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Book review: Entrepreneurship, growth and public policy: prelude to a knowledge spillover theory of entrepreneurship

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Zoltan J. Acs (2008) *Entrepreneurship, Growth and Public Policy: Prelude to a Knowledge Spillover Theory of Entrepreneurship*. Cheltenham and Northampton MA: Edward Elgar. ISBN: 978-1-84720-116-4 (hbk) £89.95 Pages: xxii+573 pp.

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Zoltan J. Acs is a Professor in the School of Public Policy at George Mason University, USA, and a Research Scientist at the Max Planck Institute of Economics, Jena, Germany. His name will be familiar to many readers of this journal. Acs has been a leading figure in entrepreneurship research in recent years, producing work that has spanned disciplinary boundaries and continents. This book is a collection of the author's work over a 30 year period. The earliest contribution 'The growth of business: an American perspective', was published in the Italian journal, *Mezzogiorno D'Europa* in 1984; the most recent, 'How is entrepreneurship good for economic growth?' is drawn from a 2006 issue of the journal, *Innovations*. Alongside these papers, the reader is treated to more than thirty journal articles, book chapters and other publications that examine a variety of issues at the interface of entrepreneurship, innovation, economic growth and public policy.

Such a large, multi-chaptered volume could become rather incoherent and difficult to navigate. However, both of these problems are largely overcome by dividing the book into six clearly-delineated Parts: (I) Innovation and Firm Size; (II) Geographically-Constrained Knowledge Spillovers; (III) Entrepreneurship and New Firm Formation; (IV) Innovation and Economic Growth; (V) Entrepreneurship and Public Policy; and (VI) Entrepreneurship and Society. The content and purpose of each Part are signalled very clearly in the Introduction. So, for example, Acs explains that, 'The papers in the first three parts of this book focus on the firm. In the Papers in Part I, I ask, "In what industries do small firms have the innovative advantage?"' (xviii). The book concludes with a short Epilogue, which makes the case for the author's Knowledge Spillover Theory of Entrepreneurship in order to bridge the gap between, 'the "subjective" literature on individual entrepreneurs and the "objective" literature on the sources of opportunities.' (560).

In the book's introductory chapter, Acs provides an account of the demise of managerial capitalism, and of the associated belief in a natural progression towards economic systems dominated by a few very large firms. Acs has been amongst the most prominent voices signalling the displacement of the corporatist or 'managed' economies by an 'entrepreneurial society', which reasserts the role of smaller entrepreneurial firms (Acs and Armington 2006, Audretsch 2007). In contrast to his predecessors, Galbraith and Servan-Schreiber, his aspiration has been to re-orient public policy *away* from large corporations as the primary vehicles of innovation and economic growth. In so doing, Acs has also encouraged fellow economists to reconsider the virtues of the smaller firm:

'With a few notable exceptions, economists have typically largely ignored small firms and entrepreneurship.' (xii)

It is impossible to do justice to such a diverse collection of work in a short review. A more realistic, and possibly more useful, option is to consider how its six themes connect with the author's core

argument. One of the major strengths of the book is that each Part contains a mix conceptual development and empirical substantiation. For example, Part I includes a number of studies examining the ‘Schumpeterian’ hypothesis on the relationship between firm size and innovation. Over the years, Acs and his co-authors have been successful in problematising this relationship, highlighting the role of intervening variables such as the extent to which product markets are characterised by imperfect competition and the degree of obsolescence of a firm’s product lines. As one of these articles suggests, the impact of such evidence was to move the debate forwards:

‘Rather than posing the issue as, “Which firm size is the most conducive to innovation?” the more relevant question may be, “Under which circumstances do large firms have the relative innovative advantage, and under which circumstances do small firms have the relative innovative advantage?”’ (22)

Part II introduces the theme of knowledge spillovers, focusing on their role in terms of regional economic development. The arguments are framed in relation to the work of some well-known economists (Krugman, Romer), and innovation researchers (Nelson, Lundvall), while the analysis is conventionally economic in its approach. In Part III, attention shifts to entrepreneurship and new firm formation. In an early *Economica* article, Acs and his frequent co-author, David B. Audretsch, examine entry barriers from the perspective of small US manufacturing firms, obtaining evidence to suggest that their entry behaviour differs from that of their larger counterparts. In two papers written with Catherine Armington, Acs examines the role of human capital on geographical variations in new firm formation rates. They find that knowledge spillovers are an important mechanism explaining these phenomena. And while other studies focus on the positive externalities generated by schooling, Armington and Acs highlight the role played by entrepreneurship:

‘The potential for these externalities differs greatly across cities in the US, depending on both the levels of education of their workforce, and on the strength of the presence of existing businesses in the same industry sector. It appears that an important mechanism by which these externalities contribute to economic growth in cities is through their impact on the level of entrepreneurship. And entrepreneurship provides the catalyst for increasing productivity, as well as increasing diversity and volume of goods and services produced in an area.’ (270)

In Part IV, Acs moves on to consider the outcome of entrepreneurial activity, examining in particular its relationship with measures of economic growth. Non-economists should bear in mind that Acs and his colleagues define ‘entrepreneurship’ is a much narrower way than is common in other academic disciplines, and in most inter-disciplinary research. For example, in their recent *Regional Studies* article, Acs and Armington deploy the concept of ‘independent entrepreneurship’ (Sharma and Chrisman 1999), operationalising it using data on new firm start-ups; as the authors acknowledge, the great swathe of entrepreneurial activity occurring in ‘previously established organisations’ is thereby excluded (357). The book concludes with some implications for public policy. Part V includes a set of policy prescriptions, designed to promote the cause of entrepreneurial start-up firms, including their relationships with larger incumbents. For Acs, a dynamic economy requires a significant degree of creative destruction and openness to change, and these characteristics are facilitated by encouraging entrepreneurship and the ‘free entry’ of start-up firms. So how is the world shaping up to his liberalising agenda, thirty years on? In a piece published

in 2002, Acs saw the United States making progress in this direction, while the rest of us still had issues to overcome:

‘For a variety of reasons, Americans tend to embrace change, sometimes even for its own sake, while Europeans and Japanese and transition economies tend to mistrust it.’ (469)

Finally, in Part VI, Acs considers ‘Entrepreneurship and Society’. In practice, the scope is more limited than this title suggests, with three papers addressing what the author regards as a mutually beneficial relationship between entrepreneurship and philanthropy. In his thesis, a distinctively ‘American’ model of philanthropy, voluntary redistribution by wealthy individuals that reaches beyond their immediate circle, is essential to maintain a vigorous capitalist economy: such philanthropy ‘solves’ social problems and at the same time ‘regulates the role of government in society.’ (502). Acs also envisages that as a consequence of globalisation pressures the American model is set to displace less effective versions operating in other parts of the world (507).

This is a substantial volume, but it would be strengthened by two additions. Firstly, it would have been enhanced by a more reflective commentary and some biographical context. This is a collected work, and we want to hear something of the author’s personal experience in researching entrepreneurship. How have his views changed over the period, as his research area has grown more influential, and as some of his own key aspirations have been realised? Secondly, the concluding discussion on the ‘Knowledge Spillover Theory of Entrepreneurship’ could be expanded in order to indicate its relevance to the wider community of entrepreneurship researchers, and not only to fellow-economists. Acs uses the Epilogue to demonstrate how his theory, ‘challenges three fundamental assumptions implicit in the results of endogenous growth models ...’ (561); though this argument is important, there is surely a missed opportunity here to consider the broader, non-economic aspects of Knowledge Spillover theory.

The complex and highly contested interface between entrepreneurship and public policy is generating increasing interest from academics (e.g. Audretsch *et al.* 2007; Greene *et al.* 2008, reviewed in Volume 14, Issue 6 of this journal). *Entrepreneurship, Growth and Public Policy* is a significant contribution to this emerging field of study, and will be a valuable resource for graduate students and academic researchers with an interest in its core themes. In these straightened times, university librarians will be asking whether a collected volume of this kind justifies its cost, given that much of the content is readily accessible through electronic journal databases. In this case, a combination of intelligent editorial decisions and interesting material has shifted the balance in favour of the book.

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