ECONOMIC INNOVATION GROUP

# Entrepreneurship, Cities, and the New Map of Economic Growth

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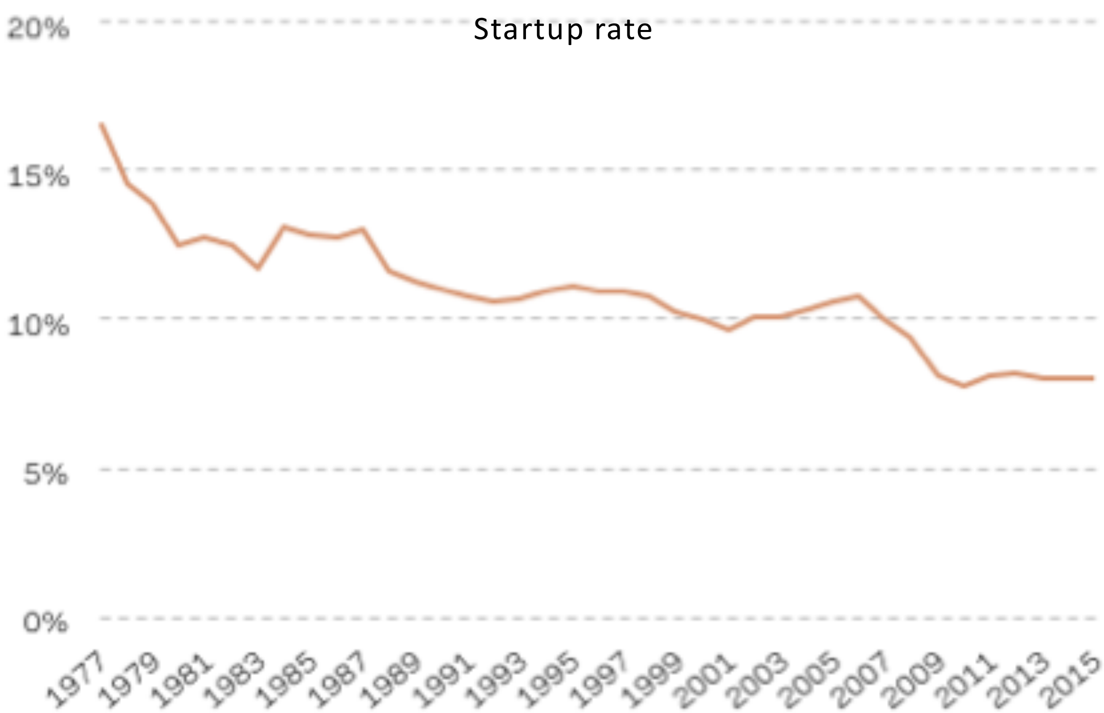
The economy has recovered from the Great Recession on most metrics.
One critical exception: **the startup rate.**

❖ **The U.S. is missing about 100,000 startups a year right now**, with repercussions for jobs, innovation, productivity, and more.



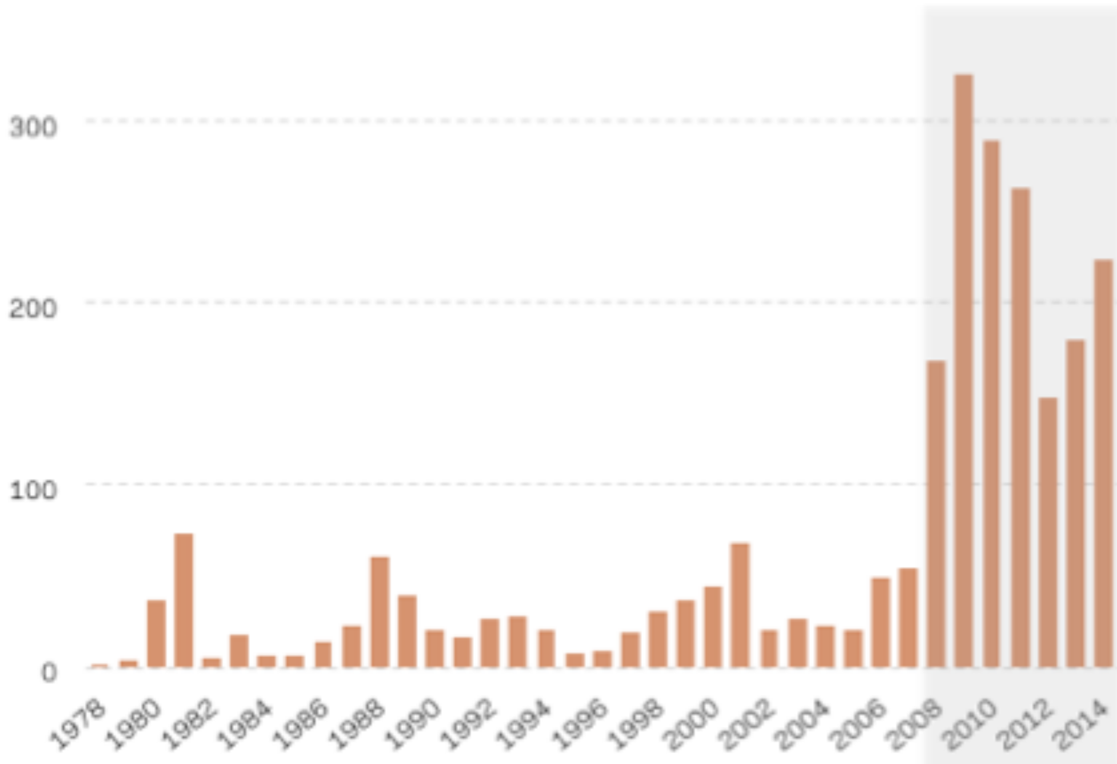

❖ Other metrics of **dynamism** from the **inter-state migration** rate to the **job turnover** rate were declining even before the recession and have remained unusually depressed after it.

❖ The economy is becoming ever more reliant on old incumbent firms to provide and create jobs—uncharted waters for the United States.

## The national startup decline is the product of a broad-based slowdown in entrepreneurship across regions wrought by the Great Recession.

- The Great Recession marked **a watershed moment in metropolitan America**: For the first time startup rates fell below the firm closure rates in the majority of metro areas. Disappearing startups, rather than spiking closures, are responsible for the development.

Number of metro areas in which the firm death rate exceeds the firm birth rate
(Total = 366)

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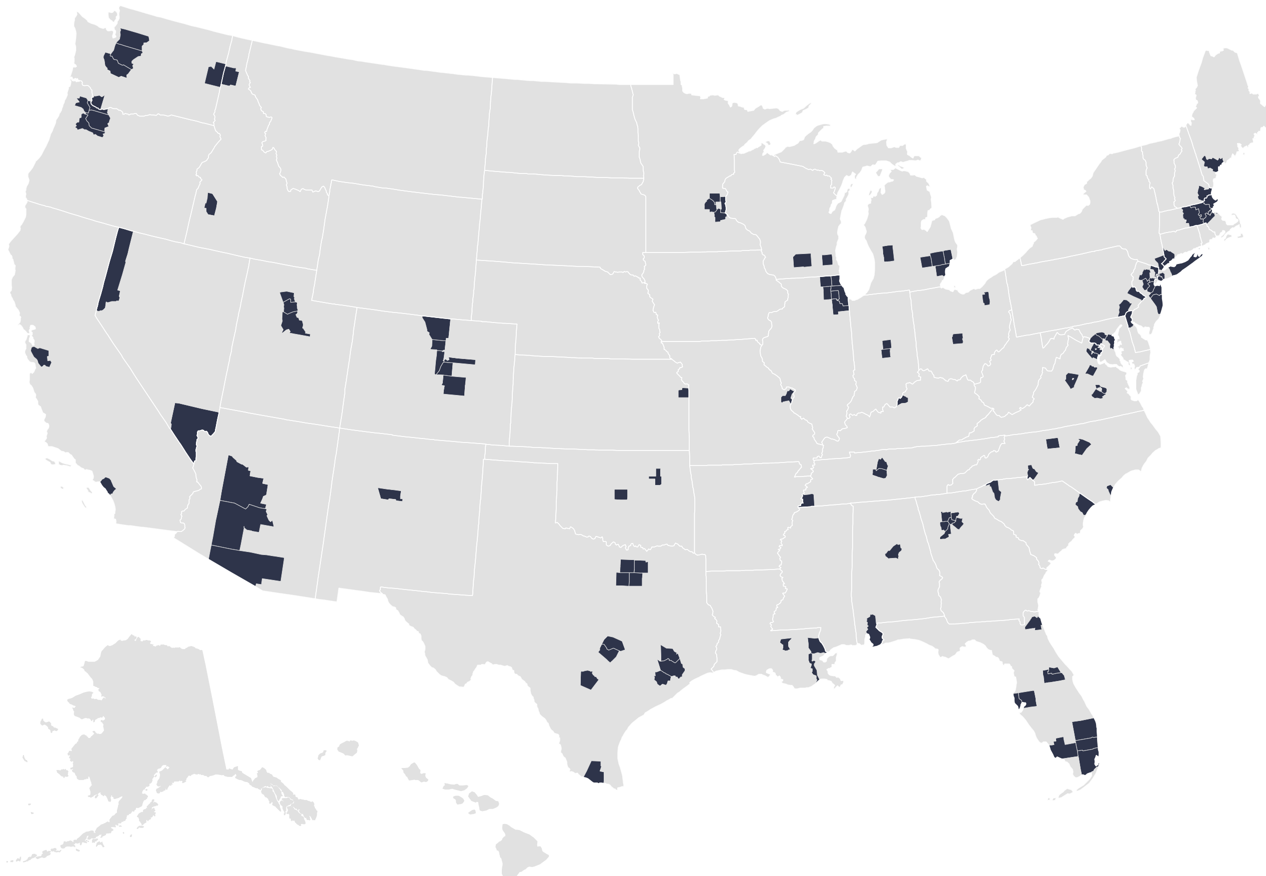
## Meanwhile, a look at county-level data shows just how drastically the map of new business creation has contracted over the recent past.

- During the first five years of the **1990s recovery**, it took **125 counties** containing 32 percent of the country's population to generate **half** of the nation-wide net increase in business establishments. **This was a grassroots expansion powered by a broad base of places.**



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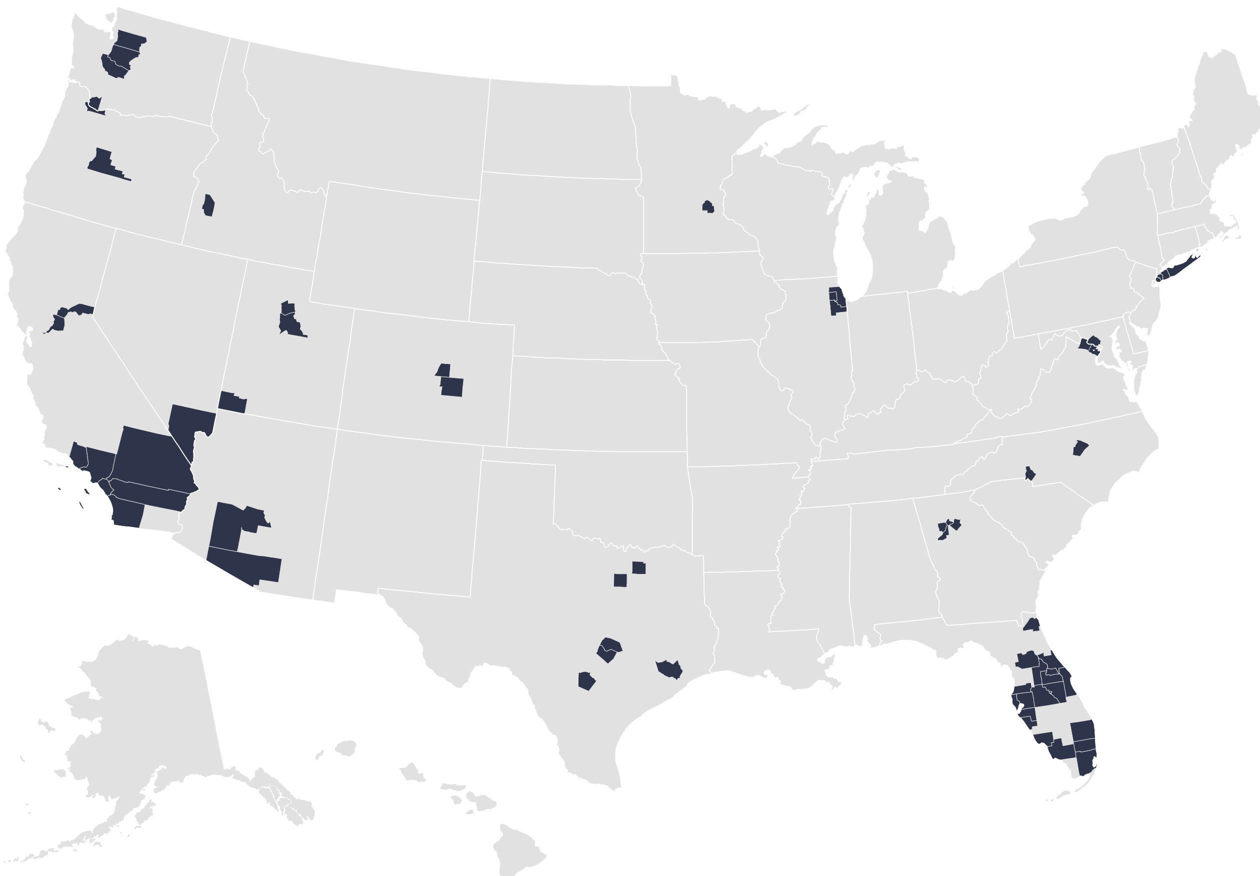
## Meanwhile, a look at county-level data shows just how drastically the map of new business creation has contracted over the recent past.

❖ Come the **2000s recovery**, it took **64 counties** containing 27 percent of the country's population to generate **half** of the nation-wide net increase in business establishments. **Burgeoning Sun Belt, suburban, and exurban communities fueled growth.**



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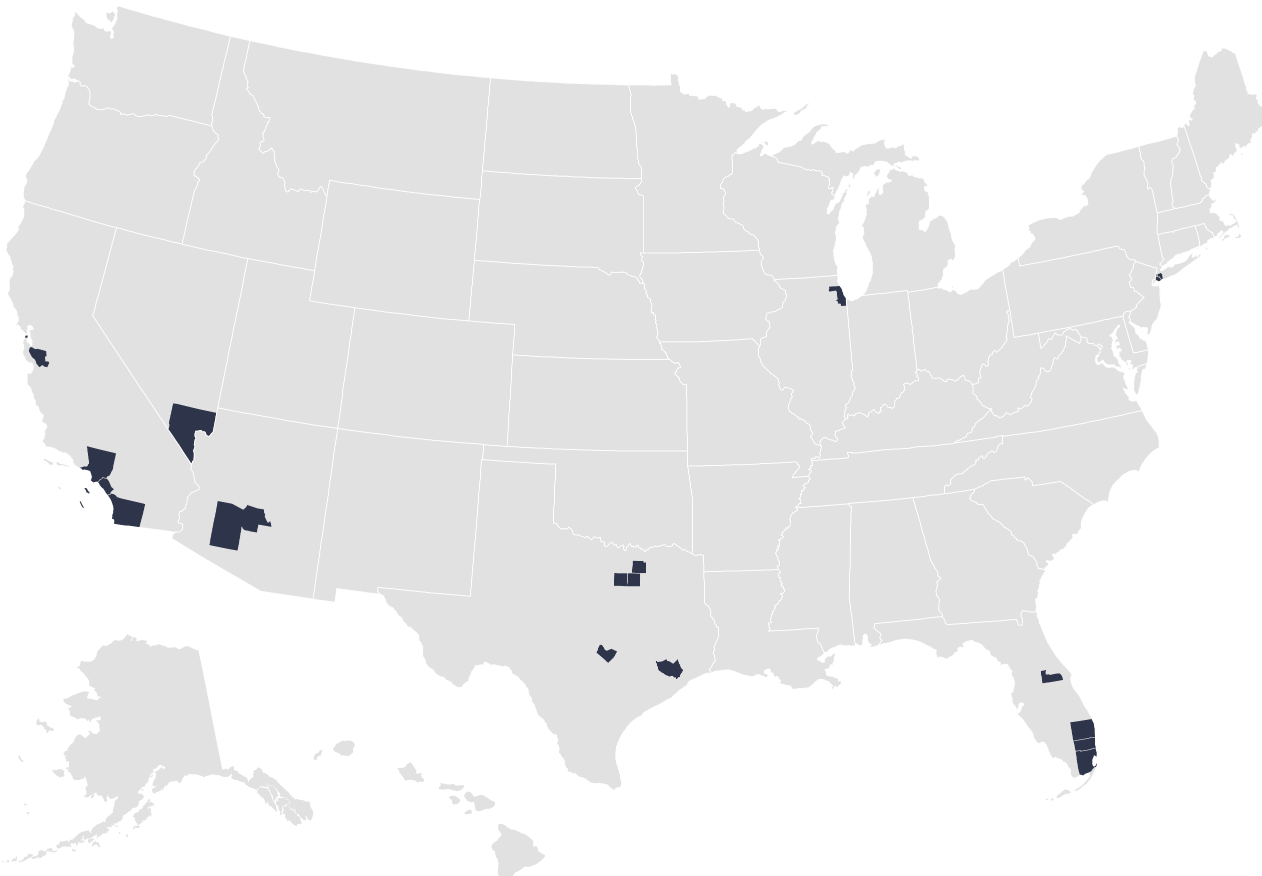
## Meanwhile, a look at county-level data shows just how drastically the map of new business creation has contracted over the recent past.

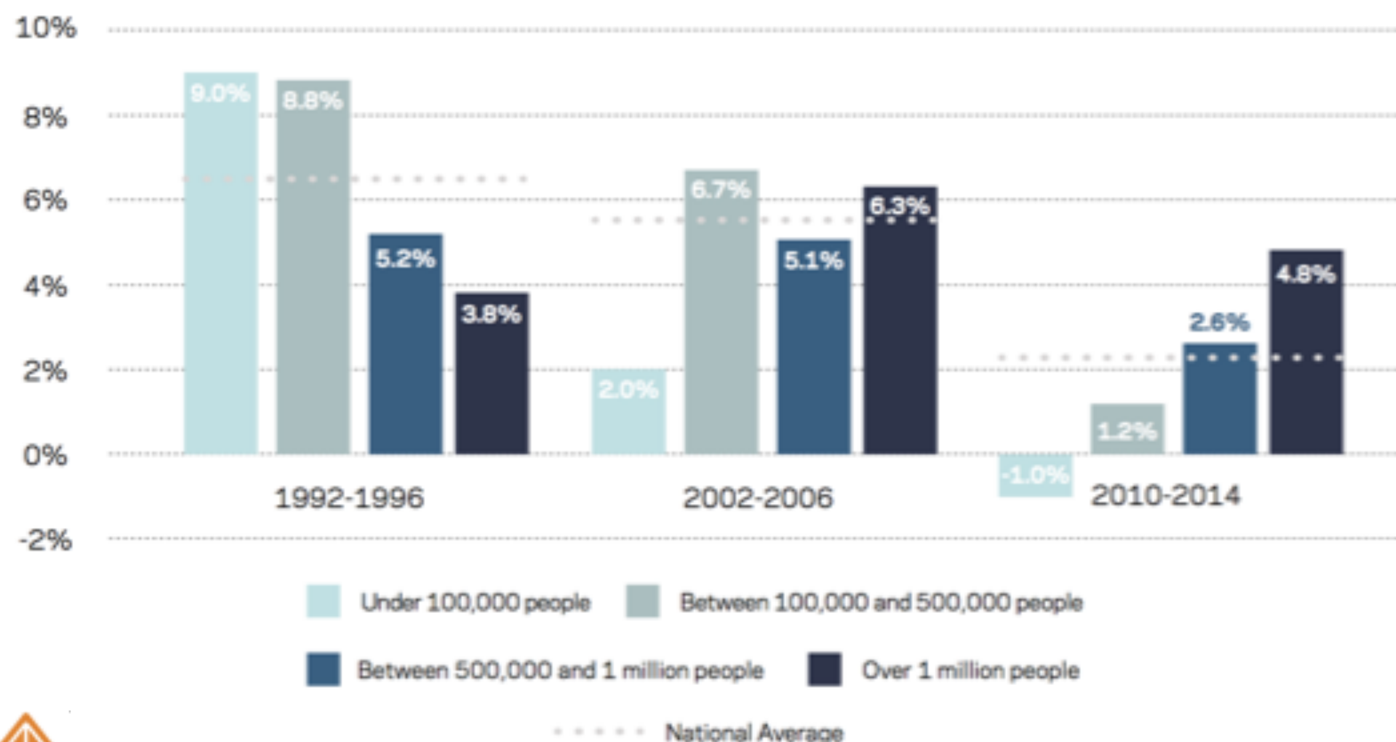
- By the **2010s recovery**, it took only **20 super-performing counties** containing 17 percent of the country's population to generate **half** of the nation-wide net increase in business establishments. **For the first time in a long time, larger cities started growing faster.**



## Cities have led the recovery, and there are few signs that their leading role will be challenged any time soon.

- In a complete reversal of fortunes relative to the 1990s, large counties posted higher job and business establishment growth rates than small- and medium-sized ones come the 2010s. Note: big-city growth hasn't increased—rather, ***growth everywhere else has slowed***.

Average increase in the number of business establishments across counties of different size classes

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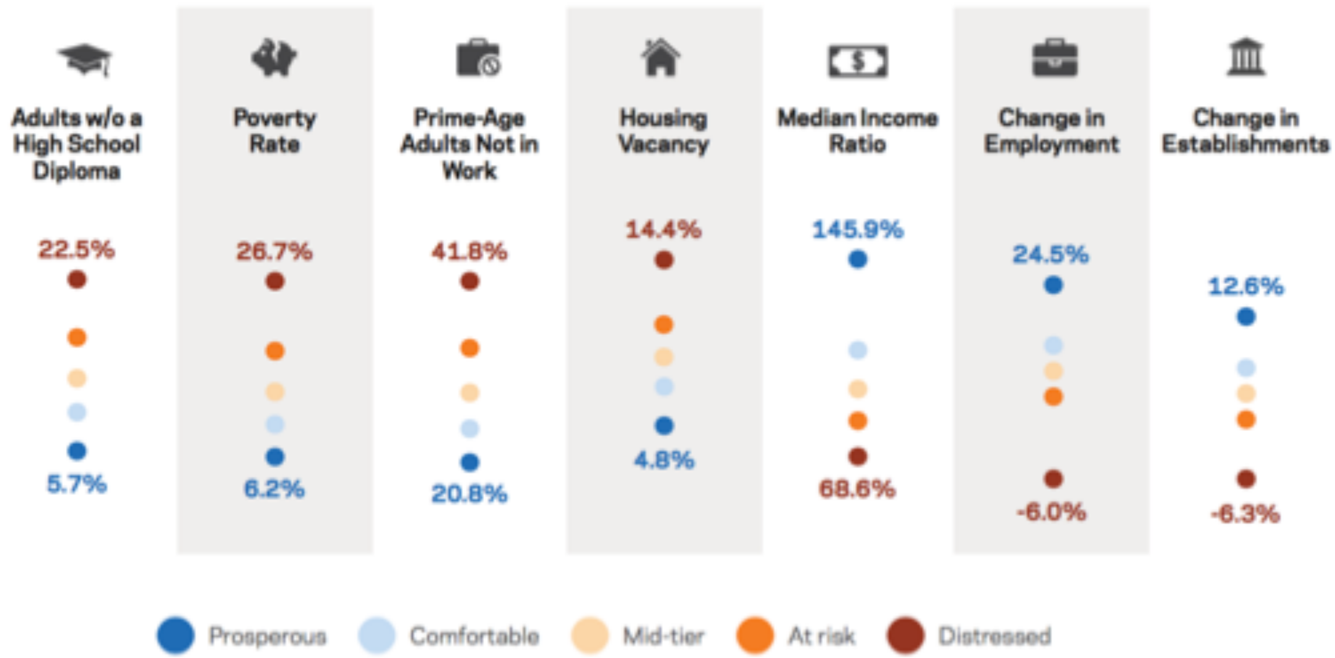
# EIG's Distressed Communities Index shows that business closures can be a leading indicator of severe economic troubles.

- At the zip code level, distressed places were the only ones to suffer outright net business closures from 2011 to 2015. They trailed far behind all other groups on every measure of well-being. When businesses disappear, economic activity and economic opportunities follow.

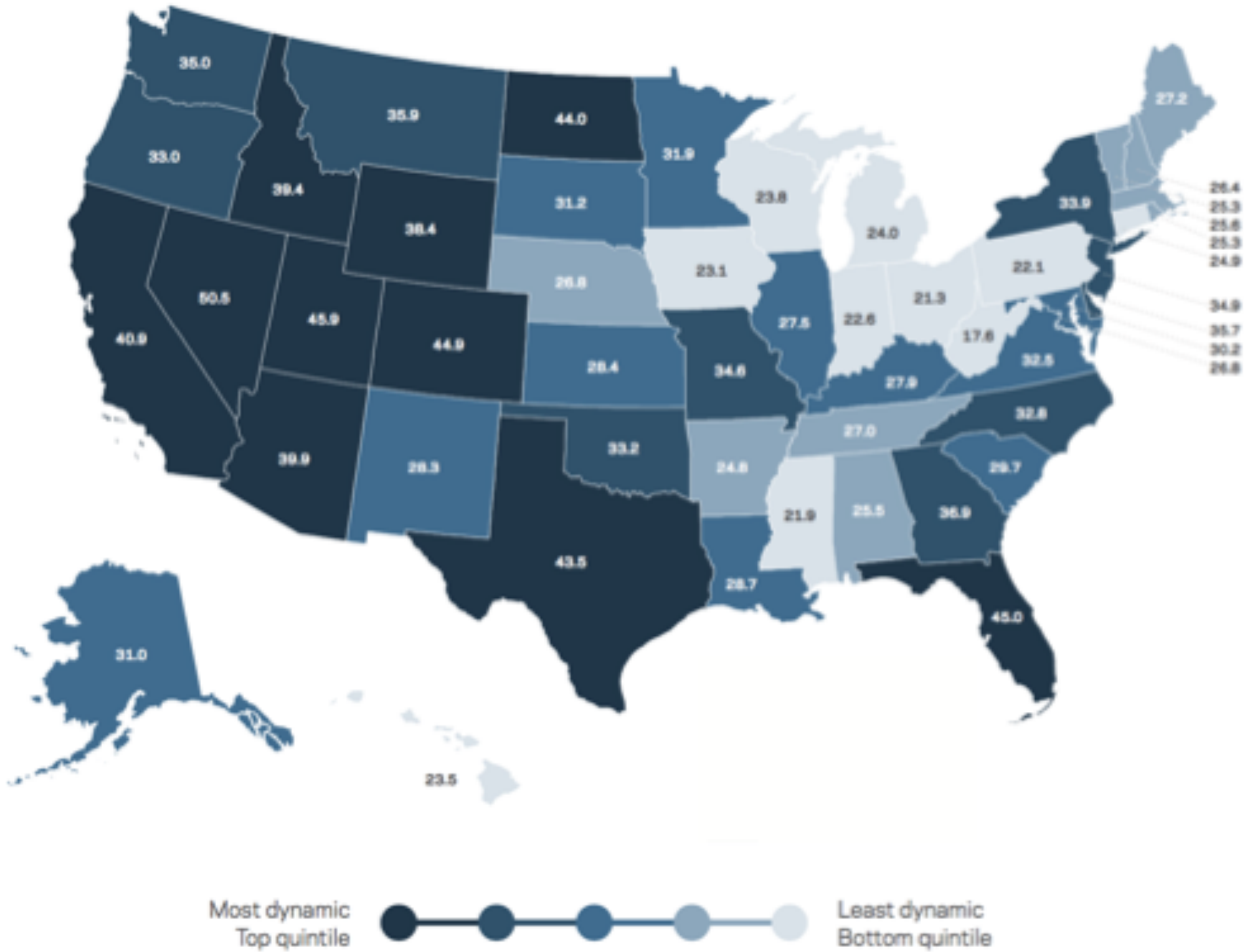
Average performance of zip codes in each quintile across the seven component indicators of the DCI



## An economy in which dynamism is diminished cannot deliver on its promises. The 2016 election map clearly reflects this.

❖ Three-quarters of the counties that President Trump carried after twice choosing Obama suffered continued job losses and net business closures over the recovery.

Results from EIG's Index of State Dynamism

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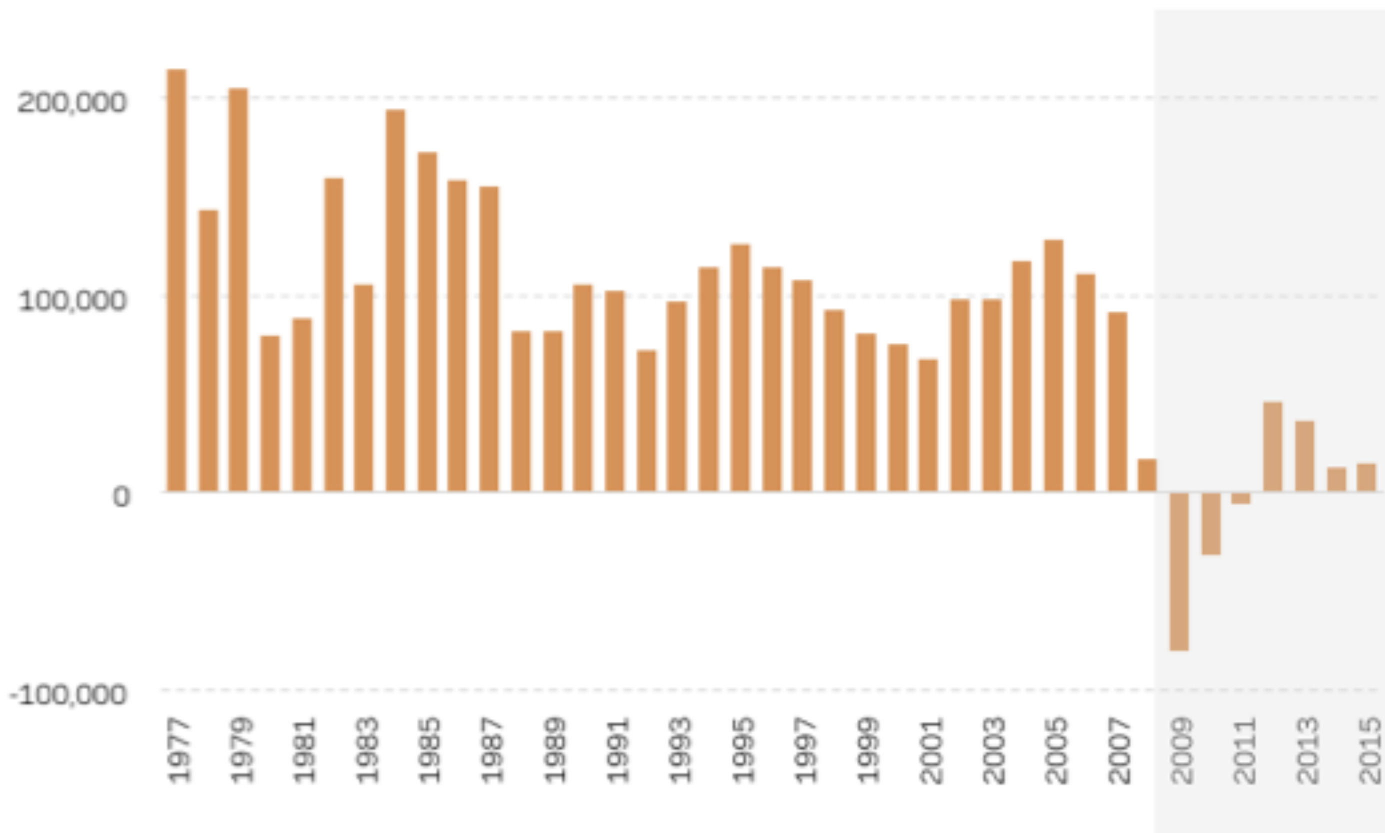
The U.S. economy now barely produces one new firm for every one that dies each year—an historically unprecedented situation.

Annual difference between firm births and firm deaths in the U.S. economy

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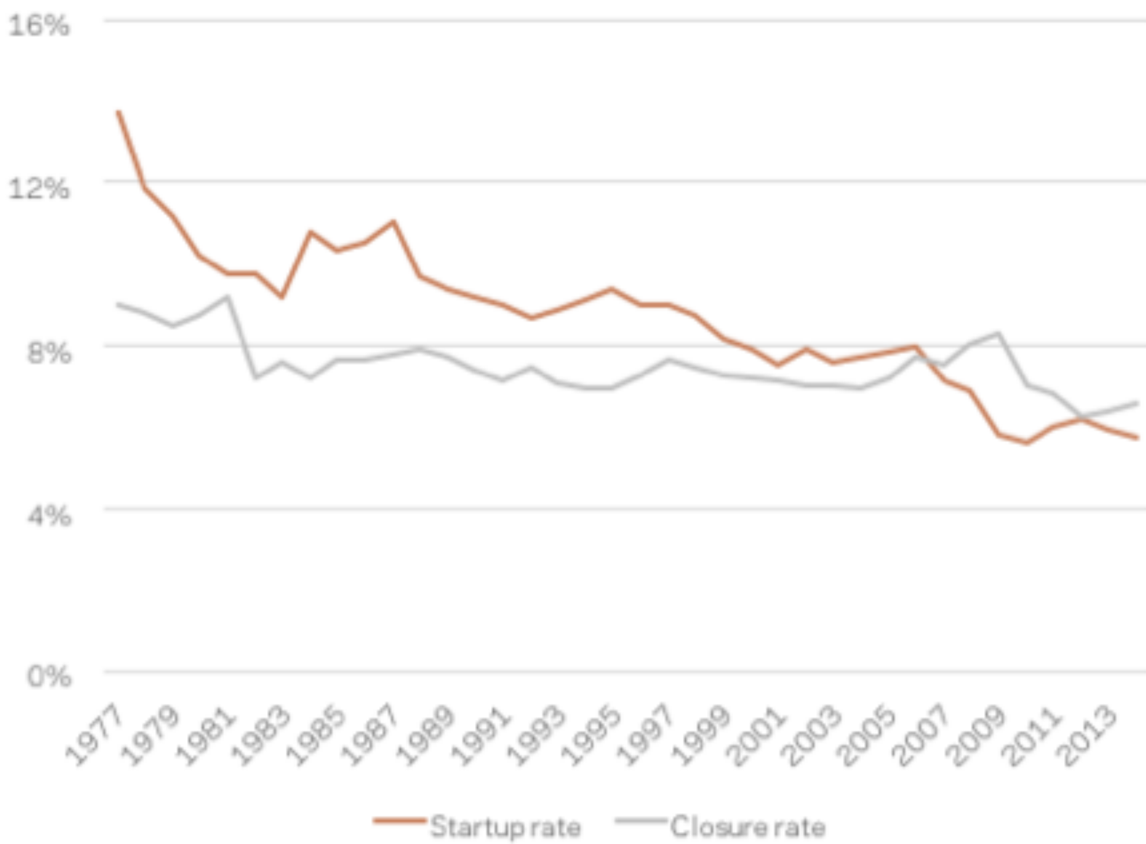
# The U.S. economy faces a ***creation*** problem

❖ In struggling places, the whole cycle of creative destruction has slowed down. See Ohio, for example: The startup rate has fallen much faster than the firm closure rate.

New firm startup and existing firm closure rates in Ohio

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## Cities are on the frontlines of the country's dynamism dilemma. What can they do to thrive in the modern age?

- **The Amazon HQ2 competition** cemented the new playbook: Cities must have talent, be connected to the dense markets, host universities and innovative research activities, engage in tech transfer, and demonstrate a clear commitment to commerce and growth.
  - But the big takeaway from HQ2 is **not** to strive to offer the best incentive package. It's to assemble the building blocks of a dynamic local economy.
- **Have a startup strategy**—one that places entrepreneurs at the center of the city's economic development agenda.
- Support **accelerator, mentorship, and apprenticeship programs** to expand entrepreneurship's reach into disadvantaged communities (people and places).
- Close **the access to capital gap** by inaugurating a city-wide venture fund, for example.
- **Advocate** on behalf of your startup communities' needs at the state and federal level.
- Deliberately stoke dynamism by clearing away the local regulations that stymie startup growth. **Occupational licensing** and zoning requirements may be as much of a hindrance to local entrepreneurs as any federal regulation.
- Emulate entrepreneurs: Be bold, take risks, move quickly, embrace new ideas, and seize opportunities.

EIG brings together leading entrepreneurs, investors, economists, and policymakers from across the political spectrum to address America's economic challenges.

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