

ECONOMIC IMPACT: What factors influence future entrepreneurs?

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POINT OF VIEW

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Entrepreneurial activity is a catalyst of economic growth and an increasingly important component of an economy where change is ever present.

Regions with more entrepreneurial activity grow faster than those with less. That's because entrepreneurs often create new products and often implement innovations that lead to productivity gains.

In fact, the fastest-growing regions in Virginia have the highest ratio of small business starts relative to small business failures.

So why do some regions persistently have more entrepreneurs than others? Startup trends in Northern Virginia have been consistently ahead of the state since 1990, while Southside Virginia has lagged.

One explanation is that regions with a higher percentage of residents with college degrees generally see more entrepreneurial activity because those individuals have more skill to create new products and markets.

An article published in the November 2005 Journal of Regional Science by economist Simon Parker provides another explanation for some regions persistently having more entrepreneurial activity.

In his explanation, people choose between paid employment and entrepreneurship because region-specific occupation structures encourage individuals to make choices that self-perpetuate the entrepreneurship bias. Part of the persistence occurs because individuals make their education choices at a time when they do not fully realize their ability to be entrepreneurs.

Parker argues that people typically do not realize their ability to be an entrepreneur until after they begin working. As a result, there is a "herding of human capital" that occurs at the regional level.

Parker's explanation makes sense. Think about the college students you know. They get most of their information about occupation choices from parents, relatives, and neighbors, and most live in the same region. More than ever before, though, information from the U.S. Bureau of Labor Statistics, Department of Education and other sources is readily available through the Internet.

One would think that students would use that information to help form their career choices. Based on the number of students enrolling in forensics and criminal psychology, however, it appears that the television glamour of "CSI" is a bigger influence than actual facts.

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