Foreword: entrepreneurship and global growth

What the world needs now is jobs. Although global population growth is slowing, the exceptionally large cohorts born during the 1980s and 1990s – years of high fertility in most countries of the world – are now ready to join the labor market. Thus, we are still in the midst of a labor force boom that is not likely to end for another 30 or 40 years.

Moreover, this is happening unevenly in different regions of the globe. In the developed world, the population in the 15–59 age group – the prime labor force years – is declining, and the labor force in the developed countries is expected to decline by almost 15 percent between 2010 and 2040. At the same time, the labor force in the developing world is still rising rapidly and is expected to increase by 50 percent by 2050. This excludes China, whose labor force has already stopped growing. In the least developed countries – the ‘bottom billion’ of the world’s population – the labor force is projected to double during this same time span. (See Figure 1.)

In sub-Saharan Africa alone, the population aged 15–59 will increase from 455 million today to over one billion by 2050. Thus, essentially all of the growth in the world’s labor force in the coming decades will occur in the less developed countries, again excluding China. In these societies, the number of 15– to 59-year-olds will increase by 1.3 billion in the next 40 years. This leads to the question of how many jobs they will need to create and how fast.

The world clearly stands on a precipice. With the number of workers in the developed world set to begin an unprecedented decline and the number in poorer nations rapidly increasing, global economic growth depends on putting the workforces of the developing nations into productive jobs. If those jobs do not appear, the massive potential labor force in the developing world will face high levels of unemployment or low-productivity work. Their frustration will likely spill over into radicalism and political protest, creating a wave of chaos across the world.

How can more than one billion jobs be created in the developing world within this timeframe, especially in the least developed countries, where poverty and massive unemployment are already the dominant facts of economic life? The approaches used by the development community in the last 50 years have generally not been effective. Simply making capital more readily available in the form of grants and loans had created debt and squandered resources. Building roads, dams and power stations with the idea that if rich countries build them, jobs will come, also proved a misguided hope. More recent approaches, such as microcredit, improving the rule of law, and supporting smallholder property registration, all of which were aimed at jump-starting the formation of small businesses, have helped in many localities, but they have yet to produce the increase in large-scale, labor-intensive industries that will be required to provide jobs where they are most needed.

The one solution that can provide jobs on that scale lies in a combination of innovation and entrepreneurship. The research on economic growth over the last 30 years has strongly emphasized that rapid job creation comes from rapidly growing companies. Therefore, only by founding fast-growing new companies that provide new products or services that are widely desired will today’s developing countries be able to provide the jobs sought by their still rapidly growing populations. Most such...
companies are created by exploiting new market niches and offering novel products, services or processes that have few competitors or substitutes. The combination of having novel products, few immediate competitors, and the high demand created by new markets can sustain high levels of profitability, which will provide the capital and the incentives for the rapid expansion of production and employment.\footnote{Ács (2002); Ács and Armington (2006); Audretsch et al. (2006); Ács et al. (2009); Braunerhjelm et al. (2010); and McCann and Ács (2010).}

Some economists believe that developing economies should exploit their comparative advantages in low-cost labor and the production of primary products, while advanced economies function as the sites of technical innovation and entrepreneurship that create new industries. However, this approach has not been, and will not be, sufficient to lift the developing world and meet its employment challenges. Competing with low-cost labor was effective when the rich world seemed to be able to absorb an unending stream of cheap imports, and only a few nations actually followed this path. This strategy will hardly work when a billion new workers are looking for employment while the economies of the rich world – aging and paying down their accumulated debts – is shifting from rapid to tepid growth. Moreover, relying on the production of primary product condemns countries to endless cycles of commodity boom and bust – as countries from Russia to Zambia have discovered, to their great sorrow. To sell into the rapidly growing markets of the emerging nations will require new products for these new markets that are cheaper, easier to maintain and vastly more efficient. Only innovation and the creation of new enterprises are likely to offer a long-term solution to the economic needs of developing countries.

If the key to future global economic growth is the spread of innovation and entrepreneurship in the developing world, how can that spread be encouraged? The first steps are to determine the conditions that favor entrepreneurship, devise a way to measure them, and then assess the gaps and improvements needed in each country. That is what the Global Entrepreneurship and Development Index can now provide for the developing world.

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Note
1. \cite{Ac02,AcAr06,Audretschetal06,Acetal09,Braunerhjelmetal10,MccannAc10}.

References
\cite{Ac02,AcAr06,Audretschetal06,AcBraunerhjelletal09,Audretschetal10,MccannAc10}.

Global Entrepreneurship and Development Index 2011  
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