Aruba, September 23, 2014 - Policymakers often look to entrepreneurship as a way to boost the income of their residents, proposing policies designed to stimulate entrepreneurial activity. While different elected officials make subtly different arguments, at the most basic level, their common position is this: boosting the rate of business formation will cause the economy to grow and per capita income to rise. Unfortunately, those in the business of formulating economic-development policies have misunderstood the relationship between entrepreneurship and societal wealth. Rates of entrepreneurship are more likely to be the effect of societal wealth than the cause. Moreover, the relationship between per capita income and entrepreneurial activity is generally negative, rather than positive, as is often believed.

The Gallup Organization shows the pattern clearly in a figure I have reproduced below. Analysts at the research organization compared per capita gross domestic product (GDP) with the fraction of the population that reported being self-employed in each of 135 countries. As Gallup's picture clearly shows, the fraction of the population that is self-employed has a negative linear relationship with the log of GDP per capita. That is, self-employment rates are lower in rich countries than in poor ones.

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