What is the relationship between entrepreneurship, economic growth, and poverty? Women choose to become entrepreneurs or self-employed for different reasons in developed countries such as the United States and Sweden, with varying effects on poverty and economic growth. This paper explores the motivations behind entering the entrepreneurial space for women, differentiating between opportunity (taking actions to create a new venture following a perceived business opportunity despite other options to earn a living) and necessity (becoming involved in entrepreneurial activities due to a lack of other options to earn a living) motivations. It also highlights entrepreneurship’s relationship with poverty and economic growth, while providing recommendations on how to encourage opportunity entrepreneurship and reduce poverty while discouraging necessity entrepreneurship.
INTRODUCTION

Entrepreneurship is often hailed as a tool to curtail poverty (Kimhi 2009) and positively affect a country’s economic growth (Rodrigues 2018). However, it is important to explore individuals’ motivations behind entering the entrepreneurial space and in particular how they may differ between men and women—and from one woman to another. That exploration is likely to reveal gaps in motivations and distinguish between necessity-based versus opportunity-driven motivations. Studies show that opportunity-driven entrepreneurship has a positive effect on economic growth (Rodrigues 2018) and that it is more effective than necessity entrepreneurship in lifting people out of poverty (Long 2016). It is important to reduce these gaps to allow more women to enter the entrepreneurial space based on opportunity rather than necessity.

The paper begins by introducing important terms and concepts, including the differences between entrepreneurship and self-employment, and opportunity-driven and necessity-based entrepreneurship, and the importance of women in promoting opportunity entrepreneurship and poverty reduction. The following section will review the existing literature on the connection between entrepreneurship and economic growth and poverty. Next, the paper discusses the choice versus need motive dichotomy and compares Swedish and American poverty rates. The paper concludes with policy recommendations to support women who choose to become entrepreneurs.

IMPORTANT TERMS

Entrepreneurship and self-employment appear to be similar, but they have several important differences. One often-noted difference is that the former creates a sustainable business while the latter simply creates a job for the individual (Acton 2015). For example, freelancers (e.g., writers) and gig workers (e.g., Uber drivers) tend to fall under the self-employment umbrella. Meanwhile, the owner of a local flower shop with employees would be considered an entrepreneur as the business creates jobs and generates revenue (Estrin & Mickiewicz 2011).

Another important distinction is the difference between necessity entrepreneurship and opportunity entrepreneurship. Necessity or survivalist entrepreneurs are people who become involved in entrepreneurial activities due to a lack of other options to earn a living, whereas opportunity entrepreneurs are those who take actions to create a new venture following a perceived business opportunity (Amorós & Cristi 2011). It should also be noted that opportunity entrepreneurs have access to other ways to make a living. In a 2003 study by Minniti and Arenus, opportunity entrepreneurship is characterized as those who choose to start a business as one of “several desirable career options” (2003, 6).

In his study, Rodrigues (2008) frames the distinction between entrepreneurship and self-employment by suggesting that opportunity entrepreneurs are a proxy for employers and necessity entrepreneurs are a proxy for self-employed individuals (31). However, considering many opportunity entrepreneurs do not employ workers, it is easy to confuse the terms. Some of the studies cited here use them interchangeably, presumably due to the lack of consensus around which term is the most appropriate. Throughout the analysis and
argument, I will clarify to which I am referring; when referring to both, I will state “the entrepreneurial space.”

Women's entrepreneurship is important to highlight for its economic contributions. Women-owned businesses in the United States have had an economic impact of $3 trillion annually, translating into the creation and maintenance of 23 million jobs (Center for Women's Business Research 2009). Equipping women with the proper tools to become sustainable opportunity entrepreneurs could allow them to leave an even larger footprint on the economy. Women can also play an integral role in reducing poverty. As the saying goes, if you start change at the middle, some will get left behind. Start at the bottom and everyone moves up. As women are often situated at the bottom of economic hierarchies due to gender discrimination, it is most prudent that they are the key force behind any major effort to improve the overall well-being of themselves and others while also keeping in mind that the onus of change should not only be on them.

LITERATURE REVIEW

The relationship between a country’s economic growth and poverty rate is crucial to establish in order to understand the impact of female entrepreneurship on poverty and economic growth. The analysis in this paper relies on the assumption that increased economic growth results in lower poverty rates, as established in Rodarte and Verbeek (2015).

Some studies argue that an inverse relationship between entrepreneurship and poverty exists: as the former increases, the latter decreases (Amorós & Cristi 2011). Going further, some studies find that opportunity entrepreneurship in particular further reduces poverty than necessity entrepreneurship (Long 2016). Other studies argue that entrepreneurship has little effect on poverty levels, and provide examples of world regions (e.g., Africa and South America) in which there are large numbers of entrepreneurs, yet poverty levels remain high (Shane 2004, 143).

In their report for the United Nations on female entrepreneurship, Dr. Maria Minniti and Dr. Pia Arenius (2003) sought to identify the factors that influence female entrepreneurship and how they may vary between high-income and low-income countries. They find that the correlation between unofficial economic activity and entrepreneurial activity is negative in high-income countries. The researchers also discover that the proportion of welfare payments as a share of gross domestic product (GDP) and stable employment are negatively correlated with entrepreneurial activity, meaning greater economic security is associated with lower rates of both necessity and opportunity entrepreneurship. They also note that the availability and (high) quality of maternity support tend to discourage female entrepreneurship. Finally, Minniti and Arenius reveal that in high-income countries, female labor force participation rates and opportunity entrepreneurship are positively correlated but note a negative correlation when looking at necessity entrepreneurship. Furthermore, the percentage of women in public and private managerial positions is positively correlated with opportunity entrepreneurship. The authors suggest this is probably “because women in managerial positions acquire a variety of skills and provide a pool of potential opportunity entrepreneurs” (Minniti & Arenius 2003, 21). Given the results of the study, Minniti and Arenius argue that promoting the entrepreneurial dynamic of a country should be an “integral element of any government
attempt to boost economic prosperity” (23). The study supports the claim that for many women, the pathway out of poverty is by way of entrepreneurship (Minniti & Arenius 2003).

Access to a social safety net, which includes assistance with education, health, housing, and income relief, could affect one’s choice of work. It may weaken the necessity motivation and encourage fewer people to enter the entrepreneurial space in order to make a living, therefore reducing the number of entrepreneurs. It could also weaken the incentive to save money that could be used to start a business. Henrekson and Roine (2006, 16) stated that as long as unemployment insurance, income-dependent pensions and sick leave benefits, higher education, and highly subsidized health and care services are provided by the government, most of the savings motives for the average person disappear. The size of the safety net seems to have a greater negative impact on female entrepreneurs than on their male counterparts because women’s occupational decisions are often made within the social context of a household. In this context, a larger safety net may discourage women from becoming economically active at all, let alone entrepreneurially, by offering them such benefits as they take on domestic responsibilities (Estrin & Mickiewicz 2011). Moreover, Henrekson and Roine’s examination of Sweden’s mature and extensive social safety net and its impact on entrepreneurial growth reveals that it negatively affects entrepreneurial behavior. A large social safety net “discourages necessity-based entrepreneurship by providing an alternative source of income at a reasonable level” (Henrekson & Roine 2006, 25). A guaranteed high standard of living renders both types of entrepreneurship unnecessary, echoing the research by Minniti and Arenius discussed earlier. However, assistance might also encourage opportunity entrepreneurship: the disincentive effects from these benefits can often be countered not by saving money, but by contributing to activities that enhance entrepreneurial growth, such as schooling, infrastructure, or better-functioning institutions. In this instance, the safety net would allow for greater purchasing power and therefore enable potential entrepreneurs to contribute more to activities they believe would benefit them (Henrekson & Roine 2006).

Deeper analysis of the necessity motivation identifies several reasons for embarking on entrepreneurial activity, such as having no other source of income and/or lack of other, better work options. Christel Tessier-Dargent and Alain Fayolle (forthcoming) argue that necessity entrepreneurship reduces unemployment, discrimination, and poverty, although primarily in developing countries. Admittedly, Tessier-Dargent and Fayolle note that necessity entrepreneurship is the “second-best” solution to reduce those three indicators, with the first-best solution being “a just economic order in which market mechanisms operate in a nondiscriminatory fashion to allocate waged jobs according to just criteria to anyone,” but that this first-best solution is “unavailable, as socially, economically and politically unobtainable” (Tessier-Dargent & Fayolle, forthcoming, 8). Although this may be the case in most developing countries, it does not mean that it is the same in developed countries.

In the United States, people become entrepreneurs for a variety of reasons, ranging from wanting to follow a passion to feelings of dissatisfaction with corporate America (Guidant 2018). According to a Global Entrepreneurship Monitor (GEM) report, about 88 percent of US female entrepreneurs created their business by choice, not necessity (Lange et al. 2018). Some women who decide to become entrepreneurs do so because their opportunities in traditional forms of work are limited due to a lack of adequate family policies, an existing gender pay gap, and other discriminatory practices (in other words, they may leave the
traditional workforce as a result of dissatisfaction with corporate America) (Lim 2015). While widespread discriminatory practices (e.g., the gender wage gap, or the longer time required for women to advance in their careers compared to men) may inhibit women's career growth (Stamarski & Son Hing 2015), there is not sufficient evidence that gender discrimination in the traditional labor force incentivizes women to enter the entrepreneurial space. While it does make entrepreneurship more attractive, women are still choosing to enter the entrepreneurial space over remaining in traditional workforce, and therefore this move is not a necessity.

The opportunity versus necessity motive dichotomy is largely delineated by the concept of need, its varying meanings, and how it interacts with the concept of choice. In this paper so far, need has implied the need of the entrepreneur to support themselves, i.e., economic need. However, another important meaning of the word is a societal need that entrepreneurs have identified and try to meet. A GEM report (Kelley et al. 2017, 19) states that, “necessity may drive higher total entrepreneurial activity rates at lower development levels, while less 'need' for entrepreneurship causes fewer people to start in developed economies.” Should people always necessarily look for a societal or community need when debating whether to enter the entrepreneurial space? It is prudent to examine factors such as the current markets, what a local community may be lacking or what one could contribute, and potential competition from existing businesses within the same industry. Although these considerations are important, they may not be sufficient or necessary for potential entrepreneurs to successfully enter the space. The concept of choosing entrepreneurship is equally important. In an ideal world, entrepreneurship for women would stem solely from choice. A woman should be able to choose whether to enter the entrepreneurial space despite adequate institutions and policies that encourage her participation in the workforce.

Among all countries measured (including both developed and developing), GEM finds that adults in Sweden have the highest percentage of perceived entrepreneurship opportunities (Global Entrepreneurship Monitor 2018). In addition, Sweden has some of the highest rates of entrepreneurs that start businesses out of opportunity (despite their large social safety net, contradicting the findings of Henrekson and Roine [2006]) rather than necessity. Similarly, in the United States, a majority of entrepreneurs are driven by opportunity rather than necessity (Lange et al. 2018). Despite the fact that the two countries have high rates of opportunity entrepreneurship and economic growth is perceivably positive, their rates of poverty and necessity entrepreneurs differ. For example, the Swedish poverty rate is much lower than that of the United States. According to data from the Organization for Economic Cooperation and Development (OECD), Sweden’s poverty rate is less than one percent, compared to the United States at 17.8 percent (OECD 2019). In addition, the percentage of necessity entrepreneurs in Sweden is also lower than in the United States: around eight percent between 2012 and 2015, compared to about 17 percent in the United States during the same period, according to the Swedish Entrepreneurship Forum (Braunerhjelm et al. 2016). Both countries are “innovation-driven economies” (Braunerhjelm et al. 2016, 8), and other than population, major differences between the two—such as the existence of a large and reliable social safety net and active poverty-reduction government policies (both of which Sweden has and the United States does not)—are a reasonable explanation for the disparity in poverty and necessity entrepreneurship rates.
DISCUSSION OF US POLICIES THAT SUPPORT ENTREPRENEURSHIP FOR WOMEN

Policymakers must identify opportunities to encourage opportunity entrepreneurship for women and discourage necessity entrepreneurship as part of a poverty-reduction policy plan. Necessity entrepreneurs likely lack access to capital and other resources and skills necessary to operating a sustainable business, such as adequate marketing and having an entrepreneurial network, which make barriers to success difficult to overcome. While an opportunity-driven entrepreneur can certainly lack resources and skills, at least these entrepreneurs have other means to survive if entrepreneurship fails. Though reducing the necessity entrepreneurial motivation by way of poverty reduction may be an abstract and long-term goal, there are concrete steps that can be taken to get the United States closer to achieving it. For instance, policymakers can create and expand existing workforce development and skills training programs to provide individuals with the tools needed to fill the jobs created by entrepreneurs and succeed. Many women enter the entrepreneurial space in order to have a more flexible schedule and better manage life and work, suggesting a need for the federal government to provide greater help with childcare (Lim 2015). Referring back to the choice versus need element mentioned earlier, providing better childcare would increase the attractiveness and sustainability of both options (staying in the traditional workforce and entering the entrepreneurial space) and allow women to choose between two desirable pathways. Sweden has comprehensive paid family leave and childcare laws, including providing 480 days of leave to parents of newborn children and Educare, a nationwide network of subsidized preschools that provide childcare and education (Ricci 2015). The country’s preschools are for children of all working parents starting at the age of one and operate from 6:30 a.m. to 6:30 p.m. daily, offering extended care hours to accommodate parents who may work evenings and weekends (Ricci 2015). Additional US approaches to reducing poverty include increased government assistance to expand the social safety net and address impediments such as workplace discrimination, the gender pay gap, unpaid care, and gender-based violence in homes and workplaces (ICRW 2018). A few examples of policies in pending legislation in Congress to achieve these goals include the expansion of the Earned Income Tax Credit in the Cost-of-Living Refund Act of 2019 (H.R. 1431, 2019); increasing the eligibility age for children to receive benefits under the WIC program such as in the Wise Investment in Children Act of 2019 (S. 2358, 2019); the Bringing an End to Harassment by Enhancing Accountability and Rejecting Discrimination in the Workplace Act, or the BE HEARD in the Workplace Act (H.R. 2148, 2019); the Paycheck Fairness Act (H.R. 7, 2019; passed the House of Representatives), the Domestic Workers’ Bill of Rights Act (H.R. 3760, 2019); and the reauthorization of the Violence Against Women Act (H.R. 1585, 2019). Passing and enacting Congressional bills such as these will help break down barriers that would otherwise lead to an increase in the number of necessity-based entrepreneurs. Poverty reduction may decrease the need for entrepreneurship and increase the choice to pursue entrepreneurship.

The United States needs to determine the level of priority that female entrepreneurship and its economic contributions have in policymaking—and establish policies that can better support it. Minniti and Arenius (2003) highlight the principle of “policy coordination” and its importance in designing policies affecting female entrepreneurship, noting this principle suggests that “policy in any area of government activity should be coordinated with the goal
of promoting female entrepreneurship and that policies promoting female entrepreneurship should be coordinated with the other goals of government policy” (25). Minniti and Arenius encourage policymakers to consider the effect that policy design in other areas will have on women's incentives to start a new enterprise, ensuring they do not disincentivize this practice. For example, the introduction of a program requiring large employers to provide childcare facilities might encourage women to stay in the traditional workforce over founding a new venture, and lead to a decline in female entrepreneurship. Adopting the principle of policy coordination will allow the US government to identify new ways to promote and encourage policies such as childcare assistance that would have little or no negative impact on female opportunity entrepreneurship (Minniti & Arenius 2003).

CONCLUSION

Entrepreneurship is an exciting venture to pursue. The ability to create one's own professional autonomy and participate in an alternative to the traditional workforce can be very attractive and marketable. Depending on a number of factors, such as intended products or services to be sold and proper development of entrepreneurial skills, entrepreneurship could improve one's financial and economic situations and contribute to the greater fight against poverty. Opportunity entrepreneurship can also be a great way for women to pursue a passion without the worry of having to find a means to survive. In fact, entering the entrepreneurial space often demands the willingness to make brief, financial sacrifices as an entrepreneur does not always begin to make money right away. For necessity entrepreneurs who need to enter the entrepreneurial space to make money, entering the space may not be worth that sacrifice.

The motives that drive female entrepreneurship and women's connection to poverty is a growing body of literature. Due to the fact that the term “entrepreneur” is ever-changing, it can be difficult to fully capture the causal relationship between entrepreneurship, economic growth, and poverty. Nonetheless, institutional reform in the United States—and other countries—could allow more women greater choice when deciding on an occupational pathway. Based on the research and analysis outlined above, a poverty-reduction plan addressing major areas of women's personal and professional lives could pave the way for an increase in opportunity entrepreneurship.

REFERENCES


Exploring Women’s Entrepreneurship and Poverty


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