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THE DECLINE OF AMERICAN ENTREPRENEURSHIP:

An Analysis of Causes of Macro Market Trends and

A Changing American Economic System

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Introduction

The belief in providing opportunities to allow people to become the best versions of themselves underlies America’s economic and social systems. Starting with the early colonists that landed on the continent in search of economic and social opportunities, our nation was built on the idea that while not everyone would be successful in our society, anyone could be if he/she worked hard enough. The belief in opportunity is a fundamental part of the calls for greater equity and freedom that has been heard throughout our history and is the core of the American dream.

While the opportunity might be a large part of American mythos, we live in an era of increasing income inequality and declining social mobility (Davis and Mazumder). Interestingly at the same time, entrepreneurship activity has decreased. Americans are unable to start businesses and become successful in the same way they used to be. There seem to be fewer opportunities for social mobility and success for average folks in our country. Entrepreneurship is a complicated activity. To understand what has stemmed from the flow of opportunity over the last 40 years, we need to study why entrepreneurship has declined in the United States since the late 1970s.

I. What is Entrepreneurship?

Entrepreneurship is a complex term to define. We often talk about entrepreneurship and praise its role in our society. In fact, at all levels of government, programs exist to foster entrepreneurship. Many cities and communities have entrepreneurship centers and chambers of commerce that
work to foster new business development. At the federal level, there is the Small Business Bureau. The Bureau’s website states:

Created in 1953, the U.S. Small Business Administration (SBA) continues to help small business owners and entrepreneurs pursue the American dream. The SBA is the only cabinet-level federal agency fully dedicated to small businesses and provides counseling, capital, and contracting expertise as the nation’s only go-to resource and voice for small businesses (“About SBA”).

While the Small Business Bureau appears to view entrepreneurship as the process by which individuals start a business, the academic literature surrounding entrepreneurship does not display consensus on how to define the term. Neither can academics agree upon precisely what role entrepreneurship plays in our society.

Narrow vs Wide Entrepreneurship

Some academics believe that entrepreneurship should be defined more narrowly than it often is conceptualized. For example, Martyn P. Driessen and Peter S. Zwart distinguish between a truly entrepreneurial firm and a new firm that may not be entrepreneurial in nature (Driessen and Zwart). They believe that entrepreneurship is different from starting a small business. In this understanding of entrepreneurship, not all small business founders are entrepreneurs. Only those founders that are “innovative” are true entrepreneurs. Those who believe in the narrow entrepreneurship school of thought, see fostering the development of “innovative” businesses more important than developing businesses that they consider to be less innovative. I will not use a definition that aligns with this view. It is impossible to study entrepreneurship on any
meaningful macro scale within the confines of this definition. This is why we will use the wide
definition of entrepreneurship that includes the birth of any firm that is legally recognized as
demonstrated in Figure 1.

While the narrow entrepreneurship school could classify businesses in intrinsically
innovative industries such as technology and biomedical research as innovative and then track
trends in those industries to study the state of American entrepreneurship (while ignoring trends
in other industries that may be deemed be less innovative such as agricultural production or food
service), this would be problematic because it ignores economic reality. A software company in
the intrinsically “innovative” industry of high tech software development might be flashier and
have a *perceived* greater potential to create value and positively affect the economy, there is no
reason to discount the value of a small business such as a coffee shop that might have lower
potential value than a software company.

The potential value of the firm is the potential value a firm might have based on its
positioning in the marketplace, the industry it is in, and the scalability of the business. This is in
contrast to the kinetic value of a firm, which is the value that the firm is generating at the present moment in comparison to other firms in the environment. Our definition of entrepreneurship should not bother with comparing the kinetic value to the potential value of a firm.

For example, let us imagine a coffee shop that sprouts up on a busy redeveloping street in the trendy part of downtown. The shop charges seven dollars for a drip cup of coffee and quickly becomes profitable. Simultaneously, a small tech startup with a truly innovative phone app in development operates in the shared workspace above the coffee shop. At this point, the coffee shop would be generating more income and equity for the proprietors and have a much greater economic impact on the local economy than the startup software company would. Thus, the coffee shop would have a greater level of kinetic value than the small tech company upstairs.

The high tech company may be generating nearly no revenue, but it would have a higher potential value than the coffee shop. Once the high tech company finishes developing its app for the market, it begins to generate revenue. Since there may be a lower level of capital and labor needed to keep the tech firm functioning and further innovating, the firm can be more profitable than the much more capital-intensive coffee shop. The tech business may grow with lower infusions of capital than the coffee shop, which is more dependent on foot traffic increases on the redeveloping street for revenue growth. The coffee shop owners can open an additional shop at a new location, but this would be expensive and require a large infusion of capital at once. For this reason, the technology company has much more potential value than the coffee shop does.

This scenario serves to demonstrate that the previously mentioned narrow definition of entrepreneurship only views the tech firm as innovative in the market and thus “entrepreneurial.” It ignores the value that is created by the coffee shop. The coffee shop may be less attractive to
an investor looking to purchase potential value. However, this should not devalue the economic impact that the coffee shop has in being a workhorse (see Figure 2) in the economy.

The coffee shop is profitable. While its profits might plateau, the development of these higher kinetic and lower potential value firms is entrepreneurship, just with different risks involved. It is also important to note that firms in less intrinsically innovative industries like food service can still be innovative at the micro-level. Businesses outside of what is considered by
these narrow entrepreneurship scholars as more entrepreneurial industries can see opportunities in making firms with better, more competitive processes or introduce goods or services to communities at the micro-level that did not previously have such offerings. An example of a firm that may be considered as entrepreneurial in the narrower definition of entrepreneurship is a restaurant started by an immigrant family from the middle east bringing a fast-casual falafel concept to a community largely unfamiliar with the cuisine. This may be viewed by Driessen and Zwart as entrepreneurial, but this economic activity would not register as entrepreneurship if only high potential value industries such as technology are monitored to analyze the state of entrepreneurship in the country.

While some attempt to define entrepreneurship too narrowly, others attempt to define it too widely. Over the past decade, there has been a dramatic growth in the so-called gig economy. The gig economy can broadly be understood to be a new economic system in which an individual can flexibly participate in the labor market as essentially a private contractor. Common examples of jobs in the gig economy would be Uber drivers or Uber eats delivery people. Individuals sign up to be drivers or deliverers, then they choose their own hours of work and are compensated for how much work they do. Some people consider this entrepreneurship.

However, including gig economy jobs as entrepreneurship is problematic for several reasons. First is the fact that the work that is being done is not necessarily entrepreneurial. Gordon Burtch, Seth Carnahan, and Brad N. Greenwood believe that the gig economy provides an outlet for less skilled or less successful entrepreneurs to experiment with entrepreneurship in a low capital low-risk environment (Burtch et al.). A college student with a car that signs up to be an Uber driver and works five hours a week, for example, does not need to make a very high
level of investment to participate in the gig economy. This is very different from the previously mentioned examples of the coffee shop and the small phone software app company.

An Uber driver is a private contractor, not an entrepreneur. While Uber driving might seem like an entrepreneurial venture because our culture associates entrepreneurship with being your own boss and personal freedom, it is not a truly entrepreneurial action because there is such low kinetic and potential value in being an Uber driver. The value of the driver’s involvement in the market is stunted at the real-time that they are able to physically participate in driving. So the kinetic value of the driver is fairly low because it is only one person working. The potential value is also low because the driver cannot scale up and grow his/her involvement in the market. If Uber drivers were able to save up their earners to buy additional vehicles that they could then hire other people to drive and take a percentage of these additional drivers’ revenue, that would be entrepreneurship. It would also be similar to a more traditional taxi company. Since the Uber drive is unable to do that on the Uber platform, he/she is not an entrepreneur. He/she is just an employee under a modern labor arrangement which is a product of innovative entrepreneurship done by the founders of Uber.

For the purposes of this paper, I will use the following definition of entrepreneurship, which is in part derived from the Small Business Administration but is also influenced by the academic literature. Entrepreneurship is *the process in which one or more individuals secure capital through personal reserves, social networks, or lending institutions to start a legally incorporated entity with the intention of creating value or income with the potential for significant growth in scale of operations.*
In order for a business to be registered in the U.S. Census Bureau, Bureau of Economic Analysis, and Bureau of Labor Statistics, the business must have at least one physical location and at least one paid employee. Since the data I use here comes from the previously enumerated federal agencies, the firms and businesses (the terms will be used interchangeably) I study all have at least one physical location and at least one employee. Entrepreneurship for my purposes will not include sole proprietorships or any other type of self-employment that is not housed under a legal business entity that separates the assets of the owner(s) from that of the business.

How to Measure Entrepreneurship and What Trends Exist?

Entrepreneurship is a difficult thing to measure. There is no one number or statistic that fully depicts the level of entrepreneurship that is happening in an economy. Instead, there are several measures that we can use to determine the level of entrepreneurship happening in the economy. When analyzing the level of entrepreneurship happening I will look at indicators of market dynamism.

Market dynamism is the idea that a healthy economy, one in which opportunity exists and entrepreneurship is taking place, is one in which there is a “churn” in the market. New businesses forming and existing ones failing form a cycle of creative destruction. As new ideas are born, new technology develops, and new tastes come into fashion, firms must adapt to changes in the environment. Not all do, and because of this, firms dissolve all the time. As obsolete firms dissolve, new ones that are better able to adapt to the current environment and take advantage of new opportunities form and become successful. This is the creative part of creative destruction. This new firm development process is entrepreneurship. By looking at quantifiable indicators of
the rate at which the creative part of the churn of creative destruction is occurring, we can see the level of entrepreneurial activity that is occurring in the economy at any given time.

One great indicator of the level of churn in the market is the relative age of firms that exist. When there are a lot of newer younger firms, this indicates there is a lot of creation happening, and thus the environment in which the economy is operating is conducive to new firm development of entrepreneurship. Figure 4 below tracks the percent of the total number of businesses in the US that are zero to two years old over time.

The data start in 1977. In that year, around 26 percent of all firms in the United States were under two years old. The data set ends in 2014, a year in which only 14 percent of all firms were under two years old. Thus, over a period of fewer than 40 years, the economic environment changed so that the proportion of new firms decreased by slightly more than half. As the graph
shows, recessions cannot be blamed for causing this decrease in young businesses. Between 1977 and 2014, there were seven U.S. recessions (“Dates of U.S. Recessions as Inferred by GDP-Based Recession Indicator”). If recessions were the cause of this decline in new business development, there should be more instability on the graph. For example, during periods in which the economy was doing well, times when it would be reasonable to think that entrepreneurs would be better able to start new businesses so the percentage of the total number of businesses in the United States that are zero to two years old should increase. However, the data does not show this. There is a fairly stable and continuous downward trend, indicating a consistent decline in the proportion of young firms.

A similar trend can be seen in Figure 5, which shows the net annual difference between firm births and deaths in the US economy. In 1977, approximately 200,000 more new businesses were added to the market than the total number of firms the year prior. While the US Census counted the US population at 226,545,805 people in 1970 and 308,745,538 people in 2010, there is no evidence of any increase in the total net annual amount of firm births (US Census Bureau). If the same level of entrepreneurship was occurring per person over time, the net increase in infirm births should have increased with the growing population. However, the data indicate the opposite has. As time went on, even before the 2008 financial crisis, the total annual net firm birth rate steadily decreased over time. In sum, the level of entrepreneurship has decreased in the US since the late 1970s.
Another indicator of the level of entrepreneurship in the market is the percentage of workers employed in new companies. If there is a lot of churn in the market and thus a great deal
of entrepreneurship, old businesses will be dying, and new ones will be starting at high rates. This would lead to greater hiring in newer businesses. New businesses are smaller, so all of them combined are going to employ a smaller percentage of the labor force than the combined established firms will employ. If firms are able to age without going out of business, they are likely to be successful. If a business is successful, it is able to grow and hire more people, thus increasing the total percentage of the labor force that is employed by older, more established businesses. Figure 4 demonstrated that the percentage of firms in the market ages 0-2 years old decreased 46 percent between 1977 and 2014, and Figure 6 indicates that the percent of the labor force employed at a new company decreased by around 60 percent.

![Share of employment in new companies in United States](image)

**Figure 6** Prepared by Economic Innovation Group in "Dynamism in Retreat" using Census BDS data

All of this indicates that the level of entrepreneurship has decreased in the US. But it also points to another adjacent phenomenon that is also likely occurring. Specifically, since the
percentage of the labor force that is employed by new firms has decreased more significantly than the percentage of young firms that exist in the market, those new firms that are still being born are employing fewer employees on average than new firms had previously. This may indicate that the economic impact of new firms on their community is low because they are providing fewer members of the community with employment than new firms had in the past on average per firm.

Interestingly, it appears that the decrease in churn and the level of entrepreneurship that is happening in the United States cannot just be chalked up to changes within one industry. As shown in Figure 7, the start-up rate in which new firms are being born has decreased across all sectors of the economy. Changes in one industry cannot account for the total change in the
start-up rate for the entire economy. For example, there was a large economic shift in the United States around manufacturing. Starting in the 1970s, factories began moving overseas to places like China (Wen). In Figure 7 the manufacturing industry line trends downward in a reflection of the outsourcing of manufacturing. This widely recognized change in the manufacturing industry does not appear to account for the economy-wide trends uncovered in the firm birth rate and the decreasing level of entrepreneurship in the American economy. All industries have experienced a decline in entrepreneurship.

Theory of New Businesses Formation

It is important to understand how businesses or firms form to adequately understand the impact of entrepreneurship on society and local communities. Economists tend to use a theory of business formation that looks at the life cycle of businesses to understand how policies and economic factors affect entrepreneurship (Kiernan and Li). We must understand what factors influence the birth of new firms to understand how decreasing levels of entrepreneurial activity in the United States is occurring.

For an entrepreneur to start a business, he/she needs to take into account the fixed and variable costs associated with starting and operating a business. Every business will have different fixed and variable costs, and these costs can vary widely between industries. Fixed costs are costs that do not change with changes in volume in production. Going back to our example of the coffee shop, the fixed costs of that business would be the rent for the shop. Say the landlord charges the firm $1,000 a month. The entrepreneurial baristas could sell one coffee
or six thousand coffees the entire month, and the rent would still be $1,000. Other examples of fixed costs are salaries and benefits for salaried workers, insurance, and property taxes.

Variable costs are the other costs that entrepreneurs have to take into account when planning a venture. These costs vary with production. The coffee shop has many variable costs. An example of a variable cost would be coffee beans. If the shop is selling 6,000 cups of coffee per month, the cost for coffee beans that month will be higher than if the shop only sells one cup. This is because more coffee beans would be needed to be bought to make the cups of coffee. In many businesses, variable costs account for a set percentage of a sale of a certain product or service. According to the Federal Reserve Bank of San Francisco, the theory of business formation is that,

*Entrepreneurs plan their production to maximize their gross profit, which is the difference between revenue and variable costs. They will start a business only if potential gross profits can cover the fixed costs of operating the business. When gross profits exceed fixed costs, more businesses will enter the market. Competition among more businesses for scarce resources will drive up costs and reduce gross profits. When fixed costs exceed gross profits, some businesses will close. Less competition drives down costs and raises gross profits. With a large number of businesses in the economy, the theory suggests that businesses on average can expect to break even. Note that in this theory, breaking even does not mean zero accounting profits: a business must report just enough positive accounting profit to cover fixed costs, such as the income the entrepreneur would make in an alternative pursuit, which is not part of the business’s accounts.* [Kiernan and Li]
The fixed costs when a business is starting up, like the purchase of coffee machines or other equipment, are referred to as the startup costs. These startup costs must be paid for a new business to start operating. Going back to our definition, entrepreneurship is the process in which one or more individuals secure capital through personal reserves, social networks, or lending institutions to start a legally incorporated entity with the intention of creating value or income with the potential for significant growth in scale of operations. For entrepreneurship to happen, capital must be acquired to fulfill the startup costs of starting a new business.

According to the US Census’s Annual Survey of Entrepreneurs (ASE), which samples approximately 290,000 employer businesses across all U.S. geographies and demographics to determine trends within the market, entrepreneurs rely on three primary sources of startup capital: 63.9 percent relied on personal and family savings, 17.9 percent relied on business loans from banks, and 10.3 percent relied on personal credit cards (Morelix).

II. Why Does Entrepreneurship Matter?

The data are clear: entrepreneurship has declined since the late 1970s. Is this a bad thing? Or have we just socially conditioned through the capitalist-centric rhetoric of the United States that entrepreneurship is good even if it does not have any impact on our wellbeing or the health of our society? Recently, the Pew Research Center did a study of income and wealth of the American population. As shown in figures 8, 9, and 10, both income and wealth have changed drastically over the same period that there has been a dramatic shift in the rate of entrepreneurship.
As for income, since the 1970s, the income of the aggregate upper class has increased, while the aggregate middle and lower classes have seen decreases in income. Starkly, before around 2010, the middle-class income share was larger than the upper and lower class. In the early part of the time period depicted, it consisted of more than 50% of the total income earned. However, over time there has been a reordering of the shares of income that each class takes home. Now, the upper-income group takes home more income than the middle-income group does. Throughout this whole time period, the lower-class income group remained fairly stable in its percentage of income. Pew Research Center also found that the incomes of the top 5 percent and highest quintile of income earners has increased faster than that of families in the lower four income quintiles.
While there have been changes in income, there has also been a shift in the distribution of wealth across the upper, middle, and lower classes. The upper class has seen dramatic growth in wealth since the early 1980’s, going from owning around 60 percent of the nation’s wealth to around 79 percent in 2016. This growth was at the expense of the share of the wealth that middle and lower-class people share. The middle class’s share of wealth shrank from 32 percent to 17 percent of total wealth. While the lower class only lost 3 percent of the total share of wealth in this group, this amounted to around a 40 percent decrease in its share between 1983 and 2016.

[Figure 9]
So how does all of this relate to entrepreneurship? There is not a straight line cause and effect going on in the relationship between wealth and entrepreneurship. Rather, there is more of a cycle. As stated earlier, 63.9 percent of entrepreneurs relied on personal and family savings to get started (Morelix). A study from the Kauffman Foundation found in a survey of high growth industry entrepreneurs that more than 90 percent of the entrepreneurs came from middle-class or upper-lower-class backgrounds (Aggarwal). What these statistics indicate is that it takes money to make money. The problem that has developed is that middle and lower-class people face much higher barriers to acquiring capital to start businesses.

Since it has become harder for middle and lower-income people to start businesses, it is harder for them to increase their income and thus increase their wealth. This is because starting a
business working for someone else’s business can be thought of as similar to renting vs. owning a home. When someone rents a home, he/she pays the landlord and gets the benefit of having somewhere to live. But he/she is not building value because the day the lease is up, the renter does not have an accumulation of wealth or equity in the home.

This is similar to what happens when someone works as a manager at a coffee shop for the owner of the shop. The manager may get the benefit of income that she/he can use to live, but the day he/she leaves the job, he/she does not have any acquired equity or value to show for it. In contrast, owning a house or a successful business will cause personal wealth to grow for the owner beyond the original value of the house or the paycheck. The house will appreciate in value, and the coffee shop will become more valuable as an entity as revenue increases. When lower and middle-class people are unable to increase their wealth through starting a business, they get stuck in a cycle that can be referred to as the middle-class wealth spiral shown, as shown in Figure 11. As the middle and lower classes do not generate more wealth for themselves through starting a business, a widening gap between the rich and poor developed. This raises the barrier for these groups to start a new business even more.
So does this cycle explain the decrease in entrepreneurship and economic churn that is described earlier? No. This cycle would not be able to perpetuate itself and continuously decrease entrepreneurship and market churn the way that it has on its own. Instead, various other economic, societal, and policy shifts in the United States over the past several decades have played a role. These additional factors are like additional winds that have accelerated the speed at which entrepreneurship and thus wealth for the middle and lower class have decreased.

This leads us back to the question, why does entrepreneurship matter? It matters because it leads to wealth, and wealth matters because it determines power. When the lower and especially the middle class lose wealth, they lose power and efficacy within the American
political and economic system. This loss of efficacy also creates a negative feedback loop, with wealth decreasing, causing political power to decrease, which allows those in wealth and power to further enrich themselves through policies that the political system they own creates for them to acquire more wealth.

III. Additional Factors Causing the Decline in Entrepreneurship

Student Loan Debt and Homeownership

Two other factors that have contributed to the decline of entrepreneurship and the spinning of the class wealth spiral, are increases in student debt, and the decline of homeownership among young people. Millennials cannot save money to start businesses. This is because they are not purchasing homes. The decline in homeownership prevents potential entrepreneurs from getting business loans.

Prior to 1976, all student debt could be discharged through bankruptcy. However, in 1976, Congress acted to exempt student loans from discharge out of fear that students were borrowing large sums of money to go to school but then would declare bankruptcy immediately after graduation to get a “free” education. Originally, this only applied to federal government student loans, but as time went on the regulations around discharge became more and more restrictive to borrowers. Then in 2005, Congress altered 11 U.S.C. § 523(a)(8) to exclude private student loans from discharge in bankruptcy (Mueller). The fact that student debt is protected from discharge through bankruptcy allows and incentivizes lenders to lend almost limitless amounts of money to students because the risk of not collecting the principle is very low. This
contributes to a cycle in which colleges and universities are able to charge more and more for tuition, fees, and services because students have such easy access to near unlimited student loans. As shown in Figure 12, student loan debt has roughly tripled since 2006.

![Figure 12](image)

Student loan debt is a huge burden and expense to Millennials, and it is continuing to grow. A 2012 study of the student loan debt situation in the *Journal of Economic Perspectives* explores how in June of 2010 student loan debt overcame credit card debt in size (Avery and Turner 165-192). The study also explores how wage declines in entry-level jobs in our service-based economy and dramatic increases in tuition costs force high school graduates to either take the financial risk of student loans or be forced into low paying jobs for the rest of their working lives. According to an article by CNBC, when they graduate, the average student
loan borrower has $37,172 in student loans. This is a $20,000 increase from 13 years ago (Hess). The Federal Reserve estimates that the average monthly student loan payment increased from $227 in 2005 to $393 in 2016. That is a 73 percent increase (Durante et al). Instead of saving money to start businesses, college graduates must pay off their degrees, which can burden them every month for decades, especially if they fall behind in payments and interest starts to snowball.

This unhealthy level of student loan debt has decreased the level of homeownership among recent college graduates. Homeownership is important in being able to get business loans. However, “Millennials are less likely to be homeowners than baby boomers and Gen Xers. The homeownership rate among millennials ages 25 to 34 is 8 percentage points lower than baby boomers and 8.4 percentage points lower than Gen Xers in the same age group” as stated by an Urban Institute study from 2018 (Choi et al.). A study by the Federal Reserve Board of Washington, D.C. connects the lower home homeownership rates to student debt, finding “a 10 percent increase in student loan debt causes a 1 to 2 percentage point drop in the homeownership rate of student loan borrowers for the first five years after exiting school” (On the Effect of Student Loans on Access to Homeownership).

When banks look to invest in small business start-ups, they want to protect their money. If an individual does not have collateral to offer the bank, like the title to a house, the individual will likely have a much more difficult time securing funding for the startup. Because if the business fails the investment the bank made in the business is lost.

High student debt rates not only make it harder to start businesses, but they also make it even harder for businesses to be successful once started. Entrepreneurs saddled with large
student loan debt payments have a harder time keeping afloat after starting businesses. Evidence from a 2018 article in the journal *Management Science* indicates that student debt may inhibit entrepreneurship by exacerbating the effects of bumps in the road that many fledgling small businesses encounter (“The Cost of Financing Education”). The results also suggested that student loans decrease the rate of success of new ventures. For example, a millennial who starts a coffee shop that has a bad few months is unlikely to survive the bad season due to student loan debt payments, business loan payments, and the lack of a mortgage that might allow him/her to get a business loan.

**Rising Cost of Healthcare**

It is well documented that healthcare costs have increased dramatically over the past several decades. As shown in the graph below depicting US total healthcare expenditures on a per capita basis. Health spending has increased over 31-fold in the last four decades, from $355 per person in 1970 to $11,172 in 2018. In constant 2018 dollars, the increase was about 6-fold, from $1,832 in 1970 to $11,172 in 2018 (*Historical National Health Expenditure Accounts*). Those costs increases are likely a contributing additional factor to the decline in entrepreneurship in America that happened over the same period of time that these healthcare costs increased.
Starting during World War II, the United States diverged from nearly all other developed nations and did not develop a mandated health insurance plan for the entire population. Instead, healthcare insurance mainly became tied to employment. This happened because employers had to create incentives for employees to apply for work at companies in the constrained labor market during the war era. During that time much of the population was involved in fighting the war or working in war industries (Field and Shapiro). After the war ended, the United States did not develop a universal government healthcare program. A national universal healthcare program would have better insulated the American population from the negative effects of the increases to...
the cost of healthcare that occurred following World War II, or even prevented the increases in the first place.

Since healthcare is linked to employment, the rising cost of healthcare makes it difficult for small businesses to attract the best talent. Only around 56 percent of small firms offer health benefits to at least some of their workers while around 98 percent of large firms do. The overall rate of offering health benefits is 57 percent of firms (Employer Health Benefits Annual Survey Archives). When a new firm is born it typically starts out very small, and the data indicates it does not have the ability to offer healthcare benefits to its employees. Healthcare insurance is a fixed cost. Entrepreneurs’ inability to hurdle that large fixed cost when starting makes it harder to work for small new businesses to attract the best talent. More talented employees are led to work at larger businesses that can provide them with healthcare benefits. When talent goes to larger businesses, the small business receives less human capital to compete against the existing larger business.

Not only does the rising cost of healthcare hurt small businesses when they do manage to form, but it also likely contributes to the declining rate of new firm birth. This is because there is more financial insecurity for individuals in starting a new business. When an entrepreneur decides to start a business they must be personally financially prepared to do so. While data is unclear what the average amount of time it takes a business to become profitable due to the complexity in defining profitability, the general consensus is that it takes several years not weeks or months for the average firm to become profitable. In the possible years it might take for a firm to be profitable, an entrepreneur must make calculations of how personal expenses like those for healthcare will be paid. As the price of healthcare has increased, it has likely prevented potential
entrepreneurs from starting new firms because the risk has increased. Starting a new business might require a potential entrepreneur to leave their current job at a larger business that is providing him/her with healthcare insurance benefits or from starting a business early in life after school because him/her might need the financial stability of the health benefits that working for a larger business would provide them.

While it is difficult to ascertain the exact amount of influence that increases the cost of healthcare since the 1970s has had on entrepreneurship, it does appear a likely additional factor to the entrepreneurship decline. Especially working against potential lower and lower-middle-class entrepreneurs that may have less accumulated family wealth that can allow an entrepreneur to weather the significant financial instability that might occur during the early stages of starting a new firm.

**Changed Corporate Ecosystem**

Since the 1970’s there have been many changes in the legal and political system in which large corporations operate. These changes have likely negatively impacted the rate of entrepreneurship that occurs in the United States. One of those large changes in the corporate ecosystem that we can look at is the decline in the percent of Americans who are members in organized labor unions.

The General Social Surveys from 1972 to 2018 asked, “Do you or your spouse belong to a labor union?” The graph below in Figure 14 shows the response to this question over time (“General Social Surveys (GSS”). In 1973, 28.3 percent of respondents indicated that either they or their spouse belonged to a labor union. By 2018, the percentage of respondents that indicated
that either they or their spouse belonged to a labor union had fallen to 13 percent. Over this time period from 1973 to 2018 the percent of respondents that belonged to or had a spouse that belonged to a labor union had decreased by 54.1 percent.

Figure 14

[“General Social Surveys (GSS)”]

The declining rate of union membership has an impact on corporations. In the 1970s, many large businesses had to work with unions that represented their employees in order to get work done. As the labor force became less unionized and the labor union leadership was weakened, the boardroom gained more power because the employees had less of a check on the
boardroom’s ability to create wealth at the lowest cost. This imbalance of power allowed corporations to grow larger and more politically powerful. As this happened, large existing corporations were better able to prevent new businesses from entering the market and taking significant market share. This made it more difficult for entrepreneurship to happen.

Conclusion

After analyzing the data, it is clear that entrepreneurship has declined since the late 1970s in the United States. The decline of entrepreneurship is part of a larger class wealth spiral cycle that has resulted in a wider and wider gap between the wealth of the upper and lower classes in America. Many factors likely contribute to the spinning of this cycle, however, the decline in homeownership and increase in student debt, the rising cost of healthcare, and a changing corporate ecosystem are clear culprits that have been preventing entrepreneurship and thus preventing wealth accumulations in the lower and middle classes.

It is outside of the scope of this study to determine detailed prescriptions or policy proposals that could increase the rate of entrepreneurship again in the United States. However, any proposal should likely focus on checking the unchecked power of the large existing corporations have over the American political and economic system. It should also help the average American to afford basic needs like housing, healthcare, and education so that they are
more financially secure and thus better positioned to unleash their creative energies to build personal wealth and grow the economy through entrepreneurship. There will be no silver bullet answer to increasing the rate of entrepreneurship in the United States, but many changes will likely need to work together to give more opportunities to the American people to work more entrepreneurially again. If or when that does happen, greater equity between the classes and the various racial and social groups in the country and economic justice will be better realized.
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