



INSIDE THE VAULT | FALL 2004

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Do You Want To Be Your Own Boss?

Observers comparing our economy with those of other countries often note that Americans seem to be much more willing to become entrepreneurs. A recent survey found that more than 70 percent of American adults would prefer being an entrepreneur than working for someone else. In contrast, the same survey showed that only 46 percent of adults in Western Europe, 41 percent in Japan and 58 percent in Canada preferred being an entrepreneur over working for someone else.

What Sets the U.S. Apart?

When economists try to explain differences in entrepreneurship across countries or regions, they typically examine the roles of economic, governmental and institutional factors. These things are important, but they don't tell the whole story. U.S. policies and social factors—what might be called the entrepreneurial spirit—also contribute to Americans' willingness to take risks and become their own bosses.

How Do Policies Matter?

Some ways in which the United States stands out in supporting the entrepreneurial spirit include:

1. legal institutions that ensure property rights, including intellectual property;
2. our competitive financial system, which provides financial capital from a variety of sources;
3. a free market ensuring that all markets, including labor, are not over-regulated; and
4. a business-friendly tax structure that—compared with those of other developed economies—is relatively low.

Risky Business

European policy-makers have found that it's not enough to have laws and regulations that encourage entrepreneurship. Attitudes—especially toward risk—are also important. A recent survey commissioned by the European Union finds many Europeans have never considered starting their own business. Nearly one-half said that one should not start a business if there is any risk that it might fail.

What Will \$210 Get You?

Rules across developed countries vary greatly in what an entrepreneur must do to establish a business as a legal entity. These rules are important because once a business becomes established as a legal entity, it has the ability to borrow from the financial system and to enforce legal contracts.

The World Bank has catalogued the processes an entrepreneur must satisfy to establish a business in different countries. Table 1 provides these differences for rich countries, including the United States, across four categories:

- the number of procedures,
- the amount of time to satisfy the procedures,
- the costs associated with the procedures and
- the minimum amount of financial capital that an entrepreneur must have on hand at the time the business is established.

Table 1

	Number of Procedures	Time (days)	Cost (US\$)	Minimum capital (% per capita income)
Australia	2	2	402	0
Belgium	7	56	2,633	75.1
Canada	2	3	127	0
Denmark	4	4	0	52.3
France	10	53	663	32.1
German	9	45	1,341	103.8
Greece	16	45	8,115	145.3
Ireland	3	12	2,473	0
Italy	9	23	4,565	49.6
Japan	11	31	3,518	71.3
Netherlands	7	11	3,276	70.7
New Zealand	3	3	28	0
Norway	4	24	1,460	33.1
Portugal	11	95	1,360	43.4
Spain	11	115	2,366	19.6
Sweden	3	16	190	41.4
Switzerland	6	20	3,228	33.8
United Kingdom	6	18	264	0
United States	5	4	210	0

In the United States, it typically takes four days and \$210 to establish a business as a legal entity. The steps include registering the name of the business, applying for tax IDs, and setting up unemployment and workers' compensation insurance. But in Japan, a typical entrepreneur spends more than \$3,500 and 31 days to follow 11 different procedures.

Can We Do Better?

Although there are many ways in which U.S. policy is friendly to entrepreneurs, there is still room for improvement. Many regulations place too much of a burden on entrepreneurial activities without generating large benefits to society. Tax codes for individuals and businesses are, in many ways, needlessly complicated

and introduce distortions in decision-making. And we are often tempted to impose labor-market or trade restrictions to make it more costly for firms to move operations overseas.

The entrepreneurial spirit has provided the spark that enlivens the U.S. economy. That growth can only continue if we resist the urge to over-regulate entrepreneurs and if we provide prudent policies that foster free enterprise.

Questions for Classroom Discussion

1. What are some reasons that might explain why an American is more likely to favor being an entrepreneur than a European is?
2. According to Table 1, in what countries could establishing a business take less than a week?
3. According to Table 1, which four countries had the highest cost (in U.S. dollars) to establish a business? Which four countries had the lowest?

This article was adapted from "Entrepreneurs in the U.S. Face Less Red Tape," which was written by Bill Poole and Howard Wall and appeared in the October 2004 issue of The Regional Economist, a St. Louis Fed publication.



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Q & A

Why is there a new \$50?

Series 2004 currency was designed to stay ahead of the advancing technology counterfeiters use. The \$20 was issued in 2003, followed by the \$50 in 2004. The new \$100 will be released at a future date.

Has U.S. currency ever been redesigned before?

Yes. The Department of the Treasury and the Federal Reserve released a new design for the \$100 note in 1996, followed by new designs for the \$50 in 1997, the \$20 in 1998, and the \$5 and \$10 in 1999. These were the first significant design changes since 1928. Prior to 1928, designs changed frequently.

If new designs are a continual process now, when should we expect the next new design?

To stay ahead of counterfeiters, the United States will create new designs every 7-10 years.

What are some of the changes in the new \$50?

You'll be able to see several new, colorful features:

- background colors of blue and red,
- copper-to-green color-shifting ink,
- a waving American flag and metallic silver-blue star, and
- small yellow 50s.

Will the old notes (currency) be recalled or devalued?

No. The United States has never devalued its currency.

Why not make our new currency really colorful like many other countries' currency or change its size?

The U.S. dollar is associated with stability, security and strength. Changing the size would not affect security, but it could create confusion for millions around the world who recognize the traditional appearance of U.S. notes.

What should people do if they receive a counterfeit note?

Most often, counterfeiters attempt to pass their notes at businesses. If you think you've received a counterfeit note, do not return it to the passer. Immediately notify the local police or the U.S. Secret Service. Note the passer's physical characteristics, and (when possible) write down the license plate number and description of the vehicle. Safeguard the note and release it only to the proper authorities.

For more information on currency, go to www.moneyfactory.gov.



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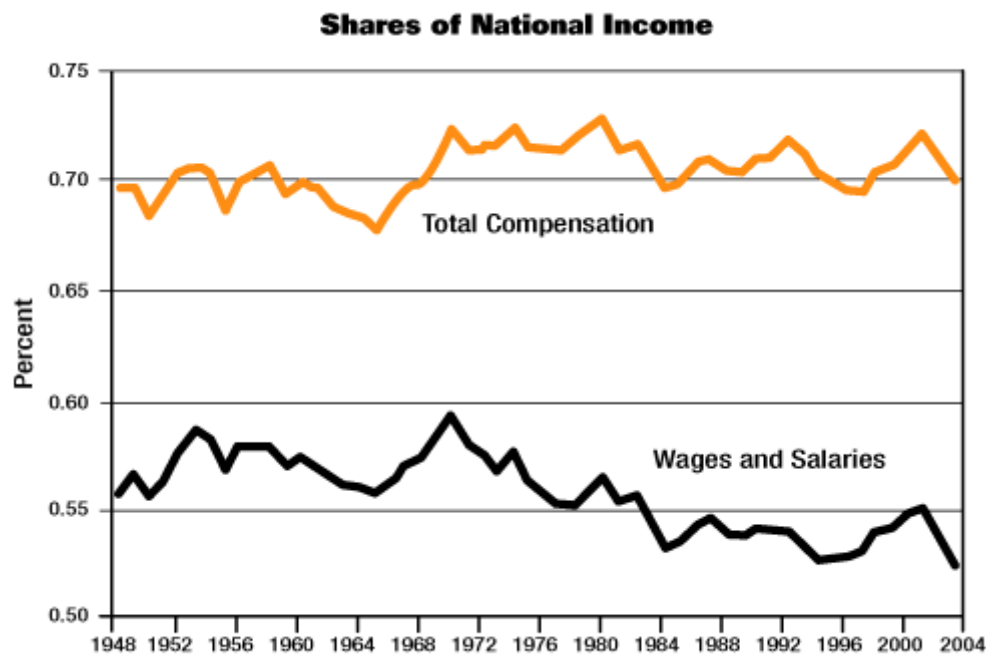
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Economic Snapshot

3rd Quarter 2004

	Q4-03	Q1-04	Q2-04	Q3-04
Growth Rate - Real Gross Domestic Product	4.2%	4.5%	3.3%	3.7*
Inflation Rate - Consumer Price Index	0.7%	3.6%	4.7%	1.9%
Civilian Unemployment Rate	5.9%	5.6%	5.6%	5.4%

*Advance estimate



Graph from August 2004 issue of National Economic Trends.

What does total compensation as a percentage of national income mean?

Over the past 50 years, labor's share of national income has averaged 70.5 percent and is, therefore, a much larger portion of national income than the portion that goes to owners of capital.

What is the difference in total compensation (orange line) and wages and salaries (black line)?

Total compensation includes employer-paid social insurance contributions and benefits such as health care, pension plan contributions, etc. This chart indicates that while wages and salaries have declined from 58 percent of national income in 1970 to 52 percent in 2003, total compensation as a percent of national income has remained fairly stable.