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The Slowdown in American Entrepreneurship: How Would a Democratic President Respond — And What Should Be Done?

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INTRODUCTION

In the November debate among Democratic presidential candidates, Sen. Cory Booker said the following: We Democrats also have to talk about how to grow wealth, as well. . . . [W]e as Democrats have got to start talking not just about how we tax from a stage, but how we growth wealth in this country amongst those disadvantaged communities that are not seeing it. . . . Small businesses, new startups are going down in this country. . . . We need to give more new entrepreneurs access to wealth.[1]

What was notable about these statements was not so much the substance of what Booker said but that he said anything at all about entrepreneurship. During that debate, the word "entrepreneur" was only mentioned twice, both by Sen. Booker, who has since droped out. In fact, the word "business" was only spoken five times by the candidates on stage. Two of those were Booker talking about actual business creation. Others were in the context of assertions about "business as usual" in Washington. (Tom Steyer did mention his business experience.)

During the December debate, entrepreneurship was mentioned roughly zero times. The sole mention of business creation was by Sen. Elizabeth Warren in talking about her plan to erase most student loan debt. The only time the word "entrepreneurship" was actually uttered was when Andrew Yang talked about serving as "an ambassador of entrepreneurship" during the Obama administration.[2] (And those mentions came toward the end of the night.)

Booker also talked in November about the geographic concentration of venture capital around the United States, with only three metro areas (the Bay Area, Boston, and New York City) accounting for almost eight out of every 10 VC dollars invested.[3] Five months earlier, in the June debate, Congressman John Delaney talked about the same VC skew.[4] During the July debate, Andrew Yang said that "it's certainly a lot harder to start a business," and that getting "health care off the backs of businesses and families" will help "American entrepreneurship recover and bloom."[5]

Delaney, Yang and Booker are (or were) onto something—especially in their references to entrepreneurship trends in the United States. There is a crisis in American business dynamism, driven by declining creation of new businesses and fewer high-growth businesses, particularly in high-tech sectors. These trends have contributed to diminished productivity across the economy.

Yet this "startup deficit," as some researchers have labeled it, is almost silent and invisible, mostly ignored in Washington and on the campaign trail. There are exceptions: the Center for American Entrepreneurship (CAE) has continuously beat the drum on this issue, as has the Economic Innovation Group (EIG). We have also called attention to this issue at the Progressive Policy Institute.[6]

The stagnation in entrepreneurship should absolutely be a central issue for the Democrats vying to challenge President Trump. Plenty of airtime is given to grand plans like Medicare for All, free college, and the like. Yet the decline of business dynamism means the very foundations of the U.S. economy could be eroding beneath us. The next president, no matter who it is, will need to confront this before any other grand plans can be adopted.

And it is barely being talked about by any of the candidates. Only a few have indicated that they see there is a problem. Booker, now a former candidate, observed that "new startups are going down." Yang talked about helping "American entrepreneurship recover and bloom." During the October debate, Sen. Amy Klobuchar said that "we are seeing a startup slump in this country."[7] These, however, are mostly random observations. Entrepreneurship has certainly not been anywhere near the center of the Democratic race and, as we'll see below, most candidates give it little attention in their policy platforms.

This is puzzling: downward shifts in U.S. business dynamism have played a large role in sluggish productivity growth and are related to other worrying economic trends. The Democrats will not be able to support their visions of expanded health care, education, and income support without a growing economy. A growing economy requires business dynamism—the entry, growth, and competition among firms. That is precisely what has been missing for nearly two decades.

A Quick Look at Declining Entrepreneurship and Business Dynamism

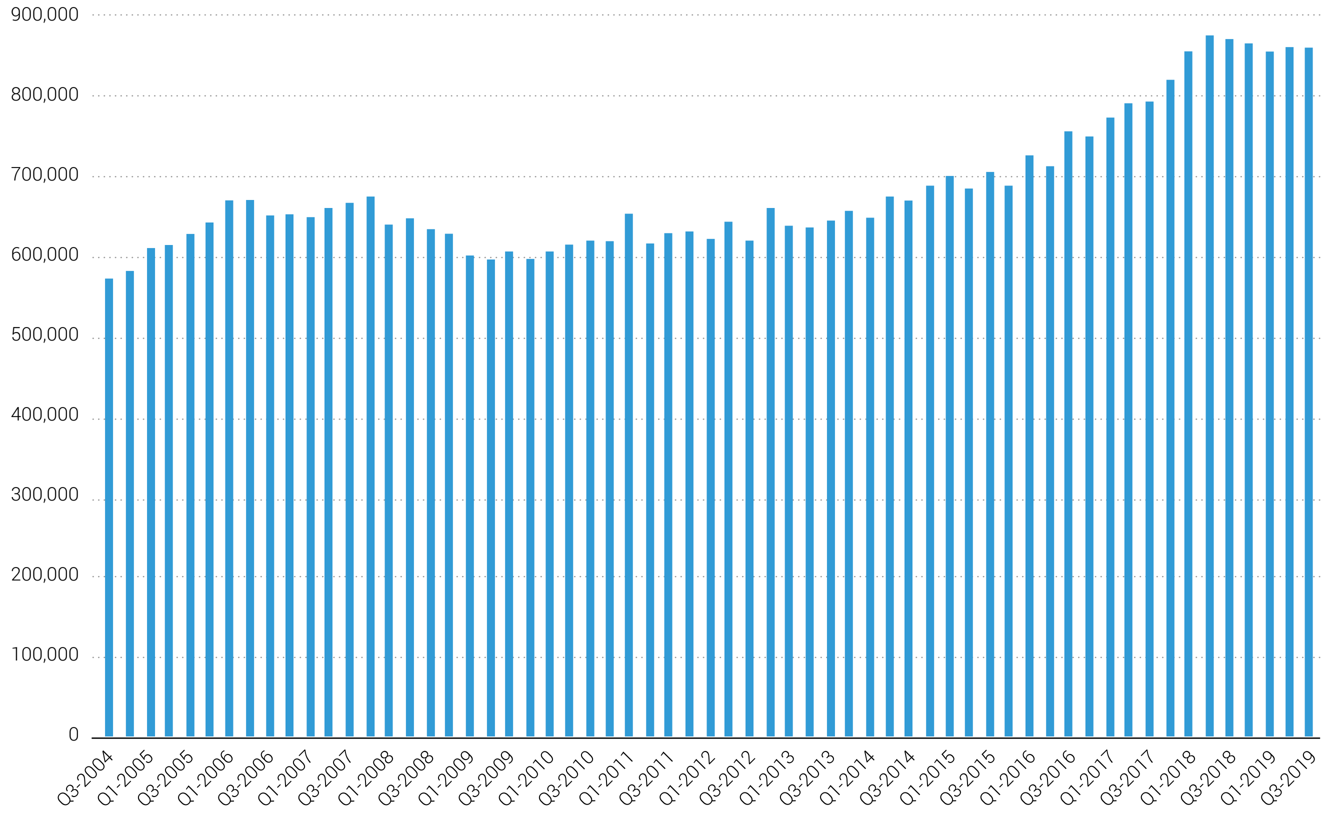
A growing body of academic research has established a consistent set of empirical facts about the fall in rates of entrepreneurship and other indicators of declining dynamism. Here is a quick overview of those facts:

- The entry rate of new firms has fallen steadily, which has created an "accumulating startup deficit."
- There are fewer high-growth firms than 20 years ago—and their rates of growth have declined. In the terms of economists, "skewness" in firm growth has fallen.[8]

- These trends—falling firm entry and employment creation by high-growth firms—have been especially pronounced in the high-tech sector since 2000.
- The overall population of U.S. businesses has grown "older and slower."
- Other measures of dynamism—job mobility, geographic mobility, and "job reallocation"—have also fallen.

Now let's look at some numbers. The Census Bureau tracks a few different measures of business creation. One of the most recently created datasets is on Business Formation, which captures applications for employer identification numbers. Figure 1 shows quarterly business applications from 2004 to 2019.

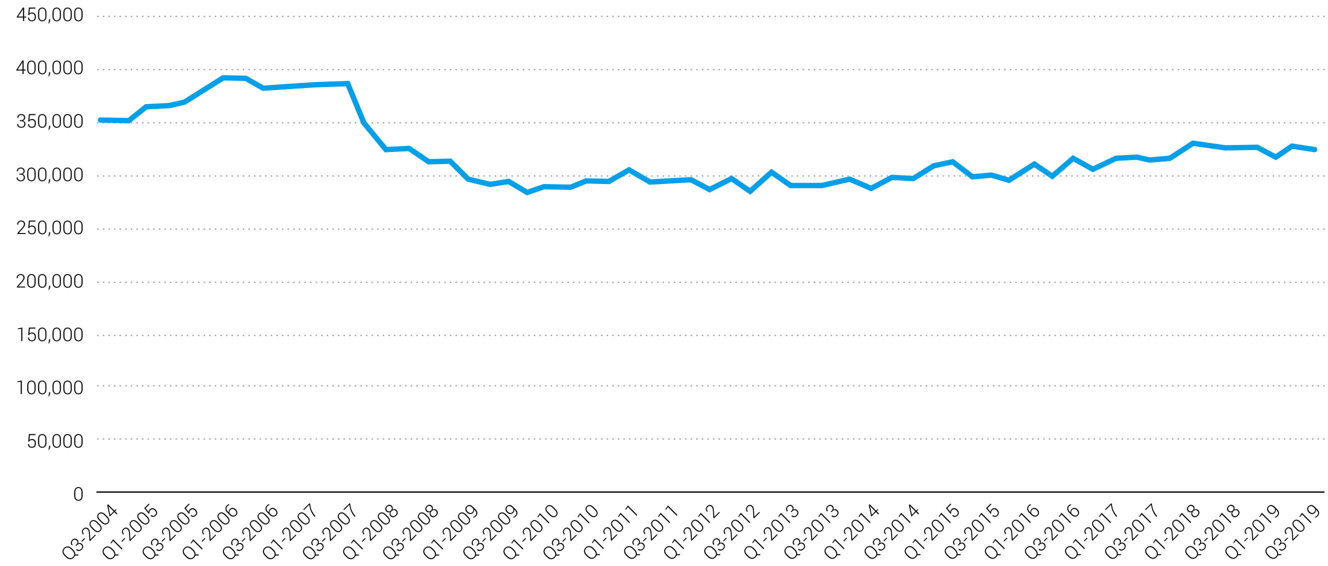
FIGURE 1.TOTAL NUMBER OF APPLICATIONS FOR EMPLOYER IDENTIFICATION NUMBER BY QUARTER, 2014 TO 2019



Source: U.S. Census Bureau, Business Formation Statistics.

The chart shows a steady rise since 2013 in EIN applications—but such an application is not technically the equivalent of a "firm." For one thing, it may not currently employ people; for another, it may not ever plan to employ people. To figure out which applications might have larger economic effects in terms of payroll and wages, the Business Formation data track "high-propensity" business applications. These are business applications with a "high propensity of turning into businesses with payroll." Here, the data tell a different story, as shown in Figure 2.

FIGURE 2.HIGH-PROPENSITY BUSINESS APPLICATIONS, QUARTERLY



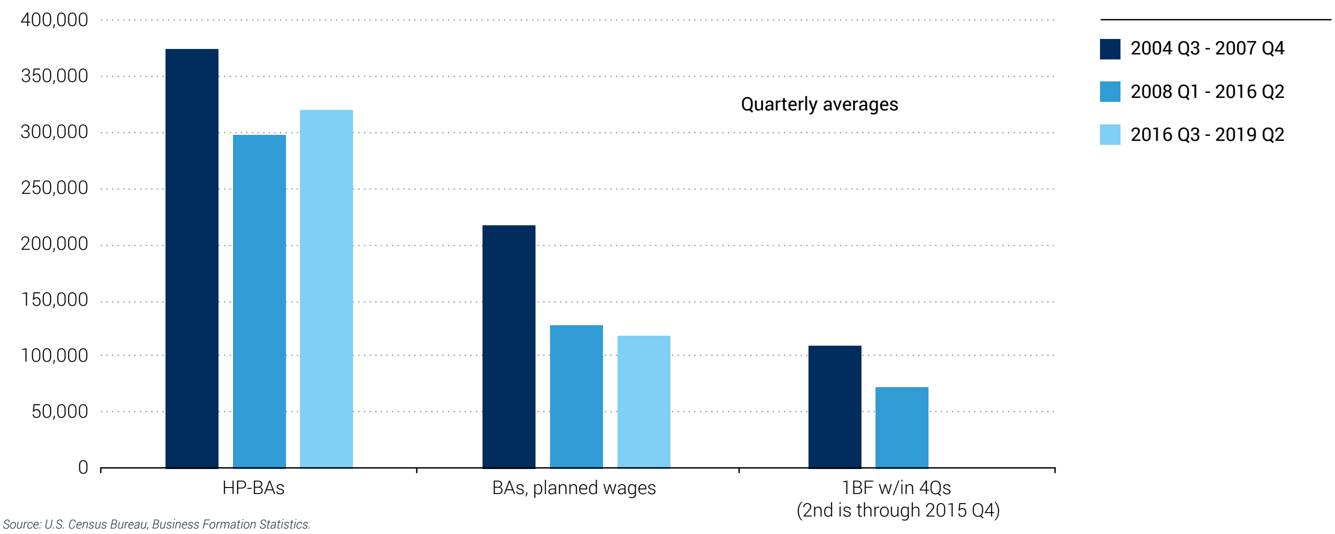
Source: U.S. Census Bureau, Business Formation Statistics.

As shown, high-propensity business applications have more or less stagnated since 2009. The sharp fall after 2007 is not surprising—but a rebound hasn't really materialized. There was a slight uptick in 2016 and 2017, but applications plateaued again.

Trends can also be discerned in quarterly data on business applications with planned wages and business formation within four quarters. The last piece is perhaps the most important, tracking how many EIN applications actually turn into real businesses within one year. This allows us to see how many business applications are employing people and, potentially, growing.

FIGURE 3. SOURCE: U.S. CENSUS BUREAU, BUSINESS FORMATION STATISTICS.

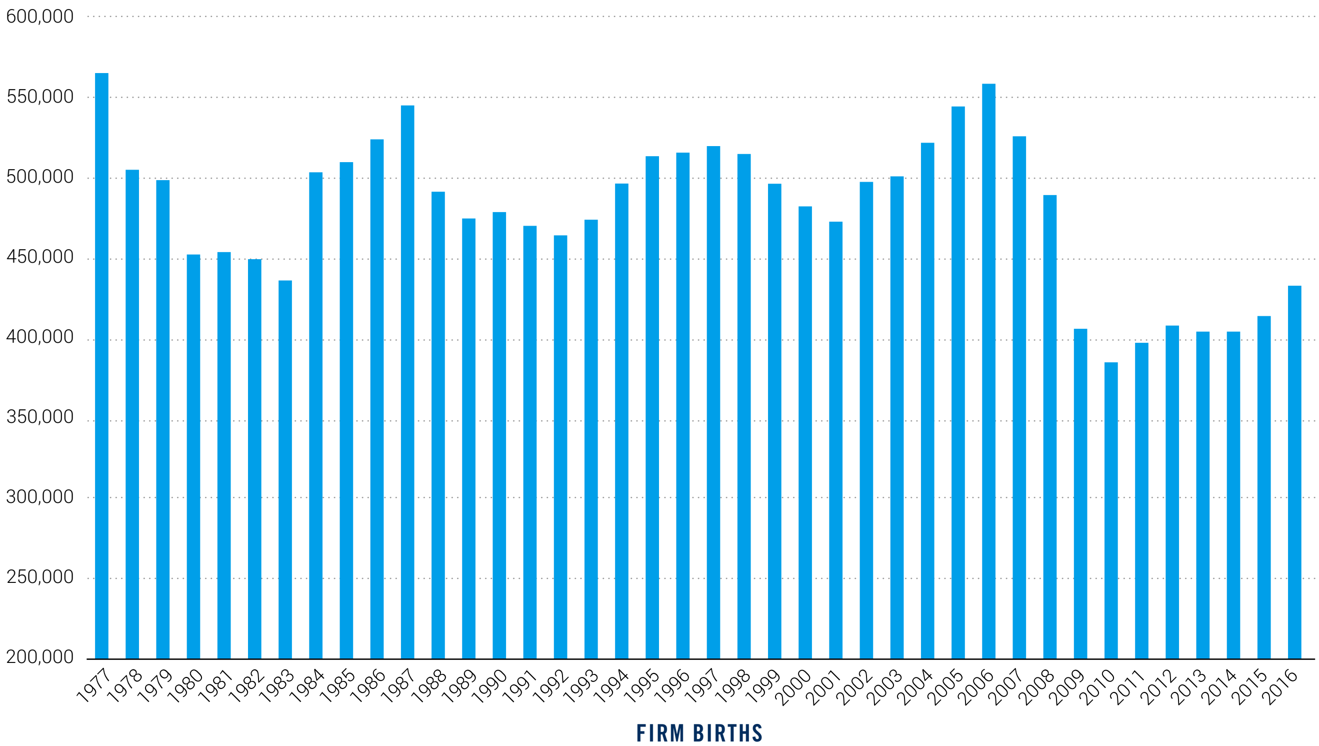
As noted above, high-propensity business applications have trended slightly upward since 2016. (The quarterly averages in Figure 3 mask the plateau in 2018 and 2019.)



Source: U.S. Census Bureau, Business Formation Statistics.

Yet, on average, the number of businesses applying for EINs that plan to pay wages has steadily fallen. And, between the 2004-07 period and the 2008-15 period, the number of actual businesses that resulted from EIN applications fell by 32 percent. These data match the numbers found in another dataset, Business Dynamics Statistics, which tracks the creation of business with employees.

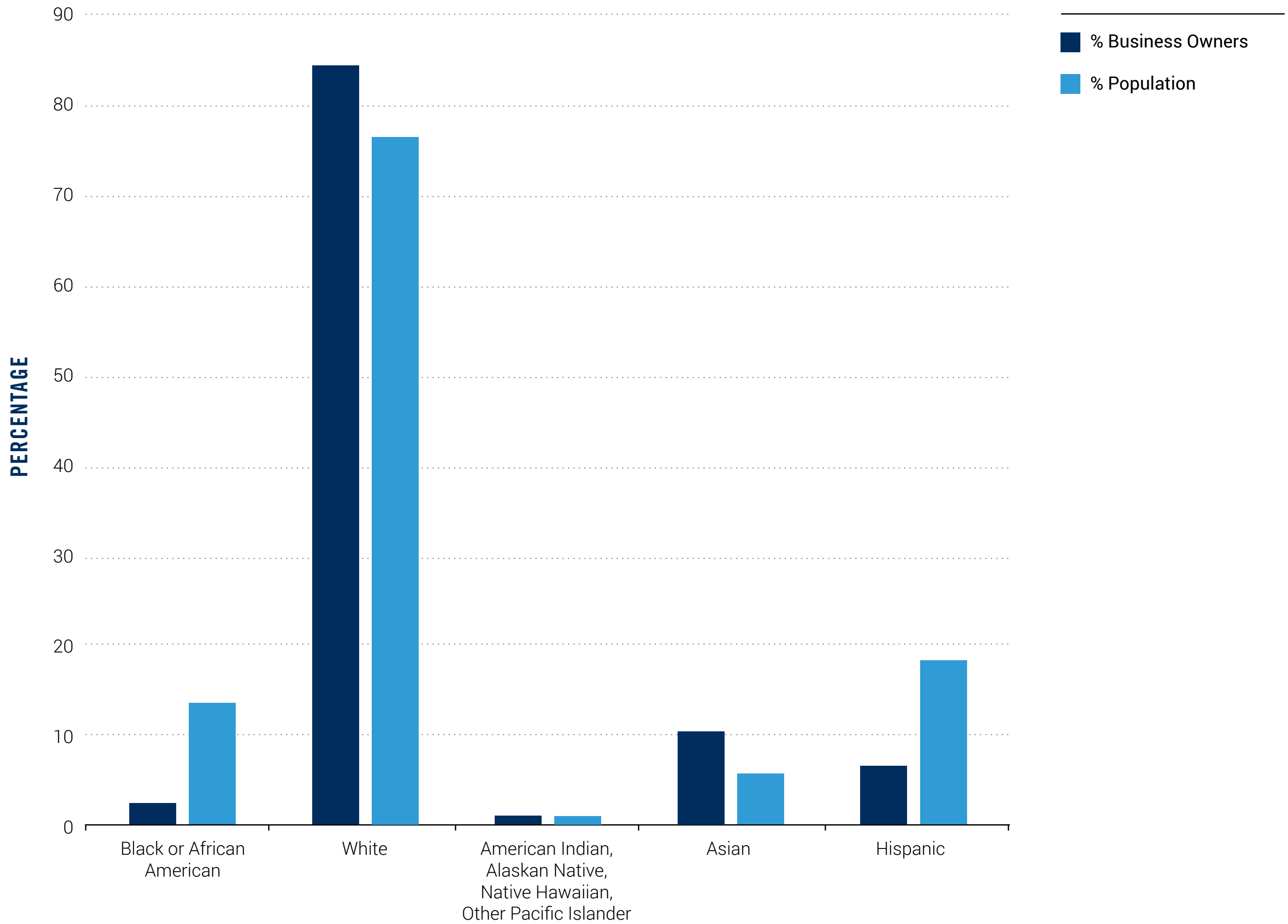
FIGURE 4. SOURCE: U.S. CENSUS BUREAU, BUSINESS DYNAMICS STATISTICS.



Source: U.S. Census Bureau, Business Dynamics Statistics.

New business creation has fallen and stagnated. This is exacerbated by the steady fall in high-growth firms, both their incidence and their growth. To make things worse, business ownership and performance continues to be highly skewed in terms of gender and race and ethnicity.

BUSINESS OWNERSHIP DISPROPORTIONATE TO POPULATION SHARES BY RACE AND ETHNICITY

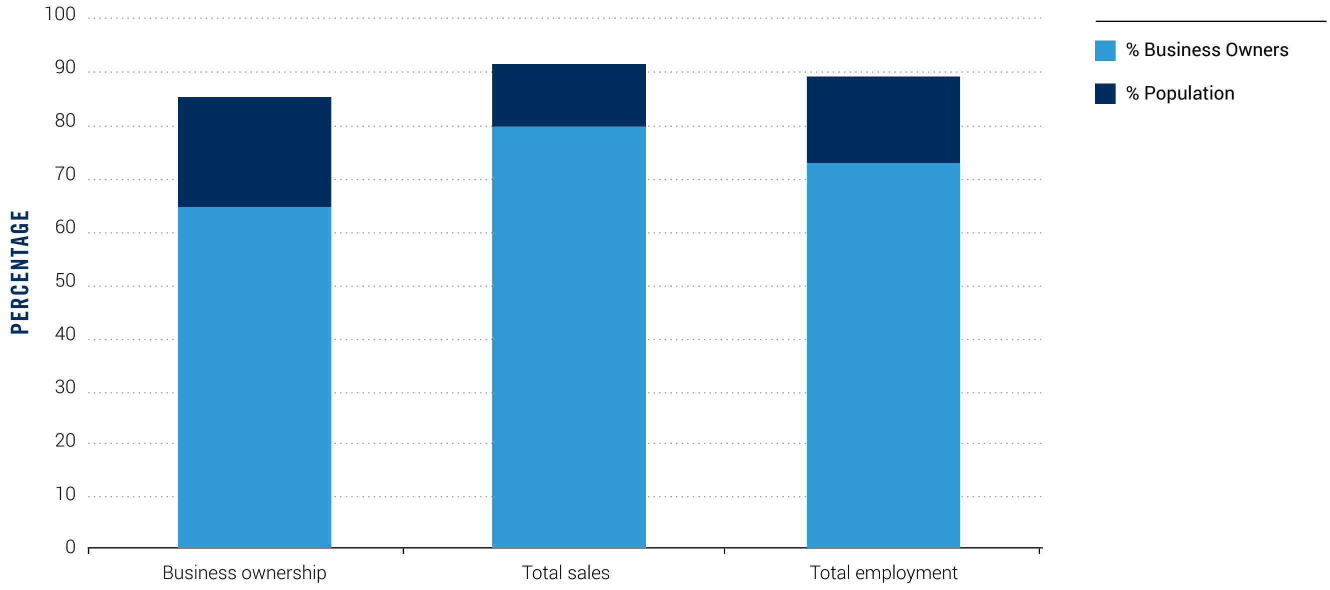


Source: U.S. Census Bureau, Annual Survey of Entrepreneurs. Note: due to differences in aggregation and categorization methodologies, as noted by the Census Bureau, the categories may not be precisely overlapping. Census categories also do not fully correspond to the race and ethnicity categories used by others.

The data in Figure 5 are a snapshot and do not fully capture changes in the race and ethnicity of business ownership. For example, since the late 1990s, the annual growth rate of Latino-owned businesses has been between 30 and 45 percent. The number of Latino-owned businesses has for two decades been growing more than twice as fast as the number of white-owned businesses.[9] Nevertheless, they remain a small share of business owners.

There is also an entrepreneurship gap between men and women: even though women make up half the U.S. population (and a majority of those attaining bachelor's degrees), men still dominate business ownership.

FIGURE 6. MEN HAVE MUCH HIGHER SHARES OF BUSINESS OWNERSHIP, SALES, AND EMPLOYMENT



Source: U.S. Census Bureau, Annual Survey of Entrepreneurs. Note: percentages do not sum to 100 due to lack of classifications in data.

Male-owned businesses employ, on average, 50 percent more people than female-owned businesses, and sales per business are twice as high. The trends, however, appear promising: over the last five years, the growth rate in the number of women-owned businesses has been double that of all businesses—and employment at women-owned businesses also rose faster than at other firms.[10]

Alongside these trends is geographic polarization in business creation. According to the Brookings Institution, just five metro areas accounted for 90 percent of "innovation-sector" growth from 2005 to 2017.[11] That disparity is reflected in entrepreneurial divergence: from 2007 to 2017, just 10 of the 100 largest metro areas experienced an increase in employment at young firms.[12] The new and growing businesses that are coming into existence are increasingly clustered in just a few cities and regions. Most places have an acute startup deficit.

The weight of the data on business creation and dynamism should be concerning. So, it's curious that this hasn't been much of an issue for the Democratic candidates.

Who Among the Democrats Recognizes this Challenge?

The quotations above show that at least a few candidates—Yang, Delaney, and Klobuchar—are aware and, presumably, concerned about stalled dynamism. How many others are? This is not as straightforward to track as it sounds: several of the candidates mention "small business" in their statements and plans. There is overlap between the notions of entrepreneurship and small business, but they are not quite the same thing.

On her website, Sen. Warren notes that "the number of tech startups has slumped, there are fewer high-growth young firms typical of the tech industry." She also mentions a "small business gap that costs us millions of jobs and billions in economic growth."[13] Sen. Warren has also been among the most vocal in calling for the breakup of large companies, especially technology firms. From one angle, as discussed below, this is a line of argument related to sluggish business creation. Yet the candidates do not always draw this link. More on this later.

Just because candidates have not mentioned falling entrepreneurship on the campaign trail doesn't mean business creation isn't on their radar. Many of them have ideas and plans for helping entrepreneurs. Before we evaluate those, let's look at what the research says about why business creation has been sluggish and high-growth firms have been disappearing. That will allow us to better gauge the candidates' proposals.

What is Causing the Slowdown in Entrepreneurship and Dynamism?

Researchers have not reached a firm consensus on what explains the fall in new business creation and other downward trends in dynamism. They have, however, circled around a few potential explanations. Here we provide a brief overview.

One is that a fall in entrepreneurship is related to what economists call "skill-biased technical change" in the economy. What this means is that economic benefits from technology accrue more to skilled than unskilled workers. (With "skilled" being synonymous with educational attainment.) Research here suggests that as the wages for skilled workers have risen, the opportunity cost of entrepreneurship has also risen, meaning fewer skilled workers opt to start a business. This has driven down overall business creation.[14]

A more pessimistic view is that workers are not starting businesses because they are "lucky enough" to have jobs in the first place. A weak labor market and "deteriorating job ladder" suppress business creation. Declining dynamism is "very much a symptom of broader labor market dysfunction," which is in turn related to a power imbalance between capital and labor.[15] In this telling, the owners and managers of firms have economic power and workers (labor) don't, so they shrink from the chance to pursue entrepreneurial opportunity.

This is related to the story, widely told on and around the campaign trail, about rising corporate power and market concentration. There is some academic support for this, with stalled entrepreneurship connected to slower "knowledge diffusion" and a widening gap between market-leading firms and everyone else.[16] In terms of other barriers to business creation, there is also some evidence that rising student loan debt has contributed to the decline.[17]

Other researchers have looked at the declining number and performance of high-growth firms and identified a change in what might be called "startup quality." This research finds that some firms simply have greater potential for growth even before they officially form, and that there has a been a decline in this "ex ante" growth potential. Fewer companies with high-growth potential have been starting and this helps explain the subsequent shortfall in high-growth firms.[18]

Financing is frequently pointed to as a potential culprit in the startup slowdown. Even years after the Great Recession, bank lending to small businesses has yet to fully recover.[19] Some research has found that the imposition of stress tests on American banks reduced home equity lending for small businesses.[20] As pointed out by several candidates, moreover, the distribution of venture capital investment is highly skewed, leaving many parts of country with few sources of equity investment for new companies.

One of the largest explanations appears to be simple demographics. Over the last two decades, labor force growth has slowed and the U.S. population has grown older. Slow labor force growth has meant there are fewer people to start businesses and it has a knock-on effect in the demographics of firms. Fewer new businesses means the population of U.S. businesses has grown older, which has itself contributed to greater employment concentration in larger firms—these then combine to further suppress new business creation.[21] Relatedly, an aging population can also contribute to lower dynamism because older workers are less likely to start high-potential firms and they create barriers to entrepreneurial opportunities.[22]

Researchers, then, have identified slow labor force growth, rising opportunity costs of entrepreneurship (compared to wage-and-salary jobs), bank stress tests, market concentration, an overall weak labor market, and student loan debt as likely causes behind the dynamism slowdown. How do the Democrats propose to address these?

What Do the Democrats Propose to Do About Stagnant Dynamism?

A Democratic president needs a plan to address not only falling rates of entrepreneurship and business growth but also the demographic gaps in business creation and ownership. Let's review the candidates on whether they have experience as an entrepreneur, what they say about entrepreneurship, and what they say they would do to address slumping business creation.

SEN. MICHAEL BENNET

EXPERIENCE

Bennet has some business experience, working for an investment company that reorganized failing businesses. This presumably gave him some understanding of the challenges involved in entrepreneurship.

WHAT HE SAYS

He is one of the only candidates who talks about growing the economy as a way to expand opportunity, rather than just seeking ways to tax growth and redistribute wealth. Like others, he has spoken about tougher antitrust enforcement.

WHAT HE'D DO

On his website, Bennet targets two areas of policy reform to spur entrepreneurship. He says he would ban all non-compete agreements and "consider what legal steps may already be available to prohibit their use." He would also "reduce barriers from unnecessary occupational licensing," by helping coordinate between different state requirements.

COMMENT:

Kudos to Bennet for identifying and addressing two areas that have long been seen as obstacles to entrepreneurship. Non-compete agreements have been shown to suppress business creation. Occupational licensing is also a barrier to entry, with costs particularly incurred by low- and moderate-income households. Bennet should also be commended for not simply proposing a new funding program on entrepreneurship—it's under-the-radar barriers like non-competes and licensing that really erode entrepreneurship.

VICE PRESIDENT JOE BIDEN

EXPERIENCE

Biden is obviously best known for his long career in politics, but he does have some limited experience running businesses and properties.[23]

WHAT HE SAYS

So far, Biden hasn't spoken about entrepreneurship very much in the debates or on the trail. His campaign staff have made a dedicated effort to reach out to entrepreneurs and experts in the field to get an understanding of what's happening on the ground. As vice president, he represented the Obama administration at the Global Entrepreneurship Summit in Morocco in 2014.

WHAT HE'D DO

Biden's vision for "middle-class competitiveness" includes ideas intended to "spark entrepreneurship and small business growth in every community." The proposed actions are to "double down" on the State Small Business Credit Initiative (SSBCI) and award competitive grants to "new business startups outside of our biggest cities."

- SSBCI was an Obama-era program that provided federal funding to states to establish credit support and venture investment programs. Biden would renew it, to the tune of $3 billion, with particular focus on women and minority entrepreneurs.
- The competitive grants proposal doesn't have much detail to it but does identify technology commercialization out of universities as an area for improvement.

Biden's plan for rural America would expand funding for the Rural Microentrepreneur Assistance Program and increase the number of Rural Business Investment Companies to increase access to capital in rural areas.

COMMENT

If campaign websites are any indication of policy prioritization, then it's telling that Biden's proposals to "spark entrepreneurship" are the very last entries on a page with a long list of economic policy ideas. That said, evidence so far suggests that SSBCI leveraged a good deal of new private capital for entrepreneurs.[24] And, Biden is the only candidate to make mention of a highly important area: technology commercialization.

MAYOR MICHAEL BLOOMBERG

EXPERIENCE

Bloomberg is the most successful entrepreneur in the group, and his story is fairly well-known. After being laid off, he started his own company to provide business information to Wall Street firms. The Bloomberg Terminal subsequently became ubiquitous in the world of finance and the company grew into a media conglomerate. Bloomberg, of course, became a billionaire; he served as New York City mayor from 2002 to 2013.

WHAT HE SAYS

The front page of his campaign site touts him "as an entrepreneur, mayor, and problem-solving philanthropist." His Job Creation policy page says: "As an entrepreneur, Mike created an information technology start-up that grew into a global business."

WHAT HE'D DO

So far, his campaign site mostly focuses on his mayoral record, which is substantial when it comes to entrepreneurship. Based on that record, we can assume that small-business contracting reforms would be part of his plan as president. So would immigration: Bloomberg helped create the Partnership for a New American Economy, which has consistently advocated for reforms to attract more immigrant entrepreneurs.

His "All-In Economy" plan says he will "tap into the job-creating energy of entrepreneurs" by establishing new business resource centers. He also proposes to reorganize (and better fund) the Small Business Administration. Bloomberg's small business and entrepreneurship plan also includes specific ways to help veterans start and run companies.

COMMENT

Like the other entrepreneur-candidates, Bloomberg will talk about his entrepreneurial experience quite a bit. He'll also likely talk about ways he'll help small businesses. As mayor of one of the three major American entrepreneurial hotspots, Bloomberg presided over a boom in technology startups. It's not clear if he would be necessarily aware of a decline in new business creation elsewhere.

MAYOR PETE BUTTIGIEG

EXPERIENCE

Buttigieg has been mayor of South Bend for almost eight years. Prior to that, he ran for state treasurer and worked at McKinsey & Co. He doesn't appear to have any entrepreneurial experience, but "economic development" is listed as one of the areas he worked on at McKinsey.

WHAT HE SAYS

During the September debate, Buttigieg talked about using federal government contracting to help black entrepreneurs, as well as putting money into historically black colleges and universities (HBCUs) "that are training and educating the next generation of entrepreneurs."

WHAT HE'D DO

Buttigieg's plans for entrepreneurship mostly deal with closing demographic gaps. He would leverage federal contracting for women and minority-owned businesses and require lender disclosure of demographic information to reduce inequities in lending approvals and denials.

His signature entrepreneurship idea is the Walker-Lewis Initiative, which "aims to triple the number of entrepreneurs from underrepresented backgrounds within 10 years." It has four parts. A new fund would invest $10 billion of federal money into funds that invest in businesses in low-income and minority areas. The money would also support training and development. The second part would defer and forgive student debt for those with Pell Grants "if they start and maintain a business employing at least three people within five years." The third part establishes a 25 percent set-aside for federal contracts to small business owners in underserved communities. Buttigieg would also set up a task force to identify "additional ways to reach our entrepreneurship goals."

Until Bloomberg entered the race, Buttigieg was the only candidate to propose a specific idea for helping veterans become entrepreneurs—he would expand the Boots to Business program at the Small Business Administration and provide grants to veterans who complete the program with an "accepted business plan." Buttigieg's rural plan also includes new investment to support rural entrepreneurs.[25]

COMMENT

Mayor Buttigieg is right to look for ways to leverage tools like federal contracting, although that can present certain challenges. He is also right to focus on women and minority entrepreneurs. His larger premise appears to be that money is the obstacle and the key to reviving entrepreneurship—just put enough government money into programs for entrepreneurs and they'll appear. Would that it were that simple.

REP. JOHN DELANEY

EXPERIENCE

Delaney has started two companies that went public and, in 2004, he was named the EY Entrepreneur of the Year, a high honor. In September, he announced a "Heartland Startup Tour" to visit entrepreneurs and has hosted two Entrepreneurs of Color roundtables.

WHAT HE SAYS

He speaks about his own entrepreneurial experience, as well as the importance of entrepreneurship for the country. Like Booker, he referenced the skewed distribution of venture capital during one of the debates.

WHAT HE'D DO

Delaney is one of the only candidates to have a specific policy plan for new business creation: Encouraging Entrepreneurship. His plan would create an Entrepreneurship Czar, a special advisor to the president. He promises to encourage experienced entrepreneurs to mentor young entrepreneurs. He says he would make sure regulations don't hurt entrepreneurs, and reform banking to encourage more small business lending. His site also frames both health care and immigration as pro-entrepreneurship policies. He would institute policies to "encourage entrepreneurship in rural and urban communities that have been left behind by venture capital investment." Like other candidates, he talks about combatting market concentration through antitrust enforcement.

His Cities Fair Deal plan recognizes the centrality of entrepreneurs to urban renewal and would "fix" the Opportunity Zones program to help more operating businesses. For rural areas, Delaney would expand government investment and loan programs.

COMMENT

Delaney says all the right things about entrepreneurship, but his Encouraging Entrepreneurship plan is short on specifics. We're sympathetic to the idea of a presidential advisor on entrepreneurship, though we're not sold on the notion of a "czar" on the issue. That doesn't quite sound right.

SEN. AMY KLOBUCHAR

EXPERIENCE

Klobuchar does not have entrepreneurial experience, having worked in law and politics. But that hasn't kept her from becoming probably the most active legislative advocate for entrepreneurship in recent years. She is co-chair and co-founder of the Senate Entrepreneurship Caucus and co-sponsored reintroduction earlier this year of the Startup Act.[26] She introduced the Enhancing Entrepreneurship for the 21st Century Act and is working on a bill to support greater equity investment in new companies.

WHAT SHE SAYS

As noted above, she referenced the "startup slump" during the October debate. This came in the midst of a discussion about breaking up big companies. Klobuchar pivoted to talk about entrepreneurship and its role in American history: "Start talking about this as a pro-competition issue. This used to be a Republican and Democratic issue, because America, our founding fathers, actually wanted to have less consolidation. We were a place of entrepreneurship." She has also mentioned the importance of immigrants in starting companies.

WHAT SHE'D DO

Klobuchar's First 100 Days plan says she will take action to "support small business owners and entrepreneurs." This includes aggressive retrospective review of mergers and changes to promote competition rather than consolidation. She would direct the Federal Trade Commission to look into "anticompetitive noncompete agreements" especially in the way they harm low-wage workers.

COMMENT

Klobuchar's policy plans do not include a huge amount pertaining to entrepreneurship—and what is there is rather vague, such as a promise to "strengthen" the Minority Business Development Agency. The strength of her legislative record, however, is very encouraging.

GOV. DEVAL PATRICK

EXPERIENCE

Patrick doesn't appear to have experience as an entrepreneur, having worked in law, politics, large companies, and consulting.

WHAT HE SAYS

He is still a fairly new candidate so has less detail on his site than others. Within his opportunity "vision" on his campaign site, Patrick mentions the need to make more capital, "not just loans," available to entrepreneurs between the coasts. At least in his platform, he recognizes that entrepreneurs "create more jobs and wealth" for communities.

WHAT HE'D DO

Patrick's "Opportunity Agenda" includes innovation as a component and his "Reform Agenda" mentions immigration and the importance of encouraging "the determined and creative" to come to the United States.

COMMENT

Patrick was governor of Massachusetts from 2007 to 2015, a time when the Boston-Cambridge area vaulted into the top tier of startup ecosystems. He tried, unsuccessfully, to reform non-compete agreements in the state. Based on this, one hopes that Patrick will have some entrepreneur-friendly policies to propose.

SEN. BERNIE SANDERS

EXPERIENCE

Sanders has been a politician for a long time, but he might be considered to have entrepreneurial experience, having worked in his early career as a carpenter and filmmaker.

WHAT HE SAYS

The senator continuously talks about a "rigged economy" and concentration in sectors such as finance, media, and agriculture. In the October debate, he said he would appoint an attorney general "who will take on these huge monopolies, protect small business, and protect consumers."

WHAT HE'D DO

Sanders says he would "cancel all student loan debt" which, to the extent that is a barrier to entrepreneurship, could lead to more people starting businesses. His plan for rural America promises to "start investing in small businesses in rural areas and stop handing out tax breaks to big corporations."

COMMENT

Sanders is certainly one of the candidates who talks more about what he would do to business rather than for it. His criticism of large corporations should, in theory, be accompanied by a championing of underdog companies—but entrepreneurship typically doesn't fit well with socialism. So far, Sanders has shown more enthusiasm for bashing big business than thinking hard about how to help cultivate an environment of higher business creation.

TOM STEYER

EXPERIENCE

Steyer talks often about his business experience: "I started a business from scratch—one room, no employees—and built a multi-billion-dollar international business."[27] That business was an investment firm, which Steyer grew from $9 million to $36 billion in assets. He and his wife have also put millions of dollars into Beneficial State Bank, which provides loans to those who can't obtain them from conventional banks.

What He Says

Like a few other candidates, Steyer sometimes talks about growth, not just taxing growth. "We're going to have to show the American people that we don't just know how to tax and have programs to break up companies but also talk about prosperity, talk about investing in the American people, talk about harnessing the innovation and competition of the American private sector."[28]

What He'd Do

Steyer talks quite a lot about "breaking the corporate stranglehold" and the downsides of "unchecked capitalism." His "People Over Profits Economic Agenda" doesn't appear to contemplate a role for entrepreneurship. As part of his "Justice-Centered Climate Plan," he says he will "incubate new businesses [and] entrepreneurs."

Comment

An unscientific tally might conclude that Steyer mentions his own business experience more than American entrepreneurship as a whole. In contrast to the other entrepreneur-candidates, Steyer is so far leveraging his business experience as a way to distinguish himself from "Washington insider" candidates rather than as a way to think about how to help entrepreneurs.

SEN. ELIZABETH WARREN

EXPERIENCE

Warren should understand the importance of entrepreneurship and the role of public policy in supporting or inhibiting it. As an expert in bankruptcy and longtime law professor on the topic, her work should have attuned her to the role of bankruptcy in facilitating entrepreneurship for example.

WHAT SHE SAYS

During the November debate, During the November debate, Booker spoke about the role of entrepreneurship in local communities: "When I stood in church recently and asked folks in a black church how many people want to be entrepreneurs, half the church raised their hands." Warren was asked to reply. Her response said nothing about entrepreneurship. Instead, she spoke about what she would do with revenue raised from a wealth tax. She has made a big campaign issue out of promising to break up big companies, especially in technology. She doesn't usually frame it as a way to boost entrepreneurship, although in the June debate she did point out that consolidation "hurts small businesses."

WHAT SHE'D DO

Warren is well known for her "I have a plan for that" mantra, and she has one for "Leveling the Playing Field for Entrepreneurs of Color." She proposes a Small Business Equity Fund to provide $7 billion in funding grants to entrepreneurs. These would provide "no-strings-attached-equity." Like Biden, she cites SSBCI as a model and would run this new fund through states and cities. Her campaign plan says this fund would support 100,000 new minority-owned businesses, creating 1.1 million jobs.[29] Interestingly, Warren says she would direct all federal pension and retirement funds to "seek out a more diverse set of investment managers" to bring diversity to venture capital.

Her plan to "end Wall Street's stranglehold on our economy" could be seen as pro-entrepreneur. There is some evidence that increased financialization of the U.S. economy has contributed to suppression of business creation.[30] Warren would cancel up to $50,000 in student debt for nearly everyone, though her short comment in the December debate appears to be one of the few times she has linked this to entrepreneurship.[31]

COMMENT

Warren's campaign site does mention measures of falling entrepreneurship, though she hasn't quite made the issue central to her campaign talks about antitrust and corporate power. Warren has made empathy with kitchen-table finances a key part of her candidate persona—yet she hasn't brought entrepreneurship fully into that message. Instead, like Sanders, she has devoted more of her public energy into tearing down business rather than evincing a desire to create more.

ANDREW YANG

EXPERIENCE

Yang has been an entrepreneur, experiencing both failure and success. He also founded Venture for America (VFA), which helps place young, talented workers into entrepreneurial businesses throughout the country. Like the other candidates who have been entrepreneurs, Yang mentions it frequently: "As someone who's run a business, I can tell you flat out our current health care system makes it harder to hire, it makes it harder to treat people well."[32]

WHAT HE SAYS

In addition to talking about the impact of health care on entrepreneurs, Yang has spoken about the gender gap in entrepreneurship: "if you're a woman entrepreneur, the obstacles start not just at home, but then when you seek a mentor or investor." He also appears to be one of the only candidates to note that immigrants have higher rates of business creation.

WHAT HE'D DO

Yang is most well-known for his "freedom dividend," a $1,000 monthly payment to every individual. His campaign site says universal basic income "increases entrepreneurship because it provides for basic needs in the early lean days of a company and acts as a safety net if the business fails. It also gives you more consumers to sell to because everyone has more disposable income."

Yang says he would use the federal government to "assist veteran-run businesses in getting off the ground," but provides no further detail. On immigration, he would "personally" encourage foreign students to come and "build their companies here."

COMMENT

It's conceivable that the annual $12,000 freedom dividend could be used by some share of recipients to start a business. According to CB Insights, the cost to launch a tech startup today is $5,000, compared to $5 million in 2000. This makes surface sense, but ignores the fact that entrepreneurship rates were higher in the past without any boost from a universal basic income. Yang does deserve applause for talking about the important role of immigrant entrepreneurs. He also deserves credit for talking about health care not in a pie-in-the-sky kind of way but as a complex reality for new and potential entrepreneurs.

What About President Trump?

How do the Democratic candidates' policies and plans compare to the entrepreneurship record of the man they're vying to replace? President Trump came into office being touted by others (and himself) as an entrepreneur, as someone who understood business creation and growth. Trump's familiarity with bankruptcies—his own—should have endowed him with an appreciation of the role of public policy in supporting entrepreneurs.

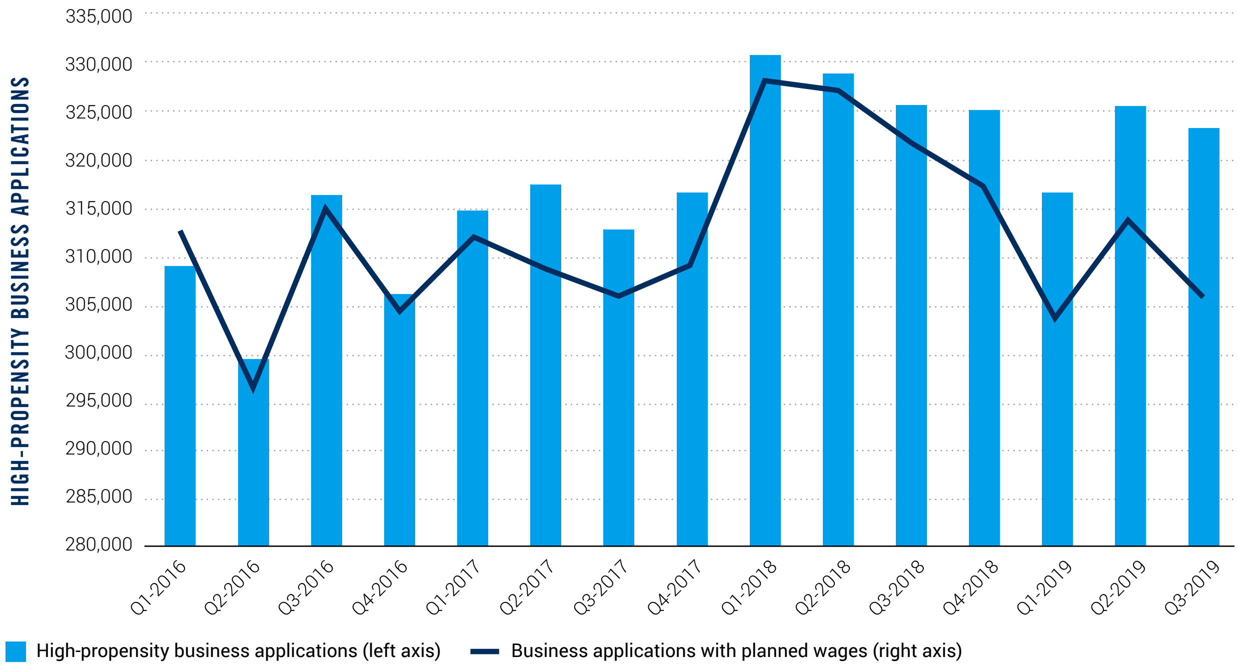
Early on in his administration, after changes to Labor Department policies, he was accused by the New York Times of believing "that entrepreneurship is the highest economic calling and the entrepreneur is the economic actor most deserving of respect. … In Mr. Trump's view of the world, it is entrepreneurs, and not rank-and-file workers, on which the health of the economy heavily depends."[33]

During his first year in office, Trump spoke occasionally about entrepreneurship, including praise for a bill that promoted women's entrepreneurship, and talked about the poverty-reducing effects of entrepreneurship in developing countries. Led by his daughter Ivanka, his administration continued and expanded the Global Entrepreneurship Summit. Ivanka also created the Women Entrepreneurs Finance Initiative (We-Fi), which has worked with the World Bank to raise and distribute money to support women's entrepreneurship programs around the world.

The president has touted the benefits for entrepreneurs of his tax reform bill and regulatory reduction. In materials promoting Opportunity Zones, Trump has directly cited the decline in new business creation and stagnant startup rate.[34] Business owners appear to be responding well: the Small Business Index produced by the U.S. Chamber of Commerce and MetLife reached an all-time high in the third quarter of 2019.[35] The Small Business Optimism Index, produced by the National Federation of Independent Businesses, has shown strength in recent months.[36]

Not all is well, however, under this president. According to Inc. magazine, Trump in his first year didn't actually "talk much about entrepreneurship."[37] A survey from the Kauffman Foundation at the end of 2018 found that entrepreneurs "believe that the Trump administration and Congress are doing more for larger corporations than they are for small business owners."[38] The NFIB's Small Business Optimism Index, while rising in 2017 and 2018, has consistently been lower in 2019. And, as shown in the chart, while the number of high-propensity business applications rose sharply in 2018, they've steadily declined since then. The drop is even more pronounced among businesses with planned wages. The spike may have been a "sugar rush" effect following from the 2017 tax reform.

FIGURE 7. BUSINESS APPLICATIONS DURING TRUMP ADMINISTRATION SHOW SPIKE THEN DROP



Source: U.S. Census Bureau, Business Formation Statistics.

Trump has of course not been pro-immigration—and this includes hostility toward immigrant entrepreneurs. He rescinded President Obama's International Entrepreneur rule, which sought to make it easier for foreign-born entrepreneurs to start and grow companies in the United States. He has made the H-1B process more burdensome and sent strong negative signals to potential entrepreneurs from abroad.

Most damningly, Trump's unpredictable twists and turns on policies of all kinds have engendered a good deal of uncertainty. Animal spirits, high early on in the administration, have weakened. In the December issue of Fortune, Geoff Colvin makes the case that Trump has been generally bad for U.S. business: "It's hard to believe, but despite several seemingly pro-business policies and a few major early successes, the first career-businessman President has become bad for business." The reasons have to do with trade, immigration, and creation of "an environment of unprecedented uncertainty."[39]

The relevant question here is: could any of the Democratic candidates do better?

Would the Democrats' Policy Ideas Address the Challenges?

Every Democratic candidate puts "workers" or "working families" at the core of their economic policies. To wit: "American economic productivity and sustained economic growth is rooted in the health and welfare of its workers." That's from Steyer's economic agenda, but pretty much encapsulates the central idea of each candidate. A worker-centered economic policy is, of course, laudable. Workers' share of national income in the United States has steadily fallen over the last few decades and wages haven't grown much even as corporate profits have soared.

Yet the Democrats must recognize that working to increase entrepreneurship and business dynamism will help advance the interests of workers. New and young firms are the source of what the candidates say they seek: greater opportunity, more competition, rising wages, and more. They all recognize this in a backhanded sort of way when they talk about taking on big corporations and reinvigorating antitrust enforcement. But with only a few exceptions, the Democrats haven't yet recognized entrepreneurship and business dynamism as central to what they say they want.

It's certainly possible that, despite some rhetoric in support of entrepreneurship, a Democratic president would take actions counterproductive for new business creation. Changes to the tax code, new regulations, and more will change the incentive structure for new entrepreneurs just as much as, if not more than, a new funding support program. As we've seen with President Trump, however, initial impressions can be reversed. Perhaps the immediate reaction to a Democratic president among business owners would be negative. But, as we've seen here, at least some of the candidates "get it." They understand the importance of new business creation and growth. They understand that, while overt actions like new funding programs can help entrepreneurs, just as important are behind-the-scenes actions that will remove barriers.

That, in fact, is one of the key lessons to emerge from this review. The default impulse among many of the candidates is to "do something!" Double this program, put $10 billion here for this new program, $1 billion there for that one, and so on. It's possible such actions will help renew American entrepreneurship. But it's also likely that what is really needed to spur new business creation will fly under the radar and won't lend itself to a public announcement. And, given the complexity of the economy, it's highly likely that reforms in other areas will help drive entrepreneurship.

There is also a larger cultural point: it's hard to square populist anti-business rhetoric (even if directed at "big" business) with a serious commitment to celebrating the spirit of risk-taking, persistence, and resilience embodied in starting a new business. It's not enough to have this or that program on small business if a candidate spends all his or her public airtime talking down business in general. Millennial voters may be captivated by the sirens of "democratic socialism." But democratic socialism doesn't take kindly to entrepreneurship.

This is partially borne out by numbers: the rate of new entrepreneurs is lowest among those ages 20 to 34—and hasn't risen in 20 years.[40] This despite surveys showing that millennials are drawn to the idea of starting and running a business.[41] They face financial difficulties, however, particularly with high levels of student debt and the still-lingering effects of the Great Recession, which hit young Americans hard. Even if they manage to overcome financial hurdles, the gap between desire and action will remain larger if our political leaders demonstrate antipathy toward business.

A presidential candidate can't spend all their time bashing business, bury a business assistance program on their website, and then try to address the decline in business creation. The next president needs to have demonstrated emotional energy in recognizing the critical social and economic roles played by new businesses and their owners. Turning away from—or even against—entrepreneurship would not be a good long-term strategy for Democrats.

What Would a "Good" Entrepreneurship Policy Platform Look Like?

Let's look at some of the entrepreneurship policy agendas that have been put forth by PPI and other organizations. This provides some comparison to the candidates' ideas and how they align with what leading experts on entrepreneurship consider to be the right things to do.

At PPI, we've proposed a number of actions aimed at helping new and young businesses:

- **Regulatory Improvement Commission**—to manage and trim the steady accumulation of federal regulations. The RIC would "fill an institutional vacuum" by creating a bipartisan vehicle for the "periodic clearing out of obsolete rules."[42]
- **Startup Tax Credit**—to help support business growth in the early years. We have proposed a tax credit, refundable against income or payroll taxes, that would phase out as a business expanded.[43]
- **Reform occupational licensing**—to reduce barriers to entry and innovation in many sectors of the economy. We have called for consideration of different options such as certification or enhanced state portability.[44]
- **Grassroots Manufacturing Act**—to encourage a new generation of manufacturing entrepreneurs in this era of digitally-assisted manufacturing and 3D printing. We proposed legislation that would create new manufacturing centers to help entrepreneurs access technologies and facilities. These centers would also be accompanied by efforts to help entrepreneurs secure financing.[45]

The Center for American Entrepreneurship (CAE) has a policy agenda that covers five areas: innovation, talent, capital, regulation, and taxes.[46] CAE proposes:

- **Innovation:** raise the monetary caps that allow young companies to benefit from the R&D tax credit, increase R&D spending, streamline technology commercialization, and expand the Innovation Corps (I-Corps) program.
- **Talent:** create an entrepreneur visa and award green cards to foreign-born graduates of U.S. universities, make healthcare and child care portable and universal, and ban non-compete agreements.
- **Capital:** increase SBA investment guarantees, renew the SBA's Early Stage Innovation Fund, raise caps on Regulation A exemptions and 3(c)(1) investment funds, permit banks to participate in VC funds, and other actions related to angel investing.
- **Regulation:** create "on-ramp" for startups and create a Regulatory Improvement Commission (the PPI idea).[47]
- **Taxes:** allow new companies to defer income tax liability and carry forward operating losses and R&D credits, allow young companies 100 percent investment expensing, improve treatment of investment losses, and retain tax incentives for angel investors.

CAE has also been a champion for programs on prison entrepreneurship—training programs to assist re-entry and reduce recidivism. Most of the Democratic candidates have proposed ideas on criminal justice reform, and the Trump administration helped pass reform legislation. Prison entrepreneurship, however, has yet to make an appearance in debates or policy platforms.

Another set of entrepreneurship policy proposals is found in "America's New Business Plan," put out by a coalition led by the Kauffman Foundation.[48] This plan has four elements: opportunity, funding, knowledge, and support. Specific ideas include:

- Require an "Entrepreneurship Impact Statement" for new laws and regulations to determine their impact on new and young companies.
- Streamline the requirements for starting a business, including coordination among different levels of government and making clear what the requirements are.
- Create a startup visa for immigrant entrepreneurs.
- Restrict the use of non-compete agreements and reform occupational licensing.
- Modernize Small Business Development Centers (SBDCs).
- Integrate entrepreneurship into the education system.

The plan also includes a number of ideas about how to encourage more financial innovation to expand access to capital, "especially those currently underserved by the capital marketplace."

Incidentally, the United States is not alone in this challenge. The OECD has documented a broad decline in entrepreneurship across many countries.[49] This underscores the case that the causes are large-scale and structural rather than country-specific. And there are policy reform efforts being called for elsewhere, too. In the United Kingdom, 250 technology entrepreneurs publicly signed their names to an open letter supporting the Startup Manifesto produced by The Entrepreneurs Network and Coalition for a Digital Economy. The letter and Manifesto call for actions to enhance talent, regulation, and access to capital for entrepreneurs.[50]

Entrepreneurship on the Campaign Trail

What becomes clear in this discussion is that there are really two entrepreneurship policy agendas that are needed. One that would address the structural factors identified by research: slow labor force growth, opportunity costs of entrepreneurship, and so on. And another that would address issues faced by those businesses that do come into existence. Even with the decline in firm entry, remember, there are still a few hundred thousand new employer firms that come into existence each year. The founders of those companies have ignored slow labor force growth, made their calculation about opportunity costs, and figured out financing.

The third-party proposals canvassed above contain worthy ideas—and many of the candidates have identified areas needing action. Yet most of the proposed ideas fall into the second type of policy agenda, one aimed at existing entrepreneurs. A small tax change here, a new support organization there, complemented by a new loan program—these will help entrepreneurs, to be sure. But they may not be up to the task of addressing skill-biased technical challenge or slow labor force growth.

More generally, most of the Democratic candidates—particularly those who have dominated headlines—need to put greater energy into addressing the importance of business creation. Acknowledging the slowdown in business creation is a start. Discussing this or that program to help is a positive step. Celebrating entrepreneurs and underscoring the urgent need to address the concerning trends in dynamism would be even better.

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Founded in 1989, PPI started as the intellectual home of the New Democrats and earned a reputation as President Bill Clinton's "idea mill." Many of its mold-breaking ideas have been translated into public policy and law and have influenced international efforts to modernize progressive politics.

Today, PPI is developing fresh proposals for stimulating U.S. economic innovation and growth; equipping all Americans with the skills and assets that social mobility in the knowledge economy requires; modernizing an overly bureaucratic and centralized public sector; and defending liberal democracy in a dangerous world.

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