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IN FOCUS

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Is U.S. Entrepreneurship Declining?

Researchers note that "entrepreneurship has typically been defined as an action, process, or activity that involves the startup and growth of a new enterprise." Much research and data over the past two decades points to a decades-long slowdown in multiple measures of entrepreneurship. While the various causes cited include factors such as difficulty accessing capital and a decline in the working-age population, among others, researchers largely agree that U.S. entrepreneurship has declined over several decades.

This In Focus analyzes trends in entrepreneurship over the past four and a half decades as well as more recently.

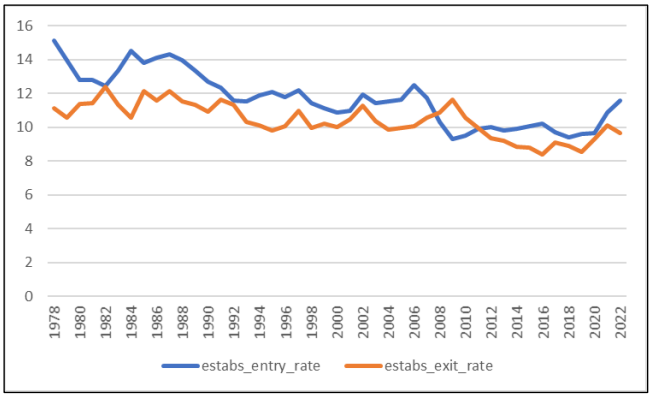
Entry and Exit Rates

One way to assess entrepreneurship is examining establishment entry and exit rates. The U.S. Census Bureau (Census) defines an "establishment" as a physical location where economic activity occurs, and defines a "firm" as a group of one or more establishments under common ownership and control.

The *establishment entry rate* is the count of new establishments in a given year divided by the average count of establishments that year and the previous year. Some researchers use establishment entries as a proxy for entrepreneurship. The *establishment exit rate* is the same calculation as the entry rate, but for closing establishments.

The U.S. establishment entry rate, with some fluctuations, has largely declined since the late 1970s. The establishment entry rate in 1978 was 15.1; by 2022, it was 11.6. However, the establishment exit rate has stayed fairly level, nearly drawing even to the entry rate in 2021 before declining slightly in 2022. While establishment entry and exit rates tend to align with periods of economic growth and contraction, the long-term trends of decreased entries and level exits have held steady during the different points in the economic cycle. **Figure 1** presents establishment entry and exit rates from 1978 to 2022.

Figure 1. Establishment Entry and Exit Rates, 1978-2022



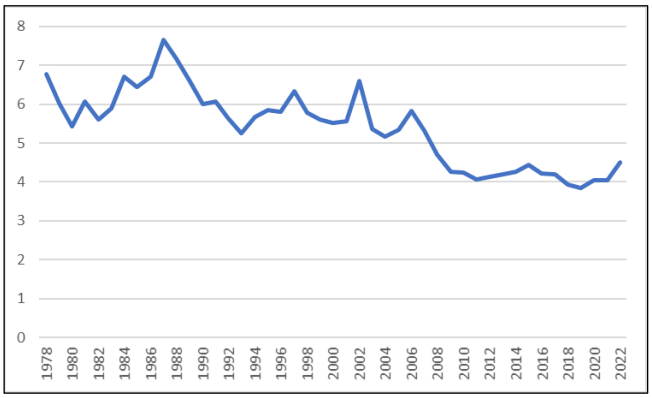
Source: CRS analysis of Census, *2022 Business Dynamics Statistics Datasets, Economy-wide.*

Notes: Includes only employer establishments (establishments with at least one employee other than the owner). Census also tracks initial (and subsequent) tax filings by businesses. Researchers may analyze this data, among others, to document the start of a business, capturing businesses that have revenue, but may not have employees.

Job Creation

The rate of employment gains from new business establishments has also fallen over time. Census tracks the job creation birth rate, a measure of the number of new jobs created by new establishments. The 2022 job creation birth rate was 4.5; in 1978, it was 6.8. **Figure 2** presents the job creation birth rate from 1978 to 2022 for new establishments regardless of firm age.

Figure 2. Job Creation Birth Rate, 1978-2022



Source: CRS analysis of Census, *2022 Business Dynamics Statistics Datasets, Economy-wide.*

Notes: Includes expanding and new employer establishments.

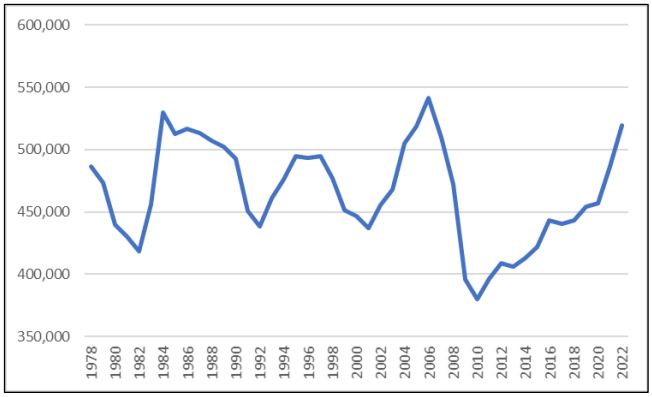
Although the job creation birth rate is a bit over half of its peak in the 1980s, entrepreneurs and new establishments are still sources of job growth. While firms two years old or

younger were responsible for 2.4% of employer business employees in 2021, firms or establishments less than a year old accounted for 90% of U.S. employment *growth* in 2019.

Number of Startups

Census tracks the number of business startups, which it defines as firms with an age of zero—new entrants in the economy. While the long-term trend in startups is cyclical, the 2022 number of startups (519,559) was approximately 7% above the 1978 number (486,647). See **Figure 3** for details.

Figure 3. Number of Employer Startups, 1978-2022



Source: CRS analysis of Census, *2022 Business Dynamics Statistics Datasets, Economy-wide.*

Effects of COVID-19

There are indications that the COVID-19 pandemic may have boosted entrepreneurship, at least temporarily. The growth rate of new business (firm) applications increased by over 20% in both 2020 and 2021 (see **Table 1**). Although the number of applications fell in 2022, the 2023 figure was the highest since at least 2009.

Table 1. New Business Applications, 2009-2023

Year	New Business Applications	Growth Rate on Prior Year
2009	2,430,404	-3.7%
2010	2,499,730	2.9%
2011	2,575,275	3.0%
2012	2,576,577	0.1%
2013	2,611,544	1.4%
2014	2,667,185	2.1%
2015	2,823,451	5.9%
2016	2,976,108	5.4%
2017	3,197,123	7.4%
2018	3,499,945	9.5%
2019	3,518,169	0.5%
2020	4,379,069	24.5%
2021	5,408,029	23.5%
2022	5,083,964	-6.0%
2023	5,482,627	7.8%

Source: CRS analysis of Census, *Business Formation Statistics, Time Series/Trend Charts*.

Notes: Data are seasonally adjusted. New business applications are defined as applications for Employer Identification Numbers.

Policy Considerations

Congress has long supported programs intended to promote entrepreneurship. These range from programs designed to ease access to capital, provide entrepreneurial development and education, and target entrepreneurship in certain locations and among certain demographic segments.

Congress may consider certain questions concerning federal entrepreneurship programs. These may include whether to focus entrepreneurship programs on industries that may produce the greatest job gains and how to balance support for entrepreneurship with support for older businesses that employ larger numbers of people (albeit at a slower rate of employment growth than younger businesses).

These questions may impact the design and type of programs that Congress may authorize or fund. For example, entrepreneurship programs targeting certain locations may result in the creation of different kinds of jobs than programs targeting certain industries. Policymakers may determine that targeting entrepreneurship efforts to areas most in need, even if the resulting jobs may be in industries forecast to have modest growth, may be a more desirable goal than targeting high-growth industries in areas less in need of economic growth.

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