

A close-up photograph of a diverse group of business professionals in suits, smiling and clapping. The lighting is warm and golden, creating a celebratory atmosphere. The focus is on the faces and hands of the individuals in the foreground.

THE AGE OF THE ENTREPRENEUR

THE RISE OF THE GIANT CORPORATIONS
IS RAPIDLY SLIPPING INTO THE
HISTORY BOOKS AS WE RETURN TO OUR
ENTREPRENEURIAL ROOTS.

BY PAUL ZANE PILZER

The traditional wisdom in the second half of the twentieth century was this: Go to school, get a good education and go to work for a good company. The idea of “going into business for yourself ” was most often regarded as risky. Admirable, perhaps, but risky... and maybe a little crazy.

Today, it's completely the other way around.

Today, it's risky to work for a corporation!

Today, it's far *more* sensible to go to work for yourself.

We're in the midst of a boom in home-based businesses, and it shows no sign of slowing. More than one out of every eight U.S. households contains a home-based business. In 2000, more than 50 percent of all small firms were home-based businesses, and they generated about 10 percent of the nation's entire economic receipts.

Let's look at some of the major reasons why the entrepreneur and home-based businessperson have the edge today. New legislation and new technology have caught up with a shift in values: People want to stay home, and now they can. In fact, now people who work from home have the edge!



PAUL ZANE PILZER IS A
WORLD-RENOWNED ECONOMIST,
MULTIMILLIONAIRE ENTREPRENEUR,
COLLEGE PROFESSOR AND AUTHOR
OF SEVEN BEST-SELLING BOOKS.
TO LEARN MORE ABOUT PAUL
ZANE PILZER, PLEASE VISIT
WWW.PAULZANEPILZER.COM.

The Technological Edge

When I graduated from Wharton in 1976, I went to work at Citibank, but it wasn't because I was interested in banking. I wanted access to the best technology, and I knew that Citibank had the biggest and best computers available.

Back then, that was the only way to have access to the best technology. Computers were expensive mainframes owned and internally managed exclusively by large businesses, which gave these major corporations an enormous economic advantage. With the biggest and best computers, we decimated our competition at other banks that didn't have the computers and were still using a paper-based banking system.

Today, the opposite is the case. You're more likely to find the hottest and best new technology sitting on the desk of the individual entrepreneur's home office! The big companies just can't innovate fast enough.

Today, five of the 10 highest-valued companies in the U.S. stock market (Cisco, Microsoft, Intel, Oracle and Vodaphone) are companies that didn't exist 20 years ago, yet today their combined net worth exceeds \$1 trillion. What do they have in common? They are all *third-party suppliers of affordable technologies to individual users*.

These leading-edge companies make tools that help the homebuilder build a home faster; tools that help home-based businesspeople communicate, run their businesses and distribute their products better. Remember, these are tools geared toward the individual, not toward some big mainframe computer. Go check out the computer at a typical big corporation today: What you'll generally find is computers that are 3, 4, 5, and 8 years old.

Here is the edge the individual entrepreneur has over the large corporation: The entrepreneur has little or no bottleneck. The technology gap in a corporation is huge. Technology is changing more rapidly than ever, and in a large organization it is a monumental challenge to figure out how to bring in and integrate an entirely new generation of technology.

In the '70s and '80s the rule was, the bigger the company, the newer and better the technology. Today the rule is, the bigger the company, the older and more out-of-date the technology!

Today, technology is geared toward a fast-moving, highly adaptable business climate based on the personal, one-on-one transaction. As Dell Computers proved dramatically, it's no longer economical to make one model and force everyone to use it. Now, it's more economical to produce whatever customized models individual customers want!

Tools and technology for the individual entrepreneur are now the best place to be: The best and brightest companies of the world realize that the growth of America is going to be in individual entrepreneurs and one-person or two-person businesses. The corporation has been decentralizing and dismantling itself, giving way to an environment of independent contractors, and the tool providers know it. They want to make the tools for the biggest market. And that's the individual entrepreneur.

Where are the greatest opportunities today? Even for people starting out right out of school, the best opportunities are not to go work for big companies (unless they're the companies that make tools for individuals), but to go into business for themselves as entrepreneurs.

The real risk is staying with a large organization, because your job will probably be permanently dismantled within a few years.

Corporations Can't Compete

So much has changed since the days when I entered the work force 30 years ago. Back then, our employers told us, "We'll always be around, and we'll always take care of you. If you're loyal to us, we'll give you wonderful medical benefits and great retirement packages."

Year by year, we've seen all these big-company promises disappear into thin air. It's not that they're evil people, or that they don't want to keep offering the ideal work environment. It's just that they can't: They are going the way of the dinosaurs.

To understand why it's now lumbering off into extinction, let's take a quick look at how and why the huge corporation came to exist in the first place. In 1931, an idealistic 21-year-old British college student named Ronald Coase won a scholarship to come study in the United States. A student of economics, he was quite excited to come to "the Land of the Entrepreneur," the home of Horatio Alger, Henry Ford and Andrew Carnegie, where anyone could start from scratch and build a great company.

When he arrived, he found a land in the midst of the Great Depression, where everyone wanted a job with a company. "Why," he wondered, "in such a great free-market economy, in this land of opportunity, would workers voluntarily submit to working for someone else, when they could go into business for themselves and sell their skills directly to customers in the marketplace?" In other words, why do these big companies even exist, instead of millions and millions of self-employed entrepreneurs?

As Coase studied this question in detail, he found that big companies existed because it was a far more efficient way of doing business. The "transaction costs" of individuals doing business together who weren't under one roof were so high—with transportation costs, telephone expenses, correspondence costs, postal delays, accounting and bookkeeping costs, and so on—that the expense would exceed their economic output. (All these transactions were quite labor-intensive; in the days of manual bookkeeping, for example, it often took as much as one accountant for every three workers simply to keep track of billing and payment and proper categorization of expenses.)

Because of these enormous transaction costs, Coase predicted the rise of gigantic vertical corporations. His paper, "The Nature



of the Firm,” became the standard work on the subject. Coase went on to become a professor at the University of Chicago; 60 years later, in 1991, he won the Nobel Prize in Economics for his famous paper.

But things have changed. Remember expensive long-distance telephone service? Manual double-entry bookkeeping? Expensive overnight delivery? They’re all relics of the past. Today, thanks to advances in technology, all of these transaction costs have suddenly fallen to near zero.

In fact, I recently revisited Professor Coase’s original equations using today’s data, and discovered that they now point to exactly the opposite conclusion: It is now so much more efficient to work in very small units that many of our large organizations should no longer even exist. And that is exactly what we see happening: Today’s most important and most viable “corporations” are those that are going *virtual*. Much of the unemployment we experience today actually represents the permanent dismantling of many of our large corporations as they are out-competed by smaller companies, independent contractors and other fast-adapting, quick-moving entrepreneurs.

Individuals have debated leaving their jobs and becoming entrepreneurs since the first large employers emerged in the 19th century.



Today more than 50 percent of Americans work either for themselves or for a small business.

In the past, this debate has always focused on the opportunity and risk of going out on one’s own. Today, the real risk is staying with a large organization, because your job will probably be permanently dismantled within a few years.

The Benefits

If you were a millionaire 20 years ago, chances are good the way you made your money was by building a business and *then selling it*. Why? Because, ordinary (vs. capital gains) income taxes were 70 and 80 percent, and the only people who could have pension funds, 401(k) and deferred savings were people who worked for big companies. What’s more, the only people who could get health-care coverage were those who worked for a big company.

No longer.

Some critical changes have happened

recently in U.S. tax laws (some of which I’m proud to say I had something to do with). These changes now make it possible for you to accumulate millions of dollars with ordinary cash flow from a home-based business, in ways that were not available to you before—if you know how to take advantage of them. Congress has finally created a level playing field for individual entrepreneurs by creating tax laws that make it possible for entrepreneurs to enjoy the same benefits of tax-free or tax-deferred savings as employees of corporations.

One reason many people work for large organizations is for the medical and retirement benefits. From 1944 until 2005, employees of large companies enjoyed a 2-to-1 or better tax advantage over individuals when it came to paying for benefits.

This was because: (1) employees who get free or low-cost health benefits don’t have to

pay income taxes on them; (2) their employers are allowed a 100 percent tax deduction for health benefits they provide; and (3) the employees can defer paying taxes on contributions their employers make to their retirement plans.

But now, individual entrepreneurs can actually get better health and retirement benefits than employees of large companies.

Since 2003, there have been individual health insurance policies that are both affordable and tax-deductible for self-employed people. Employees, on the other hand, typically are stuck with group plans for which the premiums are raised each year, based on the prior year's claims. Such group plans are a ticking time bomb as the group ages.

they also allow tax-free early withdrawals at any age for life events such as a first-time home purchase or the payment of health insurance premiums while unemployed. If you have your own business, the retirement savings options are even better!

With a self-employed retirement account such as a SEP IRA or a One-Person 401(k)/Profit Sharing Plan, you can put away up to \$41,000 per year—pretax—and become a millionaire in 15 years of working for yourself as an entrepreneur. You couldn't do that before without working for a big company.

Why did Congress change these laws and create such wonderful incentives? They had to. Today more than 50 percent of Americans work either for themselves or for a small business.

The Lifestyle

In the new economy, the sheer quantity of compensation is no longer enough. More and more, we have come to realize we also want a certain quality of compensation, too. We don't simply want money, we want *lifestyle*.

It doesn't matter how much money you earn if you never get to see your spouse or children. It doesn't matter how many physical possessions you have if you never get to play with them. And it doesn't matter how great a personal economy you create if you don't have the health to enjoy it.

The concept of "quality of life," which we take for granted today, is actually a fairly recent invention, just as is "customer service," and for exactly the same reason: the advance of technology. Our economy and living standards have grown to the point where we not only expect to make a living (or complete a transaction), but we also expect to have the *best possible experience* living that life (or making the transaction). "Quality of life" is the same concept as "good customer service" extended for our entire life span!

This harkens back to the fourth and fifth laws of economic alchemy: Technology determines demand, and demand is without limit. Now we demand a quality of life that gives us



Individual entrepreneurs can get better health and retirement benefits than employees of large companies.

The best health insurance available today for most families is an individual, rather than group, policy, because the premiums on an individual policy cannot generally be raised because of illness. And new Health Savings Accounts (HSAs) give individuals the same tax advantages as corporate employees.

Most people think of Individual Retirement Accounts (IRAs) as small, insignificant retirement accounts. However, beginning 2005, a working couple can contribute \$8,000 annually to an IRA, rising to \$10,000 in 2008. IRAs not only allow all the benefits of a traditional corporate retirement plan,

not only survival, but also a depth of meaning and fulfillment.

And here again, a corporate job simply can't compete with self-employment. Make no mistake about it: When you start your own business, you're going to put in the same hours as you did working for the corporation, if not

more. But you get to control which hours.

I work at home from a wireless laptop—in fact, I have wireless laptop and wireless phone access in every room of the house, so I'm free to go anywhere throughout my home and be “at work” anytime I want. I can spend an hour with my kids at breakfast, if that's

The greatest opportunities today are to go into business for yourself as an entrepreneur.



important to me. I can put my hours in after my kids are all asleep. I decide which hours I'm going to put in, rather than someone else arbitrarily deciding for me.

We often talk today about the challenge of keeping a balance between our work and our families. Picture it like a seesaw, with work on one end and family on the other. When you're constantly playing these priorities against each other, your life swings and swings until eventually the whole thing breaks, whether that means losing the job, losing the family or your health breaking down.

But if we are fortunate enough to find a way to integrate our work into our home, then we don't have to think about balance between work and family so much as how we can weave the two together.

When I was young, my father ran a small bedspread-manufacturing business with eight to 10 employees. The business was his life. He worked all day and talked about it every night at dinner. We kids worked for him on weekends. As I look back, now I realize that the happiest moments of my father's life were during the brief times that he had all three of his sons working with him in his business.

I think the loneliest businesspeople I see today are those whose children have no idea what they do. If you are able to teach your children what it is you do, what it is that they are economically dependent upon and, even better, if they can actually see you doing it and even participate in some meaningful way, then this destructive and alienating rift between work and home starts to dissolve.

There is actually something ironic about this. The United States started out as an agrarian nation of entrepreneurs where *everyone* was a small-business person. The rise of the giant corporation, which my generation took for granted as the “normal” employment path, is really a historical anomaly. And it's rapidly slipping into the history books as we return to our entrepreneurial roots. **\$ 17**

For more information visit
www.PaulZanePilzer.com