

## **U.S. needs to encourage entrepreneurial process**

By Dr. Timothy G. Nash

According to the U.S. Bureau of Economic Analysis (BEA), the U.S. economy finished the first quarter of 2015 at a disappointing 0.2 percent GDP growth rate ... dramatically lower than what most economists had expected to begin the year and a far cry from the disappointing 2.2 percent GDP growth for the fourth quarter 2014. Chinese GDP for the first quarter of 2015 came in at 7 percent growth, down from 7.3 percent growth for the fourth quarter of 2014 and the lowest pace of growth for a first quarter in six years. The bright spot globally so far in 2015 is the Eurozone Area where economic growth for the first quarter came in at 1.4 percent, a full point above the same period in 2014.

### **Key April/May Data Positive and Negative Signs**

The U.S. economy continues to search for focus and a clear direction. U.S. personal income was flat in March 2015 with income growing only slightly in January and February. The final figures for 2014 U.S. trade were released in April with the U.S. realizing a \$410 billion trade deficit, \$10.3 billion greater than 2013. However, U.S. personal income was up 3.9 percent in 2014 according to a recent report from the BEA, substantially above the 2 percent income growth in 2013. Economic comeback states like Michigan surprisingly outperformed the national average for income growth in 2014. Since the trough of the great recession of March 2009, the Standard & Poors 500 has increased by roughly 200 percent, the NYSE Composite Index is up 165 percent, and the Dow Jones Industrial Average has climbed more than 165 percent. However, the rate of growth for 2015 has been minimal, leaving concern for a stock market correction on the minds of many on Wall Street.

The unemployment rate fell to 5.4 percent in April and new job growth came in at a respectable 223,000 jobs after poor job creation during the first quarter of 2015. The unemployment rate is the lowest it has been in almost 7 years. Historically, 5.1 percent unemployment means the economy has reached full employment and is close to or at its "optimal" level of functionality. It does not feel as if our current economy is close to optimality, especially with the current labor force participation rate at its lowest level since the 1970s at 62.8 percent. Our labor force participation rate is more than 10 points below the labor force participation rate of the United Kingdom while our GDP growth rate lags behind our post World War II average annual rate of 3.2 percent.

### **Current Issues**

Some of us had the chance to attend the 2015 annual Michigan Chamber of Commerce Foundation dinner in Lansing recently. The keynote speaker was

GOP presidential hopeful and former Hewlett-Packard CEO Carly Fiorina. Fiorina delivered a wonderful speech focused on leadership and business growth as key elements for an American economic renaissance.

On the way home, we had a spirited discussion centered around Fiorina's talk and the concepts of invention and innovation. We concurred that all too often today many lump the above under the umbrella of innovation, losing the key distinction between invention and innovation and thus the cornerstone or foundation of the American economy since inception. Fiorina focused much of her message on innovation and entrepreneurship while we believe the formula for America success is an economic troika consisting of invention, innovation and entrepreneurship.

Consider the following, invention is the creation of a good, service or process that is new and unique. For all practical purposes, it exists for the first time. Thomas Edison is an example of a great inventor. Innovation happens when someone improves upon or makes significantly better something that has already been invented. Steve Jobs and Bill Gates are examples of great innovators. Lastly, an entrepreneur is a person who owns, organizes, manages, leads and assumes the risks and rewards of a business. The entrepreneur sees opportunities that few others do, and attempts to bring a business to fruition successfully.

Therefore, the economic game-changer is an invention in the hands of an entrepreneur who successfully brings it to market. Once invention occurs, competition and innovation will surely follow. Alexander Graham Bell invented the telephone more than 100 years ago, and look what the iPhone and the Google Droid afford us today due largely to the process of innovation.

The Encyclopedia Britannica lists the top 318 inventions of all-time ranging from the automobile and penicillin to refrigeration and the airplane. Think of all the innovation that has come from the world's great inventions ... it is simply mind-boggling! Life expectancy has increased from roughly 46 years in 1900 to more than 82 years today. Invention, innovation and the entrepreneur have clearly been the key for enhanced life expectancy and the greater quality of life we enjoy today. It may surprise you that almost 52 percent of the top inventions of all time were invented in America, a country less than 250 years old, a country that makes up less than 4 percent of the world's population ... it surprised us. The American passion for invention is special; it is exceptional and probably why the United States has survived and prospered in ways most countries can only dream of.

Why has the United States and not some other country been the engine for invention, innovation and entrepreneurship over the last 200 years? Why not

Japan? Germany? China? France? We believe it has happened in the United States because our political and economic system has historically welcomed, dare we say encouraged, business and the entrepreneurial process. America has been a beacon for invention, innovation and entrepreneurship for Americans by birth as well as for Americans by choice. The question of the day is, “Are we still that beacon?”

### **Conclusion**

We worry that the conditions necessary for entrepreneurs to thrive and to succeed may no longer be favorable in the United States. Today, the United States is not in the top 20 countries for average math, science and language scores at the high school level and yet we spend more on K-12 education than all but a handful of countries, according to the Organization for Economic Cooperation and Development (OECD). The growing regulatory burden on American business makes it very difficult to establish, maintain and grow businesses in the United States, especially ones with a complex scientific underpinning. Finally, American inventors, innovators and entrepreneurs are taxed at a disproportionately high rate relative to their global competitors and just about every other country in the world. Numerous studies show that the rest of the world is narrowing the lead the United States has in annual patent production. Certainly improving our education, regulation and tax policies would help maintain and even grow our existing but narrow lead in key patentable technologies before it is too late.

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