**Entrepreneurship as a Driver of Economic Growth**

*Student article for a pedagogical almanac*

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**Abstract**

Entrepreneurship is widely treated in economic and education policy as a lever for productivity, job creation, and long-run development. However, the link between entrepreneurship and growth is not mechanical: it depends on what type of entrepreneurial activity dominates (innovative versus rent-seeking), how effectively knowledge is translated into new products and firms, and whether financing and institutions allow young enterprises to scale. Building on growth theory and major empirical syntheses, this article explains the main channels through which entrepreneurship can raise economic growth—innovation and knowledge diffusion, competitive pressure and resource reallocation, and labour-market dynamism—and discusses how these channels are measured in international datasets. It also highlights what these insights mean for entrepreneurship education: students need opportunities to practice iterative value creation, develop financial and digital literacy, and learn how institutional context shapes outcomes. The article concludes with evidence-informed recommendations for educators and policymakers aimed at supporting productive entrepreneurship and inclusive growth.

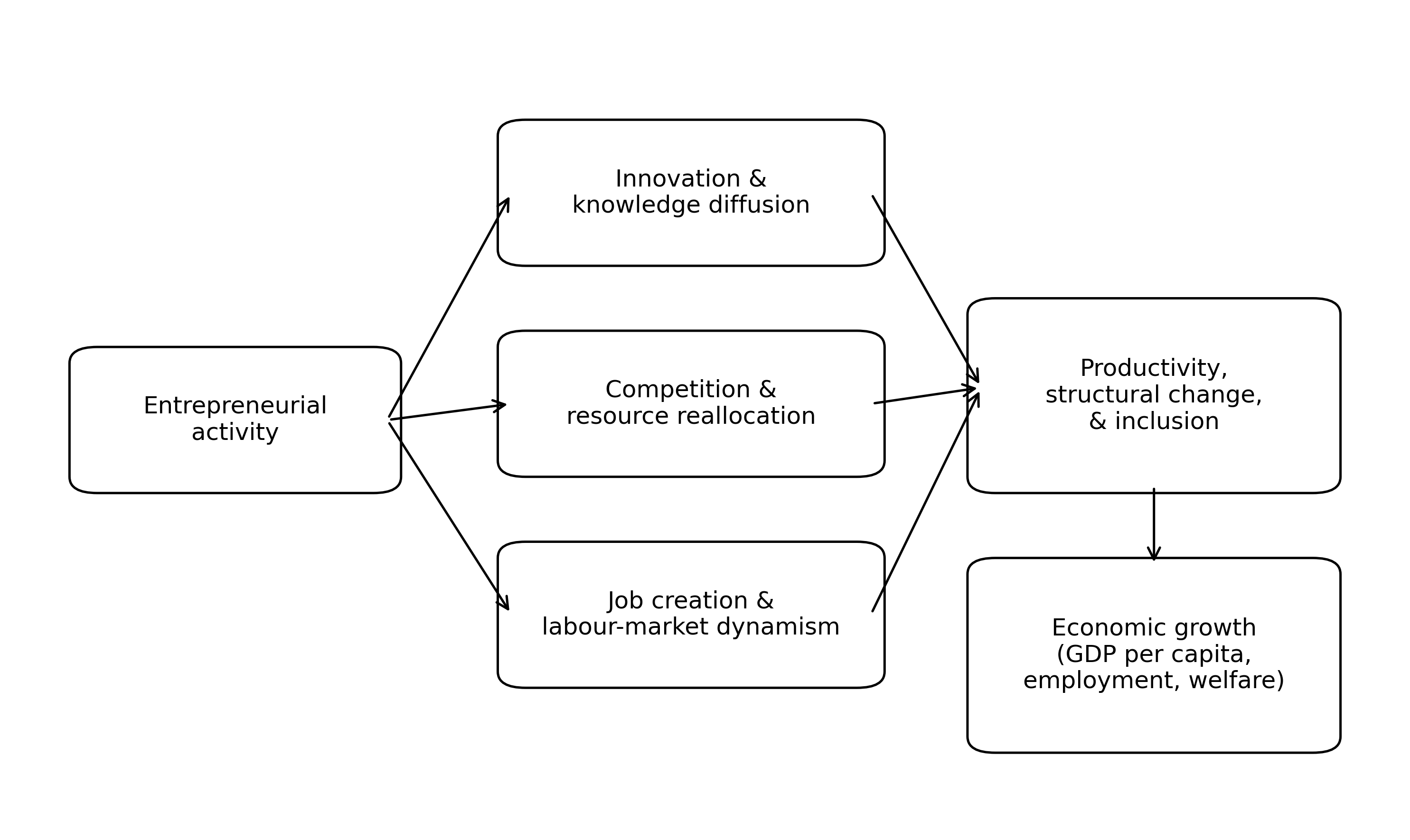
**Keywords**

entrepreneurship; economic growth; innovation; SMEs; business entry; entrepreneurship education; institutions; finance

**1. Introduction**

Entrepreneurship is frequently described as an engine of economic growth because it connects ideas, people, and resources to the creation of new value. In policy debates, the term often stands for both business creation and the broader capacity of individuals and organisations to identify opportunities, innovate, and act under uncertainty. The OECD notes that analysts have long connected entrepreneurship with growth, employment, innovation, and productivity, and that policy interest intensified in the 1990s even as measurement remained challenging [7, p. 6]. A key implication for students is that entrepreneurship should be studied not only as a business skill set, but also as a macroeconomic phenomenon shaped by institutions, markets, and education.

A useful starting point is to recognise that economies grow when they become more productive—producing more output from the same inputs—while also mobilising labour and capital. The neoclassical growth model formalised growth as a process in which output depends on capital, labour, and technology, with long-run income per person driven by technological progress [4, pp. 65-66]. Later work in endogenous growth emphasised that knowledge and human capital can generate increasing returns, making innovation and learning central to sustained growth [5, pp. 1002-1003; 6, pp. 3-5]. Entrepreneurship matters in this context because it is one of the mechanisms through which knowledge is commercialised and diffused, and through which resources are reallocated toward more productive uses [2, pp. 105-107].



*Figure 1. Main transmission channels from entrepreneurship to economic growth (synthesis based on [1; 2; 7]).*

**2. Conceptual Foundations: Why Entrepreneurship Can Affect Growth**

Economic theory provides several complementary explanations for why entrepreneurship can be linked to growth. In the neoclassical view, long-run growth comes from technological change; entrepreneurship becomes relevant when it accelerates the creation or adoption of technology and organisational innovations [4, pp. 65-66]. Endogenous growth models push this further: new ideas can have spillover effects because knowledge is partly non-rival, and human capital supports learning, imitation, and further invention [5, pp. 1002-1003; 6, pp. 3-5]. In these settings, entrepreneurs and new firms can act as carriers of experimentation—testing products, business models, and processes—and successful experiments can scale through markets.

A major challenge is to move from the general claim “entrepreneurship is good” to a more precise statement about what kind of entrepreneurship promotes development. Baumol argued that the total supply of entrepreneurial talent may be relatively constant across societies, but its contribution differs depending on how activity is allocated between productive innovation and unproductive rent-seeking; this allocation is heavily influenced by the “rules of the game” and the relative rewards offered by institutions [3, pp. 893-894]. For students, the lesson is that entrepreneurship is not automatically growth-enhancing—its economic effects depend on incentives, legality, competition, and governance.

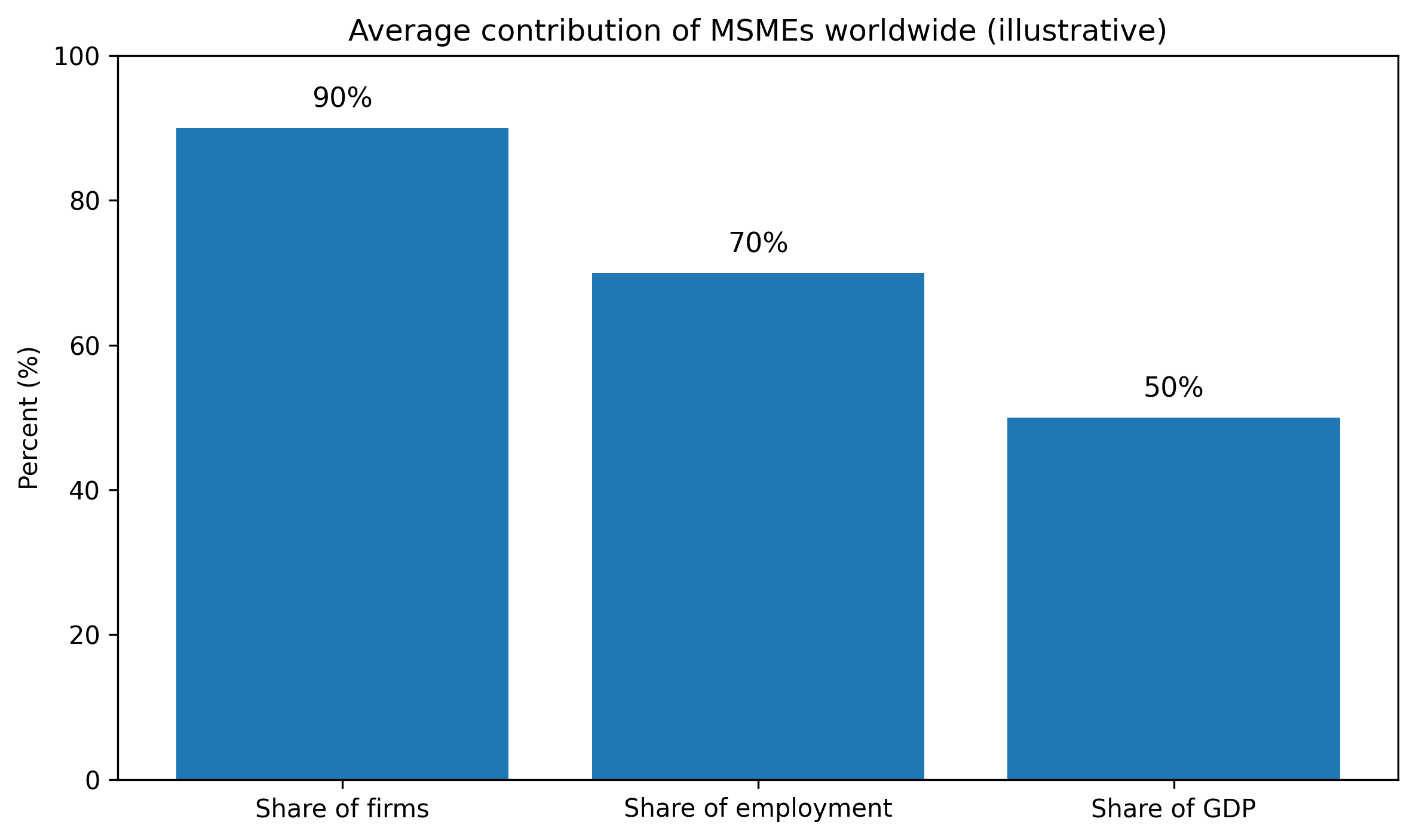
A second theme is the interaction between structural change and entrepreneurial dynamism. Wennekers and Thurik, reviewing evidence and theory, describe the renewed interest in entrepreneurship alongside the changing role of small firms, including links to innovation, industry dynamics, and job generation [1, pp. 27-28]. In this perspective, entrepreneurship is connected to how economies adapt to new technologies, shifting consumer demands, and global competition. New firms can enter niches, challenge incumbents, and stimulate reallocation, but they also face high failure rates, making the process inherently experimental.

**3. Mechanisms: How Entrepreneurship Drives Economic Growth**

Figure 1 summarises four broad mechanisms that connect entrepreneurship to growth. First, entrepreneurs can introduce new products and processes and help diffuse knowledge. In endogenous growth terms, entrepreneurship can be the missing link between knowledge creation (e.g., R&D, universities) and economic value, because new ventures translate ideas into market experiments and scalable innovations [2, pp. 105-107]. Second, entry and rivalry can intensify competition, pushing incumbents to improve and forcing inefficient firms to exit, which raises aggregate productivity over time [1, p. 28].

Third, entrepreneurship contributes to labour-market dynamism. New and young firms can create net new jobs, even when older firms shed employment during downturns. Using U.S. Census Bureau data, the Kauffman Foundation report argues that new firms have been the consistent source of net job creation and that, without startups, net job creation would be negative on average [15, pp. 3, 6]. Fourth, entrepreneurship can support structural change by diversifying the economy, building new sectors, and creating more inclusive opportunities—especially when barriers to entry and access to finance are reduced.

At the same time, the scale and quality of entrepreneurial activity matters. Micro-, small and medium-sized enterprises (MSMEs) are widely recognised as important for job creation and poverty reduction in emerging markets. An IFC factsheet summarises their global role, stating that MSMEs make up over 90% of all firms and account, on average, for 70% of total employment and 50% of GDP worldwide [10, p. 1]. A complementary perspective comes from the International Labour Organization, which—using survey-based evidence that covers informal as well as formal activity—finds that self-employed workers and micro- and small enterprises account for the largest share of total employment in its 99-country sample [12, p. 1].

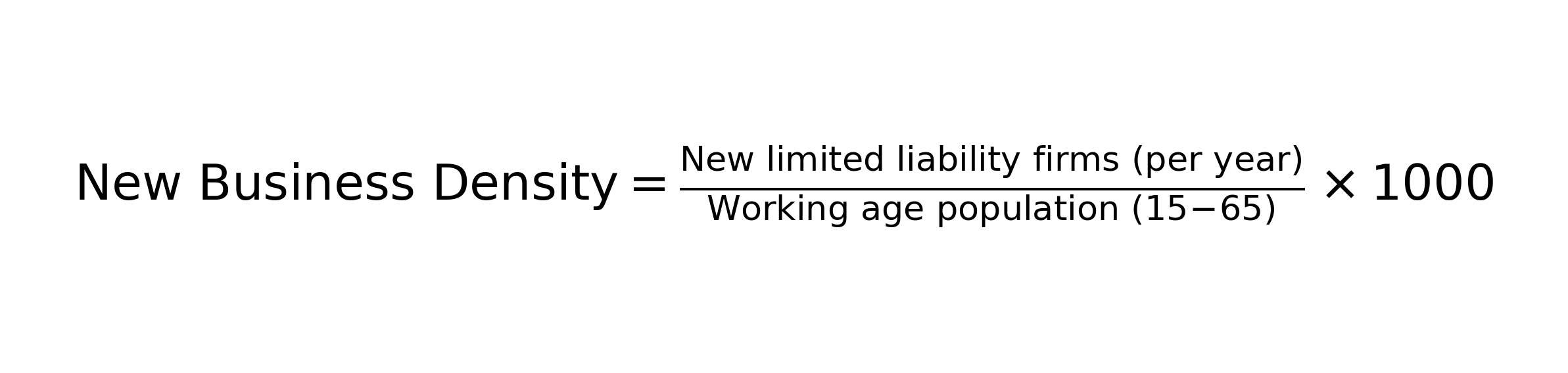


*Figure 2. Average contribution of MSMEs worldwide (based on headline figures in [10, p. 1]).*

**4. Measuring Entrepreneurship: From Concepts to Indicators**

Because entrepreneurship is multi-faceted, measurement is difficult. The OECD proposes a framework that distinguishes determinants (conditions that motivate or impede entrepreneurship), entrepreneurial performance (indicators of the state of entrepreneurship), and impacts (outcomes for the economy) [7, pp. 3-4]. For educational purposes, this framework is useful because it encourages students to connect micro-level behaviours (starting a firm) to macro-level outcomes (productivity and growth) and to the institutional environment that shapes incentives.

International datasets often measure entrepreneurship through business entry, self-employment, and survey-based entrepreneurial activity rates. The World Bank’s Entrepreneurship Database and WE-Data initiative focuses on formal sector business registration, using “new business density” as a key indicator. The indicator is defined as the number of newly registered limited-liability firms per year divided by the working-age population (ages 15-65), multiplied by 1,000 [8, p. 4]. This approach provides broad coverage across economies, but it also has limitations: it captures only formal activity and focuses on limited-liability companies, not the full range of entrepreneurship [8, p. 4].



*Figure 3. Definition of New Business Density used in the World Bank Entrepreneurship Database [8, p. 4].*

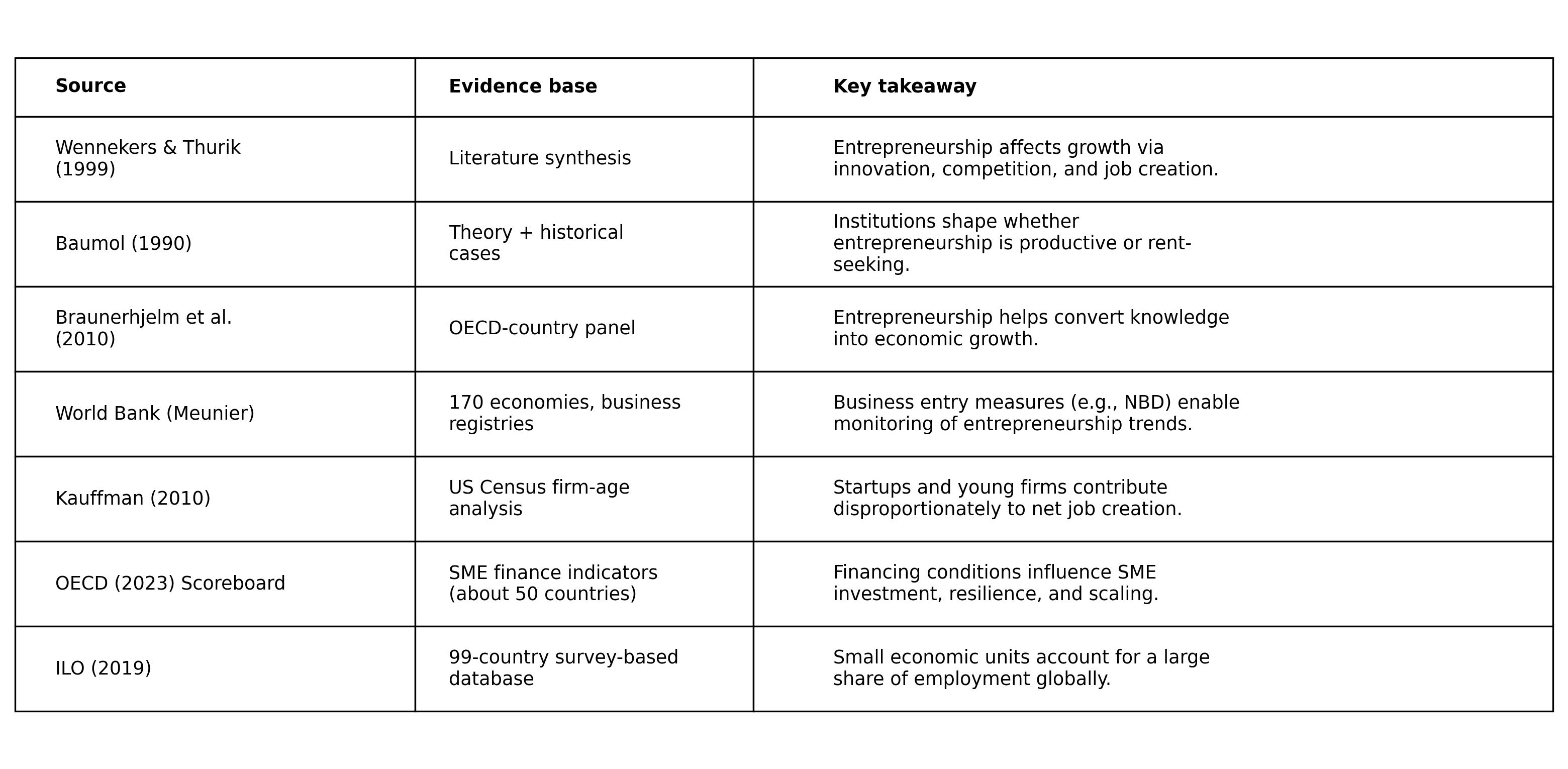
Survey-based measures, such as those produced by the Global Entrepreneurship Monitor (GEM), complement registry data by capturing entrepreneurial intentions, early-stage activity, and perceptions of the ecosystem. The GEM Luxembourg report describes GEM as a project established to collect cross-national data on entrepreneurship and links entrepreneurial activity to firm and job creation, innovation, and ultimately economic growth [16, pp. 17-18]. It also provides operational definitions for stages of entrepreneurship (e.g., intentions, nascent and new entrepreneurs), which helps students see entrepreneurship as a process rather than a single event [16, pp. 18-19].

**5. Finance and Institutions: When Entrepreneurship Translates into Growth**

Even strong entrepreneurial intent does not guarantee economic impact. Two recurring constraints are finance and institutions. On the institutional side, Baumol’s framework suggests that policy can often influence the allocation of entrepreneurial effort more effectively than its total supply, by changing incentives and payoffs [3, pp. 893-894]. Secure property rights, predictable regulation, fair competition, and low corruption encourage productive entrepreneurship; weak institutions can shift effort toward unproductive activities that do not raise productivity.

On the finance side, access to credit and investment shapes whether firms can start, survive, and scale. The OECD Financing SMEs and Entrepreneurs Scoreboard highlights that, after the COVID-19 shock, many economies saw recovery in 2021, but data for 2022 indicate deterioration in several SME finance indicators amid high inflation and rising interest rates, implying a more restrictive environment for SME lending and a decline in equity finance [9, pp. 1-2]. The report argues that diversifying financing instruments and channels can help SMEs build resilience and undertake key investments in digitalisation and greening [9, p. 1].

Global development institutions similarly stress the role of SMEs and their financing constraints. The World Bank describes SMEs as the backbone of most economies, representing around 90% of all businesses and accounting for more than half of global employment [11, para. 1]. For educators, these finance and institution constraints are not just “policy issues”; they shape the realistic opportunity set of entrepreneurs and determine whether entrepreneurial learning translates into scalable outcomes.



*Table 1. Selected evidence linking entrepreneurship to growth (compiled from [1; 2; 3; 8; 9; 12; 15]).*

**6. Entrepreneurship, SMEs, and Employment: Evidence and Caveats**

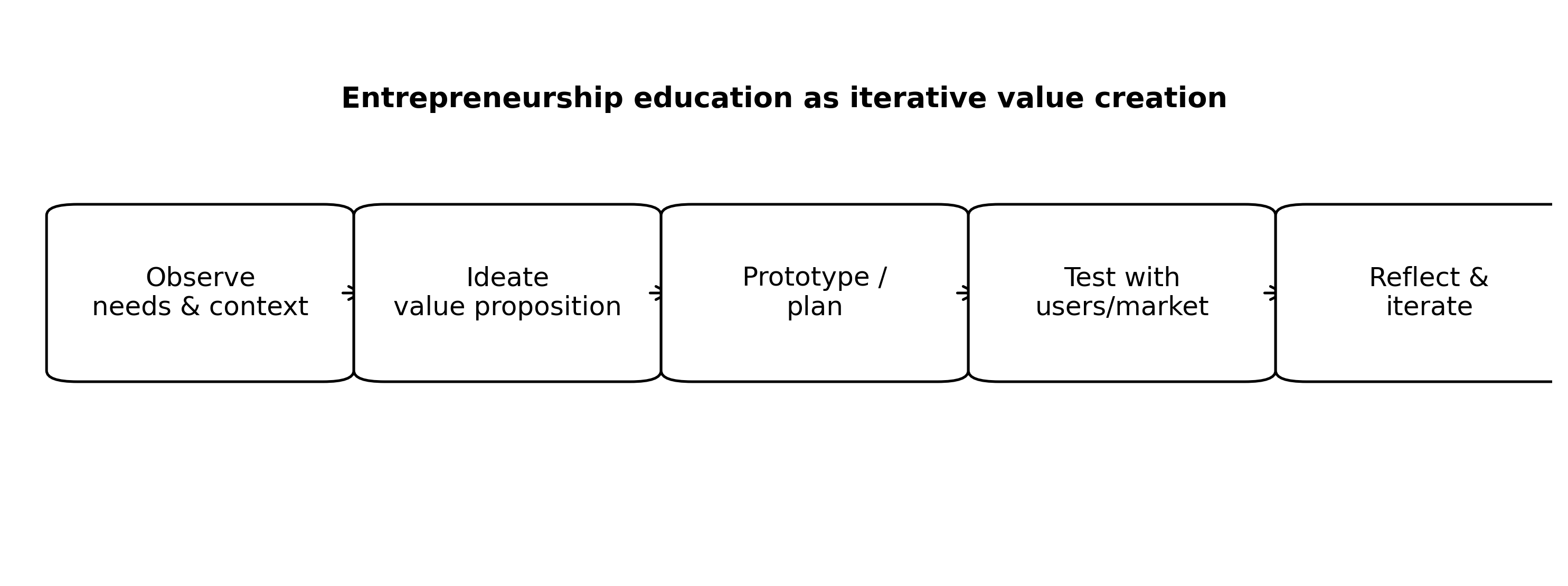
Employment effects are often the most visible way entrepreneurship contributes to economic development, but they also require careful interpretation. The ILO report “Small Matters” emphasises that, globally, self-employed workers and micro- and small enterprises account for a large share of total employment, based on survey evidence across 99 countries [12, pp. 1-2]. At the same time, the report notes that smaller units are often associated with challenges such as informality and job quality, implying that growth policy should aim for more productive, formal, and higher-quality jobs in small economic units [12, pp. 3-4].

In advanced economies, firm size distributions also show why “small business” is not a complete story. Eurostat reports that in 2022 the EU had 32.3 million enterprises employing 160 million people, and that 99% were micro and small enterprises (up to 49 persons), employing 77.5 million people (48% of employment in enterprises) [13, para. 1]. This indicates both the scale of SMEs as employers and the importance of considering productivity and scaling: large firms may account for a small share of enterprises but can be disproportionately important for output and turnover.

The distinction between firm size and firm age is also crucial. The Kauffman report shows that job creation is strongly related to the dynamics of new entry and early growth rather than simply the presence of many small firms [15, pp. 3-6]. For student analysis, a practical implication is to separate three questions: (a) how many firms are created; (b) how many survive and scale; and (c) what types of jobs (productivity, stability, formality) they generate. Different policies and educational interventions may be needed for each.

**7. Entrepreneurship Education: Pedagogical Implications**

If entrepreneurship can be a driver of growth, education should prepare students not only to start businesses, but to create value under uncertainty, understand markets, and navigate institutions. A working paper prepared for the OECD argues that “entrepreneurship in education” is interpreted in different ways—from narrowly encouraging students to start firms to broadly developing creativity, proactivity, opportunity orientation, and innovation across life contexts [14, pp. 3-4]. The report also highlights practical challenges such as limited time and resources, assessment difficulties, and definitional ambiguity when implementing entrepreneurship education [14, p. 3].



*Figure 4. Entrepreneurship education as iterative value creation (conceptual synthesis based on [14, pp. 3-4]).*

Evidence on outcomes suggests that entrepreneurship education often has modest average effects on students’ entrepreneurial intentions and that evaluation should focus on skills and behaviours as well as intentions. A meta-analytic review reports a small positive correlation between entrepreneurship education and entrepreneurial intentions, but notes that after controlling for pre-course intentions the relationship may not be significant, implying selection effects and the need for careful programme evaluation [17, pp. 217, 241]. For teaching practice, this supports the idea that entrepreneurship education should prioritise capability development—opportunity recognition, experimentation, teamwork, and communication—rather than treating “intention to start a business” as the only success metric.

Based on the evidence above, several pedagogical approaches follow logically. First, learning activities should be experiential and iterative, allowing students to work through cycles of observing needs, proposing solutions, testing assumptions, and reflecting on results (Figure 4) [14, pp. 3-4]. Second, curricula should include financial and institutional literacy: students need to understand how financing conditions affect startup survival and scaling [9, pp. 1-2], and how institutions can redirect entrepreneurial effort toward productive or unproductive activities [3, pp. 893-894]. Third, entrepreneurship education can connect to civic and labour-market goals by analysing how small firms and self-employment contribute to employment—and where informality and job quality risks arise [12, pp. 3-4].

**8. Evidence-Informed Recommendations for Policy and Practice**

For policymakers, the literature implies that “more startups” is not the only target; the goal is productive entrepreneurship that raises productivity and supports inclusive employment. Measurement systems should distinguish determinants, performance and impacts [7, pp. 3-4], and use complementary indicators (registry-based business entry and survey-based measures) to capture both formal dynamics and entrepreneurial processes [8, p. 4; 16, pp. 17-19].

Three practical levers appear repeatedly in the evidence. First, improve the institutional environment so that innovative effort is rewarded and rent-seeking is discouraged [3, pp. 893-894]. Second, broaden access to diversified finance, particularly when macroeconomic conditions tighten and SMEs face higher borrowing costs [9, pp. 1-2]. Third, support learning and capability formation through education and training that emphasise value creation, experimentation, and resilience [14, pp. 3-4; 17, pp. 217, 241].

For educators, the implication is to design programmes that connect micro-level projects to macro-level questions. Students can analyse local business entry using indicators such as new business density [8, p. 4], compare SME structures (e.g., EU micro and small enterprise shares) [13, para. 1], and discuss why finance and institutions influence outcomes [3, pp. 893-894; 9, pp. 1-2]. This approach makes entrepreneurship education relevant for a pedagogical almanac: it supports critical thinking, data literacy, and an understanding of how individual initiative interacts with economic development.

**9. Conclusion**

Entrepreneurship can drive economic growth when it contributes to innovation, competition, job creation, and structural change. Growth theory helps explain why these effects can persist through knowledge spillovers and human capital accumulation [5, pp. 1002-1003; 6, pp. 3-5]. Empirical evidence and policy syntheses, however, underline that outcomes depend on institutions, financing conditions, and the quality of jobs and firms that emerge [3, pp. 893-894; 9, pp. 1-2; 12, pp. 3-4]. For students and educators, the central message is that entrepreneurship should be taught as iterative value creation in context, supported by data, reflection, and an understanding of how ecosystems shape what entrepreneurship becomes in practice.

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