

# ENTREPRENEURSHIP POLICY DIGEST

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## THE IMPORTANCE OF YOUNG FIRMS FOR ECONOMIC GROWTH

Nearly eight years since the beginning of the Great Recession, the American economy finally [gained back all of the jobs lost](#) during the economic downturn. While this is positive news, underlying structural concerns remain, resulting in historically low labor force participation, high rates of unemployment and underemployment, and a [“missing generation” of firms](#). Together, these factors are a drag on the economy, sapping dynamism.

Policymakers often think of small business as the employment engine of the economy. But when it comes to job-creating power, [it is not the size of the business that matters as much as it is the age](#). New and young companies are the primary source of job creation in the American economy. Not only that, but these firms also contribute to economic dynamism by injecting competition into markets and [spurring innovation](#).

Representing [95 percent of all U.S. companies](#), businesses with fewer than fifty employees are undoubtedly important to overall economic strength. So too are the relatively few large companies that employ millions of Americans. Yet, neither group contributes to new job creation in the way young, entrepreneurial firms do. In fact, between 1988 and 2012, companies more than five years old destroyed more jobs than they created in all but eight of those years.

Yet, the startup news is not all good. The rate at which new businesses are opening has been [steadily declining until 2014](#). Because of their out-sized contributions, this decline has troubling implications for economic dynamism and growth if it is not reversed.

### YOUNG FIRMS DRIVE JOB GROWTH AND ECONOMIC DYNAMISM

- New businesses account for nearly all [net new job creation and almost 20 percent of gross job creation](#), whereas small businesses do not have a significant impact on job growth when age is accounted for.
- Companies less than one year old have created an average of [1.5 million](#) jobs per year over the past three decades.

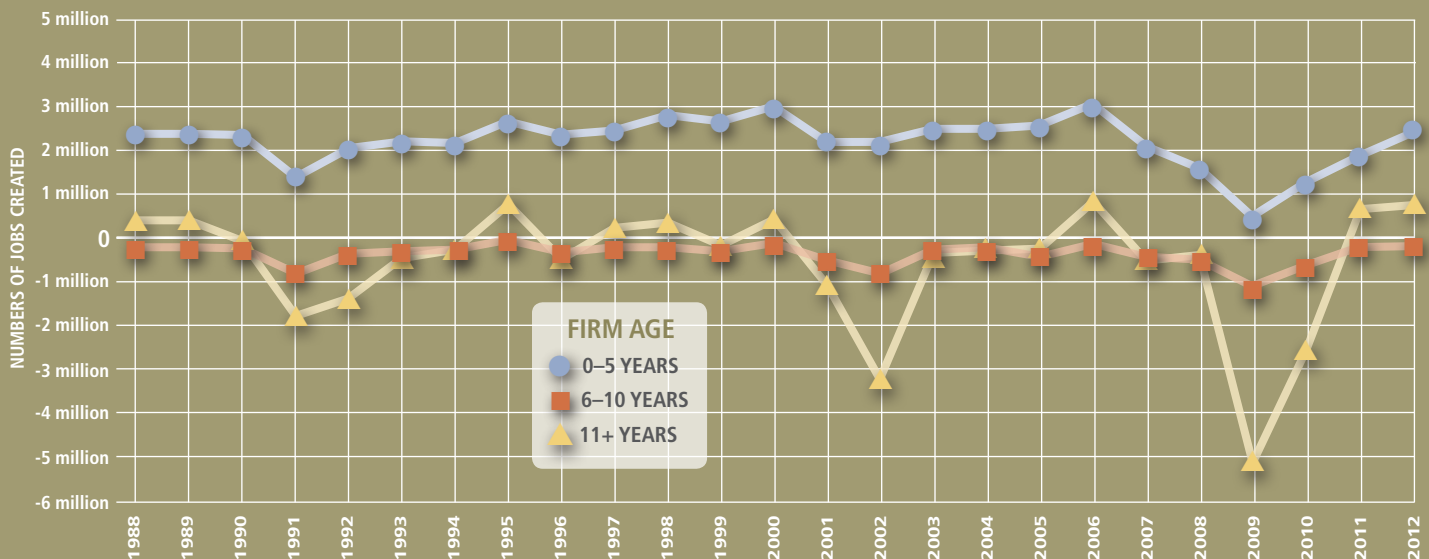
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### SOURCES OF QUALITY DATA ON YOUNG FIRMS

Understanding the economic impact of young firms requires dependable data. Sources from the U.S. Census Bureau include:

- [Business Dynamics Statistics](#)
- [Survey of Business Owners](#)
- [Quarterly Workforce Indicators](#)
- [Annual Survey of Entrepreneurs](#)

### NET JOB CREATION



SOURCE: U.S. CENSUS BUREAU BUSINESS DYNAMICS STATISTICS

- Many young firms exhibit an “[up or out](#)” dynamic, in which innovative and successful firms grow rapidly and become a wellspring of job and economic growth, or quickly fail and exit the market, allowing capital to be put to more productive uses.
- Young firms were hit hard during the Great Recession. Even still, from 2006 to 2009, young and small firms (fewer than five years old and twenty employees) [remained a positive source of net employment growth](#) (8.6 percent), whereas older and larger firms shed more jobs than they created.

## DECLINING STARTUP RATES THREATEN GROWTH

- New businesses represent a declining share of the business community. According to [Census data](#), new firms represented as much as 16 percent of all firms in the late 1970s. By 2011, that share had declined to 8 percent.
- Not only are there fewer new firms, but those startups that do exist are creating fewer jobs. The [gross number of jobs created by new firms fell by more than two million](#) between 2005 and 2010.
- [Startup activity has been subdued across the country](#). Firm entry rates were lower between 2009 and 2011 than they were between 1978 and 1980 in every state and Metropolitan Statistical Area except one.

## PAVE THE WAY FOR AN ENTREPRENEURIAL RENAISSANCE

Policies at the federal, state, and local levels influence an individual’s ability to start a business and impact firm growth and survival. Policymakers at all levels can help create an environment more conducive to business formation.

### FEDERAL

#### Welcome Immigrants

- Immigrants were nearly [twice as likely](#) as native-born Americans to start businesses in 2014. The creation of a [visa for immigrant entrepreneurs](#) would allow these job creators to start companies in the United States.

#### Remove Regulatory Barriers to Growth

- As regulations build up over time, they represent an [increasing and disproportionate cost](#) to entrepreneurial firms. Ideas to counter regulatory accumulation include the establishment of [a commission to review and recommend regulatory changes](#) to Congress and [implementing sunset dates on major regulations](#).

### STATE

#### Simplify Tax Codes and Payment Systems

- Taxes matter, but [what entrepreneurs are most concerned about is tax complexity](#). Simplifying tax codes and payment systems so they are easier to understand will relieve what many entrepreneurs feel is a burden on them and their businesses.

#### Encourage Competition and Labor Mobility

- [Occupational licensing](#) and [non-compete agreements](#) can depress entrepreneurship by artificially inflating the cost to enter a new market and restricting the free movement of individuals. Reconsider licensing requirements and adjust non-competes to spur entrepreneurial growth.

### LOCAL

#### Cultivate Human Capital

- Higher levels of education are associated with increased entrepreneurial activity. An analysis of 356 U.S. metropolitan areas found that [high school and college completion is important to startup rates](#).

## FOR MORE INFORMATION

Click on the links for access to the following resources, or contact Jason Wiens at [jwiens@kauffman.org](mailto:jwiens@kauffman.org):

- Watch the Kauffman Foundation’s [Three Things](#) sketchbook
- Read [Kauffman Foundation testimony](#) before the U.S. House Committee on Small Business
- Read the Kauffman Foundation’s [Startup Act](#) and [Startup Act for the States](#)
- Read [Young Firms are the Job Creators](#)
- Read [Can Millennials Reverse America’s Declining Rates of Entrepreneurship?](#)



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