

ENTREPRENEURSHIP POLICY DIGEST

JULY 13, 2016

A FAIR FIGHT: ENTREPRENEURSHIP AND COMPETITION POLICY

An unrelenting entrepreneur disrupting an entire industry; two community hardware stores running promotions to attract customers; a growing business trying to enter a new market. These are pictures of economic competition in America.

Thriving competition drives new innovation, incentivizes product quality, and [unlocks new opportunities](#). But when competition wanes and barriers to market entry increase, entrepreneurship is a first casualty. Consumer harm and a loss of economic productivity will follow.

Today, numerous economic indicators are flashing warning lights that competition is diminished. New firm formation has [struggled to recover](#) to pre-recession levels, as [firm deaths are as likely as firm births](#). The most profitable American firms are earning an increasingly [greater share of industry profits](#) and are more likely to [perpetuate that level of profit-making](#). Industries that used to be represented by tens of firms have shrunk to [a mere handful](#). A dearth of firm activity and shortsighted policy choices have weakened true competition with deleterious effect. This hurts entrepreneurs and weakens our nation's economic potential.

Reinvigorating economic competition means the full benefits of entrepreneurship—from new job creation to innovation to lower prices—will flood the economy, bringing increased opportunities and prosperity to Americans. Policy must protect equality of opportunity and not preserve a firm's market power or subsidize under-performing firms in the name of "competition".

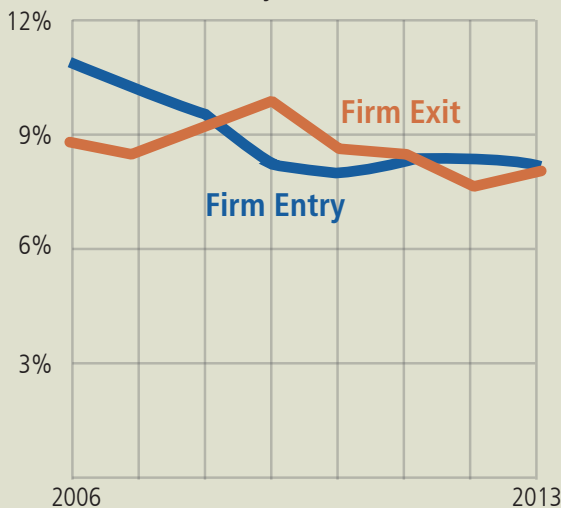
The question is, how to restore competition? Here are three areas where more competition can benefit entrepreneurs.

PROTECT COMPETITION, NOT CONCENTRATION

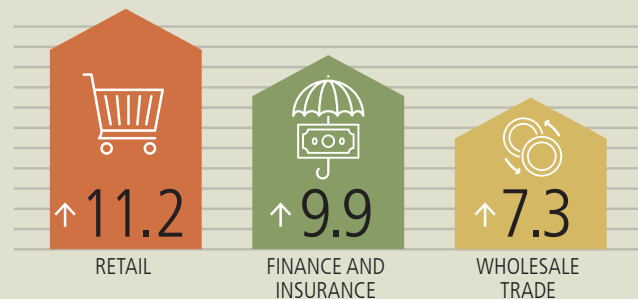
There is [reason to believe](#) that antitrust enforcers have given too much deference to claims of cost-savings and consumer benefits in mergers and not enough to preserving competition that would be lost by a merger. [Adjusting that enforcement approach](#), especially in industries where intellectual property plays an important role, can have positive consequences for young companies trying to compete with established firms and discourage efforts by established firms to buy their competition.

COMPETITION NEEDS A BOOST

Firm Entry and Exit Rates



Percentage of Industry Profit
Increases by Largest Firms in Biggest Industries



Global Merger and Acquisitions Activity



LABOR MARKETS

- A competitive and fluid labor market allows entrepreneurs to start new firms and allocates the skills of workers in the most productive way.
- Americans are staying put and not switching jobs as frequently, according to [measures of labor market dynamism](#) that combine hires and separations to show overall movement between jobs.
- Non-compete agreements [restrict labor mobility](#) by forbidding would-be-entrepreneurs from founding a business that competes with their employer. These restrictions at least delay, and may block, the formation of new businesses.

NEW ENTRANTS

- The entry of new firms into markets contributes to economic dynamism, spurs growth, and speeds improvements in welfare.
- The U.S. economy has become increasingly dominated by older businesses. Today, 57 percent of employment is in firms established before 1980, which only comprise 17 percent of all firms.
- One way incumbents ward off new entrants is through occupational licensing, which [limits the entry of entrepreneurs and new businesses](#) into the economy by requiring entrepreneurs to take classes, pass tests, and pay fees before they can legally open their business.
- State boards that regulate licensed occupations can further restrict competition when they are captured by industry practitioners. This was the case in 2015 in North Carolina, where the Federal Trade Commission targeted the state's dental board for [violating antitrust law](#). The state's board was made up of dental professionals, elected by other dental professionals, and attempted to prohibit individuals from selling teeth whitening kits without a dental license. State boards are only protected from antitrust violations if they are carrying out clearly expressed state policy and are [under active state supervision](#).

INNOVATION

- Innovation is more likely to occur in a competitive market where opportunities and resources for developing [new products \(and to earn profits\) are up for grabs](#).
- When patents and other forms of intellectual property protection become overly broad, legal challenges are easier to bring and [increase in number](#). This threat of litigation by patent holders dampens incremental innovation of the original technology.
- Intellectual property rights can be critical in shaping the environment for innovation if they reduce the incentive to compete. Litigation from non-practicing entities holding patents between 1990 and 2010 resulted in [half a trillion dollar loss in wealth](#), mainly to technology and software companies stemming from reduced innovation incentives.

PURSUe POLICIES THAT PRIORITIZE COMPETITION

PRESERVE ENTREPRENEURIAL ENTRY

- [Limit the scope, duration, geography, and eligibility](#) of non-compete agreements.
- Examine what occupational licenses truly protect public health and safety, and eliminate those that are unnecessary or replace them with less burdensome regulation. The principle to follow is [appropriate protection with minimal burden](#).
- Require licensing boards that oversee regulated professions to be accountable to elected officials and composed with greater numbers of non-licensed practitioners.

DON'T FAVOR BIG OVER SMALL OR OLD OVER NEW

- Reconsider the [targets and effectiveness of economic development tax incentives](#), which overwhelmingly go to [large businesses](#) and therefore make [entrepreneurial competition more difficult](#).
- [Allow laws and regulations to change](#) as entrepreneurs innovate and bring new products, services, or business models to market.

RESIST RENT-SEEKING

- Avoid carve-outs, exemptions, or other special privileges that competitively advantage a single or select few businesses.
- [Bolster congressional capacity](#) to counter rent-seeking by increasing staffing and salary.

FOR MORE INFORMATION

Click on the links for access to the following resources, or contact Jason Wiens at jwiens@kauffman.org:

- See how [antitrust policy has raised new challenges](#) for mid-sized cities like St. Louis.
- Read more about the [negative effects of rent-seeking](#) in Kauffman's New Entrepreneurial Growth Agenda.
- Read the rollout of the American Antitrust Institute's project on [Antitrust and Entrepreneurship](#).
- Explore Kauffman's [State of the Field](#) to learn about more ways to stoke innovation and new technologies.



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