Economic Indicators Report
First Quarter 2015: Stevens Point Area

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Special Report:
The State of Entrepreneurship in America: Has Our Get-Up-And-Go Got Up and Went?
By: Professor Scott Wallace, Ph.D., UW-Stevens Point
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CWERB Economic Indicators Report - Stevens Point
Overview of the Economy

Gross Domestic Product (GDP) grew at a very anemic 0.2 percent in first quarter 2015. This mark was surprisingly low as the consensus forecast by economists called for a 1.0 percent gain. Consumer spending was a bright spot for the GDP report. In contrast, business investment was weak, government spending was flat, and net exports went further into the red due to the strength of the U.S. dollar. Also playing major roles in the lackluster report were the harsh winter in the eastern part of the country and the uncertainty over Federal Reserve policy.

Economists look to the Leading Indicators Composite Index (LICI) for insight into the future direction on the economy. The LICI has been trending steadily upward over the past five years. In mid-2010 the LICI stood at 100; by February 2015 the LICI reached 121.4. This means the indicators of economic performance have improved by a very robust 24 percent. The LICI indicates that the economy should grow, albeit at a modest pace, during the remainder of 2015.

Other data suggests that the national economy has been on the mend. Over the past five years the U.S. GDP has grown 18 out of the past 20 quarters. Of course most people would like to have seen GDP growing at a faster clip over the last number of years, but nonetheless economic matters have improved in the nation.

Household consumption of goods and services has registered 20 straight quarters of growth and has been the main contributor to GDP growth over the period. Of some concern, however, has been the rather anemic growth in the amount of investment in factory, plant, equipment, and inventories by the business firms. Over the past several quarters investment of this type has contributed only about 1 percent to GDP growth.

Government expenditures spending have also been a drag on the economy. For example, 14 out of the last 20 quarters we have seen state, local and federal spending contract. This reduces the demand for goods and services in the country. Another drag on the economy has been net exports. Over the years net exports have typically been negative, meaning that we import more than we export to the rest of the world. This means we are purchasing more of what other countries are producing than what they purchase from us. This too is a drag on U.S. economic performance.

Data suggests the country’s factories are producing more than ever before. Industrial production in the U.S. over the past five years has grown for 20 consecutive quarters. More specifically, durable goods orders were about $180 billion in 2010, but by March 2015, they reached $246 billion. Similar improvements have taken place in nondefense capital goods, motor vehicles and parts.

Consumer prices as measured by the overall CPI have change little over the course of the year. From March 2014 to March 2015, the CPI actually fell by 0.1 percent. The drop in energy prices was a major contributor to this outcome. Over the last three years the CPI has rarely been above 2.0 percent.

As of March 2015 the unemployment rate stood at 5.5 percent in the U.S. The remarkable thing about this is that in 2010 the unemployment rate was about 10%. Non-farm payrolls grew by an estimated 2.3 percent over the past year. This rate of expansion is modest to be sure, but in 2010 payrolls were contracting at about 4 percent annually. Since then payrolls have been expanding by about 2 percent per annum. Further, nonfarm payrolls in the U.S. now exceed pre-recession employment totals and should continue to grow for the remainder of 2015.

Corporate profits account now for about 12 percent of GDP. From a historical standpoint, this is high percentage and implies that the share of national income going to labor has declined. The record shows that profits have been relatively strong over the last few years, but slack in the labor market has kept wages from keeping pace.

An indicator of an improving economy can be seen in the amount of net borrowing done by nonfinancial corporations. During the great recession borrowing was falling. For example, in 2010 borrowing of this type fell $283 billion from the previous year. In sharp contrast corporations borrowed an estimated $1,796 billion in 2014 alone. Similar increases in borrowing activity can be seen in the amounts of loans, mortgages, and bond sales taken out.

Financial indicators show that short and long term interest rates in the U.S. remain at historical lows. For example, the 3 year Treasury bill rate is close to zero and the 10 year Treasuries yield is at about 2 percent. Moreover, bank credit is expanding at about a 10 percent clip for consumer loans, and about 5 percent for real estate loans. The Federal Funds Rate was recently at minuscule 0.13 percent. This is the...
rate banks borrow from other banks. Lastly, the stock market index as measured by the Standard & Poor’s 500 composite Index is up by 62 percent from the end of 2010 to April 2015.

Probably the biggest headwind facing the economy as we move forward in 2015 is the oversupply of most types of goods and services. A Wall Street Journal article pointed out that there is a worldwide productive overcapacity for most goods, services, raw materials, and for most types of labor. The article goes on to indicate that with the curtailment in worldwide government spending and the slowing of the Chinese economy, a lack of demand for many products becomes a crucial issue going forward.

Many economists suggest that growing income inequality is also exacerbating the lack of demand for many goods and services. Additionally, economic policies that focus on the supply side of the economy, like cutting taxes and reducing regulations, are not likely to provide the stimulus needed to accelerate economic activity and raise wages for middle class workers. In other words, trying to create more capacity does little good in a world where excess supply rules the day.

Table 1 shows a select list national statistics covering March 2014 and March 2015.

![Table 1](image)

Central Wisconsin

The unemployment rate in each reporting area is displayed in Table 2. Marathon, Portage and Wood counties all experienced declines in their unemployment rates from a year ago. The respective March rates for Portage, Marathon and Wood are now down to 5.8, 4.8 and 6.9 percent in March 2015. The labor force weighted unemployment rate for Central Wisconsin also fell, and is now at 5.5 percent. Meanwhile Wisconsin’s unemployment rate declined from 6.7 to 5.4 percent. Thus, the unemployment rates were much improved throughout the region and state. The United States unemployment rate also fell from 6.8 percent to 5.6 percent over the past 12 months.

Employment figures in Table 3 are based on the government’s survey of households. Portage County’s total employment figure contracted by 2,000 positions and total employment in Wood County fell by about 5,000 jobs over the past year. Meanwhile, Marathon County payrolls are estimated to have grown by 2,400 positions over the past twelve months. Central Wisconsin as a whole experienced an employment decline of about 5,000 positions. Jobs in the region contracted from 144.1 to 139.1 thousand or by 3.5 percent. The survey of households also shows that Wisconsin’s payrolls increased by 1.9 percent. The nation gained 1.8 percent or about 2,600,000 jobs over the same period.

Table 4 gives the most recent employer based payrolls numbers for Wisconsin. Economists believe the nonfarm employment numbers which are based on employer provided data, give a more accurate assessment of the labor market conditions than

![Table 4](image)
the household survey data. From March 2014 to March 2015 Wisconsin’s total nonfarm employment expanded from 2.79 million to 2.83 million or by 1.6 percent. This represents a gain of approximately 40,000 thousand jobs during the past year. Unlike six months ago when only hand full of the state’s industrial sectors expanded, this time all sectors recorded gains in employment. Thus, the rate of job generation continues to be very modest in the state as measured by this data set and lags in terms what our neighbor states are experiencing.

In Table 5, Portage County sales tax distributions were stronger this year than last, rising from $1,184 thousand in 2014 to $1,301 thousand in 2015, an increase of 10 percent. Marathon also experienced an increase in sales tax distributions from the state. Marathon rose from $2,421 thousand to $2,560 thousand or by 5.7 percent. Similarly, Wood County collections expanded from $1,138 thousand to $1,346 thousand or by about 18 percent over the course of the past year. Despite the long winter, the data suggests there was improvement in taking place in Central Wisconsin retail activity.

The CWERB’s survey of area business executives is reported in Table 6. The mark of 58 means this group believes that recent events at the national level have led to a slight improvement in the country’s economic condition. In addition, and more importantly, they believe the local business climate has improved over the past twelve months, i.e. a response level of 63. When they were asked to forecast economic conditions at the national level they were optimistic, but less so about the future direction of the economy than in the recent past. Also, they expressed similar levels of optimism for the local economy, and for their particular industry, i.e. marks in the upper 50s. Overall, Table 6 also shows that the level of optimism expressed about the economy was generally lower in March 2015, than what it was in September 2014.

Figures 1 thru 7 give a historic overview of how the economy in Wisconsin has performed during the 2010-2015 time period. For example, Figure 1 shows the track record of Wisconsin total employment growth and the rebound that has taken place since 2010. In 2010 about 2.75 million people were employed and at the start of 2015 the number of jobs reached to 2.9 million. The gain, while disappointing, is an increase of approximately 150,000 jobs over the last five years. This represents an annual average growth rate in employment of about 1 percent.
Stevens Point - Plover Area

We usually include Table 7 which gives employer based estimates of industrial sector employment in Portage County. However, please note at the time the report was written, the data for March were not available from the Wisconsin Department of Workforce Development. Hopefully data will be available on a timely basis in the future and will be included in the report.

In Table 8 the CWERB’s retailer confidence survey mark of 66 means that merchants feel that store sales were higher than they were one year ago. This is welcome news for the local economy. When it comes to expectations about the future it appears that the March 2015 assessment of retail activity was marginally higher than it was in September 2014. Also this group feels that retail activity in the summer of 2015 will be at higher than it was 2014. The overall significance of the survey is that local merchants are saying that there are improvements taking place in the local retail sector.

<table>
<thead>
<tr>
<th>RETAILER CONFIDENCE</th>
<th>Index Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>STEVENS POINT - PLOVER AREA</td>
<td>September 2014</td>
</tr>
<tr>
<td>Total Sales Compared to Previous Year</td>
<td>65</td>
</tr>
<tr>
<td>Store Traffic Compared to Previous Year</td>
<td>63</td>
</tr>
<tr>
<td>Expected Sales Three Months From Now</td>
<td>65</td>
</tr>
<tr>
<td>Expected Store Traffic Three Months From Now</td>
<td>63</td>
</tr>
</tbody>
</table>

100 = Substantially Better 50 = Same 0 = Substantially Worse

Table 9 Help Wanted Advertising is a barometer of local labor market conditions and the indexes for Stevens Point, Wausau, Marshfield and Wisconsin Rapids are now based on job advertising on the internet. The index for Stevens Point and Wisconsin Rapids rose by 5.4 percent and by 7.05 percent respectively when compared to a year ago. Marshfield’s help wanted index rose by approximately 11 percent. Further, Wausau experienced a small decline in the amount advertising taking place, 5.3 percent. These data taken together

<table>
<thead>
<tr>
<th>HELP WANTED ADVERTISING</th>
<th>Index Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Quarter 2014</td>
<td>First Quarter 2015</td>
</tr>
<tr>
<td>Stevens Point</td>
<td>856.83</td>
</tr>
<tr>
<td>Wausau</td>
<td>740.67</td>
</tr>
<tr>
<td>Marshfield</td>
<td>650.33</td>
</tr>
<tr>
<td>Wisconsin Rapids</td>
<td>727.50</td>
</tr>
</tbody>
</table>
suggests that advertising growth has been growing in the area and should lead to improvement in the job market numbers.

We have a new Table 10 for this report: Occupations with the most openings in Wisconsin. The table contains data on the average number of job opening for the top occupations. The top 25 occupations are listed from high to low. For example, cashiers have the highest number annual openings at 3,400 per year. Table 11 is also new to the report: High growth occupations in Wisconsin from 2010 to 2020 in terms of percentage change. These tables give the reader important insight into the occupational structure Wisconsin labor market.

Another measure of the local economy is presented in Table 12. It shows that new unemployment claims contracted from 162 to 127 or by 22 percent over the year. Moreover total unemployment claims dropped from 1,503 to 1,174 or by 21.9 percent in our year over comparison. This signals that the local economy may be gaining strength.

Table 13 presents the residential construction numbers for the Stevens Point-Plover area. In our yearly comparison the number of permits issued in First Quarter was 14, doubling the number of permits of last year. The 2015 estimated value of the construction was $3.7 million and represents 14 housing units. When comparing First Quarter 2014 to that of 2015 residential alteration activity contracted from 102 to 84 permits. However, the estimated value of this type of activity went up from $862.8 thousand to $1.04 million. Overall, the 2015 construction data is off to a good start when compared to last year’s totals. The historically bad winter weather of 2014 surely
played a role in suppressing last year’s residential construction activity.

<table>
<thead>
<tr>
<th>TABLE 13</th>
<th>RESIDENTIAL CONSTRUCTION</th>
<th>2014</th>
<th>2015</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>STEVENS POINT - PLOVER AREA</td>
<td>First Quarter</td>
<td>First Quarter</td>
<td>Change</td>
<td></td>
</tr>
<tr>
<td>Residential Permits Issued</td>
<td>7</td>
<td>14</td>
<td>+100.0</td>
<td></td>
</tr>
<tr>
<td>Estimated Value of New Homes (thousands)</td>
<td>$1,305.5</td>
<td>$3,731.6</td>
<td>+185.6</td>
<td></td>
</tr>
<tr>
<td>Number of Housing Units</td>
<td>7</td>
<td>14</td>
<td>+100.0</td>
<td></td>
</tr>
<tr>
<td>Residential Alteration Permits Issued</td>
<td>102</td>
<td>84</td>
<td>-17.6</td>
<td></td>
</tr>
<tr>
<td>Estimated Value of Alterations (thousands)</td>
<td>$863.8</td>
<td>$1,043.7</td>
<td>+21.0</td>
<td></td>
</tr>
</tbody>
</table>

The nonresidential construction figures in Table 14 were as follows for First Quarter 2015. The number of permits issued was just 2 and its estimated value was $4 million. The number of business alteration permits was 55 in 2015 compared to 35 in 2014. The estimated value of alteration activity was $1.1 million 2015 compared to the 2014 figure of $1.06 million. In sum, the pace nonresidential construction activity rose in the area. Once again the winter weather of 2014 most likely had a strong influence in suppressing last year’s numbers.

<table>
<thead>
<tr>
<th>TABLE 14</th>
<th>NONRESIDENTIAL CONSTRUCTION</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>STEVENS POINT - PLOVER AREA</td>
<td>First Quarter</td>
<td>First Quarter</td>
<td></td>
</tr>
<tr>
<td>Number of Permits Issued</td>
<td>1</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Estimated Value of New Structures (thousands)</td>
<td>$53.7</td>
<td>$4,046.0</td>
<td></td>
</tr>
<tr>
<td>Number of Business Alteration Permits</td>
<td>35</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>Estimated Value of Business Alterations (thousands)</td>
<td>$1,062.5</td>
<td>$1,104.3</td>
<td></td>
</tr>
</tbody>
</table>


Figures 8 thru 11 on the following page give an economic history lesson as to how the employment level, the unemployment level, the unemployment rate, and the labor force have trended over the past five years in Portage County. Please note the data for the charts runs from January 2010 to early 2015. The figures clearly show the influence of the great recession on the area local economy and the figures supplement the report’s year over year comparisons. This allows the short-term fluctuations in the economy to be judged more properly.
Housing Market Information

The following seven tables contain information on the national, regional, and local housing market. Housing activity is an incredibly important component of the economy. We believe the reader will gain valuable insight into housing markets conditions and greater insight into the local economy in this section of the report.

Table 15 gives national median home price for the U.S. and major regions in the U.S. The median home price in the U.S. rose to $212,100 in March 2015. Housing prices in the Midwest, as always, remain the lowest in the nation. The median home price in our part of the country barely rose from the $163,200 in 2014 to $163,600 in 2015. In general, housing prices are rising in the U.S. and are rising in all of its geographic regions. The West has the highest median housing prices at $305,000.

Table 16 National and the Midwest existing home sales data shows a modest increase in sales activity over the past year. In the Midwest 1.2 million homes are forecasted to be sold in 2015. For the Midwest, the preliminary estimate for 2015 is that about 60,000 more homes will be sold than in 2014. In 2014 the number of home sold in the Midwest bottomed out at 1.14 million units.

The national inventory of homes is given in Table 17. As of March 2015 the inventory backlog is estimated to be 4.6 months. In 2010 the national supply of homes was 9.4 months. Thus, a great deal of improvement has taken place in reducing housing inventory number. The statistics indicate that the backlog of unsold houses has been reduced almost in half.

Table 18 presents the national affordability index. Over the years very low interest rates and falling home prices have greatly improved the affordability of homes. However, in 2013 housing prices and interest rates started to trend upwards. The preliminary estimate for the affordability index in 2015 is 179. The higher the index, the more affordable housing is for the typical family. This means that in 2015 a household earning at the median household income level has 179 percent of the income necessary to qualify for a conventional loan covering 80 percent of a medium-priced existing single-family home.

Table 19 displays data on state and local area median prices. For the most part Wisconsin and local area home prices have been more stable than the U.S. as a whole. In Central Wisconsin the lowest median home price are to be found in Wood County at $98,900. Portage County has the highest median price at $132,250, and Marathon falls somewhere between the other two counties, with a median house price of $119,400. In comparison, the median price of a house in Wisconsin is about $141,500. In addition, after a few years of rising values, the preliminary data for 2015 suggests that the median price for a house in the local area and state are declining.
Table 20 gives the number of local housing units sold, from 2012 to 2014. The counties in our region have all experienced some stagnation in the number of units sold over this time period. Please note the listed number of homes sold in 2015 only represents the January to March activity.

Table 21 and 22 present the changes that have taken place in the local median prices and units sold, and compares First Quarter 2014 to First Quarter 2015. In Table 21 we see an increase in local median home prices has taken place in Marathon and Wood. In Table 22, the number of housing units sold in Wood County increased by 9.3 over the year. While Marathon and Portage experienced home sales declines of 7.8 and 16.3% respectively.
Each year, the Small Business Administration, SBA, Office of Advocacy prepares Small Business State and Territory Profiles. Wisconsin’s Profile released last month shows WI is home to 441,954 small businesses. Roughly defined small businesses are those with fewer than 500 employees. Wisconsin’s data shows 336,059 of the 441,954 small businesses are self-employed small business owners with no employees. 105,895 of the small businesses have employees. These 105,895 small businesses employ 1,210,146 workers, over half of Wisconsin’s private workforce. The report shows that the top three industries for small firm employment are manufacturing, health care and social assistance, accommodation and food services.

Demographics of ownership are presented briefly in the report. It shows that 37.1% of female-owned businesses are in the Retail Trade industry. Overall the report says 5.6% of females are self-employed while 10.6% of males are self-employed in WI. Historically the report also looks at business startups and survivability. 6,426 businesses started in WI in 2010 with 71.3% still in business through 2012. In 2013 9,874 businesses started with 83.1% surviving through 2014. The SBA report further states that business bankruptcies in Wisconsin declined in the four-year period from 2010 to 2014, a sign that the state’s economy strengthened.

For more on Wisconsin Small Business data including number of firms, employees by industry and the demographics of small business ownership, see the SBA report at www.sba.gov/sites/default/files/advocacy/WI.pdf.
Total SBA Loan Amount Compared Q1

Total Business Starts Compared Q1

Total Number of SBA Loans Compared Q1
The State of Entrepreneurship in America: Has Our Get-Up-And-Go Got Up and Went?

by Professor Scott Wallace, Ph.D.
UW-Stevens Point School of Business and Economics

Introduction
Economists have long recognized the central role entrepreneurs play in the functioning of market-based economies. The following quote from an introductory microeconomics text nicely describes what entrepreneurs do. “Entrepreneurs must first determine what goods and services they believe consumers want, and then they must decide how to produce those goods and services most profitably. Entrepreneurs bring together the factors of production – labor, capital, and natural resources – to produce goods and services. They put their own funds at risk when they start businesses. If they are wrong about what consumers want or about the best way to produce goods or services, they can lose those funds” (Hubbard and O’Brien, 2008, pp. 53-54). We all depend upon entrepreneurs to produce the goods and services we consume. The ability of entrepreneurs to perform these functions ultimately determines the quantity and quality of those goods and services and the prices we pay for them. Thus the state of entrepreneurship in society is an important determinant of our quality of life and the overall health of a market economy.

Recent empirical studies have found evidence of a secular decline in the levels of entrepreneurship in the United States over the last three decades. This disturbing trend has been blamed for a number of economic maladies including slower employment growth, more protracted economic recoveries, and lower rates of economic growth. The findings of these studies, however, have not isolated the causes of this decline (though their authors have speculated about the likely suspects).

Not all economists, however, ascribe to this view. Dissenters contend that these studies measure the wrong things and that some indicators of decline actually are the consequences of entrepreneurial activity. Much of the differences among economists regarding this issue can be traced to different understandings of the meaning of entrepreneurship and disagreements about the kinds of entrepreneurial activity that have the greatest impact on economic performance.

This report critically evaluates the empirical evidence of declining rates of entrepreneurial activity. The paper begins by describing the entrepreneurial process from an economic perspective and the impact of this process on economic growth. Second, it reviews the empirical evidence of declining entrepreneurship. Third, it presents a dissenting view that questions this evidence. Fourth, the paper evaluates the arguments of these alternative perspectives and discusses possibilities for future research. Lastly, the report explores policy options that aim to increase the level of entrepreneurship for United States and Wisconsin.

Entrepreneurship as Experimentation
Economist Paul Romer uses the metaphor of the kitchen recipe in describing the sources of economic growth. “To create valuable final products, we mix inexpensive ingredients according to a recipe … Human history teaches us, however, that economic growth springs from better recipes, not just from more cooking” (Romer, 1993, 1). Some entrepreneurs are like elite chefs; they are constantly coming up with new, better recipes. They find new ways to mix the same ingredients (resources) so as to create new economic value. In doing so, new products that are better tailored to meeting consumers’ preferences are continually being introduced. In addition, resources are utilized in increasingly productive ways so that the economy produces more output with the same amount of ingredients.

Under this view, entrepreneurs engage in economic experiments when they introduce new products to the market, implement new production technologies, and try out new business practices. These economic experiments ultimately are tested in the marketplace. “For entrepreneurs, it can be virtually impossible to know whether a particular technology or product or business model will be successful, until one has actually invested in it” (Kerr, Nanda, and Rhodes-Kropf, 2014, 25). The uncertain nature of economic experiments means that the process cannot be
planned. Entrepreneurship is fundamentally and inevitably a trial-and-error process by which the experiences of failed experiments can inform future experiments.

Given that the vast majority of entrepreneurial ventures fail, it is critical that societies find ways to create strong incentives for experimentation. Socialist economies that rely heavily on centralized planning do not offer an environment conducive to entrepreneurship (Rosenberg, 1994). The success of capitalist economies in promoting innovation and generating economic growth can be attributed to the freedom of entrepreneurs to perform economic experiments. “Capitalism has provided multiple sources of decision-making and initiative, strong incentives for proceeding one step at a time, and the possibility for drawing upon a wide range of human potential – all valuable features of activities that are carried out in an environment of uncertainty” (Rosenberg, 1994, 95).

Capitalist societies provide an economic and institutional infrastructure that encourages economic experimentation. The private ownership of resources and relative security of property rights promotes broad participation of many individuals in the entrepreneurial process. The development of sophisticated financial institutions that support stock markets, limited liability, and insurance markets have dramatically reduced the levels of risk borne by individual entrepreneurs. As a source of financial resources, venture capital firms, in particular, are well-suited in supporting economic experiments because of their ability to finance ventures in stages which allows them to abandon failed experiments early on in the process. By protecting their personal assets, governmental innovations like bankruptcy laws encourage entrepreneurs to try and try again (Rosenberg, 1994).

The Empirical Evidence of Decline in Entrepreneurship

The previous section described how economists characterize entrepreneurship as a process or an activity. In measuring entrepreneurship, economists ideally would like to directly gauge changes in both the quantity and quality of economic experimentation over time. Unfortunately, they have not found a method for doing this. Instead, economists have adopted a number of proxy measures to empirically test changes in levels of entrepreneurship. These studies fundamentally associate entrepreneurship with identity. They largely assess changes in entrepreneurship by estimating quantitative changes in economic activity for certain categories of private businesses. These include changes in the rate of self-employment, changes in small business activity, changes in business start-ups, and changes in firm age.

Changes in New Business Activity

In Out of Business: Measuring the Decline of American Entrepreneurship, Barry Lynn and Linda Khan contend that data showing a reduction in new business activity reflects a decline in America’s entrepreneurial sector. “[N]ew businesses are a vital source of new ideas and new jobs” (Lynn and Khan, 2012, 3). Using Census Bureau data, they find that the number of new employer businesses as a share of the population has been declining. New employer businesses include proprietorships, partnerships, and corporations with at least one employee (Lynn and Khan, 2012).

![New Firms/10,000 Workers](source: Longitudinal Business Database)

In 1977, there were 35 new employer businesses for every 10,000 working age Americans. By 2010, the number had fallen to 17 new employer businesses, a 53% decline. “While the Great Recession accelerated the trend, it was clearly in evidence before 2007; by 2006, the number had already fallen by 30 percent” (Lynn and Khan, 2012, 6).

Changes in the Rate of Self-Employment

Lynn and Khan (2012) also document a decline in the rate of self-employment over the last three decades. Using a data series from the Small Business Administration (SBA), they find that the number of self-employed workers for every 10,000 working age Americans has fallen since 1994. “The share fell steadily until 2002, stayed level between 2003 and 2006, and has continued to drop since. Overall the decline between 1994 and 2010 was nearly 25 percent” (Lynn and Khan, 2012, 11).
Related to the declining rate of new business activity is evidence of a graying business sector. Economists have attributed the aging of American business firms to a decline in business dynamism which they contend reflects a decline in entrepreneurship. “Business dynamism is the inherently disruptive, yet productivity-enhancing process of firm and worker churn that reallocates capital and labor to more productive uses. Older firms are less dynamic than younger ones, and their increasing share of the American economy coincides with a three-decade decline in business dynamism” (Hathaway & Litan, 1, 2014)

The work of Decker, et al. (2014) observes that young firms account for a falling share of business activity. The authors define young firms as those firms age 5 or less. They find that firms age 5 or less accounted for 47% of all firms in the late 1980s. By 2008, that number had dropped to 39%. The share of employment in these young firms similarly fell from 19% in the 1980s to 13% in 2008. Much of the decline, according to the authors, is the result of a declining startup rate and declining average startup size of these young firms. As a result, the share of total job creation from new firms has similarly declined. The share of new employment of young firms fell from 39% to 33% over the same time period (Decker, et al., 2014, 14).

The decline in the share of new employment from young firms is particularly troubling since historically, young firms have contributed disproportionately to increases in total employment. As firms age, their contributions to total employment tend to decline. “Startups account for less than 10% of firms but 20% of firm-level gross level job creation” (Decker, et. al., 2014, 8).

A Dissenting View
Several economists recently have published papers critical of the empirical research on entrepreneurship (Henrekson & Sanandaji, 2014; Foss & Lyngsie, 2014). These efforts implicitly question the proxy measures used in these studies. Proxy measures like new business activity and rates of self-employment assess changes in quantity but do not assess changes in quality (Henrekson & Sanandaji, 2014). The choice of these measures may reflect certain biases held by scholars in the entrepreneurship field (Foss & Lyngsie, 2014).

Declining Share of Activity from Young Firms (Firms Age 5 or Less)
Not All Entrepreneurs are Created Equal

In the boldly titled *Small Business Activity Does Not Measure Entrepreneurship*, Magnus Henrekson and Tino Sanandaji (2014) argue that the current empirical research fails to distinguish between “innovative entrepreneurs” and “replicative entrepreneurs.” “Innovative” entrepreneurs are entrepreneurs that “come up with ideas and embody those ideas in high-growth companies ... who upset and disorganize the existing ways of doing things” (The Economist, 2014, February 16). Innovative entrepreneurs, in other words, introduce new recipes. The aggregate effect of these efforts results in (what Joseph Schumpeter famously called) a “perennial gale of creative destruction” that constantly threatens existing businesses with obsolescence. It is the competitive process that forces entrepreneurs to introduce new products, processes, and business practices as a means of staving off economic irrelevance.

“Replicative entrepreneurs,” on the other hand, create their own small business but typically are not innovators. These entrepreneurs typically adopt existing recipes. These small businesses remain small and largely exist to provide employment for its owners and family members. The vast majority of all entrepreneurs are “replicative entrepreneurs.” While both kinds of entrepreneurs have important contributions to make to the economy, “innovative entrepreneurs” typically have the greatest impact on economic growth.

Henrekson and Sanandaji (2014) point out that data on self-employment, new business activity, and firm age do not distinguish between these two kinds of entrepreneurs. Conclusions regarding entrepreneurship drawn from this data therefore can be highly problematic. Taken at face value, declining rates of self-employment seem to imply falling rates of entrepreneurial activity. But which kind? Innovative or replicative? While highly entrepreneurial nations tend to be high income nations, cross-country studies on rates of self-employment suggest otherwise. The figure above is from a study by La Porta and Shleifer (2014). These comparisons show that self-employment rates are negatively correlated with per-capita income.

Low income countries like Chad, India, and Kenya have very high percentages of their labor force that are self-employed. The self-employed in less developed countries tend to consist of entrepreneurs who engage in low productivity, low value-added activities, often selling “extremely low-quality goods for low prices to low-income customers” (La Porta & Shleifer, 2014, 113). “Among Organization for
Economic Cooperation and Development (OECD) countries, Mexico, Greece, Italy, South Korea, Turkey and Portugal stand out as the countries with the highest rates of self-employment. By contrast, the United States has the second lowest self-employment rate among developed nations” (Henrekson & Sanandaji, 2014, 1761).

Henrekson and Sanandaji offer an explanation for this counterintuitive relationship: “When the level of trust in a society is low, it becomes more important to monitor employees closely or rely on your own kin labor, which encourages self-employment. When hired employees cannot be trusted, entrepreneurs will have a difficult time growing their firms rapidly around innovative ideas” (Henrekson & Sanandaji, 2014, 1762).

The vast majority of the self-employed in the United States are “replicative entrepreneurs.” The industries with the highest rates of the self-employed include construction, landscaping services, auto repair, restaurant, farming, child day-care services, and beauty salons. For most of these small businesses, the owner is the only employee (Henrekson and Sanandaji, 2014, 1760). While each of these activities serves important economic functions by meeting the wants and desires of consumers, they are not drivers of economic growth.

Measuring Innovative Entrepreneurship
The shortcomings of the empirical research inspired Henrekson and Sanandaji to develop their own, rather intriguing measure of innovative entrepreneurship. They argue that high impact entrepreneurship can be measured by assessing “the accumulation of wealth for founders of new business ventures” (Henrekson & Sanandaji, 2014, 1761). The success of a truly innovative product would richly reward their creators with significant amounts of wealth. Using Forbes’ list of worldwide billionaires from the last 20 years, the authors identified “996 self-made billionaires who became rich by founding new firms” (Henrekson & Sanandaji, 2014, 1761). From that list they constructed a cross-country comparison of “entrepreneurship rates” by finding the number of billionaire entrepreneurs per million inhabitants for each country.

The nations with the highest entrepreneurship rates were Hong Kong, Israel, and the United States respectively. All of the countries that scored well are highly developed, high income economies.

Additionally, Henrekson & Sanandaji (2014) show a strong correlation between venture capital investment as a percentage of a nation’s GDP and the number of billionaire entrepreneurs per million inhabitants, indicating the importance of venture capital in supporting “innovative entrepreneurship.”

Interestingly, the authors also show that this measure of “innovative entrepreneurship” is “robustly and negatively correlated with self-employment rates, small business ownership rates, and the rate of startup activity” (Henrekson & Sanandaji, 2014, 1761).

On reflection, these last findings should come as no surprise. “Innovative entrepreneurs” that are highly successful often drive smaller, less productive firms out of business. This is the process of “creative destruction” that Joseph Schumpeter emphasized in his work (Schumpeter, 1942). In addition, the success of their business models can negatively impact new business activity by acting as a barrier to entry to new firms who now find it unprofitable to enter. For example, there were over 274 manufacturers of automobiles in the United States in 1908, the year that Henry Ford introduced the moving assembly line
manufacturing process in producing the Model-T which sold for a price of $850. By 1924, the Ford Motor Company enjoyed 60% market share, selling the Model-T for only $290 (McCraw & Tedlow, 1997, pp. 269-74). Innovations that increase the “minimum efficient scale” of business operations and result in lower prices ultimately lead to fewer firms in that industry.

The consolidation within the automobile industry parallels the experiences of other industry sectors. The long, historical trend in agriculture in this country is one of fewer and fewer farms producing greater quantities of crops. Over thirty years ago, there were over 50,000 potato farms in North America. Today, the number is less than 10,000 (Martin, 2006). Retail innovations over the last several decades have focused on meeting consumers’ preferences for ‘one-stop shopping.’ As a result, general merchandisers and retail chains have dramatically increased the number of product lines that they carry (Basker, Klimek, & Van, 2012). Wal-Mart, “big box” stores and other chains have driven many small “mom-and-pop” establishments out of business and dissuaded many others from starting. “Between 1963 – one year after the first Wal-Mart store opened in Rogers, Arkansas – and 2002, the number of single store retailers in the United States declined by 55 percent while the number of chain stores nearly doubled. The number of stores belonging to chains with 100 or more stores more than tripled over this period” (Basker, 2007, 178). Highly successful entrepreneurial ventures, as seen in these examples, can negatively impact the number of self-employed and the level of small business activity.

Discussion

The studies presented in this report certainly have not resolved the issue of whether entrepreneurship has been on the wane over the last several decades; they probably raise more questions than answers.

Henrekson and Sanandaji (2014) have exposed the weaknesses of empirical research using data on self-employment rates and new business activity as evidence of declining entrepreneurship. Their measure of innovative entrepreneurship correlates negatively with these measures. The problem with their analysis of ‘innovative entrepreneurship’ is that it is essentially static. While their “billionaire per capita” rate shows the United States as ranking near the top in innovative entrepreneurship, it doesn’t attempt to gauge how that rate has changed over time. Efforts to collect data at different points in time would be necessary in trying to assess if ‘innovative entrepreneurship’ has declined over time.

It is important to recognize that evidence of falling self-employment rates and declines in new business activity may not just reflect the impacts of innovative entrepreneurship on small business. It may reflect other factors that are truly causes of great concern. The problem with the data as presented is that it does not distinguish between replicative and innovative entrepreneurs. The inability to make that distinction makes it difficult to assess whether there has been a decline in innovative entrepreneurship.

In addition, the data used in measuring self-employment rates, new business activity, and firm age all begin in the late 1970s or early 1980s. In each case, these measures indicate an immediate and consistent decline in entrepreneurship over subsequent decades. It would be useful if these studies could go back further in time to determine if this decline represented a clear break from the past or simply represented a long term trend that reflect changes in economic structure consistent with the development of modern economies.

The studies also ignore the entrepreneurial activities of established firms. Established firms potentially hold several advantages over new firms. Older firms have already created successful organizations and have developed important relationships with suppliers and buyers. A new firm launching a new product often has to start from scratch in building a viable organization and in establishing linkages with other, complementary businesses. An existing firm that introduces a new product often can exploit its current organization and supply chain relationships.

In addition, there is a strong learning-by-doing component to the production process with increased knowledge and capabilities as byproducts of a firm’s experiences. Older firms therefore often possess greater capabilities than younger firms. These firms can leverage their competences in producing new, successful products (Foss & Lyngsie, 2014). 3M, for example, has applied its competencies in substrates, coatings, and adhesives in producing a wide array of products in very different industries, including “Post-it” notes, magnetic tape, photographic film, pressure-sensitive tapes, and coated abrasives. Honda has been able to exploit its capabilities in engines and powertrains in producing lawnmowers, cars, motorcycles, and electrical generators (Prahalad & Hamel, 1990). The empirical literature has yet to take into account
these kinds of entrepreneurial efforts by established firms.

**Policy Initiatives**

Most economists agree that the vigor of our entrepreneurial sector is an important determinant of our overall economic well-being. All the empirical studies presented in this report have focused on a particular class of private business in their attempts to measure changes in entrepreneurship. These measures fundamentally are proxies for entrepreneurial activity, which is admittedly hard to measure directly. It is critical for policy-makers not to take these studies literally by constructing policies that favor one class of business over others. Policy prescriptions instead should be based on an understanding of the entrepreneurial process.

**Encouraging Economic Experimentation**

Policies that are likely to be effective in improving economic performance are ones that increase the quantity and quality of economic experiments. Societies with inclusive economic and political institutions have historically experienced higher rates of economic experimentation and have enjoyed higher standards of living. Inclusive economic institutions “feature secure private property, an unbiased system of law, and a provision of public services that provides a level playing in which people can exchange and contract; it also must permit the entry of new businesses and allow people to choose their own career” (Acemoglu & Robinson, 2012, 74-75). Equally important are pluralistic, democratic institutions that can counter attempts of powerful economic interests to erect barriers to new competition. Governmental efforts in reducing the overall costs of economic experiments are likely to have the greatest impact on economic growth. Governments should avoid picking winners and instead should focus on creating a level playing field that encourages broad participation of its citizens (Kerr, et al., 2014)

**Entrepreneurship in Wisconsin**

The Ewing Marion Kauffman Foundation is a non-profit, private foundation that focuses on educational and entrepreneurial issues in helping individuals achieve economic independence. The foundation recently released its Kauffman Index of Entrepreneurial Activity (2014). The index shows that the state of Wisconsin ranks 45th of 50 states in entrepreneurial activity as measured by the rate of new business activity (Fairlie, 2014). In Wisconsin, only 170 per 100,000 working-aged adults created businesses each month. Only Minnesota, Indiana, Rhode Island, Iowa, and Washington fared worse than Wisconsin. The index also shows the state has experienced steep declines in entrepreneurial activity over the last decade or so. Looking at three year intervals, the percentage of adults creating businesses each month fell by 0.08% for years 2011-13 as compared to 2001-3 time period (Fairlie, 2014, 23).

**Local Policy Initiatives**

What can Wisconsin and local municipalities do to increase entrepreneurship? Last summer, the Kauffman Foundation issued an *Entrepreneurship Policy Digest* (2014) listing four strategies that states, cities and counties can implement to promote entrepreneurship:

1. **Reexamine Professional & Occupational Licensing**
   Occupational licensing in the fields of law and medicine was first introduced in the United States in late 19th century. Licensing was largely a response to problems of anonymity and complexity that threatened the viability of markets during a time of rapid urbanization. Licensing represented “attempts to assure buyers minimum professional competence in a given profession, and thus reduces the amount of information that must be collected prior to hiring one” (Carstensen, 1992, 4). By providing some minimum assurance of quality, licensing supports markets that provide highly complex services, benefiting both providers of those services and consumers.

   The problem with licensing is that it also acts as a barrier to entry to new firms with new ideas (Entrepreneurship Policy Digest, 2014, 2). The practice of licensing has extended well beyond occupations that have the greatest impact on public health and safety. Today, “102 trades and occupations face licensing requirements in states or cities” (Glaeser and Sunstein, 2014). Nearly one-third of all jobs require a governmental license (Entrepreneurial Digest, 2014). These trades include barbers, cosmetologists, tree trimmers, tour guides, tattoo artists, and interior designers. Eliminating licensing requirements from occupations that pose little threat to the public will open these fields to new competition and new ideas.

2. **Welcome Immigrants**
   New immigrants historically have been a great source of entrepreneurial energy. “Immigrants were nearly twice as likely to start businesses each month as were the native born in 2013” (Fairlie, 2014, 3).

   Worldwide, 0.25% percent of native-born Americans
start a new business each month while the number for immigrants was 0.43%. “Over the past eighteen years, Latinos, Asians, and immigrants experienced rising shares of all new entrepreneurs, mainly because of increasing populations, but also because of rising rates of entrepreneurship” (Fairlie, 2014, 3). States and localities can attract more immigrants by creating environments that welcome ethnic diversity (Entrepreneurial Policy Digest, 2014, 2).

Cultivate Human Capital

Studies show that “high school and college completion is important to startup rates” (Entrepreneurial Policy Digest, 2014, 2). Henrekson and Sanandaji (2014) show a strong correlation between higher education and “innovative entrepreneurship.”

| Characteristics of American billionaire entrepreneurs: Educational Attainment |  |
|---|---|---|---|
| Educational Attainment (% (Aged 25+)) | Billionaire Entrepreneurs | Self-Employed | Salaried Worker |
| High School or Less | 6.1 | 31.6 | 36.8 |
| Some College | 10.4 | 17.6 | 17.1 |
| College Degree | 38.5 | 34.3 | 33.6 |
| Advance Degree | 45.0 | 16.5 | 12.5 |


Forty-five percent of “billionaire entrepreneurs” had advanced degrees while only 16.5% of the self-employed did. This study suggests that educational attainment has a significant impact on entrepreneurship quality. Policies that support secondary and higher education can positively impact both the quantity and quality of entrepreneurship.

Connect Entrepreneurs with Resources.

The local environment can help budding entrepreneurs by having programs that “facilitate network formation, peer learning, and mentorships” (Entrepreneurship Policy Digest, 2014). There are a number of resources in the Central Wisconsin region to help entrepreneurs get started.

At the University of Wisconsin-Stevens Point, the Small Business Development Center offers services to both startup and existing businesses throughout the nine county North Central Wisconsin region. These services include entrepreneurial training programs, workshops/conferences, confidential advising, and trade area mapping. Trade area mapping uses GIS software to help businesses target their customer base. Go to www.uwsp.edu/conted/SBDC for more information.

Last August, Marty Loy, dean of the College of Professional Studies, received a grant and organized A New Business Model for UW-Stevens Point: UWSP Entrepreneurial Summit. The summit brought together UWSP faculty, administrators, staff, and local business and governmental partners to collaborate on ways to make UWSP a more entrepreneurial university. The grant also funded Entrepalooza 2014 where a group of students met to learn about entrepreneurship. The event has inspired the creation of a student-led entrepreneurship club.

Other local efforts include the creation of the Center for Entrepreneurship and Creativity by the Members of the Arts Alliance. The center is a “creative incubator [that] aim[s] at keeping young professionals in the community to help trigger additional economic growth” (Makuski, 2015).

The Entrepreneurial and Education Center located in Wausau is a non-profit organization provides “one-stop” services to help new and existing ventures thrive in the Wausau and greater Central Wisconsin region. The center runs an Entrepreneurial Boot Camp that provides skills and training to new entrepreneurs. Go to the following link for more information: www.growingyourbusinesswausau.com/page/about.

Conclusion

Our economic well-being depends upon having a healthy and vibrant entrepreneurial sector. Societies need to find ways to encourage entrepreneurs to engage in this process of economic experimentation. Paul Romer summarizes what successful societies have done to promote entrepreneurship. “The key to the story is that humans have created a market system, supported by hybrid institutions like the university and the research and development lab. Together these institutions turn self-interest into a powerful force for the improvement of everyone’s lives. This human invention is far more important than the transistor or the steam engine, for it gives us all other inventions” (Romer, 1993).
References


MISSION AND VISION

The mission of the UWSP Central Wisconsin Economic Research Bureau is to foster economic development by bringing timely economic analysis to our region, focusing on Marathon, Portage and Wood counties.

The mission has been accomplished through the publication of Economic Indicator Reports. These reports are compiled and released for each county in Central Wisconsin.

The CWERB aspires to be Wisconsin’s premier research center focused on regional economic development.

HISTORY

The CWERB is a nonprofit organization founded in October 1983. Its operating budget comes from the private sector and the UWSP School of Business and Economics. The CWERB also represents an important part of the outreach efforts of the UWSP School of Business and Economics.

SOURCES OF FUNDING

• UWSP School of Business and Economics
• BMO Harris Bank of Stevens Point
• BMO Harris Bank of Marshfield
• BMO Harris Bank of Wausau
• Centergy Inc. of Wausau
• Community Foundation of Greater South Wood County - Wisconsin Rapids

SCHOOL OF BUSINESS & ECONOMICS

• Enrollment of 1,000 students; More than 30% of our students come from Marathon, Portage and Wood counties; approximately 50% of our graduates stay in the three-county area

• The SBE is in the pre-accreditation phase by the Association to Advance Collegiate Schools of Business (AACSB), once completed, SBE will be among the top 18% of all business schools in the world.

CWERB CLIENTELE

• Central Wisconsin business firms are the most crucial component in the economic development of our region. Business firms are keenly aware of the important role that informed decision making plays in any developmental strategy.

• Private sector organizations devoted to economic development in Central Wisconsin, such as area chambers of commerce and their affiliated economic development agencies.

• Public sector organizations devoted to economic development in Central Wisconsin.

• The general public, in order to make informed decisions, take advantage of the unbiased information and analysis about the economy.

• The CWERB employs student research assistants which provides an excellent educational setting while also providing the opportunity for students to earn funds toward education. Faculty, staff and students at UWSP utilize the reports and resources of the CWERB.

CWERB ACTIVITIES

The dissemination of the CWERB research takes place through various hard copy publications, electronic media reports and presentations. For example, the Economic Indicator Reports are presented in Marshfield, Stevens Point, Wausau and Wisconsin Rapids. The audiences consist of business, political and educational leaders.

The Economic Indicator Reports also contain a special report section that is devoted to a current issue in economics. These special reports are usually presented by UWSP faculty.

Substantial newspaper, radio and television coverage of the publications and presentations have been instrumental in focusing attention on the School of Business and Economics. Chief Economist Randy Cray has been interviewed by the local media as well as the Chicago Tribune and CNN Radio on a variety of economic matters.