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0521843227 - Entrepreneurship, Geography, and American Economic Growth

Zoltan J. Acs and Catherine Armington

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Entrepreneurship, Geography, and American Economic Growth

Knowledge has become the primary fuel for economic growth in the twenty-first century. Through the mechanism of knowledge spillovers, the full potential of knowledge as the fuel for economic growth expands with the increasing interaction of people. The authors present a knowledge spillover theory of entrepreneurship to explain geographic variations in local rates of economic growth. Central to entrepreneurship is the process of discovering an opportunity to create value through innovation. Entrepreneurs are rewarded for transforming knowledge into new products and bringing them to market.

The 1990s showed that growth in the American economy is dependent on knowledge spillovers among primarily college-educated workers who start new businesses to profit from ideas they develop into competitive new products and services. Using comprehensive annual business data from the U.S. Bureau of the Census, the authors find that the regions with the highest rates of new-firm formation are the fastest-growing economic areas.

The “industrial policies” of the 1980s did not prove effective at increasing growth or competitiveness, because they were based on traditional models of economic growth, which assume stable populations of business firms. Policies to support higher rates of regional growth should focus on seeding entrepreneurship. Such policies promote occupational choice, enable the commercialization of new technology, and enhance the spillovers of knowledge.

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Catherine Armington has provided expertise on socioeconomic data development and econometric modeling for major government and international agencies, including the U.S. Small Business Administration (SBA), U.S. Bureau of the Census, U.S. Department of Labor, Wharton Econometric Forecasting Associates, and the OECD. She began construction of business microdata for measurement of turnover and growth in U.S. businesses as a Senior Research Analyst at the Brookings Institution in 1980 and analyzed these early data in “Small Businesses: How Many Jobs?” (1982) with M. Odle. At the Bureau of Labor Statistics she developed techniques for linking establishment data from the Unemployment Insurance system to construct a longitudinal establishment and enterprise database. For the Office of Advocacy of the SBA she defined the Longitudinal Establishment and Enterprise Microdata for use at the Census Bureau’s Center for Economic Studies.

As ASA/NSF/Census Research Fellows the authors investigated patterns of employment growth in manufacturing and services and then turned to analysis of new firm formations.

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CAMBRIDGE UNIVERSITY PRESS
Cambridge, New York, Melbourne, Madrid, Cape Town, Singapore, São Paulo

Cambridge University Press
40 West 20th Street, New York, NY 10011-4211, USA

www.cambridge.org
Information on this title: www.cambridge.org/9780521843225

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First published 2006

Printed in the United States of America

A catalog record for this publication is available from the British Library.

Library of Congress Cataloging in Publication Data

Ács, Zoltán J.
Entrepreneurship, geography, and American economic growth / Zoltan J. Acs,
Catherine Armington.

p. cm.

Includes bibliographical references.

ISBN 0-521-84322-7 (hardcover)

1. Entrepreneurship – United States. 2. New business enterprises – United States.

3. Industrial location – United States. 4. United States – Economic conditions.

I. Armington, Catherine II. Title.

HB615.A32 2006

338'.040973–dc22 2005025468

ISBN-13 978-0-521-84322-5 hardback

ISBN-10 0-521-84322-7 hardback

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Preface

This project originated several years ago while the authors were ASA/NSF/CENSUS Research Fellows at the Center for Economic Studies (CES) at the U.S. Bureau of the Census, Washington DC, under grant SBR 980894. The authors were fortunate to have limited access, through CES, to comprehensive U.S. microdata, including all recent firm formations, which they grouped into labor market areas. Over the years, several papers were written using this LEEM (BITS) database at CES.

This research was initiated and supported by the Kauffman Center for Entrepreneurial Leadership at the Ewing Marion Kauffman Foundation, as the first step of a larger project to analyze the causes of regional differences in new firm formation rates in the United States. The research was carried out at CES under the title “U.S. Geographical Diversity in Business Entry Rates.” Subsequent research was funded by the National Science Foundation under grant SES-0080316 and was carried out at CES under the titles “Evaluation of New Service Firm Entries in the Standard Statistical Establishment List” (SSEL) and “The Geographic Concentration of New Firm Formations and Human Capital: Evidence from the Cities,” working paper CES 03–05 (2003). The U.S. Small Business Administration funded the final phase of the project under grant SBAHQ03M534 under the title “Using Census BITS to Explore: Entrepreneurship, Geography and Economic Growth” (2005). Finally, the generous financial support of the Doris and Robert E. McCurdy Distinguished Professorship at the University of Baltimore is acknowledged.

For valuable comments, the authors would like to thank Andre van Stel, Philip Cooke, David J. Storey, David B. Audretsch, Attila Varga, Paul

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Reynolds, Olav Sorenson, Sharon Alvarez, Larry Plummer, Peter Nijcamp, Curtis J. Simon, Roger Stough, Ariel Pakes, Josh Lerner, Dale Myers, Michael Camp, Denny Dennis, Scott Shane, Per Davidson, Bo Carlsson, Pontus Braunerhjelm, Brian Headd, Carl Schramm, Roy Turick, Ronnie Phillips, John Haltiwanger, Sam Youl Lee, Richard Nelson, Anders Lundstrum, Lois Stevenson, and seminar participants at the University of Maryland at College Park; The University of Pecs; The Tinbergen Institute, Amsterdam; The Ohio State University; the School of Advanced Studies, Pisa, Italy; Cambridge University; the 2002 Babson Entrepreneurship Research Conference; the Uddevalla Symposium 2003 in Uddevalla, Sweden; and the 2003 American Economic Association meetings. The paper that Chapter Five is based on won the 2002 Babson Kauffman Entrepreneurship Research Conference's National Federation of Independent Business Award for Excellence in Research. We would also like to thank the *Journal of Urban Economics* for permission to include much of our article in Chapter Four and *Center for Urban and Regional Analysis* for permission to use our articles in Chapters Three and Five. We would also like to thank Ning Li and Alex Acs for valuable assistance in preparing the manuscript and Scott Parris of Cambridge University Press for making this process as easy as possible. Finally we would like to thank Ed Malecki and the Center for Regional Analysis at The Ohio State University for preparing the map on the jacket and the Federal Reserve Bank of Kansas City for permission to reproduce the figure on the cover as well as in Chapter Three.

All the data shown have been released for public disclosure, in compliance with the confidentiality procedures of the Census Bureau. Research results and conclusions expressed are those of the authors and do not necessarily indicate concurrence by the Bureau of the Census or the Center for Economic Studies. All errors and omissions are our responsibility.