

## **Entrepreneurship policy in a multilevel government structure. The case of Belgium.**

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### Contents:

1. Introduction
2. Entrepreneurship policy and economic policy
3. Multilevel government. The case of Belgium
4. Example: the cost of the administrative burden
5. Conclusion and recommendations
6. References

## **1. Introduction**

In many textbooks on economic policy, the “government” is considered as a single agency, which will pursue certain objectives and which will have instruments at its disposal. In real life, however, the “government” is composed in a complex way, with many agencies and levels. In most countries, we can make a distinction between national and local levels. In some countries, we can add supranational (e.g. E.U.) and provincial levels, while in federal countries the “national” competence is divided between the federal level and the regional level.

This is especially true when we deal with a complex policy field such as entrepreneurship policy. This policy is composed of elements which have not only links to economic policy, but also to social policy, tax policy, urban policy etc.

In this paper we will mainly confine ourselves to the issues of economic policy. In the next paragraph we will present some key elements of entrepreneurship policy within the framework of economic policy. Then we present the specific case of Belgium, where the competences for the entrepreneurship policy have been attributed to a multitude of government levels and agencies. As an example we discuss the reduction of the costs of the administrative burden. By way of conclusion we present some recommendations.

## **2. Entrepreneurship policy and economic policy**

### **2.1. Economic policy**

In most textbooks on *economic policy*, we find reference to a government which pursues certain objectives and uses instruments. The procedure of conducting a policy involves making choices about objectives and instruments and then to implement the policy. Normally it also is necessary to make an evaluation about the results. We can make a distinction following the field: macroeconomic policy, microeconomic policy, sectoral and regional policy etc.

In the case of macroeconomic policy, the main policy objectives are, among others, the pursuit of economic growth, the reduction of unemployment, the reduction of inflation, the pursuit of external equilibriums for the balance of payments or the exchange rate. Sometimes there can be a conflict between the objectives. Then the policy makers have to make choices and to set priorities.

*Entrepreneurship policy* has as its objective to promote entrepreneurship. As entrepreneurship is a key component of economic development, entrepreneurship policy can be instrumental for other types of economic policy such as macroeconomic or microeconomic policy. In this way, the promotion of entrepreneurship will support other objectives such as economic growth or generating income, employment and tax receipts.

Although entrepreneurship policy can be 'instrumental' within this broader framework of economic policy, in practice it will be developed and conducted in most countries within a separate framework. For instance in the European Commission this policy is conducted through a DG Enterprise. Promoting entrepreneurship then will be an objective on itself within the framework of entrepreneurship policy. Within this framework, policy makers will not only need objectives but also targets and indicators as well. In this case there are several possibilities such as increasing the number of entrepreneurs (independent workers), increasing the number of starters, increasing the survival rate of businesses ...

Entrepreneurship policy is not only a component of economic policy, it has become a policy field by itself. It also shall be 'multidisciplinary', involving not only economics, but also education, physical planning, social statute etc.

## **2.2. The entrepreneur in the economic literature**

What are the key issues of an entrepreneurship policy? A short look at the economic literature can help us to identify them. Back to the eighteenth century, Richard Cantillon (1680-1734) already introduces the entrepreneur as the one who combines the factors of production and is confronted with uncertainty. Jean-Baptiste Say (1767-1832) defines the entrepreneur as an economic agent who combines the contributions of other economic agents. Say also notices that the entrepreneur needs an organization to do this. So the idea of a productive organization is introduced.

John Stuart Mill (1806-1873) differentiates between the entrepreneur and the manager. The entrepreneur combines and takes risk, while the manager provides leadership. Joseph Schumpeter (1883-1950) emphasizes the role of the successful entrepreneur as an innovator.

This very quick survey has enabled us to identify some key elements of entrepreneurship: uncertainty and risk, combining factors of production, organizational capacities and innovations. Since then, the concept has been refined further but in any contemporary textbook we will find these ingredients.

For policy makers who look for ways to stimulate entrepreneurship, there is still one other important question: is entrepreneurship a talent, an art, a science? Can it be promoted by policy at all? This is a great discussion the outcome of which is not yet settled. In any case, we observe that entrepreneurial talent is unequally distributed among individuals but all successful entrepreneurs have gone through a learning process. Some learned it at school, others are self-taught, a lot of them learned it through their family.

When there is a learning process, it will make sense to have classes, courses and trainings in entrepreneurship, and to demand for a policy which supports and promotes entrepreneurship. We compare with sports or art. The talent is unequally distributed among individuals but it does make sense to promote these talents through policy and education. In the case of entrepreneurship we observe that many successful entrepreneurs have learned their job not only through 'formal' methods

of learning, but also through so-called 'informal' ways. In these informal ways of learning we see an important role for culture, tradition and family.

### 2.3. Entrepreneurship in economic policy

Today entrepreneurship policy is a key component of the economic policy of most countries. This has not always been so.

#### ***Entrepreneurship policy and small business policy***

From the fifties to the nineties of the 20<sup>th</sup> century, the target of policy were the so-called Small and Medium-Sized Enterprises or SMEs. Entrepreneurship policy was in reality designed as a policy of 'Fostering Small Businesses'. The idea behind this type of policy is to "*strengthen the existing base of small businesses by ensuring they can compete in the market place and that they are not prejudiced because of their small size relative to large firms*" (R. Aernoudt, p. 19, see also Lundström and Stevenson (2002)).

Today the policy emphasis has changed to 'Fostering Entrepreneurship'. The main difference is that SME policy acts on businesses, entrepreneurship policy on business people. «*The shift from SME policy to entrepreneurship policy does indeed go along with the awareness that it is not firms but individuals who do business*» (R. Aernoudt, p. 102)

Both types of policy are not mutually exclusive and are rather complementary as their focus and target groups are to a large degree overlapping but they are not identical. We can state that the scope of entrepreneurship policy is broader. Evidently, most entrepreneurs start their own business as SME owner-managers but the concept of entrepreneurship can also be extended to growing businesses, financial and political institutions and big companies. Some issues, for instance starting businesses, are covered by SME policy as well as by entrepreneurship policy but the scope of the latter is different. For example in the field of finance, SME policy will mainly focus on the financial needs of starting businesses and micro businesses but entrepreneurship policy will focus on growing businesses as well. Entrepreneurship policy will also address such fields as regional development, education and training, second chance, administrative burdens.

#### ***Definitions and concepts***

When we come to policy, we need clear definitions and concepts (see also Lundström and Stevenson (2001), p. 17). This is why also the European Commission has defined entrepreneurship and entrepreneurship policy in its Green Paper.

«*Entrepreneurship is the mindset and process to create and develop economic activity by blending risk-taking, creativity and/or innovation with sound management, within a new or an existing organization*» (Green Paper, p. 6)

“*Entrepreneurship can occur in any sector and type of business. It applies to self-employed and to firms of any size throughout the various stages of the business life-cycle, from pre-start to growth, transfer or exit and re-start.*

*Entrepreneurship is relevant for firms in all sectors, technological or traditional, for small and large firms and for different ownership structures, such as family businesses, firms quoted on the stock exchange, social economy enterprises or non-profit-driven organizations, which often have significant economic activities*” (Green Paper, p. 6)

The scope of entrepreneurship policy is at three levels: individual, firm, society

«*Entrepreneurship policy aims to enhance entrepreneurial vitality by motivating and equipping entrepreneurs with the necessary skills. A supportive environment for business is key for businesses to start, stop, take over, thrive and survive*» (p. 10)

A central idea, which goes back to Schumpeter, is that entrepreneurial firms are innovative. Innovations are possible and can be applied to all aspects of doing business. The concept of innovation

is not confined to so-called high-tech businesses. Innovation is also possible in so-called traditional businesses.

## **2.4. The role of the public authority**

We take into consideration three possible roles of the public authorities which can be relevant for the entrepreneur: the public authority is a regulating agency, a stimulating agency and a potential customer.

### ***(1) The public authority is a regulating agency***

Fair competition is a cornerstone of market economics. In a market economy, entrepreneurship can thrive only within a framework which guarantees fair competition. It is a duty of a government to provide such a framework. This implies that the government has to enact rules. The rules must be clear and they must be implemented and enforced effectively.

Besides being a regulating agency through the rule of law, a government agency also can impose other obligations on enterprises, e.g. taxes and other administrative duties such as providing statistics or registration of employees. Entrepreneurs will have to live with all types of other legislation as well: labour law, protection of the consumer, protection of the environment etc.

### ***(2) The public authority is a stimulating agency***

Most constitutions in the Western world recognize the right to own property. Even if the right to establish and own a business is not recognized in the same explicit way in all countries, it is recognized implicitly. In the draft European Constitution, which has not been enacted yet, there is explicit reference to the right to run a business. Art. II-76 stipulates: "*The freedom to conduct a business in accordance with Union law and national laws and practices is recognised*".

The recognition of the right to run a business is important but it is not sufficient to motivate the governments to stimulate entrepreneurship. Most governments have very pragmatic reasons as well. Any government (national, regional, local) wants to maintain a sufficient level of economic activity in its territory in order to generate employment and income. It wants its constituents to start new businesses and it wants to stimulate enterprises to settle in its territory as much as possible. The government can use stimulating measures such as subsidies or the provision of education, training, public infrastructure.

Evidently, the instruments of a government level can be limited by the rules imposed by a 'higher' level or an international organisation. For instance the E.U. will watch all stimulating measures and veto them if they break the rules of the internal market. The W.T.O. will do the same if some stimulating measure will prevent fair international trade.

### ***(3) The public authority is a customer***

The government has a large purchasing power at its disposal. This can also be used as a policy instrument. It is not uncommon that a government agency will have a bias for enterprises that are located in its territory. This could be supported by a "Keynesian" argument, where a government can stimulate its economy by injecting money. However, in an integrated market, the government may not disturb fair competition by granting an unfair advantage to local competitors. We can have a conflict between the role of the government as a regulating agency and the government as a stimulating agency.

## **2.5. The entrepreneurial society**

The relevance of entrepreneurship and entrepreneurship policy is not confined to the individual entrepreneur, his business and his family. Johan Lambrecht emphasized in his PhD thesis (1998) that SME policy and entrepreneurship policy should be embedded in a broader framework. He points out that the ultimate policy goal must be at developing an entrepreneurial society as such (p. 355). *“Political decision makers should promote the attention for entrepreneurship and entrepreneurial initiatives in education and society”*.

Lambrecht quotes three reasons why creating an entrepreneurial society is such an important policy objective:

- To remove the barriers to entrepreneurship;
- An entrepreneurial society brings more initiatives by people and enterprises, creating prosperity and well-being;
- It brings a visionary image and thinking in the long run.

The idea of creating an entrepreneurial society also is present in the Green Paper of the European Commission. It is important to bring more positive attitudes toward entrepreneurship. *«Building an entrepreneurial society involves everyone. Attitudes toward entrepreneurial initiatives, and failure, must be made more positive. Crucial to achieving this are those on whom today’s and future entrepreneurs depend»* (p. 21)

The pursuit of an entrepreneurial society will not only create a more favorable market environment for entrepreneurs but it will also be helpful in achieving social objectives. *“The social economy and social enterprises apply business principles and efficiency to achieving social and societal objectives. Such enterprises face particular challenges in accessing finance, management training and advice.”* (p. 22) The pursuit of a more entrepreneurial society is not only relevant for the economy but for the society as a whole. In its Green Paper the European Commission points to economic elements such as job creation and growth or increasing the competitiveness of the economy as well as non-economic elements such as to unlock one’s personal potential or the pursuit of societal interests.

### ***A strategic policy field is education.***

Entrepreneurship must be an option in the learning process of people, especially young people. In this learning process they are influenced not only by their knowledge but also by positive role models. Education and family are specific environments where young people can meet such role models. This is also stressed by the literature and confirmed by a Gallup survey in Europe and the U.S.

*“In terms of education, the higher the level of education, the more that person is prone to plan starting a business, but this does not have any effect on the actual rate of business start-ups. In addition, 30 % of people still studying claim to be thinking about or have already thought about setting up a business”* (p. 21)

*“Lastly, it is interesting to see that people who have at least one parent who is/was in business are more inclined to plan starting a business than those whose parents are/were employees. This trend is corroborated if we look at the implementation rate of businesses. In other terms, the entrepreneurship spirit seems to be passed on from one generation to the next. The example of one’s father or mother as a businessman/businesswomen can turn out to be an encouraging factor for some”* (p. 21)

### ***Design and implementation of the policy***

However important it is to have a good insight about the necessity of an entrepreneurial society, it is equally important to take adequate action. In its Green paper, the European Commission points to the necessity of a coordinated approach. This is to be achieved through coordination among all policymakers and through inducing policymakers to learn from good practices elsewhere. The Green Paper points to three pillars for action towards an entrepreneurial society (p. 23)

- Bringing down barriers to business development and growth
- Balancing the risks and rewards of entrepreneurship
- A society that values entrepreneurship

An extensive literature has been developed on policy recommendations and on the necessity and relevance of certain measures to foster entrepreneurship and to create and promote a more entrepreneurial society. Important contributions have been made by Johan Lambrecht (1998) in his PhD thesis and by Lundström and Stevenson (2001).

The basic questions behind the policy design are:

- What does it take to produce more entrepreneurs? Policy has to focus on such items as entry barriers, risk and reward, fostering capacity and skills, making entrepreneurship accessible to all members of society.
- How can enterprises be geared to growth? Here the policy has to focus on the regulatory environment, taxation, access to skilled labour, access to finance, helping firms to exploit knowledge and international opportunities, intrapreneurship and corporate venturing.

Lundström and Stevenson (2001) identified eight factors which influence the decision for or against an entrepreneurial career and thus are relevant for policy action: education, training, public support, finance, social security, family support, administrative burdens, social acceptance.

### **3. Multilevel government. The case of Belgium**

In the previous paragraph, like in most textbooks on economic policy, we assumed that the government is a single agency, pursuing a clear, rationally defined and generally accepted policy. In real life however, matters are much more complicated. There is a multitude of government agencies and levels.

There is a rational explanation for this situation. Very often we see that the results of a given policy are very divergent over the territory where this policy is conducted. There are a lot of reasons for this. Maybe in some areas the policy measure is not accepted in the same way as in others. Maybe in some areas the socio-economic environment such as the labour market or the capital market can be very different. In all these examples the effectiveness of the policy measures will be lowered.

The effectiveness of policy can be boosted by a devolution of decision-making power from 'higher' to 'lower' levels of government. Belgium is such a case. In its constitution, Belgium is defined as a federal kingdom, composed of three "Communities" (Dutch-speaking, French-speaking, German-speaking) and three "Regions" (Flanders, Wallonia and Brussels). There are four "language areas": Dutch-speaking Flanders in the North, French-speaking Wallonia in the South, bilingual (Dutch and French) Brussels at the centre and a German-speaking area in the East.

The Communities have competence for "person-oriented" matters in their territory and in the bilingual area. The Regions are competent for "territorial" matters.

The Communities and the Regions have elected Councils and Governments. In Flanders, the Councils and Governments of the Community and Region have merged into the "Flemish Community".

There is also a local government level. Wallonia and Flanders each have five provinces while Brussels has no provincial structure. In all regions, we find municipalities.

An important issue is that public opinion, the political parties and the press are organised along 'language' lines. This means that federal measures in practice need a double majority in both language groups. The need to convince a double number of political parties and a double public opinion at the federal level very often causes delays and this is very often used as an argument for devolution and for granting more autonomy to the Regions.

For this reason there are more and more calls for 'homogeneous packages of government competences' where a given government level can conduct a policy without interference of other

levels. For example, in the eyes of a Flemish citizen, monetary policy is considered a 'European' issue, defence policy a 'federal' (Belgian) issue and education policy a 'regional' (Flemish) issue.

An important element is that there is no hierarchy between the federal and regional levels. Both are considered 'national'. The Regions and the Communities are no longer the administrators of decentralised matters (like for instance the provinces) but they have become autonomous political entities. The federal government, the Regions and the Communities each have their own 'fields of competence' so they are not subordinate to each other. For instance the regions are not allowed to establish a police force (competence of the federal government) while the federal government is not allowed to conduct an agricultural policy (competence of the regions). One consequence is that the Flemish and Walloon agriculture ministers represent Belgium at the EU council of agriculture, where they consult with each other.

For some matters such as health policy or labour market policy there are not 'homogeneous packages' so there is much more interference between government levels (and much more danger for conflict).

Now we take the case of entrepreneurship policy. We find the following division of responsibilities between the government levels.

- The European Union

Main competences: organizing the market, e.g. general competition rules.

- The Belgian (federal) government

Main competences: mostly regulating competences such as social security and social statute, most taxes, civil law and corporate law, judicial power.

- The governments of the three Communities

Main competences: mostly stimulating and "person-oriented" competences such as education and training.

- The government of the three Regions

Main competences: mostly stimulating and "territory-oriented" competences such as supporting start-ups and all policy instruments with regard to encouraging and supporting (local or foreign) investment; policy with regard to mobility and infrastructure; physical planning and urbanisation.

- The local government (provinces and municipalities)

Main competences: all local matters such as local urbanisation policy, local taxes and local mobility.

Does it work? In the case of 'homogeneous packages of competences', the performance of the government has increased. For example in the field of education and training, Flanders and Wallonia have been able to fit better to the needs of their business community. Problems can arise due to competition between the Regions (for example if one Region gives a subsidy, a tax break or a more 'flexible' environmental regulation, inducing businesses to move from one Region to another within the Belgian territory). Problems also can arise due to competition between the Regions and the federal government (for example if a regional subsidy is taxed away by the federal legislation).

There are two important ways to avoid conflicts.

(1) A reshuffling of policy competences into 'homogeneous packages', making sure that the government levels do not interfere into each other's 'territory'. For the entrepreneurs (and for the politicians ...) it must be clear which level is accountable.

(2) The principle of 'subsidiarity'. This principle holds for the relations between the European Union and its Member States. The draft European Constitution states in its Art. I-11: "*Under the principle of subsidiarity, in areas which do not fall within its exclusive competence, the Union shall act only if and insofar as the objectives of the proposed action cannot be sufficiently achieved by the member States, either at central level or at regional and local level, but can rather, by reason of the scale or effects of the proposed action, be better achieved at Union level*". The same principle can be applied to the relations between the government levels within a country like Belgium.

If it is not possible to avoid a conflict between government levels, there is need for mechanisms to find a solution. In the European Union, conflicts between the Member States or between a Member State and the European Commission need to be settled through a mix of consultation procedures and judicial procedures. Here too we can make analogy for a multilevel government system within a single country like Belgium.

For the individual entrepreneur, a more efficient government structure can bring about a more efficient policy. There is however one danger. Each government level can act as a regulating agency and can be the source of administrative duties for the businesses. We discuss this subject in the next section.

#### **4. Example. The cost of the administrative burden**

Administrative duties have always been a point of concern in the relations between entrepreneurs and the government. Following the Gallup poll of 2002, these administrative duties are an important barrier to enter. Following Gallup, *“results of this survey show that no less than four out of ten respondents have already thought about starting a business. Most of them never went any further than making plans but some have actually taken steps to do so. So how can we explain that so few people have decided to make the move and set up their own company?”*. The mostly quoted barriers are (more in EU than in US): lack of financial resources and administrative complexity (the so-called ‘red tape’). *“Whatever the reason, it is necessary to lift concerns about administrative procedures if we are to develop entrepreneurship in Member States”*.

The reduction of administrative duties has also been a policy matter in Belgium. The task of lowering the administrative duties has been assigned explicitly to a member of the federal government. A special website has been opened to mention problems.

[www.kafka.be](http://www.kafka.be)

The Belgian Federal Planning Bureau has conducted surveys with businesses and independent workers. The main sources of administrative costs are related to the tax administration and the duties imposed by the environmental protection laws. Also hiring employees is evidently a source of administrative duties. Following the survey of the Federal Planning Bureau, the burden of administrative duties for the Belgian businesses and independent workers amounts to 2.57 % of the GDP in 2004. The tendency is decreasing: in 2000 the percentage was 3.48 %, in 2002 it was 3.43 %. The cost of administrative duties also is becoming an element of international competition. The Belgian government points out that the percentage at present is lower than in the Netherlands (3.69 %) or even the U.S. (2.91 %).

#### **5. Conclusion and recommendations**

(1) Entrepreneurship policy is part of economic policy but it is ‘multidisciplinary’. Although entrepreneurship is as much an art or a talent as a science, it does make sense to conduct an entrepreneurship policy.

(2) In its relation to entrepreneurs, the government has three functions: regulating agency, stimulating agency and customer. A division of labour between different government agencies (e.g. national, regional, local) is possible.

(3) When a territory forms an integrated market (one or more countries), it must be guaranteed that the same or compatible rules are applied and implemented. Within this framework, regional and local authorities are often best placed to implement additional stimulating measures, adapted to a local situation.

(4) If there are many government levels, the efficiency of policy can be increased by creating coherent or homogeneous packages of competences and by implementing the principle of subsidiarity. If conflicts arise and persist, they must be resolved through consultation or through judicial procedures.



(5) A more efficient organisation of government can bring about a more efficient policy, which is beneficial for the entrepreneur and for society. However, this may not be the source of an increase in the administrative duties of the enterprises.

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