

[Home](#) > [The Review of Austrian Economics](#) > [Article](#)

# The unintended consequences of easy money: How access to finance impedes entrepreneurship

| Published: 23 July 2015

| Volume 29, pages 233–252, (2016) [Cite this article](#)

 [Save article](#)

[View saved research](#) >



## [The Review of Austrian Economics](#)

[Aims and scope](#) →

[Submit manuscript](#) →

[Anthony J. Evans](#) <sup>1</sup>

 1010 Accesses  12 Citations  2 Altmetric [Explore all metrics](#) →

## Abstract

This paper investigates the manner in which economic policy promotes entrepreneurship, and how this relates to the monetary sources of the business cycle. Whilst access to finance is commonly seen as a crucial means to generate economic growth, efforts to expand the money supply beyond the stock of real savings leads to systemic crises. Therefore the admirable policy goal of promoting more credit for entrepreneurs—whether through access to finance, SME support or regional development—can lead to negative unintended consequences.

### Access this article

Log in via an institution →

### Subscribe and save

✓ Springer+

from €37.37 /Month

- Starting from 10 chapters or articles per month
- Access and download chapters and articles from more than 300k books and 2,500 journals
- Cancel anytime

View plans →

### Buy Now

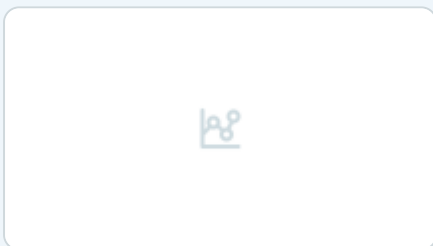
Buy article PDF 39,95 €

Price includes VAT (Poland)

Instant access to the full article PDF.

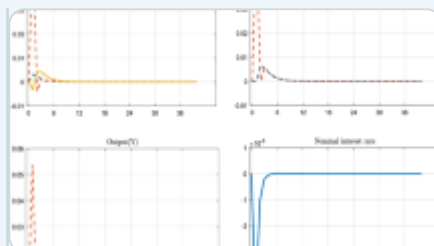
[Institutional subscriptions](#) →

### Similar content being viewed by others



**Entrepreneurial finance in an extended period of crises**

Article | 11 February 2025



**Financial inclusion, entrepreneurs' credit risk exposure and social planner financial policy.**

Article | 05 July 2023



**Biased Finance: Understanding Economic Growth**

Chapter | © 2020

## Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

[Economic Policy](#)

[Economic Sociology](#)

[Entrepreneurship](#)

[Entrepreneurial Finance](#)

[Feminist Economics](#)

[Public Economics](#)

## Notes

1. Notice also that there is a rhetorical difference between these two concerns. Whereas the moral hazard argument implies that *if governments hand out money entrepreneurs may change their plans and behave recklessly*; the adverse selection argument is that *if governments hand out money they'll be enticing the most vulnerable people into market conditions that can not ultimately support them*.
2. "Sound money" is typically used to refer to a monetary system that is tied to the value of a commodity such as gold (i.e., a metallic standard) but more generally refers to a monetary system that is driven by market forces rather than government intervention.
3. By focusing on the functional form rather than practitioners (thereby ignoring leadership) we are not abandoning methodological individualism. On the contrary in this sense "the entrepreneur" is an ideal type, which—in a Weberian sense—is the natural compliment to methodological individualism.
4. Indeed Shane ([2008](#)) claims that around a third of business owners "believe that the *best* business ideas come *without searching* for them" (p.69)

It's important to realise that Israel Kirzner wasn't intending to flush out the

5. salient characteristics of an entrepreneur, but to demonstrate the function of entrepreneurship within the broader concept of competitive markets. He sought to raise the profile of entrepreneurship away from being a peripheral concept, to being the central driver of the market process. And this is important, because it shows that entrepreneurship and competition are actually two sides of the same coin. See Kirzner ([1973](#)).
6. Even if the entrepreneur owns capital, it makes sense to view them as lending themselves the money. Indeed in some sense we can only *ever* borrow money from ourselves, albeit our future self.
7. If we define a monopoly as “an enforceable property right in a product or market share” (O’Driscoll and Rizzo [1985](#), p.149) it becomes clear that it is only through regulatory intervention that monopolies *exist*.
8. “Now the chief effect of inflation which makes it at first generally welcome to business is precisely that prices of products turn out to be higher in general than foreseen. It is this which produced the general state of euphoria, a false sense of wellbeing, in which everybody seems to prosper. Those who without inflation would have made high prices make still higher ones. Those who would have made normal profits make unusually high ones. And not only businesses which were near failure but even some which ought to fail are kept above water by the unexpected boom” (Hayek [1996](#), p. 99–100)
9. These are individuals (usually affluent) that supply seed capital for start-ups.
10. A cynic would point out that bureaucrats are incentivised to overestimate the range in which the equity gap appears because this gives them greater funding.
11. See “Finding the cash to go racing”, PriceWaterhouseCoopers, January 2009 [[http://www.the-mia.com/assets/PwC\\_Finding\\_the\\_cash\\_to\\_go\\_racing.pdf](http://www.the-mia.com/assets/PwC_Finding_the_cash_to_go_racing.pdf)]

12. This particular survey did not estimate the absolute amount of funding for each threshold. Therefore it is possible that although a certain proportion of investments in the range of £1 m to £2 m are funded by business angels, there are significantly fewer deals for this amount than other thresholds.
13. See “Bridging the finance gap: next steps in improving access to growth capital for small businesses”, HM Treasury and Small Business Service, December 2003
14. See Budget 2005, UK Treasury  
[[http://newsimg.bbc.co.uk/nol/shared/bsp/hi/pdfs/bud05\\_completereport\\_1\\_87.pdf](http://newsimg.bbc.co.uk/nol/shared/bsp/hi/pdfs/bud05_completereport_1_87.pdf)] Date accessed August 13, 13.
15. There is nothing to say how long such a scheme may last, merely that it cannot exist in the long run. Of course the long run may well be many calendar years in the future. One sign that the scheme is about to run its course is when the rate at which investors withdraw their money exceeds the rate of new money injections. This is the point at which the scheme unravels.
16. In the UK many mortgages are “interest-only”, falling into the “speculative finance” category. Whether the intention of the policy is to help people onto the housing ladder by inducing them to become “speculative” borrowers, which is another matter.
17. This British bank was over exposed to short term borrowing in US markets and in September 2007 required emergency funding from the Bank of England. When news of this broke it prompted a bank run that ultimately led to nationalisation in February 2008.

18. See the website for the Lisbon Agenda  
[[http://ec.europa.eu/growthandjobs/areas/fiche01\\_en.htm](http://ec.europa.eu/growthandjobs/areas/fiche01_en.htm)]
19. A region receives Objective 1 status if it has a GDP per capita of under 75 % of the EU average, or if it has a particularly low population. Hence rich member states qualify (such as Sweden), poor regions within rich member states (such as Merseyside) as well as accession countries (such as Romania).
20. See [http://ec.europa.eu/regional\\_policy/funds/procf/cf\\_en.htm](http://ec.europa.eu/regional_policy/funds/procf/cf_en.htm)
21. See “The 2007 EU Funding guide for Private Sector” ISBN:2-914793-60-x and “The 2007 EU funding Comprehensive Guide” ISBN:2-914793-58-8
22. The author of this paper was involved in a consultancy project to advise the EIF on ways to create peer-group analysis of EU regions for the purposes of JEREMIE financing. Evans et al. (2009) applied this regional perspective to create peer groups based on static factors, dynamic factors, and innovation. This shows that similarities between regions might outweigh the fact that they are in different countries.
23. 2005/601/EC; 12th July 2005
24. Remarks made at 2006 Spring European Council, Brussels, 21st March 2006  
[<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/06/348&format=PDF&aged=1&language=EN&guiLanguage=fr>]
25. See “‘Putting SME First’ - Press package ‘SME Policy’ 2006” Available at:  
[http://ec.europa.eu/enterprise/entrepreneurship/docs/facts\\_en.pdf](http://ec.europa.eu/enterprise/entrepreneurship/docs/facts_en.pdf)

26. House of Lords, oral evidence, session 2007-08, held 9th February 2009, see Boyfield [2009](#)

## References

---

Atherton, A. (2006). Should government be stimulating start ups? An assessment of the scope for public intervention in new venture formation. *Environment and Planning C: Government and Policy*, 24(1), 21-26.

[Article](#) [Google Scholar](#)

Bartik, T. J. (2002). Evaluation the impact of local economic development policies on local economic outcomes: what has been done and what is doable? *Upjohn Institute Staff Working Paper No. 03-89*. Kalamazoo: W.E. Upjohn Institute for Employment Research.

Bastiat, F. (1848 [1995]). *Selected essays on political economy*. Irvington-on-Hudson: The Foundation for Economic Education, Inc.

Baumol, W. (1990). Entrepreneurship: productive, unproductive and destructive. *The Journal of Political Economy*, 98(5), 893-921.

[Article](#) [Google Scholar](#)

Beck T., Demirguc-Kunt, A., & Levine, R. (2005). SMEs, growth, and poverty. NBER Working Papers 11224, National Bureau of Economic Research, Inc.

Beck, T., Demirguc-Kunt, A., Laeven, L., & Maksimovic, V. (2006). The determinants of financing obstacles. *Journal of International Money and Finance*, 25(6), 932-952.

[Article](#) [Google Scholar](#)

Boettke, P. J., & Coyne, C. J. (2003). Entrepreneurship and development: cause or consequence? *Advances in Austrian Economics*, 6, 67–88.

[Article](#) [Google Scholar](#)

Boland, P. (2000). Urban governance and economic development: a critique of merseyside and objective 1 status. *European Urban and Regional Studies*, 7(3), 211–222.

[Article](#) [Google Scholar](#)

Boyfield, K. (2009). Good money after bad? An analysis of EU regional aid. *Adam Smith Institute Briefing Paper*.

Brenner, R. (1985). *Betting on ideas: Wars, invention, inflation*. Chicago: The University of Chicago Press.

[Google Scholar](#)

Bridge, S., O'Neill, K., & Cromie, S. (2003). *Understanding enterprise, entrepreneurship and small business*. Palgrave Macmillan.

Calcagno, P. T., & Thompson, H. (2004). State economic incentives: stimulus or reallocation?". *Public Finance Review*, 35(5), 1–15.

[Google Scholar](#)

Cantillon, R. (1755). *Essai sur la Nature du Commerce en Général*.

Caplan, B. (2007). *The myth of the rational voter: Why democracies choose bad policies*. Princeton: Princeton University Press.

[Google Scholar](#)



Casson, M. (1982). *The entrepreneur. An economic theory*. Cheltenham: Edward Elgar.

[Google Scholar](#)

Coyne, C. J., & Moberg, L. (2014). The political economy of state-provided targeted benefits. *Review of Austrian Economics* forthcoming.

Coyne, C. J., Sobel, R., & Dove, J. (2010). The non-productive entrepreneurial process. *The Review of Austrian Economics*, 23(4), 333–346.

[Article](#) [Google Scholar](#)

Cull, R., Davis, L. E., Lamoreaux, N. R., & Rosenthal, J.-L. (2006). Historical financing of small and medium size enterprises. *Journal of Banking and Finance*, 30(11), 3017–3042.

[Article](#) [Google Scholar](#)

Desrochers, P., & Sautet, F. (2004). Cluster-based economic strategy, facilitation policy and the market process. *Review of Austrian Economics*, 17(2/3), 233–245.

[Article](#) [Google Scholar](#)

Devereux, M., & Schiantarelli, F. (1990). Investment, financial factors, and cash flow: Evidence from U. K. panel data. In R. Glenn Hubbard (Ed.), *Asymmetric information, corporate finance, and investment*. Chicago: University of Chicago Press.

[Google Scholar](#)

DTI (2002). A practical guide to cluster development. A Report to the Department of Trade and Industry and the English RDAs, by Ecotec Research & Consulting.

DTI (2004). A government action plan for small business.

<http://webarchive.nationalarchives.gov.uk/+http://www.berr.gov.uk/files/file39767.pdf>. Accessed 12 Aug 2013.

Evans, A. J., & Baxendale, T. (2008). Austrian business cycle theory in light of rational expectations: the role of heterogeneity, the monetary footprint, and adverse selection in monetary expansion. *Quarterly Journal of Austrian Economics*, 11(3), 81-93.

[Article](#) [Google Scholar](#)

Evans, A. J., & Baxendale, T. (2012). Heterogeneous entrepreneurship and the Sunday Times Rich List. *Procesos de Mercado*, 9(1), 411-428.

[Google Scholar](#)

Evans, A. J., Sola, D., & Poenaru, A. (2007). Enterprising Britain: Building the enterprise capital of the world. *ESCP-EAP European School of Management Policy Report*.

Evans, A. J., Sola, D., & Couturier, J. (2009). Look beyond your neighbour: a peer group analysis of the environment for SMEs across Europe. *Les Cahiers de Friedland*, 4, 77-85.

[Google Scholar](#)

Foss, N. J. (1994). The theory of the firm: the Austrians as precursors and critics of contemporary theory. *The Review of Austrian Economics*, 7(1), 31-65.

[Article](#) [Google Scholar](#)

Foss, N. J., & Klein, P. G. (2005). Entrepreneurship and the economic theory of the firm: Any gains from trade? In: R. Agarwal, S.A. Alvarez, & O. Sorenson (Eds.),

*Handbook of Entrepreneurship Research International Handbook Series on Entrepreneurship* Volume 2, pp 55–80.

Foss, N. J., & Klein, P. G. (2012). *Organizing entrepreneurial judgment: A new approach to the firm*. Cambridge: Cambridge University Press.

[Book](#) [Google Scholar](#)

Gartner, W. B. (1988). “Who is an entrepreneur?” is the wrong question. *American Journal of Small Business*, 12(1), 11–32.

[Google Scholar](#)

Garrison, R. (2001). *Time and money*. Routledge.

Gertler, M. (1988). Financial structure and aggregate economic activity. *Journal of Money, Credit, and Banking*, 20, 559–588.

[Article](#) [Google Scholar](#)

Gilbert, B. A., Audretsch, D. B., & McDougall, P. P. (2004). The emergence of entrepreneurship policy. *Small Business Economics*, 22(3–4), 313–323.

[Article](#) [Google Scholar](#)

Guthrie, J. (2007). Another fine mess of state intervention. *Financial Times*, August 2nd.

Hayek, F. A. (1935). *Prices and production* (2nd ed.). London: Routledge and Kegan Paul.

[Google Scholar](#)

Hayek, F. A. (1996). Can we still avoid inflation? In: *The Austrian theory of the*

*trade cycle and other essays*. Mises Institute (p. 99–100).

Huerta De Soto, J. (2010). *Socialism, economic calculation and entrepreneurship*. Elgar.

Holcombe, R. G. (1998). Entrepreneurship and economic growth. *Quarterly Journal of Austrian Economics*, 1(2), 45–62.

[Article](#) [Google Scholar](#)

Holcombe, R. G. (2003). The origins of entrepreneurial opportunities. *Review of Austrian Economics*, 16(1), 25–43.

[Article](#) [Google Scholar](#)

Holtz-Eakin, D. (2000). Public policy toward entrepreneurship. *Small Business Economics*, 15(4), 283–291.

[Article](#) [Google Scholar](#)

Horwitz, S. (2000). *Microfoundations and macroeconomics*. Routledge.

Howden, D. (Ed.). (2011). *Institutions in crisis: European perspectives on the recession*. Cheltenham: Edward Elgar.

[Google Scholar](#)

Huggins, R., & Day, J. (2006). *UK competitiveness index 2006*. Huggins Associates.

Huggins, R., & Williams, N. (2009). Enterprise and public policy: a review of labour government intervention in the United Kingdom. *Environment and Planning C: Government and Policy*, 27(1), 19–41.

Huggins, R., & Williams, N. (2011). Entrepreneurship and regional competitiveness: the role and progression of policy. *Entrepreneurship and Regional Development*, 23(9-10), 907-932.

[Article](#) [Google Scholar](#)

Kaufmann, D., Kraay, A., & Zoido-Lobaton, P. (1999a). *Aggregating governance indicators*. World Bank Policy Research Working Paper No. 2195, Washington, D.C.

Kaufmann, D., Kraay, A., & Zoido-Lobaton, P. (1999b). *Governance matters*. World Bank Policy Research Working Paper No. 2196, Washington, D.C.

Kindleberger, C. P., & Aliber, R. (2005). *Manias, panics, and crashes: A history of financial crises*. New York: Wiley.

[Book](#) [Google Scholar](#)

Kirzner, I. M. (1973). *Competition and entrepreneurship*. Chicago: University of Chicago University Press.

[Google Scholar](#)

Kirzner, I. M. (1982). The theory of entrepreneurship in economic growth. In C. A. Kent, D. L. Sexton, & K. H. Vesper (Eds.), *Encyclopaedia of entrepreneurship*. Englewood Cliffs: Prentice Hall.

[Google Scholar](#)

Kirzner, I. M., & Seldon, A. (Eds.). (1980). *The prime mover of progress: The entrepreneur in capitalism and socialism*. London: Institute of Economic Affairs.

[Google Scholar](#)

Kirzner, I. M., & Sautet, F. (2006). The nature and role of entrepreneurship in markets: implications for policy. *Mercatus Policy Series Policy Primer*, No. 4, Arlington, VA: Mercatus Center at George Mason University.

[Google Scholar](#)

Knight, F. H. (1921). *Risk, Uncertainty and Profit*. Boston: Hart, Schaffner & Marx; Houghton Mifflin Co.

Koch, C. G. (2007). *The science of success*. Wiley.

Kreft, S., & Sobel, R. (2005). Public policy, entrepreneurship, and economic freedom. *Cato Journal*, 25(3), 595-616.

[Google Scholar](#)

Leff, N. H. (1979). Entrepreneurship and economic development: the problem revisited. *Journal of Economic Literature*, 17(1), 46-64.

[Google Scholar](#)

Little, I. M. D., Mazumdar, D., & Page, J. M. (1987). *Small manufacturing enterprises: A comparative analysis of India and other economies*. Oxford: Oxford University Press.

[Google Scholar](#)

Lundstrom, A., & Stevenson, L. (2002). *Entrepreneurship policy for the future*. Stockholm: Swedish Foundation for Small Business Research.

[Google Scholar](#)

Lundström, A., Vikström, P., Fink, M., Crijns, H., Głodek, P., Storey, D., &

Kroksgård, A. (2013). Measuring the costs and coverage of SME and entrepreneurship policy: a pioneering study. *Entrepreneurship Theory and Practice*, Forthcoming

Mason, C., & Harrison, R. T. (2003). Closing the regional equity gap? A critique of the Department of Trade and Industry's Regional Venture Capital Funds. *Regional Studies*, 37, 855–868.

McCraw, T. K. (2007). *Prophet of innovation*. Cambridge: Harvard University Press.

[Google Scholar](#)

Meagher P., & Wilkinson, B. (2002). Filling the gap in South Africa's small and micro credit market: An analysis of major policy, legal and regulatory issues. *Iris discussion papers on institutions and development*, Paper 02/11.

Minsky, H. P. (1993). The financial instability hypothesis. In P. Arestis & M. Sawyer (Eds.), *Handbook of radical political economy*. Aldershot: Edward Elgar. <http://www.levyinstitute.org/pubs/wp74.pdf>.

[Google Scholar](#)

Mises, L.v. (1949 [1996]). *Human action*. Fox & Wilks.

Mises, L. (1912 [1981]). *The theory of money and credit*. Liberty Fund.

NESTA (2007). Innovative Entrepreneurship in the UK, January 2007 NPRU Policy Briefing. <http://www.nesta.org.uk/library/documents/innovative-entrepreneurship-ukpb.pdf>. Accessed 12 Aug 12 2013.

Norberg, J. (2010). *Financial fiasco*. Washington DC: Cato Institute.

North, D. C., & Thomas, R. P. (1973). *The rise of the western world: A new economic history*. Cambridge: Cambridge University Press.

[Book](#) [Google Scholar](#)

O'Driscoll, G. P., & Rizzo, M. J. (1985). *The economics of time and ignorance*. London: Routledge.

[Google Scholar](#)

Oliner, S. D., & Rudebusch, G. D. (1992). Sources of the financing hierarchy for business investment. *Review of Economics and Statistics*, 74(2), 643-654.

[Article](#) [Google Scholar](#)

Peters, A., & Fisher, P. (2004). The failures of economic development incentives. *Journal of the American Planning Association*, 70(1), 27-37.

[Article](#) [Google Scholar](#)

Pinchot, G., & Pinchot, E. S. (1978). Intra-corporate entrepreneurship. Tarrytown School for Entrepreneurs, [\[http://www.intrapreneur.com/MainPages/History/IntraCorp.html\]](http://www.intrapreneur.com/MainPages/History/IntraCorp.html). Accessed 13 Aug 2013.

Porter, M. E. (1998). Clusters and the new economics of competition. *Harvard Business Review*.

Porter, M. E. (2000a). Location, clusters, and company strategy. In G. Clark, M. Gertler, & M. Feldman (Eds.), *Oxford handbook of economic geography*. Oxford: Oxford University Press.



Porter, M. E. (2000b). Location, competition and economic development: local clusters in a global economy. *Economic Development Quarterly*, 14(1), 15–34.

[Article](#) [Google Scholar](#)

Sautet, F. (2000). *An entrepreneurial theory of the firm*. London: Routledge.

[Book](#) [Google Scholar](#)

Schumpeter, J. (1934 [1960]). *The theory of economic development*. Cambridge: Harvard University Press.

Segerstrom, P. (1991). Innovation, imitation and economic growth. *Journal of Political Economy*, 99(4), 807–827.

[Article](#) [Google Scholar](#)

Shand, A. H. (1984). *The capitalist alternative: an introduction to Neo-Austrian economics*. New York: New York University Press.

Shane, S. (2008). *Illusions of entrepreneurship: The costly myths that entrepreneurs, investors, and policy makers live by*. New Haven: Yale University Press.

[Google Scholar](#)

Shin, H. S. (2009). Reflections on northern rock: the bank run that heralded the global financial crisis. *Journal of Economic Perspectives*, 23(1), 101–119.

[Article](#) [Google Scholar](#)

Tax Payer's Alliance (2008). The case for abolishing regional development

agencies. *Structure of Government No. 3.*

Van Gelderen, M., Thurik, R., & Bosma, N. (2005). Success and risk factors in the pre-start-up phase. *Small Business Economics*, 24, 365–380.

[Article](#) [Google Scholar](#)

Vihanto, M. (1992). Competition between local governments as a discovery procedure. *Journal of Institutional and Theoretical Economics*, 148, 411–436.

[Google Scholar](#)

Wennekers, S., & Thurik, R. A. (1999). Linking entrepreneurship and economic growth. *Small Business Economics*, 13, 27–55.

[Article](#) [Google Scholar](#)

Woods, T. A. (2009). *Meltdown*. Washington DC: Regnery.

[Google Scholar](#)

## Acknowledgments

---

I appreciate helpful comments from Toby Baxendale, Christopher J. Coyne, and Cameron Harwick on earlier forms of this paper. The usual disclaimer applies.

## Author information

---

### Authors and Affiliations

**ESCP Europe Business School, 527 Finchley Road, Hampstead, London,  
NW3 7BG, UK**

Anthony J. Evans

## Corresponding author

Correspondence to [Anthony J. Evans](#).

## Rights and permissions

---

[Reprints and permissions](#)

## About this article

---

### Cite this article

Evans, A.J. The unintended consequences of easy money: How access to finance impedes entrepreneurship. *Rev Austrian Econ* **29**, 233–252 (2016). <https://doi.org/10.1007/s11138-015-0322-z>

Published

23 July 2015

Issue date

September 2016

DOI

<https://doi.org/10.1007/s11138-015-0322-z>

## Keywords

[Austrian school](#)

[EIF](#)

[Entrepreneurship](#)

[Regions](#)

[SMEs](#)

## Profiles

1. Anthony J. Evans



View author profile

## Search

Search by keyword or author



# Navigation

Find a journal

---

Publish with us

---

Track your research

---

