

## **IS ENTREPRENEURIALISM DYING?**

By Michael Dowling

The dictionary defines an entrepreneur as “one who undertakes a commercial enterprise with a chance of profit or loss”. Entrepreneurial is a French word which has at its base the running of an enterprise.

The western world has experienced imperialism, capitalism, totalitarianism and socialism in its many forms while other regions have experienced these systems as well as communism and other isms.

While no economic system is perfect and all systems evolve over time the consensus in Australia and much of the western world is that a capitalist system, with appropriate controls, is the best and most appropriate system for a productive and harmonious society.

Such a system depends upon an appropriate level of economic activity, a sound and reasonably equitable legal system, a banking system, which provides a reliable basis for exchange and a consensus on what needs in the community must be supported. There is also a requirement for the community to accept what taxation arrangements might apply to contribute to the needs of society and to redistribute equitably to those who are in greater need.

In Australia we have a legal system that generally delivers justice (at great expense), we have a banking system which is reliable (despite many distortions) and thanks to governments at all levels we well understand the needs of our society and the claim many make to be provided cover under various schemes.

This all appears to be a satisfactory situation provided, and it is a big provided, that the level of economic activity is at an appropriate level. Economic activity depends upon a great range of matters including what we have inherited from the past, what are our existing resources, industry and infrastructure and what the current generation of wealth creators are prepared to undertake now and in the future. To be a successful society and a successful economy we need entrepreneurs.

Who and what are these entrepreneurs? They are the farmers who plant the crops, they are the individuals who invest in productive businesses and those who risk their resources with the aim of making a profit – the profit that funds the rest of the capitalist system with all its controls and demands.

The entrepreneur should look at any opportunity by examining the facts which can be reasonably assessable. What resources do they have, what does the season look like, what is the demand for the goods or services, what are the risks and what might the return be like if the initiative is successful. An investor potentially needs to look at what are finance costs, exchange rates, government

policy and the general state of the economy. A range of factors, as well as the lack of analysis, often lead to failure or disappointing returns.

But what are the current generation of entrepreneurs assessing in the current situation? Many will point to factors such as the Global Financial Crisis and the on-going uncertainty, financial systems and stock markets that seem to be dominated by and reward speculators rather than those that actually produce real goods and services. Others might look at sovereign risk of changes in government, the high cost of labour, tariff policy and others see that assets might maintain or increase in value in some inner city residential areas while other income producing assets cannot attract fair value.

For examples of the inequity in the current system we can see that nobody was penalized for the losses incurred during the GFC (other than the investors), corporate chiefs appear to be paid extraordinary amounts to manage a business (and often another fortune if they are sacked when they fail) and gains and losses on share portfolios seem to rise or fall based on a few words from a distant central banker rather on the reality. They often see financial planners who seem more interested in their situation than being interested in their clients' losses. Other examples include the extraordinary amounts some sports people achieve, the amounts various professions charge and the fact that you could buy a productive farm that could usually sustain a family for the cost of an average house in inner capital cities.

At the same time governments change the rules in response to a television program so that thousands of enterprises and vast areas of northern Australia lose their livelihood, the cost of redundancies for terminated employees is enormous and the risks of starting up or remaining in many businesses is too high. Governments fail to fund their superannuation liabilities, spend vastly more than they generate, borrow enormous amounts from overseas and deliver substantial financial deficits which if they were in the non-government sector would see them lose their jobs and finish up in gaol.

Governments are very well able to identify the needs of many in our society as we hear about new funding models for education, increased number of university places and a better funding scheme for those with disabilities. How long has it been since we have had any government really consider what the state of the nation is for the entrepreneur as the foundation stone of the system on which the whole economy and society depends?

We see governments allocating money to communities, which have lost large employment (eg Ford Motor Company in Geelong and Broadmeadows) but there is little focus on the health of the entrepreneurial sector.

Well I don't know how to measure the level of entrepreneurial activity in the nation but my view is that the entrepreneurial sector is not at all healthy. While I acknowledge that there are many successful and hard working individuals and enterprises operating in the nation, my assessment is that the plans for most of

the current level of wealth creators would have at or near the top of the list the question of how to convert their investment into cash and retire.

In the community in which I live the only significant investments in recent years, apart from shopping complexes, are in the publically funded areas of roads, football stadiums, hospitals, schools, university and a new building for the Australian Taxation Office (which at least was privately funded). Where are the new factories, where are the new businesses and why are we only seeing public expenditure on large projects whilst the private sector just puts money into private housing?

Government's response is to offer more of the taxpayers' money to give grants to be seen to help out but they never really address the cause of the problem and ask why the entrepreneurial spirit has diminished and then seek to address the root cause of the problem.

Why is it that Australian companies find it easier to invest in overseas countries with all their challenges yet are unwilling to invest on-shore?

One of the "holy grail" pillars of economics and world trade is to lower tariffs and encourage "free trade". Well if you believed in conspiracy theories then this is one which requires your focus. Since we have introduced "free trade" and lowered protection to our own industries in Australia we have largely lost significant employment in manufacturing and processing sectors, we have seen the pulling of fruit trees in the country and have replaced these enterprises with imported cars, drawers full of second rate tee shirts and significant unemployment payments. Free trade might help the importers but try and explain that to the unemployed and the businesses that have failed due to overwhelming and unfair dumping of products in our markets.

The current generation of entrepreneurs just finds it too difficult. The risks of doing business are just too great for most to have a go and work towards making a profit. While it is less expensive to borrow money than it has been for a considerable period of time, the risks of not getting a return and being able to repay borrowings are too great.

If small to medium sized enterprises which employ seventy percent of the private sector workforce in Australia give up their entrepreneurial spirit then we are all in very big trouble.

Perhaps it is a generational issue. Maybe the drive shown and the support received by the baby boomers has not passed on to subsequent generations. Whatever the reason the current decline in tax revenue from corporations might be the first real sign of the wellbeing and future of the private sector in Australia.

The private sector has to share some of the blame for the current situation. The standards of integrity and honesty between enterprises has greatly diminished in recent times. In the past many deals were done over the 'phone or on a hand shake.

Today many businesses operate in structures which are almost designed to fail and almost all businesses are under capitalized and make no effort to discharge trading obligations within agreed terms. The cancer continues to flow from one business to another as businesses often fail to deal fairly with suppliers, customers and competitors.

Many transactions are supported by lengthy legal documents which nobody understands and very few can afford to enforce.

At the same time taxation, corporate and competition regulators appear to demand more and more compliance. It often looks as if they are assisting some of the perpetrators and then turn up and respond when the funeral is being held.

So if I am correct then there is something very unsettling in the nation. Instead of focusing on how to spend even more and more on assessing the many needs of those seeking support, the nation should be focused on how to establish an environment where entrepreneurs are encouraged, assisted and valued rather than being seen as being a small and insignificant part of our economic system.

For without a flourishing entrepreneurial environment and providing rewards for the capitalist system, with its necessary controls, we will not prosper. You only have to look at Greece and Spain to see that economic disruption and large-scale unemployment will follow the loss of entrepreneurial spirit. If you cannot see what has happened overseas have a good look at Tasmania and large areas of regional and rural Australia and you will see the consequences of the disappearance of the entrepreneurial spirit.

Australia needs new energized entrepreneurs to replace those that are retiring and to provide new employment in the industries and businesses of this century.

So let us have more focus and discussion on the need for increased entrepreneurial emphasis in our society, in our schools and universities and particularly in government and encourage those that are considering "having a go" because without them wealth will not be created and the many demands on the economy will not be satisfied.

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