurship; more people work, have an opportunity to save up money and can then start businesses of their own.

Influence on other businesses

It's also worth noting that an emerging small business will also impact its local community of fellow business owners. For example, once your business begins operations, you may want to pay a local marketing firm for [digital marketing services](#), or contract with local vendors to get the raw materials you need. In effect, a single business can help support dozens of others, resulting in a groundswell of spending economic development.

Innovation and technology

Entrepreneurs are also innovators. Some of the most noteworthy entrepreneurs of our era have been tech masterminds who introduced brand-new concepts and services to us. Consider how much of an impact Google, Amazon and Facebook have made on the world; these companies scarcely existed (or didn't exist at all) just 20 years ago. Now, each of these companies provides an abundance of tools that other businesses can use to operate more effectively, reach more people and make more money.

When one entrepreneur innovates, the entire world stands to benefit. With higher rates of entrepreneurship, we see the rollout of more new technologies and our collective productivity continues to grow.

Challenging existing businesses

When businesses get bigger and older, they tend to become stagnant. They function as mega-

bureaucracies, they lose efficiency and they no longer innovate; instead, they offer what they already know and understand. In other words, they become big, slow and stagnant.

Young companies led by ambitious entrepreneurs, by contrast, are agile and constantly adapting. They become fierce competitors quickly, and because of this, they force big companies to change. Even mega-corporations **must become more agile** and strive to innovate in order to keep pace, and this has a profound positive impact on the economy at large.

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Financial risk and investment potential

New businesses don't just benefit the people who created them. They also stand to benefit everyone who invests in them. Angel investors, venture capitalists and other first-line investors can make a lot of money by choosing the right entrepreneurs and business models to invest in. And even average investors can cultivate wealth by investing in early-stage businesses poised for growth.

The downsides

Throughout this article, I've doted on the economic benefits of entrepreneurship. But are there any widespread economic effects that are negative?

- **Minimal entrepreneurial interest.** First, our economic growth is somewhat dependent on entrepreneurial interest. If nobody wants to start a new business, the benefits tend to disappear.
- **The risk of failure.** Not all entrepreneurs succeed. In fact, [nearly half of business fail within the first five years of operation](#). Losing a major investment and seeing a company collapse can have a significant negative effect on the individual.
- **Cataclysmic events.** Entrepreneurship and business growth overall are vulnerable to cataclysmic events that change how the economy functions. For example, in the midst of a pandemic or economic collapse, the entire business environment stands to change.
- **Mid-term growth woes.** New businesses consistently add jobs in the early stages of development, but they also tend to lose jobs when they reach mid-term growth as they start to refine operations.
- **Dependence on minimal regulations.** Much of our economic growth depends on a landscape that favors entrepreneurs — and that means minimal government regulations.

Many people become entrepreneurs because they dream of becoming billionaires or because they love the idea of being in charge. But there are also those who are motivated because they want to be a driving economic force. They want to create new jobs, innovate new technologies and help push us all forward. We need to do what we can to support all entrepreneurs and

continue helping our economy thrive — even during periods of hardship.

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