

**THE COMING ENTREPRENEURSHIP BOOM**

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Ewing Marion Kauffman Foundation

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## Introduction

The United States will, at some point, recover from the current deep recession. But the overriding question upon recovery will concern resumption of growth rate. Will we return to the high growth and productivity rates of the post-1995 decade? Or, in a gloomier scenario, are we in for a sustained period of sluggish growth like what afflicted most developed countries from the early 1970s to the mid-1990s?

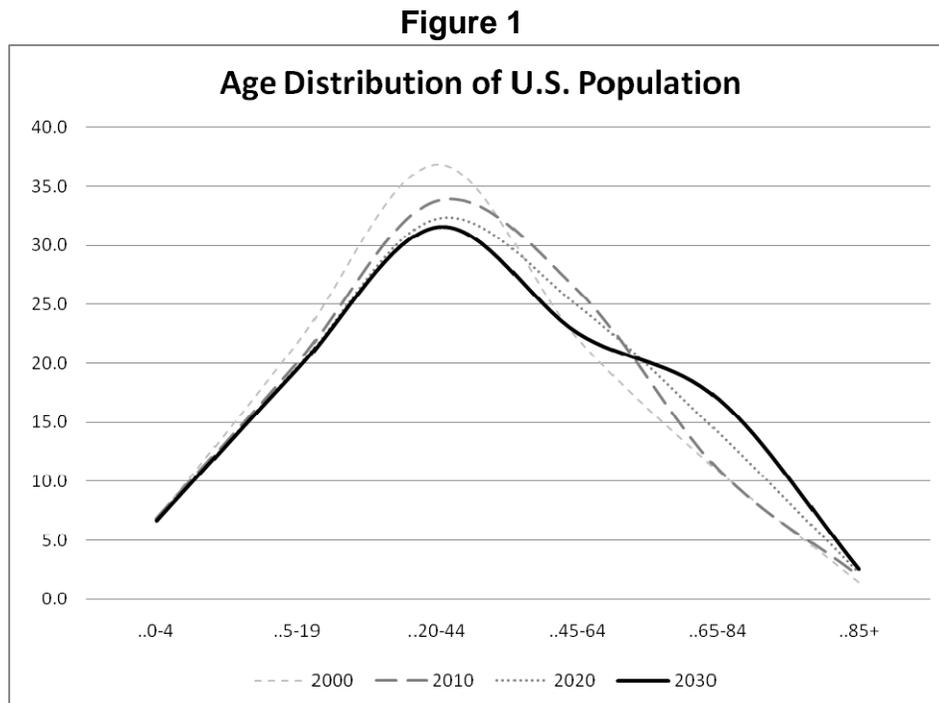
The primary determinant of which path we take is our level of entrepreneurial activity. In terms of job creation, innovation, and productivity, entrepreneurs drive growth. Yet a major worry is that the basic demographics of the United States will inexorably tilt the country toward sluggishness: An aging country, with the baby boom generation moving into retirement, doesn't strike one as an entrepreneurial society.

Or does it?

Several facts have emerged in the course of Kauffman Foundation research that indicate the United States might be on the cusp of an entrepreneurship boom—not in spite of an aging population but because of it. To the extent that entrepreneurship is a key driver of economic growth, this could bode well for America's growth potential.

## As Time Goes By

One of the most frequently discussed issues in recent years has been the broad population trends in the United States:



Source: U.S. Census Bureau.

Notwithstanding the baby boomlet of 1989-1991 that has resulted in the largest high school graduating classes in history,<sup>1</sup> the age curve of the United States continues to shift. In particular, we are currently experiencing a bulge in the 45-64 age group, which, naturally, means the over-65 age groups will bulge in coming years. Life expectancy, moreover, keeps extending farther and farther: by 2050, American life expectancy will be 83 years, compared to 78 today.<sup>2</sup>

## Entrepreneurship: the New Mid-Life Crisis

Why does this matter for entrepreneurship? Contrary to popularly held assumptions, it turns out that over the past decade or so, the highest rate of entrepreneurial activity belongs to the 55-64 age group. The 20-34 age bracket, meanwhile, which we usually identify with swashbuckling and risk-taking youth (think Facebook and Google), has the lowest rate. Perhaps most surprising, this disparity occurred during the eleven years surrounding the dot-com boom—when the young entrepreneurial upstart became a cultural icon.

- In every single year from 1996 to 2007, Americans between the ages of 55 and 64 had a higher rate of entrepreneurial activity than those aged 20-34.
- For the entire period, the 55-64 group averaged a rate of entrepreneurial activity roughly one-third larger than their youngest counterparts.
- These trends seem likely to persist: in the Kauffman Firm Survey, a longitudinal survey of nearly 5,000 companies that began in 2004, two-thirds of firm founders are between the ages of 35 and 54.<sup>3</sup>
- Additionally, Kauffman research has revealed that the average age of the founders of technology companies in the United States is a surprisingly high 39—with twice as many over age 50 as under age 25.<sup>4</sup>

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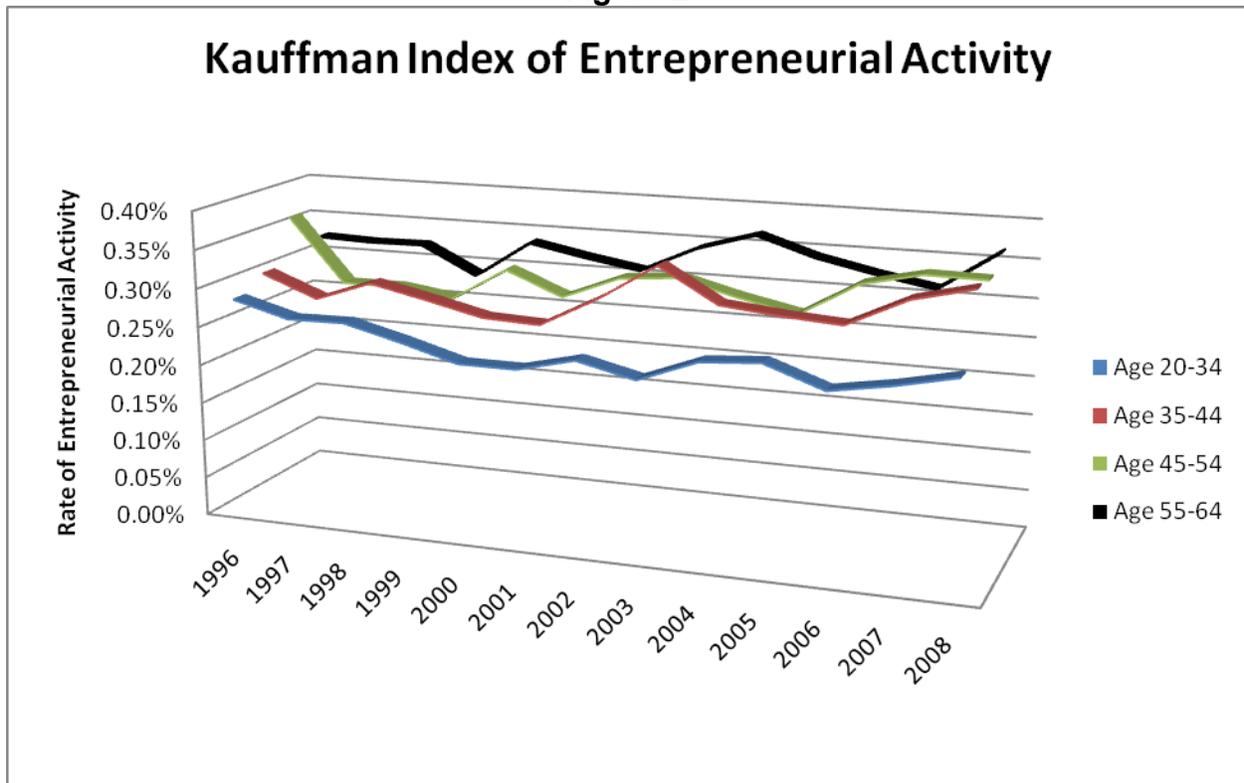
<sup>1</sup> See, for instance, the birth rate trend from 1980 to 2005: from 1980-1987, the total birth rate for the U.S. fluctuated between 15.6 and 15.9 live births per 1,000 people. From 1988 to 1991, the birth rate increased to over 16, peaking in 1990 at nearly 17 per 1,000. See also National Center for Health Statistics, <http://205.207.175.93/VitalStats/ReportFolders/reportFolders.aspx>. That slight uptick in the birth rate may not sound like much, but consider that an extra one or (mathematically, at least) one and one-half births per 1,000 in population, for a population of, say, 100 million people, translates into an additional 100,000 people per year.

<sup>2</sup> Population Division, U.S. Census Bureau, Table 10, Projected Life Expectancy, <http://www.census.gov/population/www/projections/summarytables.html>. See also Jim Oeppen & James W. Vaupel, "Broken Limits to Life Expectancy," 296 *Science* 1029 (10 May 2002).

<sup>3</sup> Janice Ballou, *et al*, "The Kauffman Firm Survey: Results from the Baseline and First Follow-Up Surveys," Kauffman Foundation, March 2008, [http://www.kauffman.org/uploadedFiles/kfs\\_08.pdf](http://www.kauffman.org/uploadedFiles/kfs_08.pdf).

<sup>4</sup> Vivek Wadhwa, Richard Freeman, & Ben Rissing, "Education and Tech Entrepreneurship," Kauffman Foundation Research Report, May 2008, [http://www.kauffman.org/uploadedFiles/Education\\_Tech\\_Ent\\_061108.pdf](http://www.kauffman.org/uploadedFiles/Education_Tech_Ent_061108.pdf).

Figure 2



Source: Robert W. Fairlie, Kauffman Index of Entrepreneurial Activity, at [http://sites.kauffman.org/pdf/KIEA\\_041408.pdf](http://sites.kauffman.org/pdf/KIEA_041408.pdf).

Changes in job tenure, moreover, support this shift. The length of time at which Americans remain at their jobs has fallen across every age group in the last quarter-century, with the most pronounced declines among that cohort normally associated with career jobs: middle-aged men. Long-term employment, in fact, has fallen dramatically for people ages 35-64 over the past fifty years. While people under age 30 have historically jumped from job to job, the most striking development today has been the deep drop in the incidence of “lifetime” jobs among men over age 50.<sup>5</sup>

It is important to note that these demographic trends and business formation rates are a one-time occurrence. The time period between 1996 and 2007 happened to see a rebirth of entrepreneurial capitalism in the United States. The continuing recession, moreover, may exert a persistently negative effect on attitudes toward risk-taking. It also is quite likely that the long-term change in job tenure contributed to the high rate of entrepreneurial activity in the 1990s among those over age 45.

Can we expect this trend to die out, particularly with an influx of twenty-somethings who have come of age in an entrepreneurial society? We could certainly see an increase in entrepreneurial activity among those under age 30, a development the recession might accelerate because of the deep employment cuts among large, established companies.

<sup>5</sup> Henry S. Farber, “Is the Company Man an Anachronism? Trends in Long Term Employment in the U.S., 1973-2005,” Network on Transitions to Adulthood Research Network Working Paper, May 2006, <http://www.transad.pop.upenn.edu/downloads/farber%20with%20cover%20sheet.pdf>.

But a steady increase in life expectancy also means that Americans are not only living longer but also living *healthier* longer, suggesting that those entrepreneurial 60-year-olds could be 2020's entrepreneurial 70-year-olds. Even if business formation rates fell off within this age group, we would still have tens of thousands of potential mentors to the next generation of entrepreneurs.<sup>6</sup> The effect of technology, too, must be considered: is firm formation somehow different in the first Internet-era recession than before? Transaction costs and barriers to entry, for example, have fallen for people of every age.<sup>7</sup>

The larger effects of the recession also will bear on entrepreneurial demography: The very idea of “too-big-to-fail” institutions has been permanently damaged. Recent economic trends—away from lifetime jobs and toward more new companies—will thus gain even greater cultural traction. New and stronger regulations aiming to prevent the rise of such giant organizations also may help create a more market-oriented society. We will see increasing numbers of new, smaller firms as they compete and cooperate; challenge incumbents; and, perhaps, rise and fall at faster rates.

Given the shifting age distribution of the country, the continued decline of lifetime employment and the experience and tacit knowledge such employees carry with them, and the effects of the 2008-2009 recession on established sectors of the economy, we may be about to enter a highly entrepreneurial period.

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<sup>6</sup> An acute concern among some readers may be that, as the population's age distribution continues to shift, we will suffer from a dearth of innovative companies. The difference, at least intuitively, between a 55-year-old and 25-year-old company founder may be in their innovative potential—that is, it could be more likely that the older entrepreneur starts a “lifestyle” company while the younger entrepreneur starts a world-changing firm. Such a concern makes sense, but further research needs to be done. A counter-intuition would be that an older worker's experience—while possibly limiting his or her innovative thinking—might allow him or her a greater scope for innovation that challenges existing companies. Some research also indicates that breakthroughs today come at older ages than they did a century ago, *e.g.* Benjamin Jones, “Age and Great Invention,” NBER Working Paper, March 2007, <http://www.kellogg.northwestern.edu/faculty/jones-ben/htm/AgeAndGreatInvention.pdf>.

<sup>7</sup> This question, suggested to me by a colleague, deserves a much fuller exploration than can be given here. Another unexplored, and hugely freighted, question concerns the effects of health insurance, *e.g.*, Robert W. Fairlie, Kanika Kapur, & Susan M. Gates, “Is Employer-Based Health Insurance a Barrier to Entrepreneurship?” RAND Working Paper, November 2008, [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1305280](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1305280). This is made even more ambiguous by the possibility of far-reaching health reform.