

ENTREPRENEURSHIP POLICY DIGEST

FEBRUARY 25, 2015

DEMOGRAPHIC TRENDS WILL SHAPE THE FUTURE OF ENTREPRENEURSHIP

Changing demographic trends are altering the American economic landscape in ways that will affect the economy for years to come. Large numbers of workers are nearing traditional retirement age, and a new generation of young, highly educated workers is poised to take their place. The aging of [Baby Boomers](#) and the emergence of [Millennials](#) are two of the biggest demographic developments in America today.

These shifts are occurring at a time in which big questions remain about the strength and future of the U.S. economy. An [increasing number of reports](#) and [data analyses](#) have revealed that rates of business creation have been slowing across the United States—a troubling development since new and young businesses account for [nearly all net new job creation](#).

Demographics are not determinative, but they can help us understand where we are headed. As Baby Boomers age, will they embrace retirement or continue to engage in entrepreneurial ventures as they get older? As the oldest of the Millennials enter the “[peak age](#)” for entrepreneurship, will entrepreneurial activity explode or continue to languish?

The answers to these questions are unknown, but public policy will shape the environment in ways that will either facilitate new business creation and growth or make it harder for individuals in these demographic groups to reach their entrepreneurial potential.

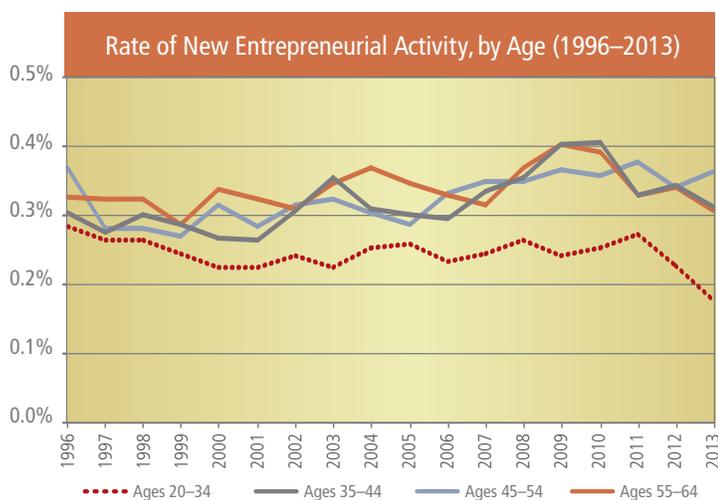
MILLENNIALS AND BABY BOOMERS BY THE NUMBERS

- There are approximately [75 million Americans born between 1981 and 1997](#), who are defined as the Millennial generation. These 18- to 34-year-olds make up 24 percent of the American population.
- By 2025, Millennials could represent up to [75 percent of the American workforce](#).
- The age 20 to 24 cohort is the largest in the country, [displacing Boomers](#) for the first time.
- There are approximately [76 million Americans born between 1946 and 1964](#), which comprise the Baby Boomer generation.
- [Roughly 10,000](#) Baby Boomers will turn age 65 every day for the next fifteen years.

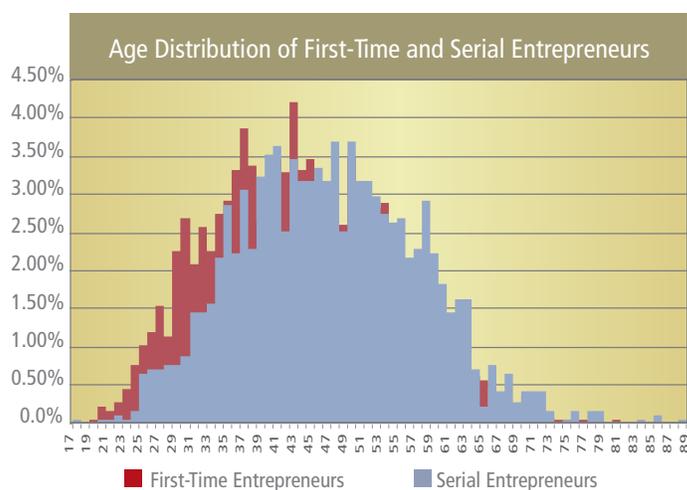
MILLENNIALS AND BABY BOOMERS AS ENTREPRENEURS

- The Millennial generation has had the most exposure to entrepreneurship; [college courses](#) focusing on entrepreneurship increased from about 250 in 1985 to more than 5,000 in 2008.
- The oldest Millennials will turn 34 this year; the peak age for entrepreneurial activity is 40.
- The share of [new entrepreneurs between ages 20 to 34](#) fell from 34 percent in 1996 to 23 percent in 2013.

(Continued)



Source: Robert W. Fairlie, Kauffman Index of Entrepreneurial Activity (2014), using data from Current Population Survey, US Census Bureau.



Source: Kauffman Firm Survey

- High-tech startups are [twice as likely](#) to be founded by someone older than age 50 as opposed to someone younger than age 25.
- The percentage of [entrepreneurs ages 55 to 64](#) has risen steadily from 14 percent in 1996 to 23 percent in 2013.

MILLENNIAL AND BABY BOOMER ACCESS TO FINANCIAL RESOURCES

- In 2014, [the average student debt](#) per recipient was \$27,689, which is an increase of nearly \$10,000 since 2007.
- [Median net worth](#) for households under age 35 fell 42 percent from 1995 to 2013 while median net worth for households over age 65 increased by 38 percent over the same time period.

CREATING THE CONDITIONS FOR ENTREPRENEURIAL RENEWAL AND ECONOMIC GROWTH

ADDRESS STUDENT DEBT

- Millennial balance sheets have suffered in a sluggish economy and under high levels of student debt. [Four-in-ten](#) unemployed workers are Millennials, making it difficult for many to pay off their student loans and become financially stable.
- Two-thirds of entrepreneurs report using personal savings to fund their startups.¹ Policies that address debt and encourage the accumulation of assets will position Millennials to contribute to an entrepreneurial revival.

CREATE TAX STRUCTURES THAT FACILITATE ENTREPRENEURSHIP

- Federal tax policy [limits the ability of startups](#) that do not generate a profit in initial years to take full advantage of a host of tax deductions and credits.
- [Tax structures need to be simple and understandable](#) so as not to create burdens on entrepreneurs. Yet, reforms that seek to lower the corporate tax rate by ending certain deductions and credits may actually [increase the marginal effective tax rate on new firms](#).

LET ENTREPRENEURS COMPETE

- [Nearly one-third](#) of American workers are required to have a government-issued license to do their job. [Occupational licensing creates barriers](#) for entrepreneurs seeking to enter a market.
- [Non-compete agreements](#) often hinder the ability of entrepreneurs to take full advantage of their previous industry experience to create a new company.

CONNECT ENTREPRENEURS OF ALL AGES

- Peer-learning and mentor-mentee relationships can provide many benefits to entrepreneurs. Encourage these types of [entrepreneur-to-entrepreneur](#) connections to strengthen entrepreneurial ecosystems.

¹ Based on a Kauffman survey of 479 Inc. high-growth firms, the major methods of finance are personal savings (67 percent), bank loans (52 percent), and credit cards (34 percent), while finance from venture capital and angel investors share a small portion (15 percent combined).

SPURRING MILLENNIAL AND BABY BOOMER ENTREPRENEURSHIP

This massive generational shift was the theme of the [2015 State of Entrepreneurship Address](#), where four panelists each offered a policy idea to boost levels of entrepreneurship among Millennials and Baby Boomers.

- Increase apprenticeship programs for Millennials to provide them with critical job skills. [Aparna Mathur](#), resident scholar, *American Enterprise Institute*.
- Allow individuals to use federal aid money to attend non-traditional academic institutions. [Shaila Ittycheria](#), cofounder, *Enstitute*.
- Create universal retirement accounts that follow the individual to encourage risk taking. [Chris Farrell](#), economics editor, *Marketplace Money*.
- Reduce the estate tax rate to 20 percent for long-term investments made in startups and early-stage venture capital funds. [William A. Galston](#), senior fellow, *Brookings Institution*.

FOR MORE INFORMATION

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

- Watch the Kauffman Foundation's 2015 [State of Entrepreneurship Address](#).
- Read the Kauffman Foundation's 2015 [State of Entrepreneurship Report](#).
- Read [Kauffman Foundation testimony](#) before the U.S. Senate on senior entrepreneurship.
- Consult Kauffman's infographics on [Millennials](#) and [Baby Boomers](#).



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