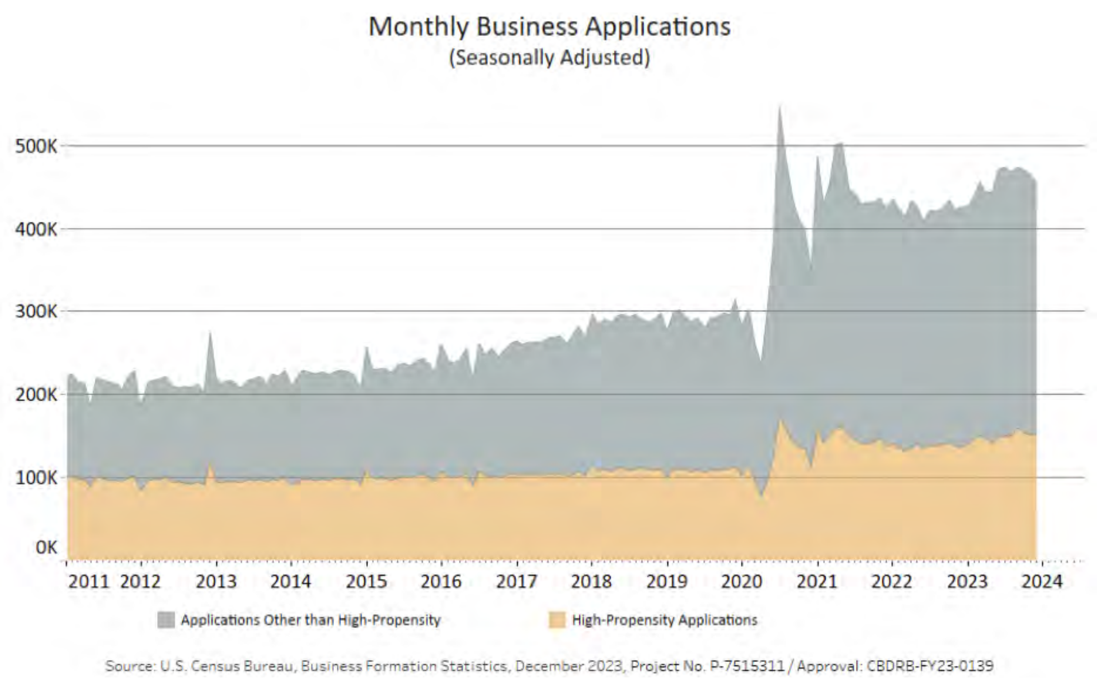
2024 is an Historic Opportunity to Strengthen American Entrepreneurship

As the Covid pandemic reached the United States in early 2020, American entrepreneurship as measured by new business applications plunged. That's exactly what happened during the 2008 Great Recession, so the initial decline was not a surprise. But beginning in May of 2020, new business applications suddenly surged, jumping 26 percent that May, another 27 percent in June, and a whopping 45 percent in July. The surge continued for the remainder of 2020, with 4.5 million business applications filed over the year, a 24 percent jump from 2019 and 50 percent higher than the annual average over the previous decade.

In one sense, the surge, while surprising in its scale, was explainable – when millions of people suddenly lose their jobs, many will launch a new business. Call it "entrepreneurship of necessity." It was our guess at the time that once the pandemic stabilized and the economy re-opened, new business applications would return to previous levels.

But that's not what has happened. New business applications continued at historically elevated levels right through 2021, 2022, and 2023. Indeed, the U.S. Census Bureau announced on January 11th that 457,316 applications were filed in December, nearly 60 percent higher than the 2018-2019 monthly average. Americans filed at total of 5.5 million applications to start new businesses in 2023.



The remarkably sustained surge in new business applications since the spring of 2020 is welcome news for American entrepreneurship. Prior to the pandemic, new business formation had been in decline for four decades. The decline was cause for considerable alarm, given that repeated research has demonstrated that startups account for an outsized portion of the innovations that drive productivity growth and economic growth, and are responsible for virtually all net new job creation.

So, is this the long-awaited turning point in American entrepreneurship – the end of the four-decade decline? In our view, it's too early to be sure. But, clearly, something very significant and exciting is happening. The pandemic, for whatever reasons, has re-awakened the entrepreneurial spirit within millions of Americans.

It might be tempting for policymakers to interpret the business application figures as indicating that American entrepreneurship is healthy again and, therefore, unworthy of their attention. We think that would be a mistake. Rather, we see the rise in the number of Americans taking the risk to strike out on their own and build something new as an historic opportunity – a call to decisive action. In our view, now is the time for policymakers to pursue a bold pro-entrepreneurship and -innovation agenda – one that reinforces the recent surge, supports those that have taken the leap, and encourages others to do the same. Indeed, despite the U.S. economy's recent strength, many economists still anticipate a recession sometime in 2024.

Here are four significant steps that policymakers can take in 2024 to solidify the surge in new business formation and generate new momentum for the U.S. economy:

Pass the Tax Relief for American Families and Workers Act of 2024: For nearly 70 years, American businesses have been permitted to deduct from taxable income 100 percent of research and development expenses in the year those expenses were incurred. This favorable tax treatment promoted innovation and economic growth by powerfully incentivizing critical investments in research and technological advancement.

But when Congress passed the Tax Cuts and Jobs Act in 2017, it changed the tax treatment of R&D in order to partially off-set the revenue impact of the tax cuts. Beginning in tax year 2022, businesses must now amortize R&D deductions over five to fifteen years, dramatically increasing businesses' annual tax liabilities and disincentivizing innovation-promoting investment. Startups are hit disproportionately by the change, as they tend to invest heavily in developing, testing, and improving their product or service.

On January 16th, Senate Finance Committee Chairman Ron Wyden (D-OR) and House Ways and Means Committee Chairman Jason Smith (R-MO) announced a bipartisan, bicameral tax framework that, among other important provisions, would restore first-year expensing of U.S.-based R&D investments. The legislation – introduced as the Tax Relief for American Families and Workers Act of 2024 – should be passed immediately.

Pass the Expanding American Entrepreneurship Act: Launching a new business requires money. Entrepreneurs need money to develop their product or service idea, research the marketplace, develop and implement a strategy for identifying and targeting customers, and, hopefully, begin paying initial employees. Many new businesses – particularly those that have the potential or intent to grow very quickly – rely on investors who provide early-stage capital in exchange for an equity stake in the company. In recent years, the overwhelming share of equity capital has gone to entrepreneurs who are white and male. Women founders receive only about 2 percent of total equity capital, while entrepreneurs of color receive less than 1 percent

On November 17th, Senators Jerry Moran (R-KS), Tim Scott (R-SC), and Mark Warner (D-VA) introduced the Expanding American Entrepreneurship Act. The bipartisan legislation would expand parameters of section 3(c)(1) of the Investment Company Act of 1940 to permit emerging investment fund managers to raise larger funds with a higher number of permitted investors – including more accredited women investors and investors of color – diversifying the investor base and thereby directing more equity capital to women founders and entrepreneurs of color.

Enact National Child Care Policy: Roundtables that the Center for American Entrepreneurship conducts regularly with entrepreneurs reveal that the high cost of reliable child care is a major obstacle to thriving entrepreneurship, particularly among women. A lack of access to affordable child care prevents many would-be entrepreneurs from pursuing their new business idea, and can significantly complicate the entrepreneurial experience, increasing the chances of failure.

Most developed countries heavily subsidize child care and early education, recognizing their value in supporting families and enabling parents to participate in the workforce. A global outlier, the United States is the only industrialized nation with no national child care policy, leaving it to families to struggle and improvise on their own. All 50 states fail the definition of child care affordability established in 2016 by the Department of Health and Human Services, and surveys have repeatedly identified child care costs as the top reason Americans are having fewer children, driving birth rates to a record low and threatening the nation's demographic and economic future.

Expanded access to affordable and reliable child care is a profoundly pro-entrepreneurship, pro-innovation policy imperative. Key aspects of meaningful reform include: 1) making quality child care truly affordable, especially for low-income families; 2) ensuring high-quality and reliable care; 3) increasing the supply and range of childcare alternatives by incentivizing the development of new and innovative childcare solutions; and, 4) improving the economic circumstances of childcare workers, many of whom are women of color who make less than the minimum wage.

Enact High-Skilled Immigration Reform: On August 9, 2022, President Biden signed the CHIPS and Science Act into law. The Act is the most significant innovation-focused legislation in decades and is America's bipartisan game plan to meet the competitive threat from China and win the innovation future. There's just one problem – America lacks sufficient numbers of skilled workers to field the team needed to carry out the plan.

To staff the chip factories and research labs announced since passage of CHIPS – not counting the many other skilled talent implications of the Act – the United States needs an estimated 30,000 to 50,000 new semiconductor engineers over the next five years, a number far exceeding current graduation rates. To fulfill the extraordinary promise of the CHIPS and Science Act and secure America's innovation future, policymakers must act to pass bold skilled workforce development policies – including awarding "graduation green cards" to foreign-born graduates of American universities who pass a national security background check and want to stay, and creating a "Startup Visa" to attract and retain foreign-born entrepreneurs.

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The surge in new business applications is good news for America, but should not be an excuse for policymakers to be complacent. Thriving entrepreneurship is essential to America's economic vitality, but remains a risky undertaking. A third of new businesses fail by their second year, half by their fifth. And most of the barriers and obstacles that have undermined entrepreneurship in recent decades remain.

Now is the time – with the wind at their backs – for policymakers to make strengthening American entrepreneurship a national priority.

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