

# **Gap Analysis #3**

## **Entrepreneurship in Decline: Millions of Missing Businesses**



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***Summary: According to various measures of entrepreneurship and business activity, the U.S. has suffered, at best, a dramatic decline in entrepreneurship and in the number of businesses over the past near-decade.***

According to data from the U.S. Bureau of Labor Statistics, the U.S. Census Bureau, and the IRS, as a share of the relevant population, there has been a decline during the last near-decade in incorporated self-employed, unincorporated self-employed, employer firms, business startups (i.e., business establishments less than one year old), and the broadest count of businesses (based on the IRS data). However, certain measures – namely, unincorporated self-employed and employer firms – point to a longer downturn in entrepreneurial activity.

**Make no mistake, the trend of the past decade translates into millions of lost businesses.**

- **722,000 Missing Incorporated Self-Employed.** If the pre-recession percentage high (2008), that is, as a share of the relevant population, had been registered in 2015, there would have been approximately 722,000 more incorporated self-employed than there were.
- **2.2 Million Missing Unincorporated Self-Employed.** If the recent pre-recession percentage high (2004), that is, as a share of the relevant population, had been registered in 2015, there would have been approximately 2.2 million more unincorporated self-employed than there were.
- **735,000 Missing Employer Firms.** If the recent pre-recession percentage high (2005), that is, as a share of the relevant population, had been registered in 2013, there would have been approximately 735,000 more employer firms than there were.
- **106,000 Missing Annual Startups.** If the recent pre-recession percentage high (2006), that is, as a share of the relevant population, had been registered in 2015, there would have been approximately 106,000 more startups (business establishments less than one year old) than there were in that year.
- **867,000 Missing Businesses According to IRS Tax Returns.** If the recent pre-recession percentage high (2008), that is, as a share of the relevant population, had been registered in 2015, there would have been approximately 867,000 more businesses than there were.
- **4.8 Million Missing Businesses.** However, if the previous growth in the business share of the relevant population had continued after 2008 (based on the IRS data), there would have been 4.8 million more businesses in 2015 than there actually were.

In the end, the entrepreneurship or business activity gap over the past decade or so has led to an estimated shortfall of anywhere from 867,000 to 4.8 million businesses, with an assessment of 3.7 million missing businesses being quite reasonable based on a combination of the most often cited self-employed and employer firms data.

Starting up, building and operating businesses are central to a nation's economic well-being. After all, entrepreneurship is the source of innovation, economic growth, wage growth and job creation. Indeed, the current state of entrepreneurship matters to innovation, good wages, economic growth and jobs today, and in the future. After all, the early self-employed and startups of today are the employers of tomorrow.

The measures of business activity examined in this report point to a very troubling trend. At best, there has been decline in entrepreneurial and business activity over the past decade. Other measures point to concerns extending over the past two decades.

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### **Entrepreneurship in Decline: Millions of Missing Businesses**

Over the past decade, the U.S. shifted from a few years of respectable economic growth to a long and deep recession, and then to one of the worst periods of economic recovery and expansion on record. As the nation looks to a new presidential administration and a new Congress taking power in January 2017, SBE Council is publishing a series of analyses that highlight key gaps or shortfalls in our economy. [The first analysis focused on the GDP shortfall](#) and [the second on a lost decade of private investment](#). These will be followed by analyses on entrepreneurship (this report), productivity, income, jobs, and trade, with a final report highlighting the basic policy changes needed to close these gaps.

This third SBE Council “Gap Analysis” looks at how various measures of entrepreneurship and business activity show, at best, a decline in entrepreneurship over the past eight or so years.

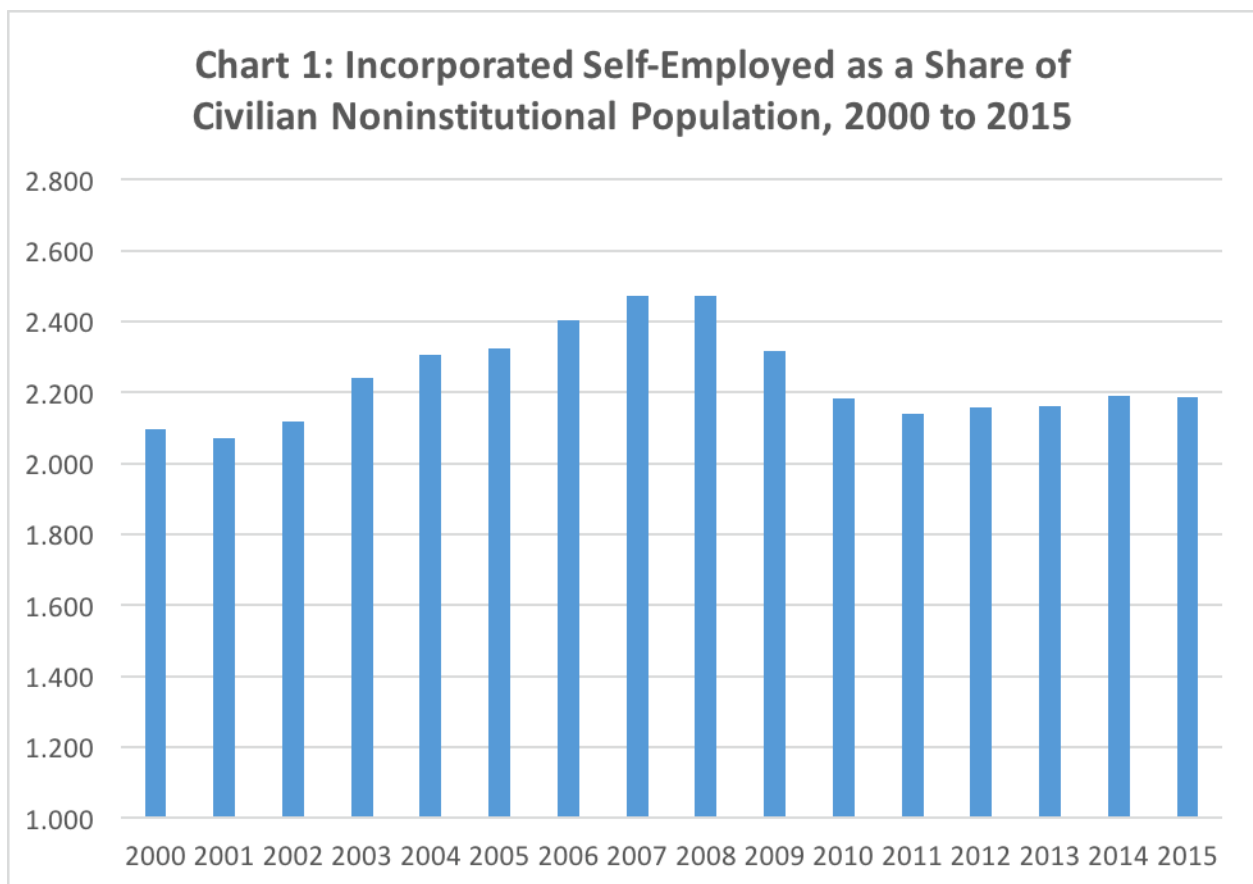
Consider the data and trends in key measures of entrepreneurship and business activity. In each case, a measure of entrepreneurship or the number of businesses is shown as a percentage of the civilian noninstitutional population (that is, those 16 or older, and not in an institution or on active duty in the military). This arguably provides the best measure of the level of entrepreneurship in the economy. Looking at the trends in each category, the story ranges from a decline in entrepreneurship over the past near-decade to a longer term stagnation or fall off in entrepreneurship.

These categories begin on the next page.

## Incorporated Self-Employed

The U.S. Bureau of Labor Statistics offers annual data on incorporated self-employed going back to 2000. As noted in Chart 1, incorporated self-employed as a share of the civilian noninstitutional population was on the rise from 2002 to 2008, declined dramatically from 2009 to 2011, and regained a little ground from 2012 to 2014, with another slight decline occurring in 2015. The 2008 high was 2.474 percent, with 2015 registering 2.186 percent.

In terms of the actual totals, the number of incorporated self-employed went from 4.45 million in 2001 to 5.78 million in 2008, falling to 5.13 million in 2011, clawing back to 5.48 million in 2015.



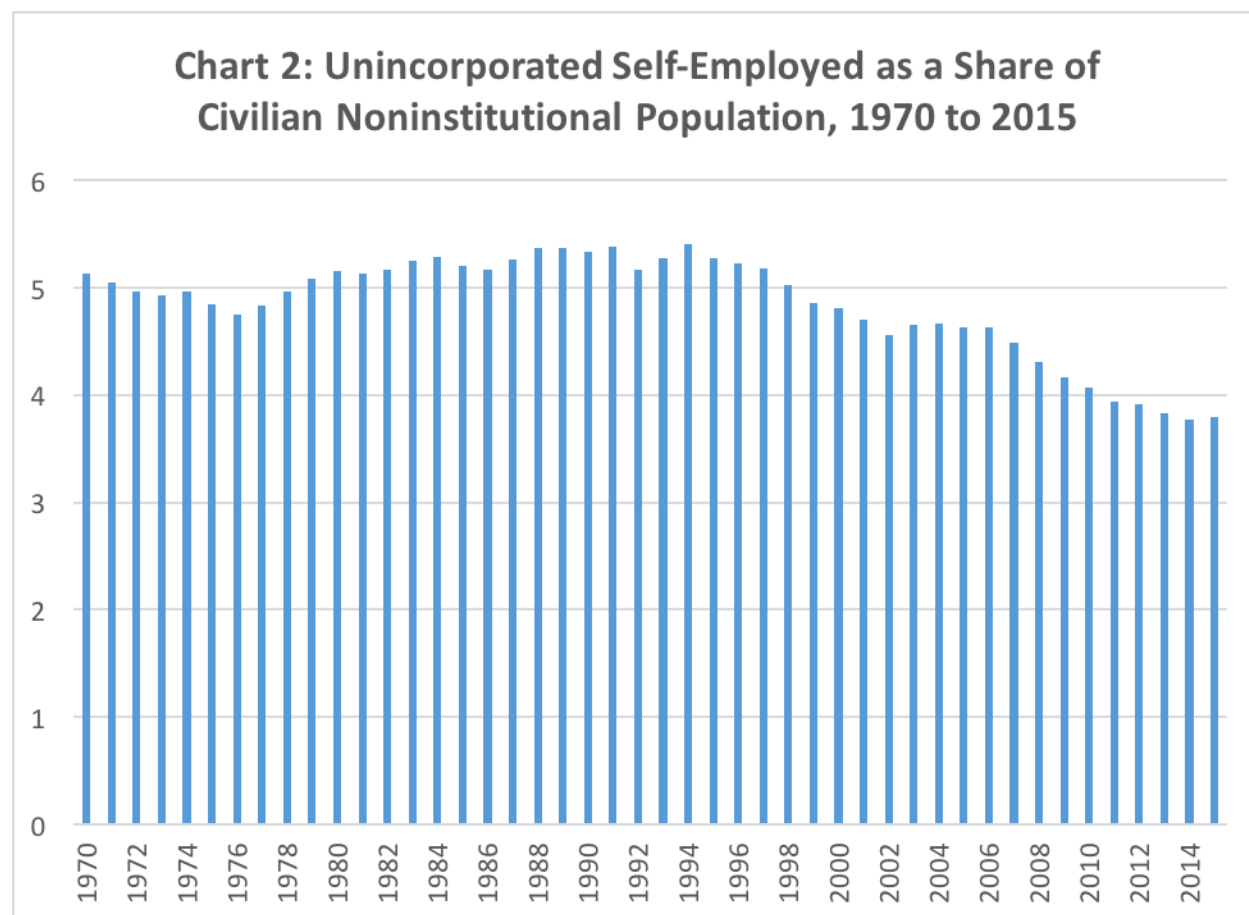
Source: U.S. Bureau of Labor Statistics data. Calculations by author.

## Unincorporated Self-Employed

Unincorporated self-employed data from the U.S. Bureau of Labor Statistics goes back much farther than the incorporated data. Chart 2 tracks unincorporated self-employment from 1970 to 2015. (A long previous decline from the late forties to the late 1960s reflected, to a significant degree, a shift out of agriculture employment in the overall economy.)

In terms of both the total numbers and as a share of the population, unincorporated self-employment increased from the mid-1970s to the early 1990s. For example, as noted in Chart 2, self-employed as a share of civilian noninstitutional population went from 4.76 percent in 1976 to 5.41 percent in 1994; and in terms of total numbers, from 7.428 million in 1976 to 10.648 million in 1994.

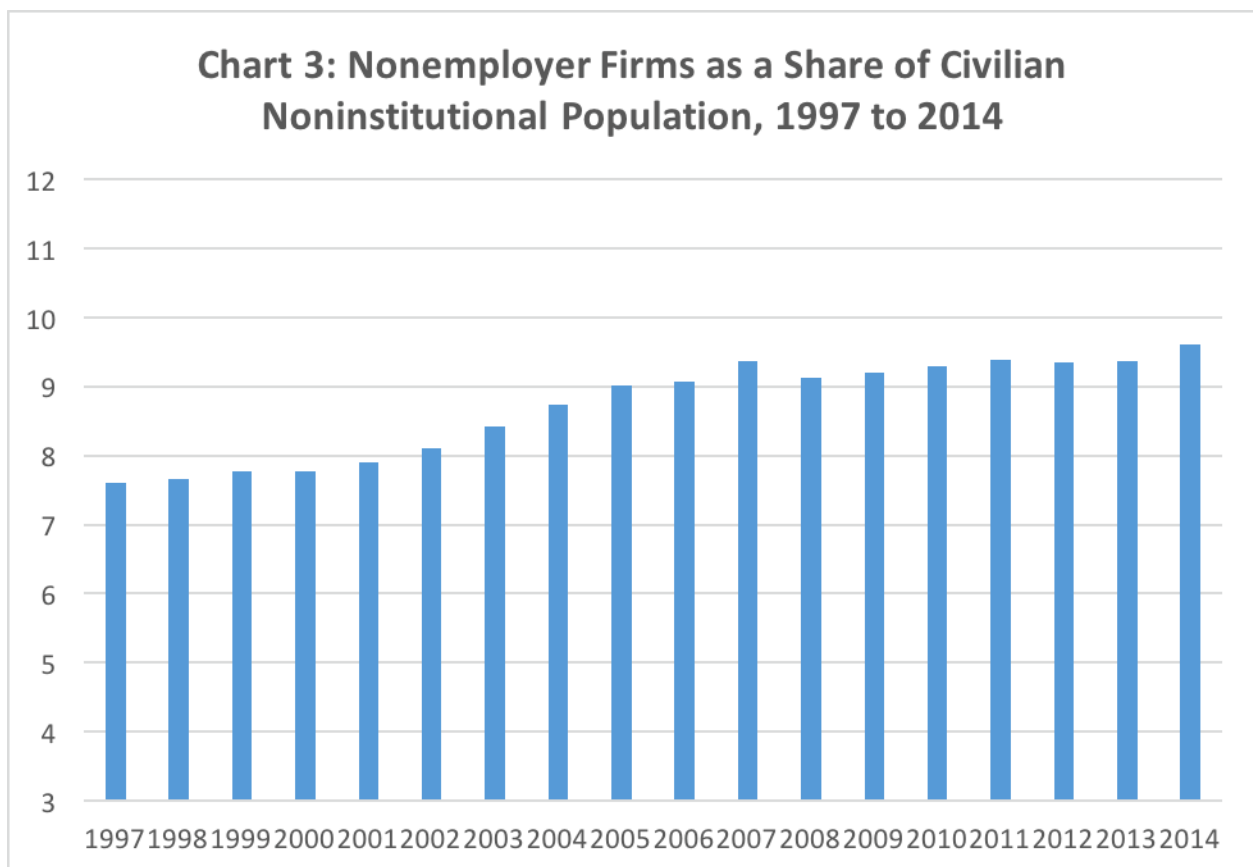
Subsequently, a decline in the number and share of the unincorporated self-employed began. The number dropped to 9.926 million in 2002, with the share falling to 4.52 percent. There was a bit of a recovery in the subsequent four years, with the number rising to 10.586 million and the share rising to 4.63 percent in 2006. However, decline resumed and dramatically accelerated subsequently. In 2015, the number of unincorporated self-employed were down to 9.508 million and a rate of 3.79 percent. The self-employed share of the population dropped below 4 percent in 2011 for the first time ever.



Source: U.S. Bureau of Labor Statistics data. Calculations by author.

## Nonemployer Firms

The U.S. Census Bureau also offers measurements on the number of businesses in the economy. In terms of nonemployer firms (that is, another measure of self-employment that is far more expansive than the BLS measure), the total number and as a share of the population rose steadily from 1997 to 2007. The total number climbed from 15.4 million in 1997 to 21.7 million in 2007, with the share of the civilian noninstitutional population, as noted in Chart 3, going from 7.60 percent to 9.36 percent over this period. The share subsequently declined to 9.13 percent in 2008 and 9.20 percent in 2009, before climbing back a bit and meandering for a few years. In 2013, the 9.36 percent rate matched the 2007 rate – so no expansion for six years – and then it rose to 9.61 percent in 2014.



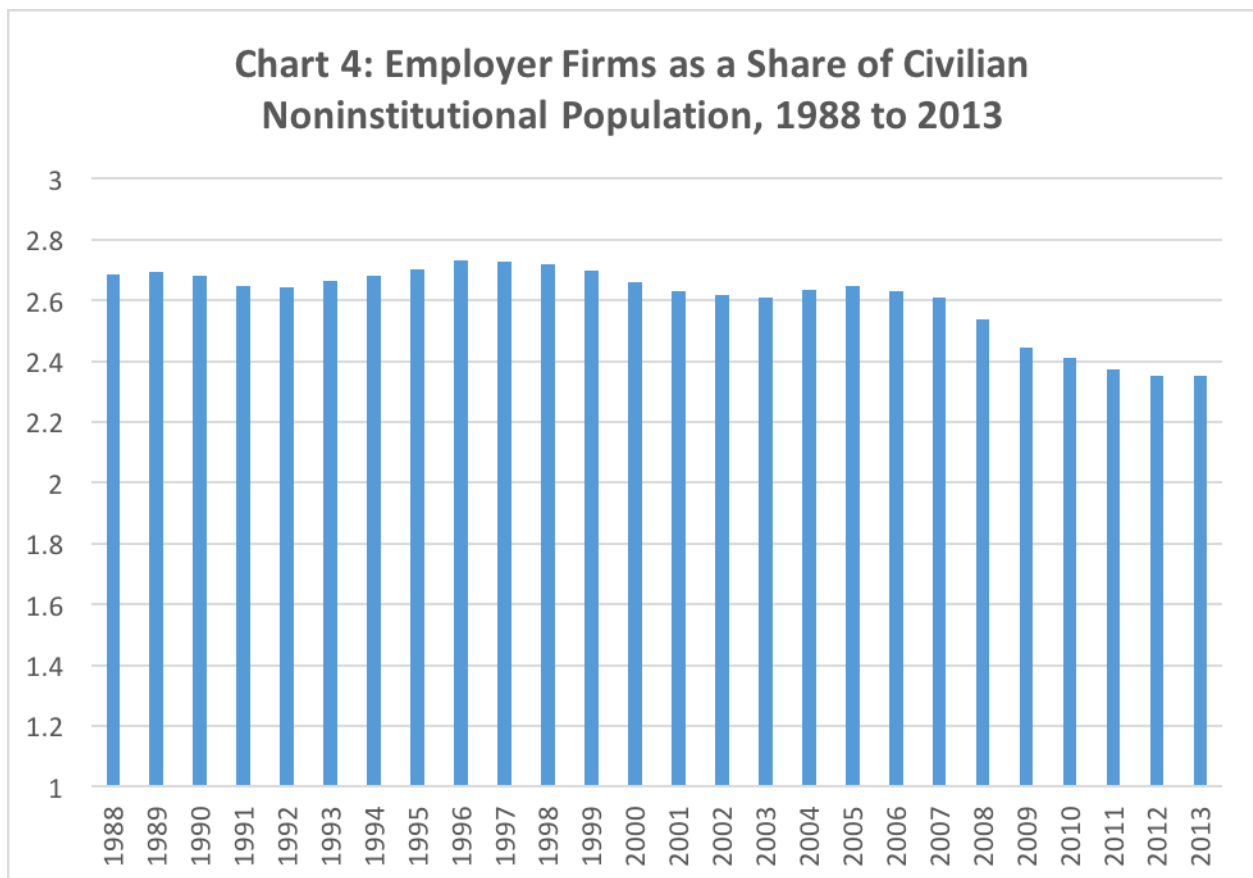
Source: U.S. Census Bureau data. Calculations by author.

## Employer Firms

In its measurements on the number of businesses in the economy, the Census Bureau's employer firms data earns greater attention than its nonemployer numbers. That's not surprising, as this is a count of businesses that have employees.

The trend in Chart 4 – employer firms as a share of civilian noninstitutional population – is quite worrisome, as it has been in general decline since the mid-1990s, but most dramatically since 2007.

Consider that the number of employer firms came in at 6.05 million in 2007, registering as 2.61 percent of the relevant population. The number declined to 5.68 million in 2011, climbing back to 5.78 million in 2013. But as a share of the population, it has fallen steadily, hitting 2.35 percent in 2013. By the way, looking back at data to 1988, this compared to a high of 2.73 percent in 1996.



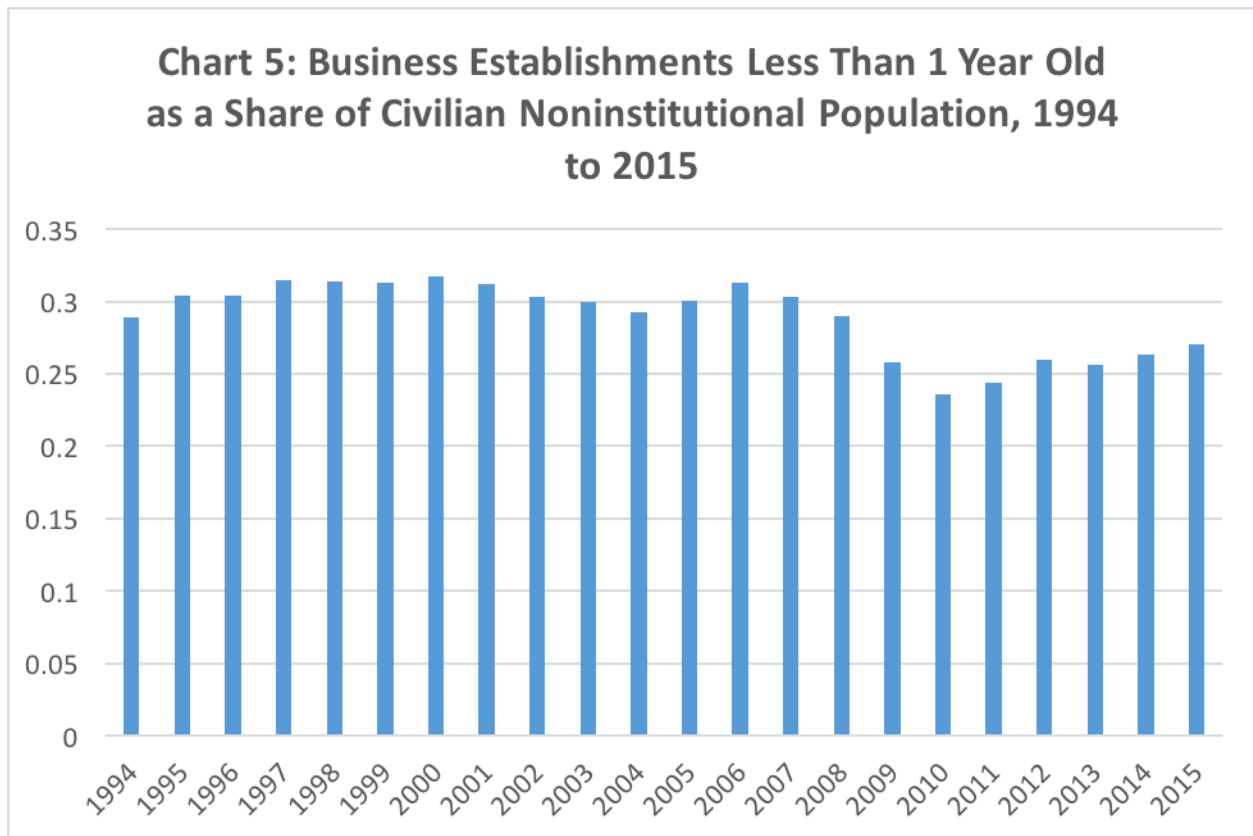
Source: U.S. Census Bureau data. Calculations by author.

## Startups: Businesses Less Than One Year Old

The U.S. Bureau of Labor Statistics offers another valuable look at startups with its measure of business establishments less than one year old.

In terms of numbers, this measure hit a high of 715,734 in 2006, and subsequently fell to 560,588 in 2010, and climbing back subsequently to 679,072 in 2015. As a share of the population, as noted in Chart 5, a high of 0.317 percent of the civilian noninstitutional population was hit in 2000. A four-year decline followed, and then the share climbed back to 0.313 percent in 2006. A striking decline followed, down to .236 percent in 2010, and a subsequent climb back to 0.271 percent in 2015.

So, startup activity, based on this measure, remains down significantly compared to levels in the late 1990s and 2000, and in 2005 to 2007. Indeed, startup activity is off notably versus the entire 1995 to 2007 period.



Source: U.S. Bureau of Labor Statistics data. Calculations by author.



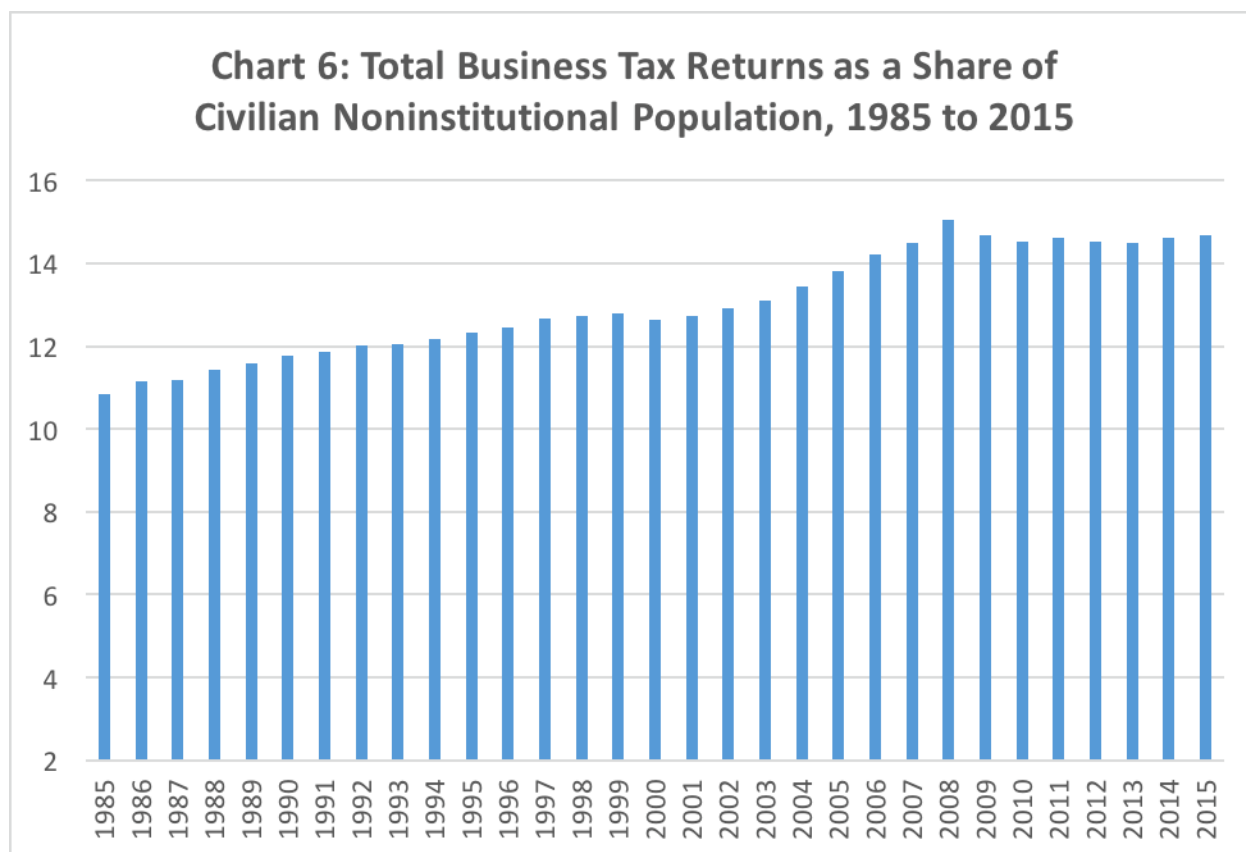
## Business Count By Tax Returns

The broadest measure of entrepreneurship or business activity is the annual count of business tax returns (that is, individual business tax returns plus corporate tax returns plus partnership returns). This data is available from the quarterly IRS “Statistics of Income Bulletin” publication.

Looking back at this data to 1985, growth in the number of businesses and growth in terms of the businesses as a share of the civilian noninstitutional population, as noted in Chart 6, were steadily upwards for more than 30 years, that is from 1985 to 2008.

The actual number went from 19.3 million in 1985 to 35.2 million in 2008. As a share of the population, the number of businesses according to IRS data went from 10.85 percent in 1985 to 15.04 percent in 2008.

However, subsequently, growth in the number of businesses has stalled. The first decline in the number of businesses (again, looking back at IRS data to 1985) occurred in 2009 and 2010, registering 34.6 million in 2010. The number climbed back above 35 million once again in 2012, and registered 36.85 million in 2015. Chart 6 shows that as a share of the population, the decline continued unevenly to 2013, when it registered 14.50 percent. Subsequent growth brought the share back up to 14.69 percent in 2015 – still notably down from the 15.04 percent in 2008.



Source: *Statistics of Income Bulletin*, quarterly publications. Calculations by author.

## Deeply Troubling Trend

Starting up, building and operating businesses are central to a nation's economic well-being. After all, entrepreneurship is the source of innovation, economic growth and job creation. Indeed, the current state of entrepreneurship matters to innovation, economic growth and jobs today, and in the future. After all, the early self-employed and startups of today are the employers of tomorrow.

The measures of business activity examined in this report point to a very troubling trend. At best, there has been declines in entrepreneurial and business activity over the past decade. Other measures point to concerns extending over the past two decades.

Make no mistake, the trend of the past decade translates into millions of lost businesses. For example, consider the following regarding key measures covered in this report:

- **722,000 missing incorporated self-employed.** If the pre-recession percentage high (2008), that is, as a share of the relevant population, had been registered in 2015, there would have been approximately 722,000 more incorporated self-employed than there were.
- **2.2 million missing unincorporated self-employed.** If the recent pre-recession percentage high (2004), that is, as a share of the relevant population, had been registered in 2015, there would have been approximately 2.2 million more unincorporated self-employed than there were.
- **735,000 missing employer firms.** If the recent pre-recession percentage high (2005), that is, as a share of the relevant population, had been registered in 2013, there would have been approximately 735,000 more employer firms than there were.
- **106,000 missing annual startups.** If the recent pre-recession percentage high (2006), that is, as a share of the relevant population, had been registered in 2015, there would have been approximately 106,000 more startups (business establishments less than one year old) than there were in that year.
- **867,000 missing businesses according to IRS tax returns.** If the recent pre-recession percentage high (2008), that is, as a share of the relevant population, had been registered in 2015, there would have been approximately 867,000 more businesses than there were.
- **4.8 million missing businesses.** However, if the previous growth in the business share of the relevant population had continued after 2008 (based on the IRS data), there would have been 4.8 million more businesses in 2015 than there actually were.

**In the end, the entrepreneurship or business activity gap over the past decade or so has led to an estimated shortfall of anywhere from 867,000 to 4.8 million businesses, with an assessment of 3.7 million missing businesses being quite reasonable based on a combination of the most often cited self-employed and employer firms data.**

As a result, U.S. economic, income and employment growth have badly suffered (as has been made clear in other SBE Council “gap” reports, and reinforced in the other reports as they are published).

Should we be surprised by this recent falloff in entrepreneurial and business activity? Unfortunately, no. The policy signals over at least the past eight or nine years have been largely been about increased governmental costs, including uncertainty regarding taxes, regulations, government spending, debt and intrusiveness, trade policy and monetary policy. These policies have created an inhospitable climate for entrepreneurship and small businesses. These policy headwinds and uncertainties must be addressed if entrepreneurship in America is to flourish again.



## **Protecting Small Business Promoting Entrepreneurship**

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