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# Monopoly Capital and Entrepreneurism: Whither Small Business?

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## Abstract

There has been a growing literature over the last several years on a possible decline in US entrepreneurship and the reasons for it. US small business formation and the jobs created by small businesses are supposed to be key elements in US economic growth. Many claim that without growth in small businesses and the jobs they provide that the US economy will either not grow at all or only very slowly. Therefore, small business formation is a possible key to understanding capitalism in the 21<sup>st</sup> century since under monopoly capital there is claimed to be a tendency toward economic stagnation. Some of the general causes mentioned for less US entrepreneurship include high levels of personal debt (mortgages, student loans, credit cards, etc.) among the US populace and the increasing challenges that small businesses face against larger ones. Another concern is the amount of increasing business regulation and government presence in the US economy with which small businesses struggle more than larger ones. If entrepreneurship requires risk taking, then high levels of household debt and large, well-financed potential competitors may be hindering prospective entrepreneurs. This exploratory paper finds that high levels of household debt, the increasing size of existing businesses, and government size are highly correlated with the slowdown in the entry rates of new firms into the US economy since the late 1970s as well as with a slowdown in the job creation rate of these firms.

**Keywords:** big business, corporations, entrepreneurship, household debt, monopoly capital, small business.

**JEL Codes:** B51, L26

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## Introduction

Entrepreneurship plays a central role in mainstream as well as heterodox economic theories.<sup>1</sup> The pursuit of profit is a primary motivator for entrepreneurs, and new businesses not only serve the needs of an expanding population but more importantly serve as a major source of product innovation, which in turn is a source of rising standards of living (Harrison 2015, Deckera, Haltiwangerb, Jarmin, and Miranda 2016). In forming small enterprises which usually later grow into larger ones, entrepreneurs create new products, markets, profits, and employment that help to keep an economy dynamic and thriving.<sup>2</sup> As the businesses of one generation of entrepreneurs reach a maturity or saturation stage of the product life cycle (Levitt 1965), new businesses are formed every year which in turn should keep an economy expanding. Despite numerous small (and less numerous large) business closures every year, there are enough new small businesses that survive to help guarantee that a free enterprise or capitalistic economy continues to grow (Haltiwanger, Jarmin, and Miranda 2010, Harrison 2015, Deckera, Haltiwangerb, Jarmin, and Miranda 2016). Therefore, within neoclassical or mainstream economic theory, entrepreneurship and the flourishing of small businesses are two ways that a capitalistic economy avoids stagnation and decline.

Within the general Austrian economics school of thought, entrepreneurship is also one of the main focuses of economic theory (Schumpeter 1942 , Blaug 1997). As with mainstream economics, the

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<sup>1</sup> Although some definitions of entrepreneurship focus solely on those people and enterprises which offer very new and innovative products, a much broader definition includes any person or enterprise which is a new, small business that enters into either a new type of product field or an existing one. This paper uses the latter definition since in a survey of the literature it is found that when it comes to new firm and job generation and growth, not much of a distinction is made between new enterprises which offer brand new products or concepts versus those that offer existing types of products or slight variations of existing ones. Therefore, this paper will use the terms new small businesses and entrepreneurship interchangeably. Admittedly, however, most examples of entrepreneurship in the popular press and media tend to focus on those enterprises which offer the “breakthrough” products or services even though, for example, one could argue that smartphones and services offered by Uber and Lyft are modifications of the conventional cell phone and traditional taxi services.

<sup>2</sup> The product life cycle theory (Levitt 1965) states that as new, innovative and successful products are introduced into an economy, the industries and firms that produce the new products initially expand in terms of employment, sales, and household consumption (the introductory and growth stages of the cycle). Later such growth begins to slow until a “maturity” stage of the product life cycle is reached wherein sales, employment, profits and market shares plateau, and the number of competitors within an industry usually shrinks. If a product becomes obsolete or is replaced by a new innovation, the industry may go into decline and possibly disappear from the marketplace.

role of the entrepreneur is crucial in bringing about innovation and rising standards of living. Additionally, the entrepreneur is also seen as an antidote to large business concentration in that established industries are sometimes usurped by upstart business and new technologies that replace older businesses and technology. According to Shumpeter, the process of “creative destruction” is one in which older industries are replaced by newer ones thanks to the decline of the older industries and their products and the rise of new products due to entrepreneurship. (Shumpeter 1942)

For institutional and Marxian schools of thought, entrepreneurship and small business are generally and often discussed within the framework of competitive markets with many small firms over time disappearing and giving way to concentrated and much less competitive markets with only a handful of large firms or just one large firm (Marx 1867, Veblen 1904, Baran and Sweezy 1966, Galbraith 1967). The concentration of industries and markets with few firms or only one firm is an important theme<sup>3</sup>, and is one of the points of emphasis of the neo-Marxian “monopoly capital” school of thought<sup>4</sup> (Baran and Sweezy 1966, Foster 2014). This school of thought also claims that in modern times any innovation and new products provided by small businesses are usually bought and/or adopted by the larger firms so as to help the larger firms keep up with new technology and innovation. In fact, new entrepreneurial firms are often bought up by existing, larger firms (Baran and Sweezy 1966, Foster 2014). This in turn limits the impact of up and coming firms on existing market concentration. There are exceptions in which small firms grow into larger ones and become part of a handful of dominant firms in a marketplace, such as Apple and Microsoft revolutionizing the computer industry. Yet the pattern of market concentration on the part of one or several firms over the longer run is argued to be a constant of a modern economy by the monopoly capital school. At one time this was true within individual nations, but is now occurring on a global scale as worldwide oligopolies are taking the place of ones that used to exist within individual

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<sup>3</sup> Neoclassical or mainstream economic theory also acknowledges market concentration and power by discussing the market structures of monopolistic competition, oligopoly, and monopoly. Yet some claim that despite this, neoclassical economics focuses on perfectly competitive or contestable markets as an explanation of how most markets operate (Foster, McChesney, and Jonna 2011).

<sup>4</sup> This is also known as the “Monthly Review School” because many of its proponents have an association with the periodical *Monthly Review*.

nations, such as automobile production being concentrated in the hands of several multinational corporations now instead of in the United States as was the case decades ago (Foster 2014). If industries have become more concentrated, and average firm size has become larger, then those wanting to start a small business may think twice in the face of large, potential competitors, especially as the larger firms appear to be winning against their smaller competitors (Foster, McChesney and Jonna 2011, Mitchell 2016).

Additionally, another central theme of monopoly capital theory is that a capitalist economy tends toward stagnation. That is, recessions and slumps are common occurrences, and they occur because of under consumption of the goods and services produced or, similarly, because over production of goods and services. Despite efforts to make up for consumption shortfalls or production surpluses, the economy will eventually head toward a period of stagnation in which production will be reduced and unemployment will rise (Baran and Sweezy 1966, Foster 2014). Before activist government policies were developed to try to counteract demand shortfalls or under consumption, entrepreneurship and new markets were relied upon to keep an economy growing. Baran and Sweezy (1966) wrote that the US economy went through several major growth booms after the US Civil War and up to World War I thanks in part to the growth of the railroad, telegraph, and automobile industries. The 1920s saw another growth wave thanks to the continued growth of the automobile industry and the growth of radio and the beginnings of suburbanization, and after the Second World War, the economy went on another long boom thanks to increased defense spending, the development of the interstate highway system, the further expansion of the auto industry, and the acceleration of continued suburbanization.

Yet each period of high growth was either preceded by or interspersed with periods of economic downturns or stagnation, which according to them mostly occurred because product markets of formerly new and innovative goods had become saturated over time (over production or under consumption), and then profits declined, investment was cut, and jobs were eliminated. Unless there was government intervention, it was possible that recovery would not occur until markets for new products came along and

took off along a growth path. However, this could take some time. Additionally, markets characterized by large firm size and concentration were those that had firms that were somewhat risk averse and did not want to disturb their competitors through new forms of business through innovation. That is, where there is industry concentration, firms within the industry no longer wish to compete against one another aggressively and prefer instead steady profits and market share. Finally, if small business is the source of most of the jobs in the future, then any decline in entrepreneurship could possibly hasten a trend toward stagnation and also slow down any path to economic recovery from a period of stagnation. At the same, bad economic times discourage business formation and risk-taking, so periods of stagnation can cause lower levels of entrepreneurship.

An additional feature of the monopoly capital school of thought is its emphasis on the growth of the finance industry beginning in the 1980s as a medium of investment or economic surplus absorption (Foster and Magdoff 2009, Foster 2014). This industry grew as did the amount of credit card, mortgage, student loan, and other indebtedness. In a nutshell, this industry grew and became more and more profitable compared to others in the US economy thanks to greater borrowing on the part of US consumers and households, which was partially propelled by stagnant wages and standards of living and easy access to credit (Foster and Magdoff 2009, Lambert 2011). Even in spite of the "deleveraging" started by many households since the Great Recession, household total indebtedness was still 80.1% of GDP in 2014 versus 45.3% in 1977, while its peak was 97% in 2007 (Federal Reserve Bank of St. Louis 1977 to 2014). Another possible reason that has been given for the possible decline in entrepreneurship or small business numbers in the US has been the speculation that large debt levels (student loans, mortgages, etc.) could be holding back small business formation due to would-be entrepreneurs facing too much of a debt burden (especially student loan debt for young, potential entrepreneurs), which makes it difficult to finance a new, small business (Denning 2016, Klein 2016).

Conservative or more libertarian mainstream economists as well as those associated with the monopoly capital school of thought also point to the increasing burden of government regulation and

increasing size of government on small business, although their reasons for the sources of the increasing government regulations and size differ. That is, and in general, many mainstream or traditional economists see increasing government size via expenditures and regulations as either the result of efforts on the part of government bureaucrats and managers to expand their power and influence, or the result of efforts of special interest group lobbying, or the result of a combination of these two efforts (Schumpeter 1954, Stigler 1971, Buchanan and Tullock 1999) whereas monopoly capital theorists and neo-Marxists in general see the expanding presence of government as attempts to absorb economic surplus production, provide legitimation to the economic system, assist capitalist production, and smooth out the “rough edges” of and resolve the contradictions of a capitalist system (Baran and Sweezy 1966, O’Connor 1973, Foster 2014).<sup>5</sup> Regardless of their differences in theoretical assumptions, these schools of thought would probably and generally agree that increasing government regulation and size would interfere with small business formation since smaller businesses have greater difficulties handling government taxation and regulatory expenses than their larger counterparts.<sup>6</sup>

That there exists a decline in US entrepreneurship appears to be a subject of some debate in the popular press and media (Harrison 2015, Hoover 2015). Yet most governmental and scholarly sources

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<sup>5</sup> The general Keynesian view of using short term increases in spending to stimulate an economy suffering from excess capacity and high levels of unemployment could be considered both a help and hindrance to small business. It could be a hindrance in that the increased size of government during crisis periods may never shrink later during better economic times, and yet it could be help in that any stimulating effects may help businesses in general. Since most mainstream and heterodox economists see Keynesian remedies as a solution to short term problems of stagnation, it may not present a theoretical framework on how to analyze longer term business trends. However, the contra-Keynesian argument that increased government spending, either in the short run or long run, could “crowd out” private sector investment is one that could explain business investment levels (see Mankiw 2015 as one example among many text books that covers this scenario).

<sup>6</sup> There is some debate in the popular press and to a certain degree in the scholarly literature as to whether taxation and regulation on individuals and businesses have actually gone up or down over the last few decades. For every study or index indicating an increase in these, there is another one to contradict that study. Also, when it comes to small business, there are many federal, state and local governmental programs designed to help and promote small business, especially those from the US Small Business Administration. Some databases that contain indexes on business climate or taxation/regulation have data on an intermittent basis or only for a short series of years (e.g., Organization for Economic Cooperation and Development (OECD), Heritage Foundation Economic Freedom Index, Mercatus Center). For these reasons, the portion of federal government spending as a percentage of GDP is used as some type of measurement of government presence in the US economy, although admittedly this is a broad and imprecise measure. This is discussed more when the independent variables used in the analysis are discussed.

appear to agree upon a pattern of decline in the number of new, small startup firms (Hathaway and Litan 2014, Haltiwanger, Jarmin, and Miranda 2010, Decker, Haltiwanger, Jarmin and Miranda 2014, Decker, Haltiwangerb, Jarmin, and Miranda 2016), although there does not appear to be much evidence presented on why there is a decline. Figures 1 and Figures 2 use data from the US Census Bureau's Longitudinal Business Database 1976-2014, and the patterns shown in the figures for new establishment entries/starts and job creation by new, small firms (size of 1 to 4 employees) show a downward trend. Most of the reasons given for a decline in entrepreneurship appear to be mostly speculative (Hathaway and Litan 2014, Haltiwanger, Jarmin, and Miranda 2010, Decker, Haltiwanger, Jarmin and Miranda 2014, Decker, Haltiwangerb, Jarmin, and Miranda 2016), and in the course of doing research for this paper, not much if any statistical analysis that probed possible reasons for decreasing rates of small business formation was found. This paper attempts to fill this void in the literature and uses the monopoly capital set of theories as its theoretical framework to examine some of the causes of the possible decline in entrepreneurship. More specifically, the hypotheses that increasing firm size, greater household indebtedness, economic stagnation and greater government presence in the economy are the causes of entrepreneurial decline are tested.

(Insert Figures 1 and 2 around here)

This research note/exploratory paper proceeds as follows. The next section discusses the methods to be used in analyzing rates of small business formation and rates of small business job creation. After that, the results of the analysis are discussed, and this is then followed by a discussion and conclusion section.

## **Methods**

For the statistical analysis, time series regression with Newey-West standard errors is used to predict 1) the number of new establishment entry rate in the US economy from 1977 to 2014, 2) the job creation rate of new establishment births from 1977 to 2014 and 3) the job creation rate by new, small

firms (1 to 4 persons employment size) in the US economy, 1977-2014. Although diagnostic tests showed no signs of multicollinearity among all but two potential independent variables (no variance inflation factors greater than 5.0), the Durbin-Watson d-statistic indicated problems of serial correlation in each of the models, and so Newey-West standard errors were used (Studenmund 2006 pages 334-335, Levine, Stephan, Krehbiel and Berenson 2008). For the two variables that showed a high degree of correlation which caused collinearity, these were combined into an index using principal components analysis. The independent variables are discussed further below after a discussion of dependent variables.

### Dependent Variables

The dependent variable new establishment entry rate (US Census Bureau's *Business Dynamics Statistics (BDS) 1976-2014*) is the approximate number of new establishments opened as a percent of existing establishments for a given year. For the Census Bureau, an establishment is not defined the same as a firm in that

“[A]n establishment is a fixed physical location where economic activity occurs. A firm may have one establishment (a single-unit establishment) or many establishments (a multi-unit firm). Firms are defined at the enterprise level such that all establishments under the operational control of the enterprise are considered part of the firm. Firm level data are compiled based on an aggregation of establishments under common ownership by a corporate parent using Census Bureau company identification numbers.” (US Census Bureau, *Business Dynamics Statistics 1976-2014* <http://www.census.gov/ces/dataproducts/bds/methodology.html#estab> )

There is no publicly available data on firm entry rates, yet the Pearson correlation coefficient between firm and establishment numbers is 0.996, and the average ratio of establishments to firms is 1.27 with a standard deviation of 0.037 over the 38 year period of 1977-2014. Therefore, there is probably not much of a difference between firm and establishment entry rates.

The second dependent variable is the job creation rate (new jobs as a percent of existing jobs) by new establishments (US Census Bureau, *Business Dynamics Statistics 1976-2014*). There has been some debate on whether there is an inverse relationship between firm size and job generation, yet after controlling for firm age, most of the literature supports the notion that the greater the number of new firm

births, the greater the number of net new jobs created in an economy over time (Haltiwanger, Jarmin, and Miranda 2010). Since the job creation rate among new establishment “births” are skewed toward firms of size 1 to 4 employees (that is, they create the highest rate of new jobs when compared to firms of all other sizes), their job creation rates are examined as a third dependent variable ((US Census Bureau, Business Dynamics Statistics 1976-2014).

These 3 dependent variables are first used in models with the following 3 variables used as independent variables:

### *Independent Variables*

1. *Total Household Debt as Percent of GDP*: Data for total household indebtedness as a percent of GDP is the total amount of credit to households and non-profits serving households as a percentage of US Gross Domestic Product (St. Louis Federal Reserve from 1977-2014). A dataset going further back time could not be found. The debt amounts (also known as “household sector liabilities”) include credit cards, student loans, personal loans (including motor vehicles, appliances, etc.), mortgages, etc. Since student loan debt is claimed to be a hindrance to entrepreneurship among recent college graduates (Denning 2016, Klein 2016), it would have been informative to use student debt levels as a predictor of establishment entry rates and new firm job creation, yet accurate data for student loan debt levels only go back around 11 years in the past as of the time that this paper is written. Therefore, and since entrepreneurs can come from all walks of life, the broader measure of household/personal indebtedness as a portion of GDP is used here.<sup>7</sup> It is hypothesized that greater debt levels are associated with lower levels of new

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<sup>7</sup> Some student loan data are only tracked every three years whereas for other databases, it was found, while doing research for this paper, that more accurately defined databases did not exist until around the mid-2000s due to many student loans being issued and held by different entities such as private sector financial institutions, governmental entities, colleges and universities, etc. which in turn made total student loan debt estimates difficult (Bricker, Brown, Hannon, and Pence 2015). This presents a challenge to data analysis since good times series data only goes back 10 to 12 years. Additionally, although recent college graduates are cited as key ingredients to entrepreneurship levels in the US, they do not make up all would be entrepreneurs. Therefore, this paper looks at total household debt as defined by the Federal Reserve, which would include student loan estimates since all

establishment rates and new job creation by new establishments because high levels of household debt discourage potential entrepreneurs from starting a business.<sup>8</sup>

2. Firms with 500 or More Employees as a Percent of All Firms. This variable is used as a proxy for any possible increases in large firm size relative to smaller ones on the theory that if there is greater industry concentration, then there exists greater difficulty for smaller businesses competing against larger ones, which in turn would intimidate would be entrepreneurs from starting businesses ((US Census Bureau, Business Dynamics Statistics 1976-2014). Monopoly capital theory, and to a certain degree many mainstream economists, argue that large firm size often exists in many industries due to some firms' abilities to take advantage of economies of scale or scope when it comes to production, which in turn creates a barrier to entry to would be competitors (Baran and Sweezy 1966, Mankiw 2015 (among many other textbooks)). These firms can also adjust their prices and output in such a way as to fend off potential new entrants into a market, and usually belong to markets labeled as monopolistically competitive or oligopolistic in mainstream economics.<sup>9</sup> Most mainstream economics textbooks point out that most business activity in the US comes from either oligopolistic or monopolistic competitive industries (for example, Slavin 2013, Mankiw 2015). The US Census Bureau measures industry concentration for different industries, but there does not exist an overall economy wide

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forms are credit are counted, as a broader measure of indebtedness that could inhibit small business formation. In doing a "benefit-cost analysis" of whether to start a small business, each individual or group of individuals would/should have to examine his/her/their own set of financial circumstances in the course of making of decision. This would be mostly rational or perhaps bounded rational behavior and would be behavior that is consistent with most schools of economic thought whether mainstream or heterodox.

<sup>8</sup> This is not to say that all debt is bad. If one borrows in such a way so that the benefits of indebtedness outweigh the costs, whether the debts are for education, housing, etc., then borrowing money can often yield positive effects. However, indebtedness imposes constraints in that only so much can be borrowed at any given time, and therefore, debtors must make choices among competing alternatives. The higher the average household debt level, households (and potential entrepreneurs) probably face greater constraints.

<sup>9</sup> Some mainstream economists, however, downplay the power of oligopolistic or monopolistically competitive firms to hold onto their market power over the long run. The concept of "contestable markets" has been put forth as a way to diminish the presence of market power and concentration if not to dismiss it (Baumol, Panzar, and Willig 1982). That is, an industry may consist of only a handful of producers, yet they may behave competitively rather than cooperatively due to potential new competitors possibly entering the industry. As Foster, McChesney and Jonna (2011) argue, there has never been much empirical evidence for this concept, and point to the failure of airline and other industry deregulation attempts to yield more competition in concentrated markets.

measurement of US industry concentration, and individual industry concentration measures are only released every five years. (US Census Bureau 2012). It is expected that this variable has a negative relationship with the dependent variables.

3. Government-Econ Conditions Index. To see if macroeconomic conditions and government presence impact the rate of new business formation, an index which combines through principal components analysis<sup>10</sup> the annual US unemployment rate (US Bureau of Labor Statistics 1976-2014) with the percentage of US federal government net outlays as a percentage of GDP (Federal Reserve of St. Louis 1929-2015)<sup>11</sup> is used as an independent variable. Using both variables individually in the regression model causes problems of multicollinearity, and since government outlays go up when unemployment levels are high, the two variables are combined into an index. When unemployment levels are high, economic conditions in an economy are usually stagnant or declining, and so potential entrepreneurs may be discouraged from starting a new business. And, as mentioned earlier, a growing level of government spending could also serve as a proxy for a growing government presence in the economy (both spending and regulation wise), which in turn could also be a discouraging factor to small business formation. Although the negative consequences of growing government size and regulation are usually cited by conservative and libertarian economists as detriments to a capitalistic system, the theory of monopoly capital also allows for these negative consequences in that these are manifestations of capitalist contradictions. That is, often in order to insure its legitimation and the legitimization of a capitalist economic system, the state must provide things such as progressive taxation, welfare, consumer protection, health and safety regulations, etc., although these things increase costs to the private sector. Therefore, this variable is hypothesized to have a negative relationship with regard to small business entry rates and job creation.

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<sup>10</sup> The two variables had a Pearson correlation coefficient of around 0.89.

<sup>11</sup> The percentage change in real GDP for each year was only weakly correlated with the dependent variables, and so unemployment rates were used as a gauge of economic conditions instead.

## Results

(Insert Tables 1 to 4 around here)

Table 1 shows the descriptive statistics for the variables used in the regression models. The minimum and maximum values for each variable yield some interesting observations. The establishment entry maximum of around 17% was in 1977 whereas the minimum was for 2009, although the 2014 rate was still just 10%. A similar pattern holds for job creation in that larger rates correspond to years in the late 70s and smaller ones for the last two decades. For debt level, higher levels of debt correspond to those leading up to the Great Recession whereas the 1970s saw lower levels of household debt. Likewise, the portion of firms with 500 or more employees in size grew over the 38 year time period examined.

Table 2 displays the results of times series least squares regression using Newey-West Standard errors for the dependent variable of establishment entry rate. Around 76% of the variation in establishment entry rate can be explained by the 3 independent variables, which are all statistically significant at the  $\alpha < 0.05$  level. The results show that on average a 1% increase in household debt is associated with a 0.03 decrease in establishment entry rate; a 1% increase in the percentage of firms with 500 or more employees is associated with a 38% decrease in establishment entry rate; and a 1 unit increase in the government-economic conditions index is associated with 0.35 decrease in entry rate

In Table 3, around 60% of the variation in the new job creation rate of all new establishments (regardless of size) is explained by the three variables. Both household debt and the government-economic conditions index are statistically significant at  $\alpha < 0.05$  whereas the firm size of 500 or more is not, although it is statistically significant at  $\alpha < 0.10$ . The indications are that on average a 1% increase in household debt is associated with a 0.03 decrease in job creation rate; a 1% increase in the percentage of firms with 500 or more employees is associated with a 13% decrease in the job creation rate; and a 1 unit increase in the government-economic conditions index is associated with 0.25 decrease in the job creation rate.

Finally, Table 4 indicates that around 83% of the variation in the new job creation rate of small establishments (1 to 4 employees in size) is explained by the three variables. All three of the independent variables are statistically significant at  $\alpha < 0.05$ . The results are that on average a 1% increase in household debt is associated with a 0.08 decrease in the small establishment job creation rate; a 1% increase in the percentage of firms with 500 or more employees is associated with around a 63% decrease in the job creation rate by small establishments; and a 1 unit increase in the government-economic conditions index is associated with 0.66 decrease in the job creation rate.

### **Discussion and Conclusion**

The hypotheses testing for this research note finds some circumstantial support for the notion that high household debt levels, increasing presence of large firms, and an increasing level of government presence and unemployment may be plausible reasons for a decline in entrepreneurship over the last several decades. Unfortunately, there are several limitations that prevent one from drawing strict conclusions about the results. First, it would be better to have data going back further in time so that longer run trends could be examined. Perhaps there have been other decades in US history in which entrepreneurship went into decline and yet rebounded later. The data examined here only show a gradual yet steady decline in entry rates since the late 1970s. Additionally, it would have been better to have had some type of index of government intrusion into the US economy over the time period examined, yet nothing suitable was really available, mostly due to the fact that this may be something illusive to quantify.<sup>12</sup> And, as mentioned earlier, the data for student loan indebtedness only goes back 12 years or

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<sup>12</sup> Again, some could argue for greater government intrusion into the US economy over the years through greater taxation and/or regulation, yet others could argue that these have decreased due to “neoliberal economic policies.” Some authors point to the decline in the cost of real wages over the years, less unionization, and lower corporate tax rates as being favorable to business entities, yet others point to greater health care costs for employees and greater environmental, human resources, etc. regulations for businesses, which turn increase business costs. Regulatory costs are much more difficult to track and quantify than those associated with taxation, and so assessing the full impact of government presence is often difficult to quantify. Finally, there is the argument that a lot of government spending, whether at the federal, state or local levels, actually helps business, such as spending on roads, bridges, ports, education, etc., in that many benefits enjoyed by the business sector are paid for through taxes levied on the general populace (O’Connor 1973, Foster 2014). On the other hand, the

so as of the time of the writing of this paper. To have had more time series data for this aspect of indebtedness would have allowed for additional hypothesis testing on whether student loan debt is a factor possibly undermining small business formation.

Nonetheless, the limited evidence presented in this paper offers some support for the three reasons presented as inhibiting entrepreneurship and small business formation. If decreasing entrepreneurship is a long term trend that is a symptom of monopoly capital in that increasing household debt, increasing government size (and its indebtedness) and increasing firm size are features of monopoly capital, then one can make a claim that monopoly capital and its attendant features may be stifling US entrepreneurship. And if entrepreneurship and the jobs that come from entrepreneurship are important to the long term health and vitality of the US economy, and if these continue to decline, then there may be a heightened tendency toward US economic stagnation as time goes by.<sup>13</sup> Monopoly capital does not appear to be able to resolve the contradictions of the problems of household debt in that too low of debt levels inhibit consumption and yet too high of debt levels also inhibit households in other ways. Likewise, large firm size is usually a benefit to most businesses (and it is argued to be a benefit to consumers in certain ways) in that often average firm costs tend to be lower as a portion of sales the larger an enterprise is. Yet large businesses, thanks to their pricing power, large advertising expenditures, and the depth of their financial resources, probably intimidate and prevent many potential entrepreneurs into going into business and competing against the larger firms. If the number of larger firms continues to grow, one could expect small business formation rates to decline even further. Additionally, continued

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principal of “crowding out” puts forth that greater government spending and deficits increase interest rates, which in turn would make it more difficult for both small and large businesses to borrow funds.

<sup>13</sup> O’Connor (1973) argues that small businesses, which mostly make up what he calls the “competitive sector” of a monopoly capital economy, have to be relied upon by a capitalist system to hire and employ the unskilled, less educated, and/or marginalized workers of an economy. If this is so, then the unemployment and underemployment of different groups of workers would be predicted to only get worse as small business numbers shrink.

stagnant economic conditions (as reflected in higher average rates of unemployment<sup>14</sup> and government spending) could also make many would be entrepreneurs think twice about starting a business.

Another threat to the US economy would be the lack of or decline in new product innovation that new, small businesses provide. This is regardless of whether the small businesses continue with the innovation on their own or sell themselves or their innovations to larger firms. As Baran and Sweezy (1966) point out, much research and development done by large corporations is not really that useful when it comes to surplus absorption and is not really that innovative since a lot of R&D expenditures are for product packaging, styling, and modification of current, existing products. As mentioned earlier in this paper, new product markets and industries and waves of innovation have been crucial to the growth of capitalism. Without these, the US economic system will only grow very slowly as best, something which has already been predicted by others, although not necessarily for the same reasons (for example, Gordon 2012, Harvey 2014).

In summary, the results of the analysis of this exploratory paper point to a decline in US entrepreneurship possibly/probably due to the workings of a monopoly capital system. A decline in entrepreneurship, in turn, can cause further economic stagnation, or enhance such stagnation, an economic state to which monopoly capital is theorized to tend toward. In that case, both short run and long term US economic growth rates could be headed for continued problems, and so could the monopoly capital system.

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<sup>14</sup> In looking at the BLS data used in this analysis, US unemployment rates from 1946 to 1974 (a post-World War II boom period) were lower on average than those of 1975 to 2016 (an average of 4.7% versus 6.4%).

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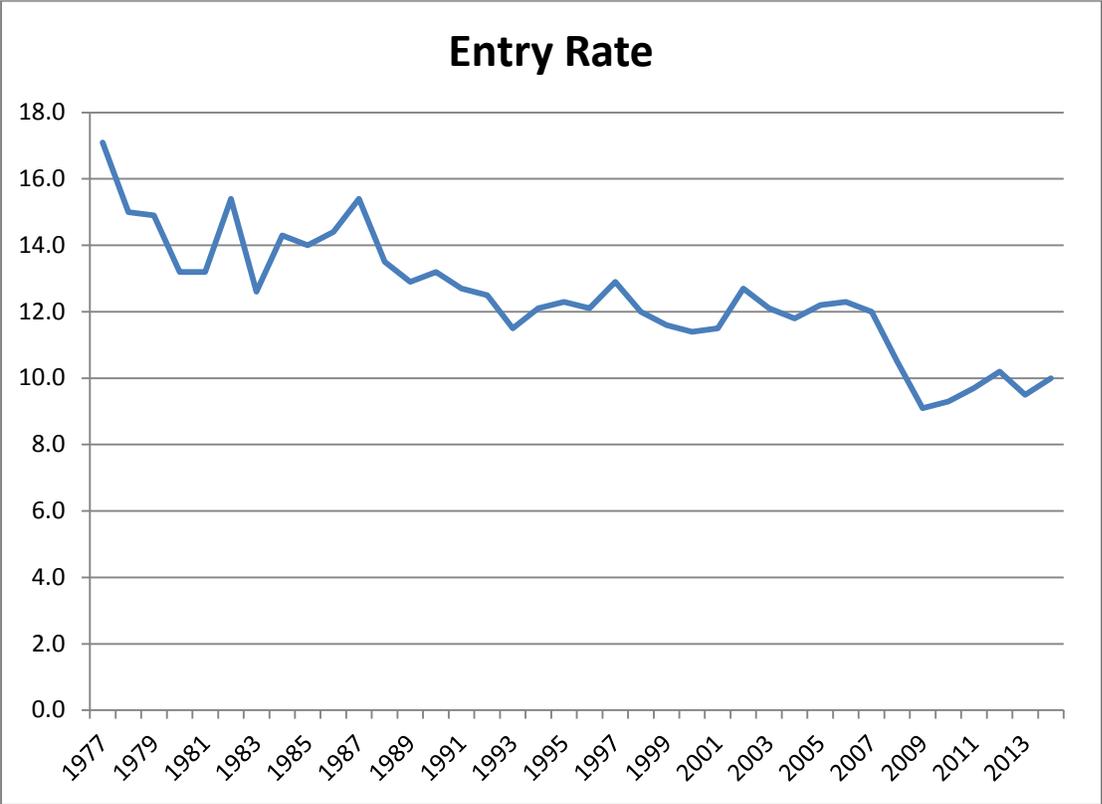
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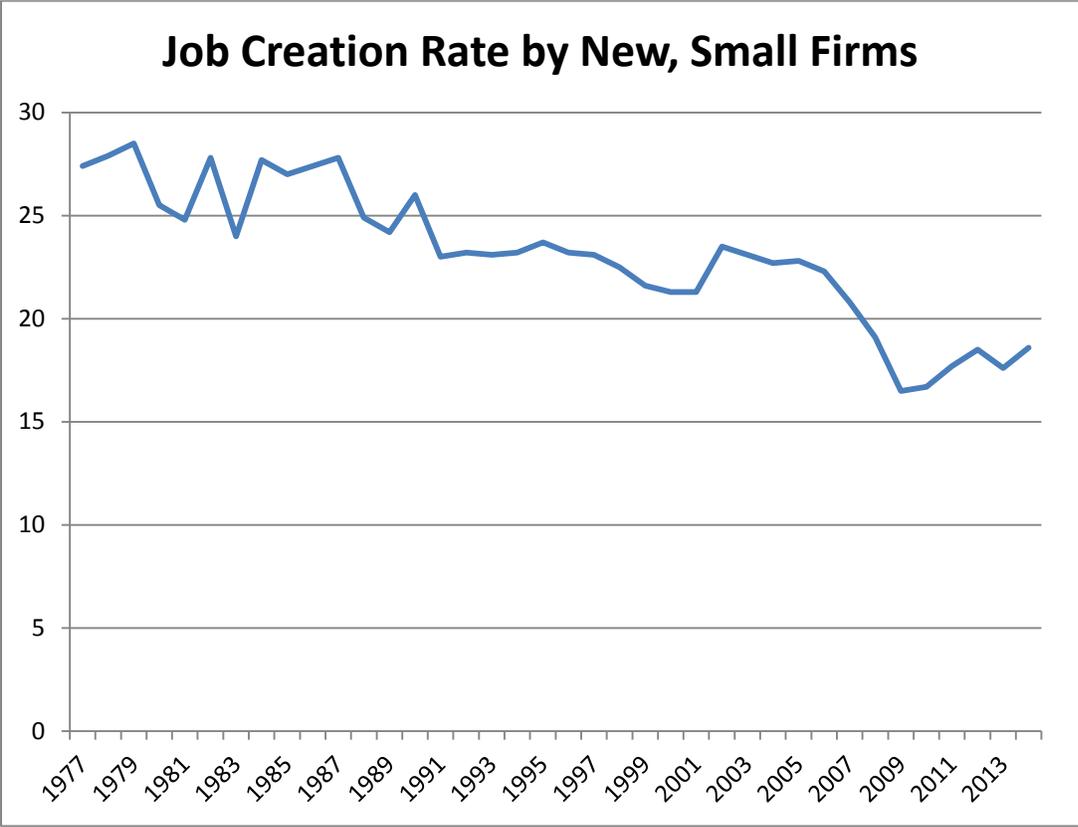
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**Figure 1 – Entry Rate of New Establishments in US Economy, 1977-2014**



Source: US Census Bureau's *Business Dynamics Statistics, 1976-2014*

**Figure 2 -- Job Creation Rate by New, Small Firms in US Economy, 1977-2014**



Source: US Census Bureau's *Business Dynamics Statistics, 1976-2014*

**Table 1 – Descriptive Statistics**

<b>Variable</b>	<b>n</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
<b>Establishment Entry Rate</b>	38	12.45	1.814	9.1	17.1
<b>Job Creation Rate by New Firms</b>	38	6.26	1.11	4.2	9.2
<b>Job Creation Rate by New, Small Firms</b>	38	23.16	3.33	16.5	28.5
<b>Pct. Firms 500 or More Employees</b>	38	0.36	0 .031	0.295	0 .406
<b>Total Household Debt as Pct. of GDP</b>	38	67.74	16.53	45.3	97
<b>Government-Econ Conditions Index</b>	38	-4.02 X 10 <sup>-09</sup>	1.38	-2.33	3.09

**Table 2 – Time Series Least Square Regression with Newey West Std. Errors**

**Dependent Variable:** Establishment Entry Rate

<b><u>Independent Variables</u></b>	<b><u>b</u></b>	<b><u>NW Std. Error</u></b>	<b><u>p-value</u></b>
Government-Econ Conditions Index	-0.35	0.10	0.002
Total Household Debt as Pct. of GDP	-0.03	0.012	0.018
Pct. Firms 500 or More Employees	-38.25	7.29	<0.001
Constant	28.21		

Adjusted  $r^2 = 0.761$

n = 38

**Table 3 – Time Series Least Square Regression with Newey West Std. Errors**

**Dependent Variable:** Job Creation Rate by New Firms

<b><u>Independent Variables</u></b>	<b><u>b</u></b>	<b><u>NW Std. Error</u></b>	<b><u>p-value</u></b>
Government-Econ Conditions Index	-0.25	0.08	0.004
Total Household Debt as Pct. of GDP	-0.03	0.009	0.002
Pct. Firms 500 or More Employees	-13.47	7.18	0.069
Constant	15.4		

Adjusted  $r^2 = 0.60$

n = 38

**Table 4 – Time Series Least Square Regression with Newey West Std. Errors**

**Dependent Variable:** Job Creation Rate by New, Small Firms (1to 4 employees)

<b><u>Independent Variables</u></b>	<b><u>b</u></b>	<b><u>NW Std. Error</u></b>	<b><u>p-value</u></b>
Government-Econ Conditions Index	-0.66	0.17	<0.001
Total Household Debt as Pct. of GDP	-0.08	0.02	<0.001
Pct. Firms 500 or More Employees	-62.83	10.91	<0.001
Constant	50.91		

Adjusted  $r^2 = 0.83$

n = 38