

7 ways entrepreneurs drive economic development

[Business](#), [Entrepreneurship](#)



There's been a lot of talk lately about the future of work. Much of the time, these conversations are fueled by the anxiety many of us share as we try to understand the impact new technologies will have on our industries. We tend to reduce these discussions to binary arguments -- how smart machines will do extraordinary things to improve our lives, or how this or that innovation will make human labor obsolete, creating a jobless dystopia. Both conclusions strike me as somewhat specious. It's not that these concerns aren't valid, but they oversimplify a more complex phenomenon.

Why do entrepreneurship and innovation fuel economic growth? On the surface, the answer seems intuitive: entrepreneurs create businesses and new businesses create jobs, strengthen market competition and increase productivity. Here in the United States, entrepreneurism is part of our American identity and self-image. It's non-partisan, too; both sides of the political spectrum celebrate entrepreneurial small business as a fount of innovation and growth. Entrepreneurism is seen as a route to upward mobility -- a way for average people to build wealth. Let's take a closer look.

1. Investing in products and services people need.

What motivates a person to start a new business? According to traditional models, entrepreneurs create new businesses in response to unmet needs and demands in the market. That is, there is an opportunity to provide a product or service that is not currently in existence, or otherwise available. Economists refer to these business-starters as "opportunity" entrepreneurs in order to distinguish these individuals from those who start businesses for lack of better work opportunities. So-called "opportunity" entrepreneurs,

who launch new enterprises in response to market needs, are key players when it comes to fostering economic growth in a region. They enable access to goods and services that populations require in order to be productive. This is not to ignore “necessity” entrepreneurs that launch enterprises because they have no other options. Both can and do contribute to economic growth.

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2. Providing employment opportunities.

New businesses need to hire employees. They create jobs and these economic opportunities uplift and support communities through increasing the quality of life and overall standard of living.

3. Commerce and regional economic integration.

Technology has made it possible for small, entrepreneur-led businesses to expand into regional and global. When new businesses export goods and services to nearby regions, these enterprises contribute directly to a region's productivity and earnings. This increase in revenue strengthens an economy and promotes the overall welfare of a population. Economies that trade with one another are almost always better off. Politics aside, engaging in regional and international trade promotes investment in regional transportation and infrastructure, which also strengthens economies. This has never been more true than it is today, as we live in an increasingly interconnected global economy. Even for a large and advanced economy like the United States, foreign markets have a significant role. Foreign trade, according to some estimates, is responsible for over 90 percent of our economic growth.

What exactly is innovation and how does it promote economic development? Under what conditions, do entrepreneurs innovate? A widely-accepted definition measures innovation using a set of criteria including how many new products are invented, the percentage of high-tech jobs, and the size of the talent pool available to tech industry employers. More recently and increasingly, our definition of innovation has expanded to include the development of new service offerings, business models, pricing plans, and routes to market. While the role that startups and young tech companies play in job creation is well documented, their contribution to overall productivity is less intuitive and not discussed as often. To better understand how innovation contributes to economic development, I've unpacked a few examples below.

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4. New technologies promote efficiency.

The ability to turn ideas into new products and services that people need is the fount of prosperity for any developed country. Economic growth, generally speaking, is driven by new technologies and their creative applications. Periods of rapid innovation historically have been accompanied by periods of strong economic growth. The impetus of innovation is the greatest natural resource of all: the human mind. Creating innovative products and solutions requires an educated population and an environment where collaborative work can take place. In addition to being good for business, education increases workforce creativity and quality of life.

5. Addressing environmental challenges.

Innovation is (and will continue to be) crucial when it comes to addressing the enormous environmental challenges we face today: combating climate change, lowering global greenhouse gas emissions, and preserving biodiversity in the environment. Without power for extended periods of time, commerce comes to a halt. Without water, we cannot live. Reliable access to these innovations (such as irrigation technology, electricity, and urban infrastructure) increases productivity and enhances economic development.

6. Innovation impacts socio-economic objectives.

Innovative business practices create efficiency and conserve resources. Innovation in agriculture is especially relevant for addressing socioeconomic challenges (in addition to encouraging economic growth). In the U. S., for instance, we waste billions of dollars annually due to inefficiencies and uncompetitive practices in our healthcare system. Hopefully, new ideas and innovations in the future will address these problems, resulting in further reforms. When this occurs, Americans' overall health and quality of life will benefit, and so will our economy if our wasteful healthcare costs also decrease.

7. Innovation happens where there is competition.

In essence, there is a positive feedback loop among innovation, entrepreneurship, and economic development.

New and growing businesses represent the principal sources of job creation and innovative activity in an economy, two factors that generally result in the rising standards of living for all.

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However, it's important to understand that entrepreneurship and innovation are dependent on access and participation. For entrepreneurs to bring new ideas to life, they need access to education and a level-playing field on which to compete. In this vein, the role of government leaders and public policy is to create conditions that allow more entrepreneurs to start businesses by implementing policies which nurture that environment so those businesses can grow. Economic growth suffers when entrepreneurial activity is unevenly spread socio-economically, demographically, and geographically. Under the right conditions, entrepreneurs have an incredible power: they help regional areas prosper economically, and they also serve society as they help engineer innovative solutions to problems and challenges.