

The American Entrepreneur: A Dying Breed?



By [Sarah Stodola](#),
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The image of the independent entrepreneur – striking out on his own, building something from the ground up – is central to the American identity. The reality, though, is not quite so Horatio Alger. These days, an American’s fortunes are more likely than ever to be tied to a company’s cubicle or cash register, a biweekly paycheck, and with any luck, a matching 401(k). In other words, Americans tend to work in steady jobs on someone else’s payroll (if they are working at all). Yes, the wunderkinds of Silicon Valley continue to roll out headline-grabbing and world-changing startups like Facebook and Google. But the quest to create a new venture and build it into a successful business has been on the decline. Simply put: America has lost some of its entrepreneurial spirit.

The Great Recession of course plays a big role in investment, optimism and ultimately, employment. But the startup numbers are truly striking: In 1987, 13 percent of all American firms were new launches. By 2010, for the first time on record, the startup rate had fallen to an all-time low of less than 8 percent, according to data released Wednesday by the Census Bureau and the Kauffman Foundation. In the early 80s, almost 50 percent of firms were five years old or younger. In 2010, that number had fallen to 35.

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That drop in entrepreneurial activity has also affected the American workforce. Startups accounted for 20 percent of employment in the 1980s, but just 12 percent in 2010. According to data from the Bureau of Labor Statistics, new businesses accounted for 4.1 million jobs in 1994 but just 2.5 million in 2010. That same year, a mere 6 percent of all American workers were self-employed – and that was up slightly from pre-recession levels. Much was made of the rise in entrepreneurship during the Great Recession, when stories abounded of laid-off workers, skeptical of corporate America, who were forced to turn hobbies into businesses and nebulous ideas into tangible services. In strict terms, the number of people becoming entrepreneurs did indeed rise during the years following the financial crisis. However, that increase came in the form of businesses owned by individuals without employees. The number of startups with employees continued to decrease. In other words, a lot of people became freelancers or independent consultants during the recession, but few created firms that hired workers. It’s what Robert Litan, vice president of research and policy at the Kauffman Foundation, recently called “jobless entrepreneurship.” It could also be called entrepreneurship as last resort.

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That the least educated – those without a high-school degree – are the most likely to start a small business only emphasizes this point. A member of this group is nearly twice as likely to start a new business as a college graduate. The Kauffman report says these numbers, too, “suggest an increased number of people entering entrepreneurship out of necessity.” For those with college degrees, who are more likely to already have a steady income through employment with an existing firm, the opportunity costs involved in starting a business can be prohibitive.

In addition, even as the rate of individuals becoming entrepreneurs rose in recent years, the number of individuals exiting rose even further, says Scott Shane, a professor of economics at Case Western Reserve and author of *Illusions of Entrepreneurship: The Costly Myths That Entrepreneurs, Investors, and Policy Makers Live By*. The result was a net decline of total entrepreneurs during the recession.

Shane agrees with the Census Bureau's assessment that this decline is part of a long-term trend – it's one that he says extends back at least to World War II, and he points to two plausible factors that might explain it. First – and perhaps most politically salient today – are health-care costs. "There's a long-term increase in the cost of providing health insurance in small businesses. As health care costs go up faster than businesses' profits, it becomes less attractive to run your own business," he says.

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Jacob Hacker, a political science professor at Yale and author of *The Great Risk Shift: The New Economic Insecurity and the Decline of the American Dream*, agrees. "Our exorbitant health costs (in historical and, especially, cross-national comparison) and our fragmented and unstable health insurance system are huge barriers to entrepreneurial efforts," he says.

The second factor is what Shane calls "the Walmart effect," or industry consolidation. The benefits of scale spreading across industry after industry have encouraged the growth of mega-companies. Walmart is a prime example of this phenomenon. "Walmart replaces a lot of people who have their own businesses," Shane says. "This is the long-term trend in many industries."

Shane points out, though, that industry consolidation is simply a part of becoming an advanced nation. "As countries get more developed, the share of people in business for themselves goes down," he says. "When a country gets wealthier and there are more lucrative alternatives, people go to work for other people."

Hacker also says that changes in the financial sector may play a role. "Much of the investment community has focused on short-term returns through fast trading, complex derivatives, and high leverage, rather than on providing the patient, often small-scale capital infusions that entrepreneurship requires," he says.



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