

Entrepreneurial spirit can help communities better withstand trade shock

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Communities with more self-employed workers can better withstand economic shifts caused by imports than communities that have fewer self-employed people, according to Penn State economists.

In a study of how recent Chinese imports affected the U.S. labor force, the researchers found that counties with higher rates of self-employment suffered fewer negative effects, such as reduced job growth, from increased imports than counties with lower self-employment rates, said Stephan Goetz, professor of agricultural and regional economics, Penn State and director of the Northeast Regional Center for Rural Development. The researchers used self-employment as a way to measure the relative entrepreneurship in those counties, he added.

"Counties with more self-employed workers and more entrepreneurial workers seem to be better able to adjust to a trade shock—or, the adverse short-term effects that imports can have on the economy—and are better positioned to effectively deal with the shock, compared to counties with fewer self-employed," said Goetz. "This seems to be an additional benefit that self-employment brings into communities, along with other benefits, such as stronger economic networks."

The self-employed may be better positioned to recognize changes in the market and find niches they can exploit, said Goetz. For example, instead of trying to compete with an influx of inexpensive foreign imports, a self-employed furniture maker could see this shift as an opportunity to aim products at a smaller but more lucrative custom

furniture niche.

"What we think is happening is that self-employed workers are more flexible and better able to adapt," said Goetz. "These workers might be able to move into new niches that are created when economic shifts happen."

Conventional thinking tends to back the idea that communities that house big, stable businesses can better withstand trade shock, said Goetz, who worked with Jiaochen Liang, doctoral student in agricultural and regional economics. However, counties with bigger corporations also tended to have less growth in wages, salary and employment.

"Many people believe that innovation in growth comes from the bigger companies, but that doesn't appear to be true universally, according to our findings," Goetz said. "When you just have a wage-and-salary employed workforce, they may have very specific skills and may not be ready when the economy changes."

The researchers, who reported their findings online in *Small Business Economics*, also found that counties with larger minority population tended to grow more slowly over the period they studied—from 2000 to 2007.

In addition to considering tax breaks and subsidies to mitigate problems caused by trade shocks, policy makers may want to better coordinate incentive programs to promote self-employment to reduce problems associated with cheaper imports.

"Our empirical results suggest that local entrepreneurial activities or self-employment can also reduce adverse impacts of trade shocks, and it is advisable to better coordinate these kinds of policies in order to achieve greater policy efficiency," the researchers said.

This study explored how entrepreneurial communities fared specifically during a period of increased Chinese imports, which is just one form of economic shock. Future research could explore the relationship between entrepreneurship and economic resilience during other [economic](#) disturbances.

The researchers used county business pattern data from the U.S. Census Bureau and wage and salary data from the Bureau of Economic Analysis that covered 2000 to 2007, a period of significant increase in Chinese imports just prior to the recent Great Recession. The U.S. Census provided data on self-employment and total employment. The U.S. Department of Agriculture supported this work.

Provided by Pennsylvania State University

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