Journal of Small Business Management 2011 49(1), pp. 92–106

Entrepreneurship, Small Business and Public Policy Levers

by William J. Dennis Jr.

The author develops a progressively refined framework composed of four typologies to help understand, explain, and analyze how various public policy levers impact new, small, and entrepreneurial businesses. Dimensions for the typologies include institutions and culture, competition and competition's intended immediate beneficiaries, impediments and supports, and policy objectives and direct/indirect action. Implications emerging from the typologies lead to potential hypotheses that can be subject to further investigation and empirical testing. This issue of JSBM carries the first of the article's two parts.

Part 1

The Job Generation Process (Birch 1979) moved new, small, and growing businesses to the center of attention for much of the world's policymaking community in the years immediately following its publication. Birch's research found that new, small, and growing businesses created the lion's share of net new jobs in the United States, whereas large firms created many fewer. The implication of the research was that small economic entities held the key to job creation, a stunning reversal of prevailing thought. The small business job generation thesis was confirmed by subsequent research focused on areas outside the United States (Organisation for Economic Co-operation and Development 1996). Over the years Birch's findings were challenged but their results merely refined or sharpened the thesis; they did not disprove it.

New, small, and entrepreneurial businesses have value to society beyond job generation, innovation being the most notable and likely the most important. Still, the basic issue for policymakers is jobs. Policymakers need jobs; smaller firms produce jobs; so small business remains a central focus for many policymakers. Thus, despite the raging confusion among most policymakers between

William J. Dennis Jr. is a senior research fellow at the National Federation of Independent Business (NFIB) Research Foundation.

Address correspondence to: William J. Dennis Jr., National Federation of Independent Business (NFIB), Research Foundation, 1201 F Street, NW, Washington, DC 20004. E-mail: denny.dennis@nfib.org.

new, small, and entrepreneurial firms, small entities continue to occupy a prominent position in the policy deliberations of most political jurisdictions.

Business owners are likewise interested in the activities of policymakers if for no other reason than public policy shapes the business environment. The policy milieu, such things as government predictability, honesty and efficiency, public services, taxes, formal rules, and general sympathy for new, small, and entrepreneurial firms, is an essential component in evaluating the potential profitability of any business investment. Whereas many businesses depend on a particular location and therefore can only consider the policy environment in terms of "go/no-go" decisions and to a much lesser extent, the potential for subsequent policy change, others have choices. They can choose one jurisdiction over another, thereby realizing more options and forcing jurisdictions to implicitly, when not explicitly, compete for their location (see Jackson 2010 as a recent example). Still, owners and their businesses must eventually locate, making them subject to a specified set of public policies.

Purpose and Method

The purpose of this article is to provide a framework of typologies for the analysis of public policies impacting new, small, and entrepreneurial businesses. The system contains four typologies. Each typology becomes progressively more specific and familiar as policy tools. Differing from much current thought that outlines the elements or direction of entrepreneurship policy (Audretch, Grilo, and Thurik 2007; Gilbert, Audretsch, and McDougall 2004; Hart 2003; Lundström and Stevenson 2001), compares small business policy to entrepreneurship policy (Lundström and Stevenson 2001), or argues the advantages of a particular policy approach (Audretch, Grilo, and Thurik 2007; Hart 2003; Lundström and Stevenson 2001), the author focuses on the fundamental levers policymakers have available, levers that policymakers use to influence the behavior of owners, managers, and investors, and through them, their ventures.

The first typology lies at the highest and most abstract level, outlining the most basic societal elements that favorably and unfavorably shape public policy affecting business and entrepreneurial activity in a political jurisdiction or defined geographic area. The second examines the competitive environment and the manipulation of competition policy, including use of different immediate beneficiaries to create competitive priorities. The third addresses the levers of what has been termed "small business policy" (Lundström and Stevenson 2001) or public supports in contrast to reduction in transaction costs (removal of impediments), and the fourth typology illustrates how direct and indirect policy levers can be manipulated to deal with differing economic and social objectives. As will be shown, these basic policy levers apply to new, small, and entrepreneurial firms but not necessarily equally or in the same ways. Nor is the outcome identical.

Typology is the methodological tool employed for the following analysis. The technique has had a durable history in political science (policy) (Smith 2002) and entrepreneurship (Miner 1997) and is generally familiar. To the best of the author's knowledge, however, public policy and entrepreneurship have not previously been melded into typology.[1] Though the method has been employed

[1]This article draws heavily on concepts previously published by the author, which did include typologies to explain public policy affecting entrepreneurship in the United States (see, Dennis 2005).

in entrepreneurship to yield implications for public policy, it has not addressed policy per se. Kirchhoff's (1994) dynamic capitalism typology, for example, focuses on innovation and growth rates as dimensions with high–low cells to explain differences between small and entrepreneurial business. Similarly, political science offers policy typologies that could broadly apply to the firms of immediate interest but are not designed for them. Gormley's (1986) salience–complexity typology, including Eshbaugh-Soha's (2006) extensions, is an example. The salience–complexity dimensions employed in the typology, each containing high–low cells, present four different incentive sets for political actors to become involved in the regulatory/political process. One group of actors conceivably could be entrepreneurs or their trade association representatives, among others. However, while explaining the reason for persons to become involved in virtually any policy issue (the Eshbaugh-Soha extensions), the typology does not address policy levers, the subject of this inquiry.

The reason for typology's long run as a method is its ability to condense often complex phenomena into simple, defined categories. By compressing and classifying phenomena into abstract, ideal groups or distinct classes, similarities and differences are accentuated and subtleties minimized. It is a flexible method where minimal success results in explanation rather than description. However, the best typologies push further. They pose manageable theory (Helfgott 2008). Theory generates hypotheses. Under the rubric of taxonomy, typology then extends to empirical hypothesis testing (Smith 2002).

The weakness of typology is its strength. Assignments to classes are typically arbitrary and lack an objective means of assignment (Smith 2002). Principal component analysis is sometimes used to avoid such subjectivity (see, for example, Westhead 1990; Chen and Yung 2009), but that method requires measurable data to exist a priori. In addition, since typologies are composed of ideal-type forced classification, nuance is eliminated. Classes are stark; a phenomenon is in one or another category, not shaded in any direction. Typologies can attempt to assuage sharp distinctions by using terms such as high–low or better–worse, effectively morphing what ideally would be nominal scales into interval scales. The following typologies possess these liabilities, and though developing a series of implications that effectively serve as propositions, no formal hypotheses appear.

The author's framework ultimately attempts to do the following: make public policy more comprehensible, particular to business owners and associated service providers who often pay too little attention until a policy-related crisis is upon them; assess the fundamental levers policymakers have to influence new, small, and entrepreneurial business; enhance appreciation for the trade-offs public policy involves; clarify the often implied but unstated objectives of policy initiatives; demonstrate that public policy encouraging entrepreneurship is not always policy encouraging small business and vice versa; and elevate the level of policy debate surrounding policy impacting new, small, and entrepreneurial businesses. Though many of the concepts presented here might apply equally to other areas of public policy analysis, the author makes no claim to their universality.

The Framework

Typology I—The Entrepreneurial Society

Douglass North (1990) and early institutional theorists provide the theoretic basis for the first and most general typology presented. An economic historian, North's principal interest lies in the process of economic change over time and the factors that create incentives to stimulate it. Central to change or lack thereof are institutions because institutions constitute the incentive structure.

North's (2005, 1990) institutions are a sweeping concept. They not only involve government structures, such as legislative bodies, court systems, and constitutions (written and unwritten), that create and enforce the formal "rules of the game," but the cultural norms and incentives handed from generation to generation that constitute the informal "rules of the game." Change typically occurs incrementally in both as organizations, that is, entrepreneurially bent actors, respond to perceived new opportunities and/or threats. However, incentives do not inevitably yield change and growth; they can also yield stagnation and decline. Growth occurs only when those entrepreneurial-bent actors reduce transaction costs, political, social, and economic.

North and institutional theorists do not distinguish between the formal rules of the game and the informal. Both are part of the institutional structure. In this paper, the author separates them. He divides them into two dimensions because they are two different sources of authority that influence transaction costs, which, in turn, affect growth and two different levers that can be purposefully pulled to effect change. These dimensions parallel the economic/political and social/organization branches of institutional theory (Bruton, Ahlstrom, and Li 2010). The two iterate, typically change at different tempi, and are more and less difficult to consciously alter. However, they are distinct. Hence, the two dimensions for Typology I are Institutions and Culture, with institutions referring to the formal rules and culture to the informal rules that establish the constraints shaping the incentive structure.

Typology I places Institutions (formal rules) on one axis and Culture (informal rules) on the other. Each of these is divided in two parts, favorable to entrepreneurial activity and unfavorable to entrepreneurial activity. Both are purposefully ill-defined, but at the most fundamental level, they involve such questions as the following:

(1) Institutional: (1) Is there a rule of law, including equal protection under the law? (2) Do property rights exist, and are they protected? (3) Are constraints on private economic activity unreasonably limited?
(2) Cultural: (1) Does society accept change easily? (2) Is failure a legitimate outcome of an economic experiment? (3) Is economic inequity tolerated?

Favorable and unfavorable are positioned as independent entities, but in reality, they more closely resemble a sliding scale. Many public policies affect the overall entrepreneurial climate, whereas many cultural norms and traditions serve the same function. The result within each political jurisdiction or area within one is a unique mixture of institutional and cultural constraints that shape the incentive structure. If the incentive structures are different, it is reasonable to expect that economic outcomes over time will also be different.

The Quadrants of Institutions and Culture

The quadrant in Typology I (Figure 1) that springs from a favorable culture and favorable institutions carries the obvious name, Entrepreneurial. Both axes favor entrepreneurial activity, that is, both incent entrepreneurs to seek change that reduces transaction costs (within proscribed constraints). The projected result of these conditions is a relative abundance of entrepreneurs and entrepreneurial activity.

A favorable culture and favorable institutions are mutually reinforcing. Both produce incentives to the same general

Figure 1
Institutions and Culture— A Typology

Culture \ Institutions	Favorable	Unfavorable
Favorable	Entrepreneurial	Repressed (Bottom Up)
Unfavorable	Led (Top Down)	Stagnant

end, meaning the two dimensions of the quadrant feed off one another. The result is a virtuous circle. With the tenor of incentives moving in the same direction, in this case the favorable direction, the entrepreneurial quadrant is relatively stable and tension free. Though producing inertia, stability does not imply path dependence or permanence. Forces that benefit from the status quo are always present to preserve it (Mokyr 1990, pp. 178–179), thereby institutionalizing a permanent opponent to the virtuous circle that strengthens and becomes more threatening over time (Olson 1982).

The mirror image of the Entrepreneurial quadrant is the Stagnant quadrant. Both the Culture and the Institutions dimensions are unfavorable to entrepreneurial activity. The presence of entrepreneurs and their activity is therefore limited. Like the Entrepreneurial quadrant, it too is relatively stable as both dimensions reenforce one another, creating a vicious circle. Differing from the Entrepreneurial quadrant where the impediments to change are vested interest in the status quo, the Stagnant quadrant's incentive to escape its vicious circle is poor economic (and/or political) performance. Recognition and intolerance of the gap (growing gap) between poor economic performance and acceptable economic performance (rejection of the status quo) represents the incentive to change.

The remaining two quadrants are more complex and interesting because of the mismatches among the favorable–unfavorable cells on the two axes. One axis in the two quadrants represents a favorable influence to entrepreneurial activity; the other represents an unfavorable influence. Hence, the formal and informal rules of the game offer conflicting incentive structures.

Mismatches carry tensions, making the two mismatched quadrants unstable. As a general proposition, the tension arises because of different outlooks among the political "ins" and political "outs." One group wants to change institutional incentives in one direction and the other resists (in the rare truly revolutionary situation, such as the Soviet Union of the early 1920s, simultaneous, massive changes in the culture will also be sought by the revolutionary group). The political "ins" may or may not be democratically elected. However, democratically elected "ins" are likely to more quickly resolve mismatches, one way or another, than are authoritarian "ins."

Take the quadrant Led. That quadrant represents favorable institutions and unfavorable culture. It illustrates situations where the top, which is the "ins" or rulers, produces or attempts to produce institutions incenting entrepreneurial activity. They will typically be opposed by the "outs." The result is tension, with the leadership promoting institutions that support greater entrepreneurial activity with others pulling in the opposite direction.

Eastern Europe after the fall is an example of more and less Led societies.

Leaders, particularly in Estonia and Czechoslovakia, subsequently the Czech Republic, aggressively changed national institutions to incent entrepreneurial activity. Such incentives did not occur by their mere suggestion. Mart Laar, the reformist prime minister of Estonia, asserted that market reforms were never without serious objection and he lost office for a time to prove it (Laar 2007). Other leaders in Eastern Europe were less adventurous and encountered greater opposition. Though each country had its own experience, the Index of Economic Freedom, a useful, if imperfect measure for current purposes, ranked Estonia by 2009 as the 13th freest economy in the world compared to 71st for neighborhood resident Poland and 75th for Eastern European brother Bulgaria (The Heritage Foundation 2010).

The Repressed quadrant is the mirror image of the Led. Here, it is typically the bottom pushing entrepreneurial activity, most likely by engaging in it as the top tries to suppress it. A simmering kettle with the lid on is an apt metaphor. The kettle's water may be barely moving or bubbling vigorously and the lid may fit loosely or tightly. However, the pressure comes from below and is held in check at the top by the "ins," at least for a time. The motives for repression could be ideological or a threat to power, though the reason is not important for current considerations.

An example of this quadrant is China (Puffer, McCarthy, and Boisot 2010), particularly during the Maoist period. There is no way to prove that the entrepreneurship of historical China did not continue to smolder during the mid-20th century, but it is difficult to believe centuries were erased in a few decades. While private property and entrepreneurial activity in China per se was suppressed at that time, the Chinese diaspora controlled much of the entrepreneurial activity in Southeast Asia, and, Taiwan, under Nationalist Chinese authority, became a Tiger. The political "ins," in this instance, the Maoist faction of Chinese Communist Party, vigorously suppressed it.

Implications of Typology I

Typology I illustrates at least five relevant points for policy impacting entrepreneurship. First, the conditions for entrepreneurship in a geographic area can change because institutions (incentives) and culture can change (North 1990, 2005; Baumol 1996). It is also certain they will. However, change does not necessarily fall on both axes at the same time and/or in similar amounts. Institutional change is likely to occur more rapidly and erratically than cultural change. Smaller open countries and/or geographic units where outside forces play a more important role than in larger, more insulated ones are likely to change more quickly, other factors equal. Institutional change can also occur quite abruptly, but considerable time may elapse before there is a response (North 1993). In virtually all cases, the response to change extends well beyond the next election, disappointing change proponents, at least in the near term. Moreover, change does not necessarily produce greater opportunity for entrepreneurial activity; it can do precisely the opposite.

Second, history has developed different institutions and different cultures for each area considered, the larger the area, the more likely the differences. Today, every entity stands at a different point. Because each lies at a different point, one universal optimal policy for entrepreneurship or small business cannot exist. Even similar localities respond differently to the same policy (North and Smallbone). Still, considerable commonality, such as the rule of law, must exist at the highest levels with greater parochialism at the lower.

Third, the incentive structure (institutional) is not the only element that must be shaped in order to achieve greater entrepreneurial activity. Institutions constitute only one axis. The culture must be addressed as well. Moving the culture, let alone shaping it, lies outside the realm of most conscious policymaking, Denmark being a notable anomaly (Dreisler et al. 2003). Further, cultural change usually takes times, lots of time. Revolutionary restructuring, such as ethnic cleansing or class-based purges, is the exception. Yet, shaping the culture occurs continuously through public expressions of social approval and disapproval, classroom and religious instruction, and so forth.

The fourth point is that policymakers cannot turn on and turn off entrepreneurial activity at will. That means the behaviors and values stimulating entrepreneurial activity can be channeled only with great difficulty. It is therefore highly unlikely, if not impossible, to have a highly entrepreneurial industry, such as information technology, sitting on top of a society hostile to entrepreneurship everywhere else (Drucker 1985). If entrepreneurial activity is present, entrepreneurial search spills outside the desired channel into others (Kirzner 1985). Similarly, if no entrepreneurial activity is present, policymakers cannot expect to stimulate it and channel it in a preordained direction. The result is that policymakers cannot predict where entrepreneurial activity will appear nor tightly control aspects they do not like. They may have to "buy the whole entrepreneurial package," or at least a substantial share of it, if they want any.

Lastly, the time frames of democratic elections, though not necessarily authoritarian rule, and entrepreneurial response to institutional change do not overlap. Democratically elected officials typically stand for election every five years or less. Though institutions and possibly (remote) culture can change in less than five years, a transformation that both encourages and results in additional identifiable entrepreneurial activity is almost impossible to achieve. That means politicians supporting and implementing institutions strengthening entrepreneurial activity must leave visible corollary markers if they intend to pursue their objectives.

Typology II—Competition and Intermediaries

The link between entrepreneurship and competition is intimate. North (2005, 1990) regards competition as fundamental to motivating entrepreneurially bent actors to make growth-inducing innovation. Kirzner (1973) calls the two opposite sides of the same coin. Vesper (1984) regards entrepreneurship as based in competition. Manipulating the competitive environment therefore becomes a major lever by which policymakers can incent and/or shelter new, small, and entrepreneurial business.

The amount of or even the presence of competition in a jurisdiction is not a given. Its presence and degree are controlled from two sources. The first, and the one about which we comment little, is the culture. Some societies simply value competition and individual achievement more than others do (Kreiser et al. 2010; Inglehart and Wetzel 2005). The second is institutions, as just argued in Typology I, which are subject to relatively short-term, minute manipulation.

Policy always imposes limits to competition, in part because of value systems and in part because competition can raise transaction costs under certain circumstances.[2] The most extreme limit occurs when competition is prohibited or

[2]Baumol (1996) makes the important point that entrepreneurial activity is not always productive. It can raise transaction costs notably under certain circumstances. He uses examples of marauding bands in the Middle Ages and lawyers filing nuisance suits currently.

monopolized by the state. Minerals extraction, such as salt in medieval times and oil more recently, are examples. Less severe limits are more common. Local zoning (land use) restrictions and regulated shop operating hours are two obvious cases.

Policy designed to increase competition contains two principal themes. Traditionally, it has meant a reduction in constraints. Reduced constraints are typically another term for deregulation, a phenomenon that prior to the financial crisis was an increasingly popular theme in the economic sphere in many parts of the world. International trade, finance, transportation, and even occasionally labor serve as examples (but these trends were countered by prevailing currents in the social and environmental spheres, which pointed in the opposite direction). The second theme of policy designed to increase competition is constraints imposed to prevent business from subverting competition. The result is competition or antitrust policy intended to eliminate anticompetitive behavior.[3]

Both themes impact new, small, and entrepreneurial business but impact each differently. Deregulation should support entrepreneurial activity since entrepreneurship, by definition, is innovative. Entrepreneurs will move into the voids created by change in the rules. New businesses are likely to do the same, but such adaption is not necessarily true of small businesses that do not or cannot adjust to the changed rules.

The purpose of antitrust policy is to protect competition, not competitors. That suggests such policy supports entrepreneurial activity. Yet, other than examining mergers and halting cartel-type activity, its effectiveness is not clear (Baumol, Litan, and Schram 2007). In fact, competition policy, most notably the overlapping concepts of price discrimination and "fair competition," can be distorted and used to shelter businesses from the competition they purport to uphold.

Figure 2
Competition and Beneficiaries—A Typology

Intended Immediate Beneficiary	Competition: High	Competition: Low
Consumers	Classic	Controlled
Businesses	Sponsored	Protected

Figure 2 presents a typology outlining the alternatives policymakers have available to them when addressing competition. The *x*-axis of the typology represents the degree of competition in a political jurisdiction. Two nominal categories lie along the axis, more and less. The range is considerable as a practical matter (The Heritage Foundation 2010). A striking feature is that the more developed countries generally permit

[3]The basic concerns of antitrust law are the following: firms avoiding competition, such as price fixing and carving up markets; monopoly, more commonly dominant firm behavior where one firm is large enough to increase prices by reducing output; markets with so few firms that each has an influence on prices and output and each can notice the actions of others and respond to them; and rivals merging, which could create dominant firms conditions (Elhauge and Geradin 2007).

more competition and the less developed countries less (The Heritage Foundation 2010).

Conventional thought argues that the purpose of competition is to directly benefit consumer welfare. However, as will be shown, others see businesses as intermediaries, to be sheltered from competition or assisted to compete so that consumers will, at some point (later), benefit. This view holds that policy must first ensure healthy competitors in order to assure healthy competition. The *y*-axis in the typology presents the immediate beneficiary of government efforts to enhance competition, which in turn shapes the jurisdiction's competition strategy. The Immediate Beneficiary can be competition (consumers) or competitors (businesses).

The Quadrants of Competition and Immediate Beneficiaries

The quadrant characterized by high competition and consumers as the Immediate Beneficiary in Figure 2 is Classic. This is the free market of text books. Open competition spurs innovation, which raises quality and service and reduces prices, thereby making consumers the principal immediate beneficiary. Common elements to the policy are constant pressure to reduce rules, excepting those designed to guarantee competition. Policy cares little about the conditions or the fate of individual competitors. They become important only when their fate poses a threat to competition.

Though consumer welfare is the immediate result, an associated result is business churning and destruction. The Classic quadrant thereby encourages entry and entrepreneurial activity, but it gives no respite to small firms.

The United States strongly moved toward Classic in the economic sphere from the late 1970s to the mid-2000s (Dennis 2005). The country deregulated several industries, among them trucking, railroads, airlines, finance, including banks, and electricity. At the same time, it maintained an antitrust policy increasingly centered on competition rather than competitors, sometimes to the distress of small business interests. Simultaneous countering increases in social and environmental regulation, however, meant that the United States fit the quadrant marginally rather than solidly.

Opposite Classic in Figure 2 lies the Protected quadrant. Protectionist policy immediately suggests international trade barriers such as the agriculture trade obstruction imposed by Europe (31 percent of world total), the United States (16 percent), and Japan and Korea (12 percent).[4] However, though blatant and highly visible, agriculture barriers in the developed countries represent only a portion of international trade barriers, let alone the domestic barriers that are often at least as prominent. Shop closing hours, minimum prices, questionable occupational licensing requirements, limits on the number of competitors or production, and excessive business registration requirements are all examples that can be found in many places.

Though the examples earlier usually represent simple rent seeking, some policymakers argue for reasons of both long-term competitiveness and historical example (Chang 2008),[5] "fairness"

---

[4]The U.S. Department of agriculture estimates that world welfare loss emanating from agricultural trade barriers amounts to $56 billion US. Fifty-two (52) percent of the distortions come from tariffs and quotas, 31 percent from domestic subsidies, and 13 percent from export subsidies (U.S. Department of Agriculture 2001).

[5]The argument generally runs that new, developing industries, particularly in less developed countries, simply cannot hope to compete against established businesses with economies of

(Schaper 2010) or numbers equating to competition (De 2000) that immediate beneficiaries of competitive policies should be businesses. The former is the infant industries, import substitution, or jobs created/saved arguments; the second is the unfair competition argument that accompanies price discrimination issues among others, and the latter is the simple impression that more competitors means more competition.

A protectionist policy limits competition by sheltering firms. It protects incumbents, large and small, thereby relatively injuring change agents or entrepreneurs and new entrants. However, protectionist policy can also damage the competitive position of other types of nonfavored firms, such as producers for domestic markets in an export-driven policy. Damage can accrue to small or large, entrepreneurial and not, depending on the specific policy form. However, protectionist policy can purposefully hide replicative entrepreneurs behind barriers until they become strong enough to emerge into fully competitive markets. Toyota is the largest example of such industrial grooming (Chang). Thus, under certain circumstances, protectionism can aid entrepreneurs, at least replicative entrepreneurs.

The Controlled quadrant in the typology is composed of low competition and consumers as competition's Immediate Beneficiary. In this quadrant, government either monopolizes specific sectors, such as health, education, electricity production and distribution, telephone service, radio and television, insurance, and so forth, and/or it produces commercial goods and services for its own consumption, such as printing, cafeterias and food service, vehicle maintenance and repair, yard and garden services, among others. Whereas governments are increasingly subjecting monopolized industries to competition and competitively outsourcing its own commercial activities, treatment varies enormously from jurisdiction to jurisdiction.

Government monopolization eliminates competition within potential markets. Performing government's commercial activities in-house reduces it. Consumers are the immediate beneficiaries of such policies in the typology.[6] However, the policies also minimizes a potential class of private businesses, entrepreneurial and not, by substituting noncompetitive public entities for competitive private ones. The policy also resurrects Drucker's (1985) argument noted in Typology I that entrepreneurial industries cannot long live side by side with industries prohibited from being so; one must give.

Across the typology from the Controlled quadrant is the Sponsored quadrant. The quadrant begins with significant amounts of competition and businesses are its immediate beneficiary. This combination does not appear often, but recruiting businesses from another jurisdiction can be an example. This "beggar-thy-neighbor" approach to economic development effectively purchases rather than grows local/domestic businesses. The purchase price or sponsor's fee, which includes indirect as well as direct subsidies, benefits the recipient business immediately. Consumer welfare is designed to follow. The approach at least temporarily increases competition because the public infusion provisionally raises the recruit's competitive capacity.

---

scales that typify the developed world. Trying leaves these countries with two alternatives: permanent poverty or economic colonization. Further, the historical record argues that countries that moved from the less developed to the more developed world used protectionism. Brazil (1900s), Japan (1800s), and the United States (late 1700s) are examples.

[6]It is arguable that consumers benefit overall.

High potential (entrepreneurial) businesses are those most likely to be recruited among the group of businesses under consideration, though the subsidies are often reserved for large enterprises.

Export subsidies are a second example of policy that fits in the controlled quadrant. Many, if not most, countries have some type of policy ranging from market intelligence to finance that tacitly underwrites small business exports. The policy immediately benefits businesses and raises competition, which clearly has a positive effect on consumers in the country purchasing the exports, though a negative tax effect for consumers of the countries sending the subsidized goods/services abroad.

The antitrust emphasis in competition policy often focuses on anticompetitive behavior that directly damages small firms. European competition policy, for example, asserts that the large may not exploit the small,[7] which could mean protecting small suppliers from unreasonable payment delays by their large customers. Though that implies protecting competitors rather than competition, it is possible to protect competitors and competition at the same time. The case cited earlier appears to be one such instance.

Implications of Typology II

Typology II offers implications for policymakers' intent on increasing entrepreneurial activity in their political jurisdictions, the most important being that institutions can stimulate or depress entrepreneurship through the limits it places on competition. As a general rule, limiting competition depresses entrepreneurship; expanding competition has the opposite effect. Still, not all types of entrepreneurship are desirable (Baumol, 1996). An area's values (culture) substantially determine which types of competition are acceptable and which are not. Loaning money for profit (with interest), for example, was religiously prohibited to Christians during the Middle Ages. Into the 19th century, French cloth merchants were vigorously competitive in all ways but one, price; social values did not permit price competition (Landes 2003, p. 245), but values are not the only source of limitation. Contemporary politics, including the self-interest of competitors, play a role. That leads to the second implication.

By no means are all limits placed on entrepreneurship compatible with national values or the public interest. Entrepreneurs undermine the position of competitors. Competitors rise to challenge the threat; they challenge the threat with economic and rent-seeking political action. They even often seek strange allies to help them.[8] Though such alliances fog issues, at some point, policymakers must distinguish between private and public interest. Is the restraint on competition about society's values and the public interest or about

[7]"In doing business with smaller firms, large firms may not use their bargaining power to impose conditions which would make it difficult for their supplier or customer to do business with the large firm's competitors. The Commission can (and does) fine companies for all these practices. Its investigations into anti-competitive practices are not restricted to goods. They also cover the liberal professions and services, including financial services, such as retail banking and credit cards" (Europa 2010).

[8]Yandle (1983) colorfully labeled such pacts as between baptists and bootleggers. Baptists in the American South actively opposed the sale of alcohol for consumption throughout most of the 20th century. Bootleggers illegally manufactured, transported, and sold it. When a proposal was put forward to legally sell liquor in a "dry" community, the baptists and bootleggers went into tacit alliance to oppose legal liquor sales.

competitors' effort to legally insulate themselves from competition? Does the regulator choose to regulate for the benefit of competitors or competition?

The drive to increase competition is not always simple or linear, nor without the need to exercise judgments that noninterested parties may disagree reasonably upon. It may even step backward as reality intervenes to yield curious outcomes. The patent–copyright system is an example. Successful entrepreneurs require handsome returns to make innovative activity worthwhile (Baumol, Litan, and Schram 2007). Yet, intellectual property rights temporarily eliminate competition. Competition must be put in abeyance for an arbitrary period to maximize entrepreneurial return, which is a stimulant to innovation. A shorter legally protected period means more competition and less return; a longer one means less competition and more return. Property rights constrain competition. Yet, as a general rule, the protection of intellectual property rights as the protection of other property rights work hand in glove with competition to produce a structure that yields innovation.

The antitrust measures intended to increase competition also can yield contradictory results. Limitations on mergers and acquisitions can increase or reduce competition as can price discrimination. Their enforcement often requires truly difficult human judgments about prospective actions. Fair competition is also in the eye of the beholder though it springs from a value different than enhanced competition. Thus, whereas entrepreneurial business is more attuned to increased competition and open markets, small business is more attuned to fair competition and value-based limits to competition.

Movement from quadrant to quadrant in Typology II is typically captured by the forces of change and stagnation briefly outlined in Typology I. Nonentrepreneurial public employee incumbents, for example, will battle entrepreneurial business challengers in the Controlled quadrant to expand the amount of "business" performed in-house. However, Typology II offers a twist to this dynamic because many of the policies contained therein are designed to be temporary, with individual firms eventually moving to a different policy environment. Policies flowing from the Protected, such as infant industries, and Sponsored quadrants, such as subsidized recruitment, are principally affected. Policymakers intend in these instances, at least theoretically, to remove beneficiaries from their nests once they have reached competitive maturity and can venture out into the unfettered market. However, the dynamic changes when some firms either cannot or do not reach competitive maturity, whereas others, after reaching it, continue to demand shelter. Here, the policymaker is likely to be pitted against a live constituent rather than an abstract group or policy, a substantially different role than policy development for the entire jurisdiction.

Finally, the variety of means used to prioritize business interests over consumer interests as immediate beneficiaries of policy is quite remarkable. The rationale for the business first priority is always that consumers will eventually benefit more by temporarily favoring, thereby strengthening businesses. Others can judge the validity of those claims.

Conclusion to Part 1

The first two of the four typologies in a framework developed to assess public policy affecting new, small, and entrepreneurial business appear in the preceding pages. The two remaining will be presented in part 2, which will be published in the next issue of this journal. In part 2, the author will examine those policies, which are used more frequently and visibly to affect the considered business population, and which are commonly regarded as components of entrepreneurship or small business policy rather than broad economic policy.

If there is a single item to be taken from the discussion to this point, it should be that the visible aspects of public policy affecting new, small, and entrepreneurial business have deep roots. Much that lies behind policy is hidden, both in terms of its origin and in the interests that developed and maintain it. However, if we decompose the basic elements of a policy and shove it into a few, generic small compartments as performed here, it is possible to gain a much greater understanding of the policy and what has driven and continues to drive it.

References

Audretch, D. B., I. Grilo, and A. R. Thurik (2007). "Explaining Entrepreneurship and the Role of Policy: A Framework," in *Handbook of Research on Entrepreneurship Policy*. Eds. D. B. Audretch, I. Grilo, and A. R. Thurik. Cheltenham, UK: Edward Elgar, 1–17.

Baumol, W. J. (1996). "Entrepreneurship: Productive, Unproductive, and Destructive," *Journal of Business Venturing* 11(1), 3–22.

Baumol, W. J., R. E. Litan, and C. J. Schram (2007). *Good Capitalism, Bad Capitalism, and the Economics of Growth and Prosperity*. New Haven, CT: Yale University Press.

Birch, D. L. (1979). "The Job Generation Process," Prepared under grant no. OER-608-G-78-7 from the Economic Development Administration, US Department of Commerce, MIT Program on Neighborhood and Regional Change, Cambridge, MA.

Bruton, G. D., D. Ahlstrom, and H.-L. Li (2010). "Institutional Theory and Entrepreneurship: Where Are We Now and Where Do We Need to Move in the Future?" *Entrepreneurship Theory and Practice* 54(3), 421–440.

Chang, H.-J. (2008). *Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism*. New York: Bloomsbury Press.

Chen, M.-H., and Y.-H. Yang (2009). "Typology and Performance of New Ventures in Taiwan: A Model Based on Opportunity Recognition and Entrepreneurial Creativity," *International Journal of Entrepreneurial Behavior and Research* 15(5), 398–414.

De, D. (2000). "SME Policy in Europe," in *The Blackwell Handbook of Entrepreneurship*. Eds. D. L. Sexton and H. Landström. Oxford, UK: Blackwell Publishers Ltd, 87–106.

Dennis Jr., W. J., (2005). "Public Policy, Competition and Entrepreneurship in the United States: The Wheat, the Chafe, and the Irrelevant," United States Association for Small Business and Entrepreneurship. http://usasbe.org/knowledge//whitepapers (Accessed September 20, 2010).

Dreisler, P., P. Blenker, and K. Nielson (2003). "Promoting Entrepreneurship: Changing Attitudes or Behaviour?" *Journal of Small Business and Enterprise Development* 10(4), 383–392.

Drucker, P. F. (1985). *Innovation and Entrepreneurship: Practice and Principles*. New York: Harper & Row, Publishers.

Elhauge, E. R., and D. Geradin (2007). *Global Competition Law and Economics*. New York: Foundation Press.

Eshbaugh-Soha, M. (2006). "The Conditioning Effects of Policy Salience and Complexity on American Political Institutions," *Policy Studies Journal* 34(2), 223–243.

Europa (2010). "Competition," http://europa.eu/pol/comp/index_en.htm (Accessed September, 10, 2010).

Gilbert, B. A., D. B. Audretsch, and P. P. McDougall (2004). "The Emergence of Entrepreneurship Policy," *Small Business Economics* 22(3–4), 313–323.

Gormley, W. T. (1986). "Regulatory Issue Networks in a Federal System," *Polity* 18, 595–620.

Hart, D. M. (2003). “Entrepreneurship Policy: What It Is and Where It Came from,” in *The Emergence of Entrepreneurship Policy: Governance, Start-Ups, and Growth in the U.S. Knowledge Economy*. Ed. D. M. Hart. Cambridge: Cambridge University Press, 3–19.

Helfgott, J. B. (2008). *Criminal Behavior: Theories, Typologies and Criminal Justice*. Thousand Oaks, CA: Sage Publications. Chapter 3.

Inglehart, R., and C. Wetzel (2005). *Modernization, Cultural Change, and Democracy: The Human Development Sequence*. New York: Cambridge University Press.

Jackson, S. (2010). “Mulling Over Massachusetts—Health Insurance Mandates and Entrepreneurs,” *Entrepreneurship Theory and Practice* 30(5), 909–932.

Kirchhoff, B. A. (1994). *Entrepreneurship and Dynamic Capitalism: The Economics of Business Firm Formation and Growth*. Westport, CT: Praeger. Especially chapter 4.

Kirzner, I. M. (1973). *Competition & Entrepreneurship*. Chicago, IL: The University of Chicago Press.

Kirzner, I. M. (1985). *Discovery and the Capitalist Process*. Chicago, IL: The University of Chicago Press. Especially chapter six.

Kreiser, P. M., L. D. Marino, P. Dickson, and K. M. Weaver (2010). “Cultural Influences on Entrepreneurial Orientation: The Impact of National Culture on Risk Taking and Proactiveness in SMEs,” *Entrepreneurship Theory and Practice* 34(5), 959–983.

Laar, M. (2007). “How Estonia Did It: From Soviet Republic to European Economic Model,” Speech, Heritage Foundation, Washington, August 8. http://www.heritage.org/Events/2007/08/How-Estonia-Did-It-From-Soviet-Republic-to-European-Economic-Model (Accessed September 10, 2010).

Landes, D. S. (2003). *The Unbound Prometheus: Technological Change and Industrial Development in Western Europe from 1750 to the Present*, 2nd ed. Cambridge: Cambridge University Press.

Lundström, A., and L. A. Stevenson (2001). “Entrepreneurship Policy for the Future,” Swedish Foundation for Small Business Research, Orëbrö, Sweden.

Miner, J. B. (1997). *A Psychological Typology of Successful Entrepreneurs*. Westport, CT: Quorum Books. Especially chapter I.1.

Mokyr, J. (1990). *The Lever to Riches: Technological Creativity and Economic Progress*. Oxford: Oxford University Press.

North, D. C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.

North, D. C. (1993). “Economic Performance through Time,” Lecture in memory of Alfred Nobel, Stockholm, December 9.

North, D. C. (2005). *Understanding the Process of Economic Change*. Princeton, NJ: Princeton University Press.

North, D., and D. Smallbone (2006). “Developing Entrepreneurship and Enterprise in Europe’s Peripheral Rural Areas: Dome Issues Facing Policy-Makers,” *European Planning Studies* 14(1), 41–59.

OECD (1996). “SMEs: Employment Innovation and Growth,” The Washington Workshop, OECD, Paris.

Olson, M. (1982). *The Rise and Decline of Nations: Growth, Stagflation and Social Rigidities*. New Haven, CT: Yale University Press.

Puffer, S. M., D. J. McCarthy, and M. Boisot (2010). “Entrepreneurship in Russia and China: The Impact of Formal Institutional Voids,” *Entrepreneurship Theory and Practice* 54(3), 441–468.

Schaper, M. T. (2010). “Are Free Markets Fair to Small Business?” International

Council for Small Business. http://www.icsbexchange.org (Accessed August 4, 2010).

Smith, K. B. (2002). "Typologies, Taxonomies, and the Benefits of Policy Classification," *Policy Studies Journal* 30(3), 379–395.

The Heritage Foundation (2010). "Index of Economic Freedom," http://www.heritage.org/index/Download.aspx (Accessed September 10, 2010).

U.S. Department of Agriculture, Economic Research Service (2001). "The Road Ahead: Agricultural Policy Reform in the WTO—Summary Report," Agricultural Economic Report No. (aer797). Ed. M. E. Burfisher. http://www.ers.usda.gov/publications/aer797/ (Accessed August 31, 2010).

Vesper, K. A. (1984). "Comments," Report to the President's Commission on Industrial Competitiveness, prepared by Edward V. Regan and Bruno J. Mauer, co-chairmen, Task Force on State and Local Governmental Initiatives in Industrial Competitiveness, Center for Entrepreneurial Studies, New York University, New York.

Westhead, P. (1990). "A Typology of New Manufacturing Firm Founders in Wales: Performance Measures and Public Policy Implications," *Journal of Business Venturing* 5(2), 105–122.

Yandle, B. (1983). "Bootleggers and Baptists—The Education of a Regulatory Economist," *Regulation* 7(3), 12–16.