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Chairman Vitter, Ranking Member Shaheen, and members of the Committee, thank you for the opportunity to testify about the present and future of American entrepreneurship, and to share with you the work of the Ewing Marion Kauffman Foundation.

The Kauffman Foundation is a private, nonpartisan foundation based in Kansas City, and is the world's largest private foundation dedicated to the study and promotion of entrepreneurship. Our founder was the late entrepreneur and philanthropist Ewing Kauffman, who recognized the power of entrepreneurship to foster economic independence, social mobility, and economic growth. This year, we are celebrating what would have been Mr. Kauffman's 100th birthday with his favorite theme for entrepreneurs: Be Uncommon.

For several years, the Kauffman Foundation has been calling attention to challenges facing American entrepreneurs. Our close collaboration with the U.S. Census Bureau and other federal agencies—and our support for academic researchers—has helped illuminate the trends in entrepreneurship we are discussing today. This past February, for example, we released a report that contained many different ideas as to how we can renew entrepreneurial growth in America.¹

It's important to begin with facts so we can fully understand the issues. American entrepreneurship is not one-dimensional—Americans of different backgrounds start different types of companies in different parts of the country. Lumping them all together into one number or statistic is a mistake.

By some measures, American entrepreneurship is in trouble. By other measures, American entrepreneurship is on the rebound. Still other figures show that American entrepreneurship may have never really decreased that much. It's important to pull apart these numbers so policymakers in Washington and across the country can act appropriately.

It is broadly true that, over the past 20 years, the United States has experienced a steady decline in the pace at which new employer businesses are created. That pace had begun to reverse in 2005 and 2006, and then plummeted during the recession.² In contrast to past recoveries, new business creation has not rebounded very strongly, and remains well below pre-recession levels. This has created what some researchers call a "startup deficit."³ We don't have as many new businesses being started as we did before, and we have a "missing generation" of firms because of these lower levels.

Thus, there are both secular and cyclical aspects to trends in the formation of employer firms.

¹ See <http://www.kauffman.org/neg/neg-intro>.

² See, e.g., Benjamin Pugsley and Aysegul Sahin. "Grown-Up Business Cycles." Federal Reserve Bank of New York, Staff Report No. 707, September 2015.

³ See, e.g., Benjamin Pugsley and Aysegul Sahin. "Grown-Up Business Cycles." Federal Reserve Bank of New York, Staff Report No. 707, September 2015.

This “startup deficit” contributed to the sluggish employment recovery after the recession. Lower levels of business creation have also dragged down economic dynamism and the overall fluidity of the U.S. economy. Most worrisome, some researchers have found that the United States is producing fewer high-growth firms, and getting lower job creation from those high-growth firms that do come into existence.⁴

A startup deficit, diminished dynamism, and fewer high-growth firms—the effects of these trends fall heavily on young workers and those on the margins of the labor force. They also mean that the U.S. economy in general is less vibrant; other developed countries are struggling with similar trends.

The news is not all bad, however. Other measures, including our Kauffman Index of Entrepreneurship, point to a recovery in American entrepreneurship over the past two years. This is true across brand new startups, Main Street small businesses, and growth companies.⁵ Next month, we will release our Kauffman Index of Startup Activity, which will show that new business creation has risen for two straight years across the country.

Likewise, using new measurements, researchers at MIT have found that entrepreneurial quality in America has actually been higher over the past decade, despite the evident decline in quantity. They do find, however, an apparent breakdown in the ability of American entrepreneurs to convert ideas and innovations into growth outcomes.⁶

From all of these statistics one should conclude that entrepreneurship in America definitely faces headwinds, but is not, as some claim, “disappearing.” And, there are plenty of reasons for optimism about our entrepreneurial future.

The first of these is demographic change. It’s no secret the United States is an aging society. For the past twenty years, the highest rate of startup activity in this country has belonged to those ages 55 to 64.⁷ For a variety of reasons, this long-term trend looks like it will continue. An aging society does not have to be a less entrepreneurial society.

By comparison, entrepreneurship is falling among young Americans. The *lowest* rate of startup activity over the past twenty years has belonged to those ages 20-34.⁸ Millennials are a continuation of this trend, not the beginning of it.

⁴ Decker, Ryan A., John Haltiwanger, Ron S. Jarmin, and Javier Miranda. “Where Has All the Skewness Gone? The Decline in High-Growth (Young) Firms in the U.S.” National Bureau of Economic Research, Working Paper 21776, December 2015.

⁵ See the Kauffman Index of Entrepreneurship series, at <http://www.kauffman.org/microsites/kauffman-index>.

⁶ Guzman, Jorge and Scott Stern, “The State of American Entrepreneurship: New Estimates of the Quantity and Quality of Entrepreneurship for 15 US States, 1988-2014,” National Bureau of Economic Research Working Paper 22095, March 2016.

⁷ See the Kauffman Index of Entrepreneurship series, at <http://www.kauffman.org/microsites/kauffman-index>.

⁸ See the Kauffman Index of Entrepreneurship series, at <http://www.kauffman.org/microsites/kauffman-index>.

The average age of a new entrepreneur in the United States is 40, and this has been true for many years. The oldest Millennials are just now turning 34. As they reach the “peak age” for entrepreneurship, we should expect that Millennials will lead an entrepreneurial resurgence in this country.⁹

A second reason for optimism is technological change, which is helping push entrepreneurial activity into sectors that have long seemed immune to it. This includes agriculture, automobiles, banking, and others. New innovations in finance, for example, promise not only to increase entrepreneurial entry but also lower the barriers to capital access for all types of entrepreneurs.¹⁰ Technology will continue to create, not destroy, more opportunities for entrepreneurship.¹¹

To overcome the headwinds and renew entrepreneurial growth in this country, we need help from policymakers, and in their approach to this, policymakers should be guided by two principles. First, subsidizing entrepreneurship is not the same thing as helping entrepreneurship. Simply giving entrepreneurs more of something will not lead to success. Second, policymakers should bear in mind the tradeoffs they will inevitably make, given the multi-dimensional nature of entrepreneurship. What helps one group of entrepreneurs may harm another group.

Accordingly, here are some ideas and recommendations that emerge from the work of the Kauffman Foundation and our research and policy partners.

1. Scrutinize existing programs.

There is no shortage of federal efforts in this area. By one count, there are 45 different federal government programs that aim to help entrepreneurs. Congress and the administrative agencies should devote resources to understanding their effectiveness and where cuts might be possible. Lowering costs of entrepreneurial experimentation promises to foster more entrepreneurship than another government program.

2. Reduce policy uncertainty and regulatory complexity.

This would help all American firms, not just entrepreneurs. But young businesses face particular burdens when it comes to dealing with regulations.¹² While there are already special regulatory provisions that apply to *small* businesses, Congress should consider extending these provisions to *young* companies as well. Congress should also consider

⁹ Spulber, Daniel F., and Dane Stangler. “The Age of the Entrepreneur: Demographics and Entrepreneurship.” Paper prepared for Innovation for Jobs Summit, March 2013.

¹⁰ Pignal, Stanley. “Slings and arrows.” *The Economist*, Special Report: International Banking, May 9, 2015.

¹¹ See, e.g., Bhidé, Amar. “The Demise of US Dynamism is Vastly Exaggerated—But Not All is Well.” Working Paper, Center on Capitalism and Society, Columbia University, January 2015; James Bessen, *Learning by Doing: The Real Connection between Innovation, Wages, and Wealth* (Yale, 2015).

¹² Steven J. Davis, “Regulatory Complexity and Policy Uncertainty: Headwinds of Our Own Making,” Hoover Institution, Economics Working Paper 15118, December 2015.

revisiting onerous financial regulations that may have reduced the volume of lending to young firms.

3. Increase immigration.

Immigrants start new businesses at twice the rate of native-born Americans. Yet the United States is losing ground to other countries: 15 countries now have a startup visa dedicated to attracting immigrant entrepreneurs. The United States is not one of those countries. By creating new pathways for immigrant entrepreneurs, the United States can and should solidify its stature as *the* destination for entrepreneurs from all over the world.

4. Resist and roll back incumbent bias.

Some laws and regulations make it harder for entrepreneurs to compete against incumbent companies. Policymakers must ensure that the playing field is level, which includes ensuring that young companies are heard in Washington like their older, more established counterparts.

5. Invest in data collection.

The best way to monitor the health of American entrepreneurship is through data, and the Census Bureau has been a strong partner with the Kauffman Foundation and others in creating new datasets to allow researchers and policymakers to better understand entrepreneurship. Additional resources should be considered to augment and expand these efforts.

Entrepreneurship is vital to the American economy and American democracy. At the Kauffman Foundation, we believe America's best entrepreneurial days are still to come, but we won't realize that vision without the help and support of public policy.

Thank you, again, for the opportunity to testify.