

Entrepreneurship and the business cycle

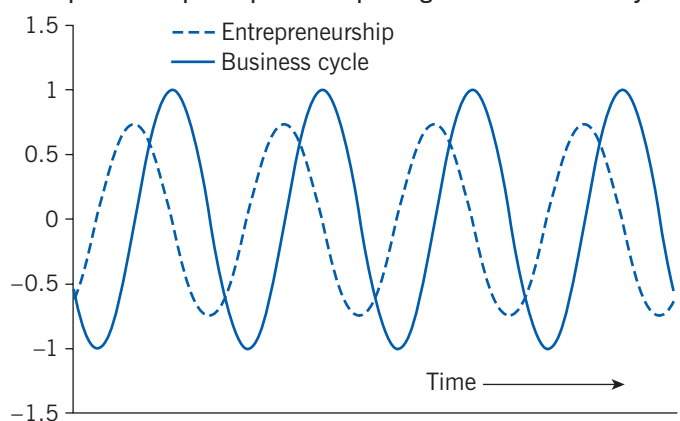
Nascent entrepreneurship can have some predictive power over the business cycle

Keywords: entrepreneurship, business cycle, precyclical, nascent entrepreneurship

ELEVATOR PITCH

Entrepreneurship has a cyclical component, raising two questions. Is the entrepreneurship cycle related to the business cycle? And is there causality? A two-way relationship between entrepreneurship and the business cycle would be in line with the two faces of entrepreneurs: as agents of change creating upswings (opportunity entrepreneurship) and as rational actors escaping unemployment by setting up a business (necessity entrepreneurship). Nascent entrepreneurship can indeed be precyclical, implying that the two faces of entrepreneurship also show up in the business cycle, with promising policy implications.

Entrepreneurship can precede upswings in the business cycle



Source: [1].

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World of Labor

KEY FINDINGS

Pros

- ⊕ Opportunity nascent entrepreneurship is precyclical in the business cycle.
- ⊕ In recessions the innovations of start-ups can boost the economy.
- ⊕ Entrepreneurship can have some predictive power over the business cycle since owning a business signals trust in future economic conditions.
- ⊕ An upswing in opportunity nascent entrepreneurship may advance an upswing in the business cycle.
- ⊕ Policies aimed at stimulating entrepreneurship could influence the business cycle.

Cons

- ⊖ Unlike opportunity nascent entrepreneurship, necessity nascent entrepreneurship is not precyclical, nor is it correlated with fluctuations in the business cycle.
- ⊖ In the booming phase of the economy, entrepreneurs become hesitant.
- ⊖ There are no empirical studies examining causation.
- ⊖ The hypothesis of precyclical does not imply causation, for entrepreneurs may merely foresee and react to the course of the business cycle rather than cause it.

AUTHOR'S MAIN MESSAGE

The relationship between nascent entrepreneurship and the business cycle is complex. Nascent entrepreneurship is more volatile than incumbent entrepreneurship, creating more opportunities for interplay with the business cycle. Precyclical—entrepreneurship preceding a business cycle upswing—seems plausible. Policy measures nurturing opportunity nascent entrepreneurship could thus have a beneficial influence on the business cycle in subsequent years. Necessity nascent entrepreneurship, in contrast, does not seem to have a cyclical component and therefore requires a different policy response.