



Confronting the New Economy

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BIPARTISAN POLICY CENTER

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Introduction

While the 21st century economy holds the potential for incredible growth, individual achievement, and economic mobility, these possibilities are by no means guaranteed to be widely shared. Far too many Americans feel vulnerable in this economy and see few avenues for advancement. Growth in GDP and wages since the Great Recession has been sluggish, and recent technological innovations and improvements in the labor market have not translated into a more robust economic outlook. Future economic competitiveness and performance require the ability to understand a number of key trends contributing to this outlook—from lower productivity growth to the changing demographic makeup of the United States—and adapt.

A chief concern is how to better support the new and growing businesses and entrepreneurs that are vital to innovation and a faster growing economy. In particular, we must recognize that many government programs, policies, and regulations were designed and implemented in an economy far different from the one we have now and will have in the future. This paper sets out to “confront the new economy” by identifying those outdated policy approaches that are limiting the economic potential of our increasingly innovation-driven economy.

We frame this discussion in two parts:

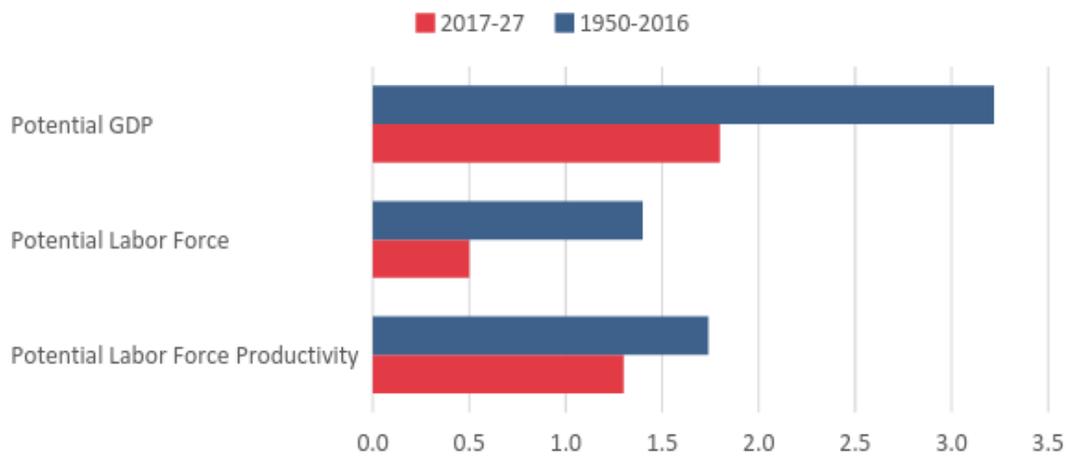
- Assessing the key trends that affect both recently sluggish growth and future economic performance; and
- Identifying specific, outdated policy approaches that either contribute to those trends or, if addressed by policymakers, could mitigate them.

These two sections rely heavily on reviews of existing academic research by staff of the Bipartisan Policy Center and a series of interviews BPC conducted with more than 40 stakeholders, academics, and policymakers. In addition, BPC hosted two roundtable discussions: one in Washington, D.C., with members of the National Small Business Administration, and one in Denver with an array of local business and political leaders. The discussion of outdated policy approaches included in the second part of this paper reflects a synthesis of our information-gathering effort.

Key Trends That Will Affect America's Future Economic Performance

Since 1950, annual growth has averaged 3.2 percent; yet for the next 10 years, annual growth is projected to average 1.8 percent (see Figure 1).¹

Figure 1. Historical and Projected Annual Average Growth



Source: Congressional Budget Office

Instead of a backward-looking and singular focus on the slow recovery since the Great Recession and its causes, we have identified some specific trends concerning future economic performance that can, at least partly, be addressed with discrete policy initiatives. To understand where the U.S. economy is headed, we review the following:

- Shifting demographics;
- Declining productivity growth;
- Declining entrepreneurship and dynamism; and
- The changing nature of work.

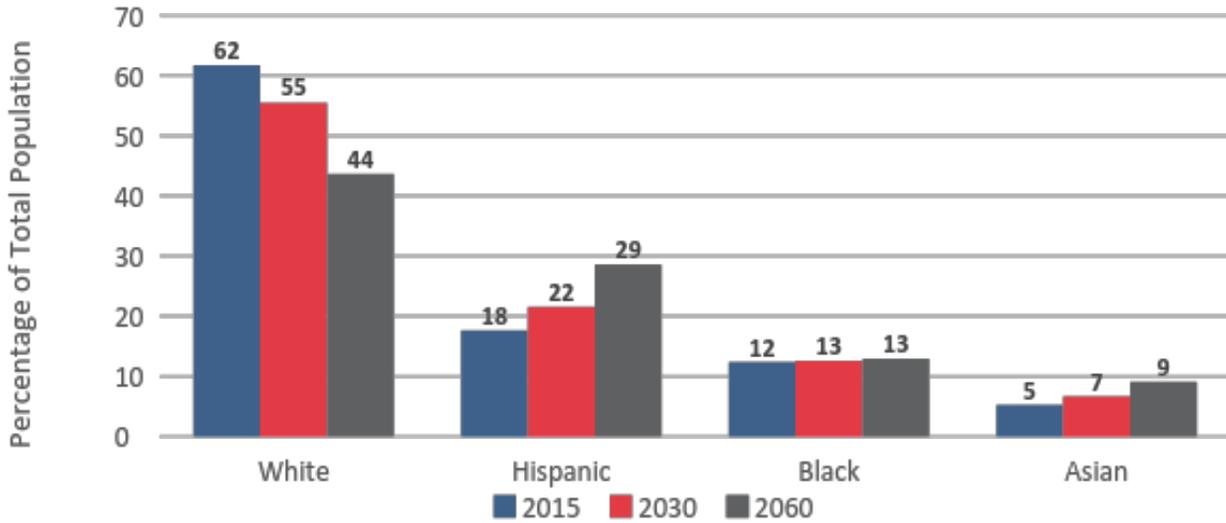
These trends have implications for the level of achievable future innovation and long-term economic growth.

Shifting Demographics

The fact that the U.S. population is increasingly older and more diverse has far-reaching implications. These demographic shifts intersect and influence so many facets of our changing economy, yet current economic policy may not sufficiently take these shifts into account.

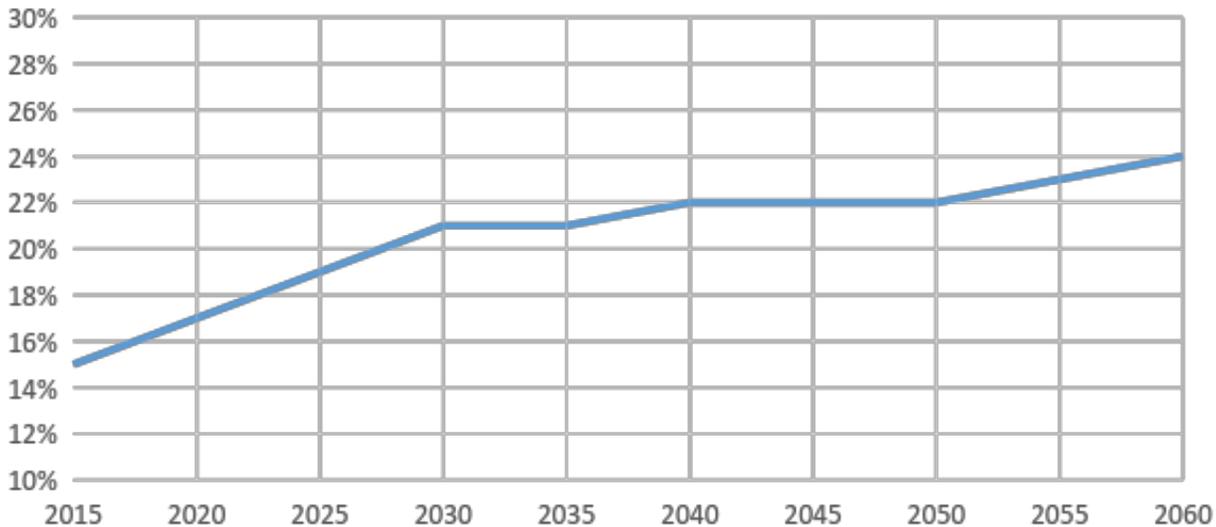
The U.S. Census Bureau has reported that by 2044 the United States will become a plural nation. As shown in Figure 2, the white (non-Hispanic) population will still be the largest racial group in the coming decades, and no single race or ethnicity is projected to have more than a 50-percent share of the total population.² If existing racial and ethnic inequalities in access to credit, accumulated wealth, and mobility, persist or worsen, the United States will be forced to grapple with serious limitations on entrepreneurship, job growth, and equitable economic growth.

Figure 2. Population by Race and Ethnicity, Actual, and Projected



Source: U.S. Census Bureau

Figure 3. Americans Age 65 and Older (As Share of Population)



Source: U.S. Census Bureau

In addition, as shown in Figure 3, the share of the population age 65 and older is projected to jump substantially in the coming decades. Some academics believe this trend may be a key driver of slower economic growth in the future.³ As the BPC pointed out in its report, *America's Growing Senior Population: Assessing the Dimensions of the Demographic Challenge*, “in 2010, those aged 65 to 84 represented 11.3 percent of the population. The U.S. Census Bureau projects that, by 2030, this figure will increase to 17.8 percent before declining slightly to 16.4 percent by 2050. During this same period, the number of older seniors will also increase significantly: in 2010, those aged 85 and above constituted 1.8 percent of the population. By 2030, this figure is expected to rise to 2.5 percent and, by 2050, will increase dramatically to 4.5 percent.”⁴

A number of key economic challenges arise as a result of our aging population. For example, the economy may face a slowdown in productivity growth and in the creation of new businesses, as older more experienced workers leave the labor force. In addition, as the population ages, growing obligations for the nation's pension systems, including Medicare and Social Security, may crowd out new investments and necessitate an increase in taxes or a reduction in other priority spending to meet those obligations. We revisit and discuss some of these impacts throughout this paper.

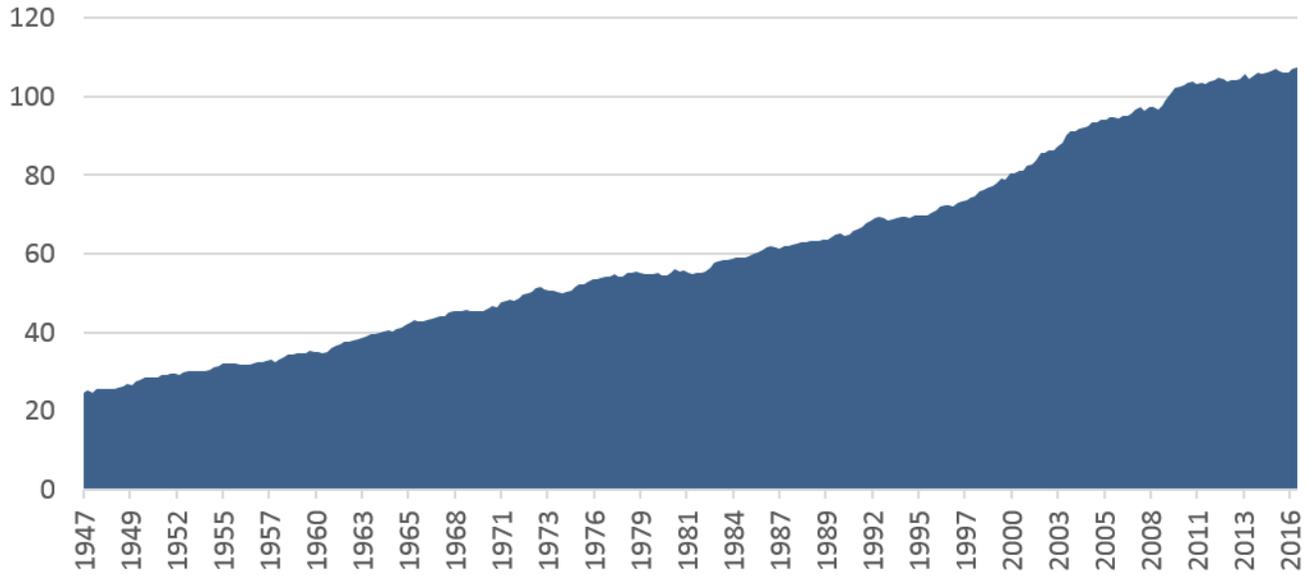
Declining Productivity Growth

Declining productivity growth is a major concern because productivity is the key economic indicator of innovation. Productivity growth also boosts standards of living over the long term. A first-order question is how to define and measure productivity. Two measures of productivity are frequently used—labor productivity and total factor productivity (TFP). Labor productivity is simply Y/N , where Y is real output and N is input (hours or number of workers)—that is, output per unit of input. A number of factors can contribute to productivity growth—physical capital (e.g., investment in equipment and structures), human capital (e.g., workforce knowledge, skills, and experience), natural resources, and technological advancements (TFP growth)—though labor productivity as a measure would not necessarily reveal the contribution of each factor. A country's standard of living depends on the productivity of its citizens because an economy's income is equal to an economy's output.

TFP is the difference between the growth rate of real output (Y) and a weighted average of the growth rates of capital services and hours, providing a crude measure of technological change—if the weighted average of these two inputs is effectively zero, then any increase in output stems from technological advancement, better organization of production, or higher value products and services. Labor productivity and TFP are therefore related, but where necessary we distinguish between the two. Because of year-to-year fluctuations, both measures are generally best measured and understood over longer time periods.

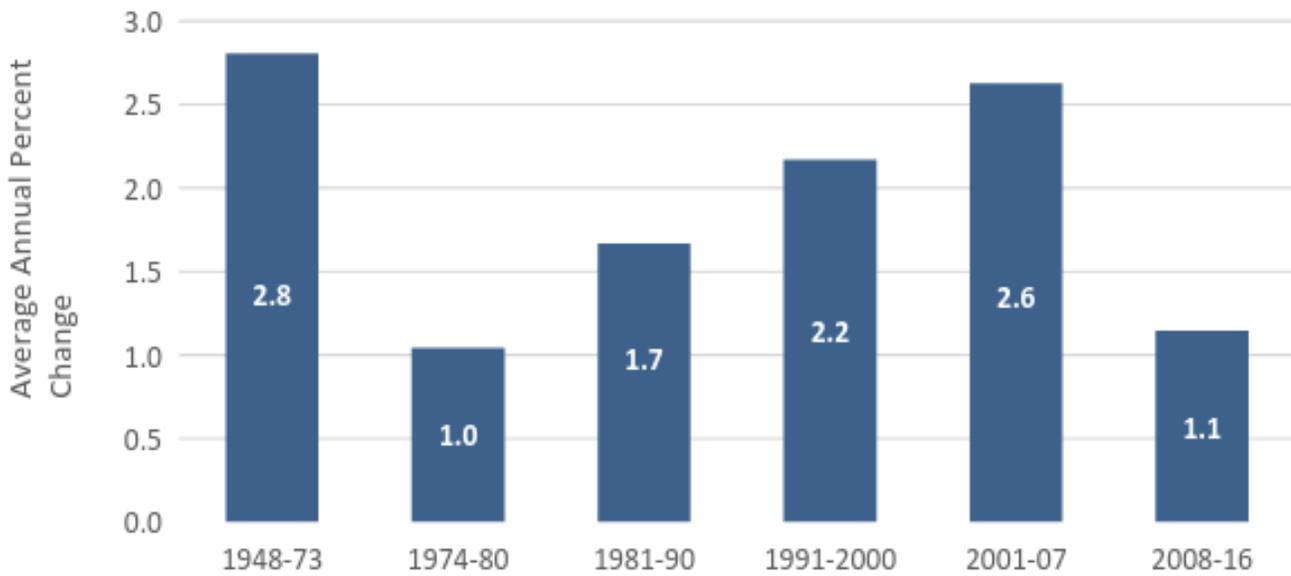
To provide some frame of reference for these measures, Figure 4 shows that real labor productivity has displayed regular, steady growth since World War II. Yet, as shown in Figure 5, a closer look at the rate of annualized productivity growth paints a far less rosy picture.

Figure 4: Business Labor Productivity, 1947 to 2016 (Indexed to 100 in 1999)



Source: U.S. Bureau of Labor Statistics

Figure 5: Business Labor Productivity Growth, 1948 to 2016



Source: U.S. Bureau of Labor Statistics; Based on Author's Calculations

Due to a variety of demographic and larger societal trends, the period directly following World War II was an extremely productive time for the United States, with the economy displaying record rates of growth until a major productivity slowdown hit during the 1970s. Starting in the 1980s, however, the economy experienced steady increases in productivity growth owing mostly to innovation and a more highly-skilled workforce. Beginning with the recession in 2007, this trend of rising productivity changed. As Figures 4 and 5 highlight, after a steady rise, annual growth rates in labor productivity have fallen off in recent years. Productivity growth coming out of the Great Recession has been weak, averaging just 1.14 percent, well below the growth rate seen in the 1990s (2.2 percent) and the early 2000s (2.6 percent).⁵

Academics and experts disagree on the causes and long-term implications of recent trends. Jason Furman, chairman of President Obama’s Council of Economic Advisors, called slow productivity growth “among the more vexing challenges that economists and policymakers face today.” Yet digging into this issue is important, since increasing productivity is essential to growing wages and standards of living. Because the financial crisis and Great Recession so severely impacted the U.S. economy, some have speculated that weak productivity growth, driven by transitional dynamics that are unlikely to affect longer-run growth, is to be expected.⁶ To answer the questions, “What is the main reason for slow productivity growth?” and “Should we be concerned that this is a long-term trend?” we review some leading explanations, including:

- Inaccurate measurements of economic activity;
- Slow growth in investment and innovation;
- Labor market shifts; and
- Weak wage growth.

Measurements of Productivity

Let’s begin with a central question: What accounts for the productivity slowdown when, anecdotally, we hear about constant growth in new technologies and startups? In an economy increasingly moving toward technology-driven services, measuring the value inherent in these enterprises can be challenging. Undercounting their output, notably, can discount growth in productivity.⁷ Some academics have argued that we do in fact live in an age of extraordinary innovation and technological change and that the economy is doing better than the data indicate. Though academics continue to work on developing more precise readings of U.S. productivity and growth, many experts have expressed skepticism that this is merely a measurement issue. Regardless, it would likely be a core policy error to ignore lower productivity growth indicators on the assumption that inaccurate data reporting of U.S. economic activity can explain away recent trends.

Investment and Innovation

In a best-case scenario, some of the slowdown in productivity could partly be a phantom problem caused by inaccurate measurements of economic activity. Yet, according to one counterargument, the new equipment purchased, business models adopted, and investments made to adapt to the information technology advances of the 1990s boosted productivity growth,

but are now subject to diminishing returns.⁸ Some studies have argued that recent technological developments (such as social media, 3-D printing, and mobile apps), even when adjusted for problematic measurements, have not helped raise productivity like some of the transformative innovations of the past (e.g. electricity, automobiles, and the internet).⁹ The exhaustion of major innovations may be one explanation for slow growth in U.S. productivity and could augur a longer-term trend.¹⁰ Other tie-ins between productivity, business investment, and innovation are discussed in the next section and throughout this paper.

Labor Market Trends

Another consideration in assessing the decline in productivity growth focuses on the impact of shifting age demographics in the U.S., including the fall in labor-force participation, as measured by the percentage of the population 16 and older that is employed or actively seeking employment.¹¹ For example, Robert Gordon, an expert on productivity, has hypothesized that slow productivity growth, when coupled with slower population growth and declining labor-force participation, can limit the need for capital formation, weighing on aggregate demand and reinforcing the trend of slower productivity growth.¹²

In a different study, Maestas et al. detailed how an aging population will affect the trajectory of the U.S. economy. The authors note that a 10 percent increase in the fraction of the population ages 60 and over decreases the growth rate of GDP per capita by 5.5 percent.¹³ By their estimates, two-thirds of that reduction is due to slower growth in the labor productivity of workers across the age distribution, while one-third arises from slower labor force growth. This work concludes that productivity growth may slow as older and more experienced workers are replaced by younger, less experienced workers in the U.S. labor market.

Figure 6. Labor Force Participation Rate, 2006 to 2017



Source: U.S. Bureau of Labor Statistics

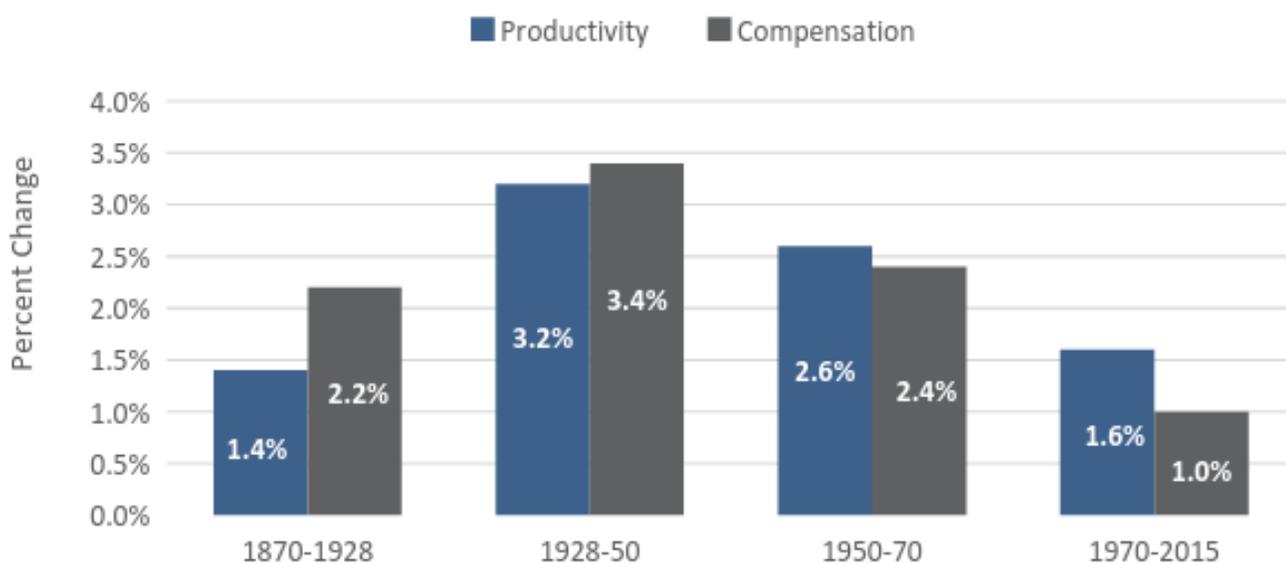
Figure 6 shows a steady decline in labor force participation since January 2006. Recent data points have displayed a mild uptick, but this reversal has not been sustained for long enough to ameliorate fears that it represents merely a momentary pause in a decade-long downward trend.¹⁴ Another potential impact in the years to come, though likely not a key driver of the recent decline in productivity growth, revolves around the fiscal implications of an aging population and declining labor force participation. If tax rates are increased or if spending is dramatically cut to address the looming fiscal crisis stemming from the retirement of the baby boomers, then capital spending (investment) by firms may drop, which could negatively impact productivity growth.

Wages and Aggregate Demand

While productivity growth is often viewed as, and understood to be, a driver of higher wages and higher standards of living, others have recently argued that the opposite is also true: higher wages can boost productivity growth by giving American companies a reason to invest.¹⁵ Those who subscribe to this line of thinking argue that slow wage growth has resulted in weak aggregate demand, creating a climate in which businesses are hesitant to make investments critical to boosting productivity.

Figure 7. Productivity and Compensation Growth, 1870 to 2015

(Annual Real Growth of GDP per Hour and Production Workers' Real Hourly Compensation)



Source: Center for American Progress¹⁶

As shown in Figure 7, annual real growth of GDP per hour (productivity) has been highest when wages were growing fastest. This evidence has been used to endorse wage-raising and demand-boosting policies such as raising the federal minimum wage, modernizing work overtime rules, increasing infrastructure spending, and making collective bargaining easier.¹⁷

This hypothesis, mentioned by multiple stakeholders throughout BPC’s research effort, focuses on the impact of wages on workers and businesses. Yet there is some disagreement about the forces underlying recently weak wage growth. While members of the business community had differing opinions, many viewed labor costs as already exceedingly high—to the point where they negatively impact businesses’ ability to produce and expand. Members of the labor community, on the other hand, cited the need for higher wages to create a strong economic footing from which workers may both produce goods and services and consume them.

According to one labor expert interviewed by BPC, “What is good for the workers is good for the business.” He specifically noted that most workers making the minimum wage need to maintain multiple sources of employment in order to subsist. Employers, meanwhile, call the cost of labor particularly onerous, and deem efforts to raise the minimum wage “a business killer.” The wage conundrum is at the heart of the productivity debate and will be crucial to any attempts to increase productivity and improve the outlook for economic growth.

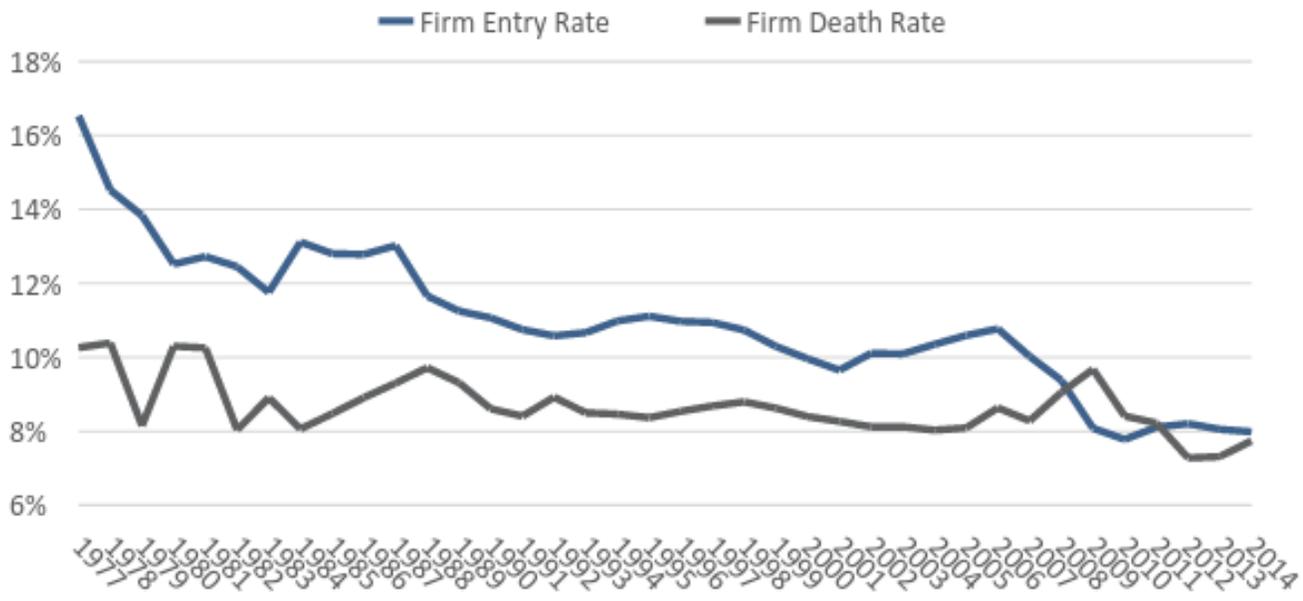
Declining Entrepreneurship and Business Dynamism

Another area of concern flagged by stakeholders, and relevant to the discussion about productivity, is the recent relative decline in entrepreneurship and business dynamism. Business dynamism, in which new firms are created while others contract and are replaced, is widely seen as a critical component of an innovative and healthy economy.¹⁸ Some have speculated that a decline in business dynamism may contribute to lower productivity growth, as fewer young firms introduce new technologies that shift resources away from older, less productive and innovative firms. Entrepreneurialism is also closely tied to economic growth as young firms play a crucial role in the creation of new jobs.¹⁹ According to one study, “Business startups account for about 20 percent of U.S. gross (total) job creation while high-growth businesses (which are disproportionately young) account for almost 50 percent of gross job creation.”²⁰ Long-term economic performance largely depends on innovation and business growth in a handful of sectors from which innovations most often stem. Yet since 2000, both business dynamism and entrepreneurship have seen a marked decline, accompanied by a decline in high-growth young businesses. We review these related trends in turn.

Business Dynamism

While researchers have offered a variety of root causes for declining business dynamism, there is, at least, a consensus that this decline has been happening over the past several decades. For example, Ian Hathaway and Robert Litan found that both the number of new firms created and the rate of job relocation have seen large drops over the past 30 years. Other investigations have resulted in similar findings.²¹

Figure 8. Firm Entry and Exit Rates in the U.S., 1978 to 2014



Source: U.S. Census Bureau, Business Dynamics Statistics; Based on Authors' Calculations

As shown in Figure 8, while the rate of business closures has remained relatively stable, the creation of new business has declined steeply in recent decades. In 1977, 16.5 percent of businesses were less than one-year old, but by 2014 that number was 8 percent. Although this trend has since reversed, from 2009 to 2011 the number of firm deaths surpassed the number of new firm entries.²² While the trend is clear, both the causes and solutions are less straightforward. According to Hathaway and Litan, “Our findings stop short of demonstrating why these trends are occurring and perhaps more importantly, what can be done about it. Doing so requires a more complete knowledge about what drives dynamism, and especially entrepreneurship, than currently exists.”²³

Entrepreneurship

John Haltiwanger and Ryan Decker noted in their 2014 paper on dynamism that, along with a decline in entrepreneurship, there is also evidence that the nature of the entrepreneurial slump has changed. Until 2000, much of the slowdown was concentrated in smaller firms within the retail and service sector industries. After 2000, entrepreneurial decline seemingly accelerated, with noticeable decreases in young, high-growth firms and activity within the technology industry.²⁴ These structural challenges were augmented by the global financial crisis and its aftermath, the effects of which may continue to be felt for the foreseeable future.

Dane Stangler of the Kauffman Foundation identified three major themes that appear to define the slowdown in entrepreneurialism: a general slowdown in the creation of new businesses; a gap in the creation of new firms caused by the Great Recession; and the continued slow growth of firms that came of age during the Great Recession and its aftermath.²⁵

However, it is difficult to pinpoint which specific factors precipitated these larger trends. Here are some of the leading theories:

- **Shifting Demographics.** Some experts point yet again to our nation’s shifting demographics. As baby boomers age and move out of the workforce, the creation of new firms may slow down, especially if millennials have not begun to fill these gaps yet.²⁵ One political economic advisor suggested that “millennials hold the greatest promise for entrepreneurial growth.” (According to this advisor, the overall regulatory environment is “acting as a huge disincentive and is stifling the opportunity that would otherwise blossom.”)
- **Business Consolidation.** Another potential factor is the growing dominance of large corporations in the U.S. economy. Such a trend may cause business growth to be concentrated in the expansion of existing firms rather than the emergence of new startups. This would suggest that new economic activity is not disappearing as much as being channeled into other areas. As one national leader put it, “The current tax structure leaves small businesses to pick up the tab for large corporations—they get all the breaks and loopholes.”
- **Economic and Policy Uncertainty.** The Kauffman Firm Survey, which tracks nearly 5,000 businesses that opened in 2004, provides some insight into the specific challenges faced by startups. “Slow or lost sales” and the “unpredictability of business conditions” were the first and second greatest challenges cited, respectively, each year the survey was conducted between 2008 and 2011.²⁷ In the lead-up to the 2016 U.S. presidential election, the National Federation of Independent Business (NFIB) found that uncertainty among small business owners reached a 42-year high, noting that uncertainty could have a chilling effect on important business decisions like hiring and capital spending.²⁸ Research has shown that high economic policy uncertainty can have a host of tangible impacts; for example, one paper found that such uncertainty slowed the U.S. economy’s recovery from the Great Recession by restraining overall credit growth through bank lending.²⁹ An increasingly fraught and bitter political climate has also contributed heavily to the impression that federal policy may be incapable of producing results. This inertia has deepened the sense of uncertainty for entrepreneurs. In interviews with BPC, stakeholders representing consumers, workers, and businesses uniformly expressed the sentiment that partisan actors are failing to represent their interests.
- **Access to Credit.** Access to credit and capital was also repeatedly identified by those interviewed as a challenge, though it appears to be a more acute barrier for certain demographic groups. Research by the U.S. Small Business Administration finds that African-American- and Hispanic-owned businesses take on less debt from lenders such as banks, and subsequently have lower levels of capital.³⁰ Unlike minority-owned businesses, women business owners were as likely as men to apply for loans in early years of operation. However, women-owned business also functioned with significantly lower levels of capital when compared with male-owned businesses.³¹ The White House recently released a report on entrepreneurship and innovation by women and girls;³² it noted that despite some recent success in expanding access to capital and credit by women, just 3 percent of America’s venture capital-backed startups are led by women. Presently, only about 4 percent of U.S.-based venture capital investors are women. This presents a distinct challenge when looking to encourage entrepreneurialism in the U.S.
- **Cultural Challenges.** One interviewee noted the increasing vilification of businesses over the past five to ten years and suggested that greater appreciation for entrepreneurialism may be helpful in building a culture that encourages innovation.

The Changing Nature of Work

Growth in the U.S. labor market has been polarized—that is, concentrated in both high-skill, high-wage jobs and low-skill, low-wage jobs. Left unaddressed, the U.S. may not be able to meet the rapidly expanding demand for advanced skills, compete on a global scale, or address other trends like declining productivity growth. To better understand this trend, we review two major themes: the gig economy and the growing skills gap.

The Gig Economy

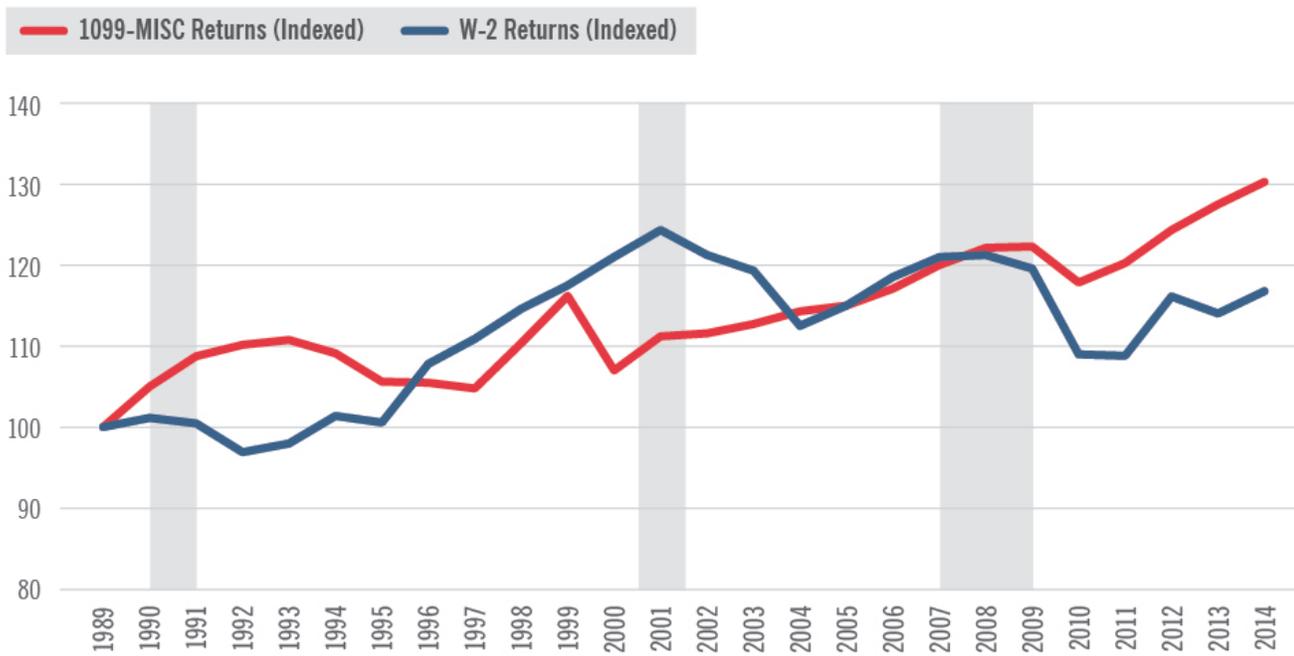
As workers turn to companies like Uber for part-time or temporary jobs that either replace or supplement full-time work, does it still make sense to use the archetypes of the traditional American office worker, factory worker, or farmer as a basis for effective economic policy?

According to a 2015 report from the U.S. Government Accountability Office (GAO), 30.6 percent of the American workforce in 2005 was “contingent,” a category which includes independent contractors, self-employed workers, standard part-time workers, on-call workers, agency temps, and contract company workers.³³ By 2015, this figure grew to 40.4 percent.

Related research from economists Lawrence Katz and Alan Krueger showed that the percentage of workers engaged in “alternative work arrangements”—temporary help agency workers, on-call workers, contract workers, and independent contractors or freelancers—rose from 10.7 percent in 2005 to 15.8 percent in late 2015.³⁴ Their analysis excluded many part-time workers, focused solely on the rise in alternative work arrangements and not standard part-time employment, and used different data and surveys than the GAO report. Katz and Krueger document two other notable findings: (1) workers providing services through online intermediaries (such as Uber) accounted for 0.5 percent of all workers in 2015, and (2) 94 percent of new employment growth in the U.S. economy from 2005 to 2015 appears to have occurred in alternative work arrangements—an increase of 8.6 million jobs compared to an increase of 0.5 million in jobs with standard employment arrangements.

Do these estimates adequately capture the size, nature, and impact of the “gig economy?” The 1099 tax form, which is filed by businesses, nonprofits, and government agencies when compensating nonemployees, is an alternative way to identify nontraditional workers who may not be accurately captured by other measures. As seen in the chart below, 1099 filings have increased since the 2008 recession compared to the traditional W-2 forms filed by full-time workers, especially when indexed to 1989 levels.

Figure 9. Total Form 1099-MISC and W-2 Returns by Year (Indexed to 1989)



*Shaded areas represent recessions as defined by the National Bureau of Economic Research
Source: Internal Revenue Service, Office of Research; Analysis by Bay Area Council Economic Institute

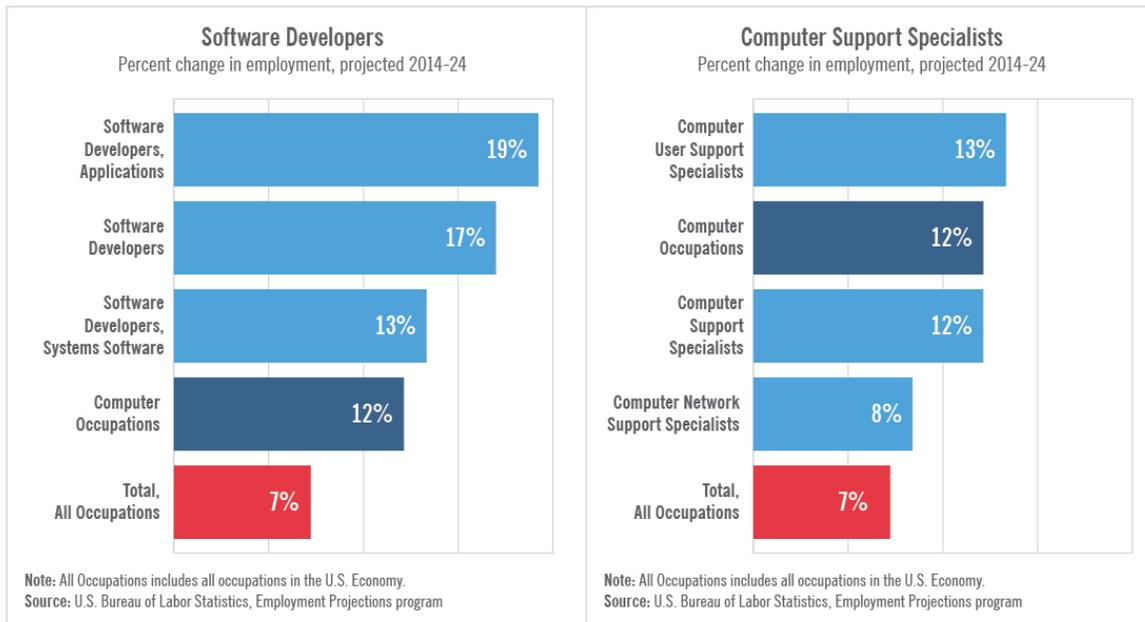
Source: Bloomberg View

To accurately measure the role of workers in the economy, policymakers and other stakeholders may need a better understanding of what kind of work is actually being done and what the implications of those arrangements are. For example, workers increasingly face barriers in acquiring the benefits associated with full-time jobs. It is also more difficult for those with non-traditional sources of income to access credit. As one venture capitalist stated, “Currently, companies like Uber, etc. represent a small number of employees, but in five to ten years will be a big part of the economy, and policymakers are not thinking about it.” Further, there is a qualitative impression that 1099 workers are not among the full-time employed, which may be counterproductive to the development of a more innovative sense of entrepreneurship.

Understanding the Skills Gap

As technology gains prominence in every aspect of American life, the demand for workers with technological skills has risen accordingly (Figures 10 and 11). By 2024, the U.S. will need more than 1.3 million software developers and 850,000 computer support specialists.³⁵ Even companies that are not considered to be in the technology sector still need workers for IT departments, website development and management, and for other technological needs. However, opportunities for learning the skills needed for these positions may not be keeping pace with increasing demand.

Figures 10 and 11. Employment Projections in Select Professions, 2014 to 2024



Source: U.S. Bureau of Labor Statistics

In a recent report about the state of technology training in the U.S., JPMorgan Chase found that while pathways to technology jobs exist, they may not be as effective as they could be. For instance, the traditional model of attending a four-year college can provide needed technological skills, but the curriculum does not always keep pace with new developments in the field. Programs like technology “boot camps” attempt to address the shortcomings of traditional education by providing condensed training programs for less money. However, these programs often are not long or in-depth enough to adequately provide the knowledge and skills that employers expect.³⁶

The result is that jobs remain unfilled, even as unemployment/underemployment remains and workers try and take advantage of opportunities to gain skills and experience. One interviewee zeroed in on this concern, noting that we may be headed toward a period in which “large groups of people are unemployable.”

According to one venture capitalist, the relationship between employer needs and employee skills is further complicated by the advancement of artificial intelligence (AI) technologies. Fast food restaurants, for example, are already experimenting with using robots to prepare and serve food. As rapid technological progress continues, other sectors, like medicine, may also see an increase in tasks delegated to machines. This may increase the need to prepare workers for high-skilled jobs, both because low-skill jobs may become increasingly unavailable and because the introduction of AI technologies may require more people with the technical expertise to operate and maintain those systems.

The need to develop skills suited to a modern innovative economy should inform economic policies that seek to address this skills gap. One leading economist and former high-level government official called skills growth “central” to “any growth strategy.” In his words, “As skills get better with technology, attainment grows faster, and you see wages go up.”

Updating Policy Approaches for the Innovation Economy

Many proposed solutions for broader, faster growth have been nationally debated and discussed for years, including: (1) mandatory spending reform to bring our growing national debt under control, (2) tax code modernization, (3) immigration reform, and (4) trade agreements, to name a few. While the policy opportunities that emerged from BPC’s work certainly touch on these solutions, our aim has been to focus on how policymakers can confront the new economy and address the key trends that may diminish future economic performance.

The overarching concerns that we synthesized from our interviews, roundtables, and research—shifting demographics, declining productivity growth, declining entrepreneurship and business dynamism, and the changing nature of work — are collectively daunting. Yet they also point to opportunities to support existing businesses, encourage and expand entrepreneurship, and create a more broadly inclusive economy. Specifically, we have identified four areas that require an updated approach in light of the changing U.S. economy and appear ripe for consensus-based action:

- Addressing the burdens on new and expanding businesses;
- Building communities to support inclusive growth;
- Expanding the talent pipeline for the innovation economy; and
- Modernizing workplace benefits and social services.

Addressing the Burdens on New and Expanding Businesses

Effective policy should not unnecessarily burden businesses and entrepreneurs, especially new ones. Instead, for example, policymakers could consider targeted tax and regulatory reforms to support business growth, ensure access to capital for the underserved, and promote innovation and new financial tools. These efforts would encourage competition and drive growth by helping to limit the advantages existing firms may have over startups, particularly those advantages that result from government policies that raise the cost of doing business, treat new market entrants less favorably, make entrepreneurial ventures riskier, or overburden new businesses with difficult compliance challenges.³⁷

The Tax Code

Many entrepreneurs and business leaders identify the current tax structure as burdensome for both new and growing businesses. As one small business leader stated, “We are mad as hell and not going to take it anymore.” Until current tax and regulatory structures are reformed, this leader said, small business is in “survival mode,” and would only be able to switch to “growth mode” when the environment of uncertainty and hostility changes. Many of the business leaders we interviewed cited the capital gains structure, which some interpret as being too hostile to small businesses in its current form, as needing reform. Some suggested that the definition of “short term” should be lengthened to three to five years

instead of the current 18 months, so that businesses can take advantage of the short-term rate for a longer time, with the tax dropping to zero after seven to ten years. Such a change, they argued, would encourage investment in new businesses and encourage people to make investments that stay liquid for a long time.

Similarly, in the Kauffman New Entrepreneurial Growth Agenda, economist Aparna Mathur noted that “reducing the minimum corporate income tax by five percentage points leads to a doubling of entrepreneurial activity in different quintiles and in the aggregate” as entrepreneurs incorporate their businesses to take advantage of the lower corporate rate. Other tax reforms that would specifically help small businesses, according to Mathur, include eliminating some business tax deductions and increasing the small business expensing limit so businesses are able to immediately recover costs instead of claiming depreciation deductions over specified periods.

One socially-focused entrepreneur mentioned an interesting proposal regarding the role of philanthropy in entrepreneurship. As recent regulatory changes have made it possible for foundations and retirement plans covered under the Employee Retirement Income Security Act (ERISA) to make economically-targeted investments (ETIs), otherwise known as “impact investments,” an opportunity has arisen for additional capital to be made available to the socially-conscious entrepreneur. One stakeholder suggested opening the ability to make such tax-incentivized investments to high-net-worth individuals to stimulate the creation of more high-impact new businesses.

Research and Development

Investments in research and innovative ideas are crucial to increasing productivity and staying globally competitive. Yet public investment in research and development has declined as a share of GDP over time.³⁸ Spending as a share of GDP peaked during the space race in the 1960s and has been steadily falling since.

These trends have led many to worry about the implications for innovation. In a 2008 paper on research and development, the National Science Board highlighted several concerns, including a decline in scientific publications by authors from American institutions and a decline in the U.S. trade balance in technology fields.³⁹ More recently, the MIT Committee to Evaluate the Innovation Deficit noted that four of the major scientific breakthroughs of 2014—CERN’s confirmation of their Higgs boson discovery, the European Space Station’s comet landing, and development of a new supercomputer and ways to meet food demand by Chinese researchers—were all led by countries outside the U.S.⁴⁰ While what qualifies as a “major scientific breakthrough” is certainly subjective, the point is instructive.

The MIT report and the National Science Board both reference a decline in basic research—as opposed to research with an immediate application—in the public and private sectors. Basic research, as the National Science Board explains, fuels technological innovation and is critical in fostering the vitality of the nation’s science and technology enterprise and the growth of high-skill jobs. The MIT report identifies 35 areas ripe for more investment in basic research, including quantum information technologies, robotics, batteries, and fusion energy.

In a 2013 paper, Walter Valdivia argues that the “business model of licensing university patents to the highest bidder” has been financially unviable for major universities. In response, according to Valdivia, universities have moved toward a more promising system in which they “nurture their own startups and make available their patents to them.” The report advocates for further supporting this model through federal policy.⁴¹

BPC also heard from several interviewees that government as well as private investment in basic research and development is critical to creating the ecosystem necessary to promote economic growth and innovation. A specific focus on how to incentivize small businesses to conduct deeper research and development is one potential avenue. Larger corporations receive 65 percent of the existing research tax credit, though smaller start-up companies often produce higher quality R&D. To encourage smaller labs to innovate, the credit could be simplified to reduce the costs associated with claiming it for smaller organizations.⁴² Additionally, amid concerns about the work and cost of complying with requirements for federal research grants, the GAO identified a handful of opportunities to streamline administrative processes in a recent report.⁴³ As discussed earlier, research and other business investments are critical not only to innovation, but to boosting productivity, competing globally, and raising incomes.

Regulatory Burdens

A number of interviewees expressed frustration with the volume of regulations emanating from Washington, D.C., and insisted that regulatory reform is essential for small business growth and entrepreneurship. These concerns are echoed in research that shows small businesses bearing disproportionately high costs to comply with federal regulations as compared with compliance costs for their larger competitors.

The most widely cited research on this subject dates to a report by Thomas Hopkins in 1995.⁴⁴ That report estimated total annual regulatory compliance costs of \$420 billion to \$670 billion, with small firms (under 20 employees) spending an average of \$5,500 per employee to comply with federal regulations compared to larger businesses (500 employees or more), which spend \$3,000 per employee. Since then several updates to this study have been performed, detailing a worrisome upward trend in regulatory burdens. A 2000 update of the Hopkins study estimated that total regulatory costs exceeded \$840 billion that year, with small firms spending an average of \$6,975 per employee compared to \$4,463 per employee for larger firms.⁴⁵ An update in 2005 estimated \$1.1 trillion in regulatory costs economy-wide, with small firms spending \$7,647 and larger firms spending \$5,282 per employee for regulatory compliance.⁴⁶ A 2010 update showed total regulatory compliance costs of \$1.78 trillion on an economy-wide basis.⁴⁷ The most recent update—in 2014—was produced by the National Association of Manufacturers and estimates an economy-wide cost of \$2.028 trillion.⁴⁸

While the overall burden of federal regulatory mandates comes up often in policy discussions, it is more difficult to tease out specific rules that could be reformed or eliminated to ease the burden. Additionally, proposals to “cut red tape” tend to be promoted by Republicans and opposed by Democrats who argue that regulatory reform equates to a roll back of valuable protections for income security, product safety, environmental protection, worker safety, and other public policy goals. Although regulatory reform can be politically divisive, the concept of lowering regulatory barriers for startups and small businesses is on the minds of business owners and policy experts across the political spectrum.

Access to Capital

Access to capital is a perennial priority for new and existing small businesses and would-be entrepreneurs. The average start-up cost for a small business is about \$30,000 and entrepreneurs usually tap their own savings or their relatives' savings before charging their credit cards or seeking outside capital.⁴⁹ It is worth noting that about one third of non-employer firms and 12 percent of employer firms do not need start-up capital at all.⁵⁰

Established firms are more likely to seek additional capital through banks. These relationships were hit hard by the 2008 financial crisis, and many small business leaders believe their credit through bank loans peaked in 2006 and has steadily declined since then.⁵¹ Loan data support that claim and show a decline in small business loans of more than \$100 billion (18 percent over the past several years).⁵² Some argue that banks were overleveraged by real estate going into the recession and have yet to recover. Others argue that Dodd-Frank regulations make it too expensive for banks to make loans under \$100,000.⁵³ Either way, the consequence is the same—a tough credit market for small businesses seeking additional capital. In fact, a National Small Business Association (NSBA) survey revealed that 69 percent of small businesses reported they were unable to find adequate financing.⁵⁴ Figure 12 below highlights how financing shortfalls grow as firm size decreases.

Figure 12. Financing Application Outcomes

	Fully Funded	Financing Shortfall
All firms	50%	50%
>\$10M	73%	27%
\$1M-\$10M	63%	37%
\$100K-\$1M	45%	55%
Micro (<\$100K)	37%	63%

Source: Federal Reserve Bank of New York, 2015 Small Business Credit Survey⁵⁵

The credit squeeze is especially acute for new firms that have yet to establish a steady revenue stream, and for minority entrepreneurs—a growing and crucial segment of the increasingly diverse American economy. According to the Minority Business Development Agency, “among firms with gross receipts under \$500,000, loan denial rates for minority firms were about three times higher, at 42 percent, compared to those of non-minority-owned firms, at 16 percent. For high-sales firms, the rate of loan denial was almost twice as high for minority firms as for non-minority firms.”⁵⁶

One interviewee who works with Hispanic business owners said that difficulty in accessing capital seemed to be due to larger macroeconomic trends, especially since post-recession lending has tightened. However, he did say that there could be a federal role in making it easier for banks to lend, and suggested that regulators should “really get into the weeds of what is viewed as collateral and how that can be used to increase lending.”

The emergence of non-traditional small business finance and lending is a testament to financial innovation and may prove to be a solution for the growing small business credit gap. Online options for small businesses to access additional capital include peer-to-peer networks, marketplace lending, online factoring and cash advance products, lines of credit, and hybrids of products designed to meet the unique needs of the small business sector. While these products can create greater access and mobility, they also pose privacy and fraud concerns. As innovative products continue to develop, the challenge will be to maintain a regulatory environment that fosters creativity while protecting data and securing assets. As the U.S. population becomes increasingly diverse, existing inequalities in credit access could prove an even greater headwind to entrepreneurial growth.

Occupational Licensing Laws

Loosening licensing requirements for certain occupations has gained traction in recent years on both the left and the right. Proponents of this idea span the ideological spectrum from the White House Council of Economic Advisers⁵⁷ to the libertarian-leaning Institute for Justice.⁵⁸ Occupational licensing laws have expanded rapidly in recent decades. Such laws make sense for a variety of professions, especially where there is a risk to health and public safety if the work is not performed properly. However, critics point out that many of these requirements appear overly burdensome, especially for occupations such as cosmetology or hair braiding that, as the Institute for Justice Points out, can be “entry points into the job market.”⁵⁹ Licensing laws also tend to vary dramatically from state to state, creating hurdles for those looking to relocate to a new area.

In a report for the Hamilton Project, Morris Kleiner offered four suggestions for how states should review their occupational licensing laws and how the federal government can help catalyze these efforts:

- Ensure that occupational licensing laws are guided by cost-benefit analysis;
- Have the federal government incentivize best practices in occupational licensing;
- Minimize retraining requirements for those moving to a new state; and
- Replace licensing for some occupations with a certification or no regulation.

Koch Industries, the multinational corporation owned by Charles and David Koch, is launching a campaign to reform state and local occupational licensing laws. “Many people don’t realize that Koch advocates for policies that could actually hurt our bottom line, but we do so because we believe in creating long-term value, not short-term gain,” said Steve Lombardo, the company’s chief communications and marketing officer.⁶⁰ Company leaders and officials from the Obama administration also met on this issue and expressed similar goals, suggesting a promising foundation for reform.⁶¹

Patent Laws

Intellectual property law is another area where there seems to be room for consensus among liberals and conservatives.⁶² Divisions that do exist are often regional in nature.

In 2014, President Obama identified “patent trolls” as one of the key challenges for his administration’s economic policies.⁶³ Bipartisan bills that attempt to crack down on frivolous patent lawsuits have also gained some traction in the U.S. House of Representatives and the U.S. Senate.⁶⁴ Specifically, the Innovation Act in the House (H.R. 9) and the PATENT Act in the Senate (S. 1137) seek to increase transparency and reform requirements for filing patent suits, among other objectives. Both bills have seen some action in Congress.⁶⁵

The question of how best to reform the patent system remains a topic of much debate. A 2013 White House report suggested three specific reforms: “Clearer patents with a high standard of novelty and non-obviousness, reduced disparity of litigation costs between patent owners and technology users, and greater adaptability of the innovation system to challenges posed by new technologies and new business models.”⁶⁶

Low Wages

In the interviews and roundtable discussions, wages came up frequently as either an obstacle or a building block for a robust economy. Research shows that for some entrepreneurs and business owners, an increase in the minimum wage would increase labor costs and thus would act as an obstacle to business success. One interviewee stated that minimum wage and other policies like paid sick leave would “stifle innovation.” Entrepreneur Devin Robinson suggested that a minimum wage increase would especially harm black entrepreneurs, since they are “more likely to hire a high school drop-out, convicted felon, or recovering drug addict. We are the segment that has less customer traffic and sells less complex items. If we lose that ability to attract workers for less, we lose the chance to build our businesses.”⁶⁷ According to a 2014 analysis by the Congressional Budget Office, an increase of the minimum wage to \$10.10 could result in a loss of about 500,000 jobs.⁶⁸

Still, some economists raise doubts that raising the minimum wage will harm the economy. As discussed previously, they see recent low wage growth as a contributor to declining productivity growth. There is evidence that when fewer workers are hired they stay in jobs longer, thus lowering recruiting and training costs. Further, a seminal 1994 study by David Card and Alan Krueger that examined fast food restaurants in New Jersey and Pennsylvania, analyzed the impact of minimum wage increases in concert with other proximate economic factors and found “no indication that the rise in the minimum wage reduced employment.”⁶⁹

Higher costs for products and services are often cited as another argument against raising the minimum wage, but these assertions are countered by the view that higher wages boost consumption, providing a spark to an anemic economy.

Nick Hanauer, founder of Second Avenue Partners, a venture capital company in Seattle that specializes in early-stage startups and emerging technology, wrote in Bloomberg View that, as an entrepreneur, he sees an increased minimum wage as a way to increase the buying power of consumers rather than restricting business profits. “Raising the minimum wage to \$15 an hour would inject about \$450 billion into the economy each year,” Hanauer said. “That would give more purchasing power to millions of poor and lower-middle-class Americans, and would stimulate buying, production and hiring.”⁷⁰

While minimum wage levels are hotly debated at the national level, states, counties, and cities all over the United States have already begun experimenting with incremental increases. Their examples could provide instructive models with which to examine national policy in the coming years.

Building Communities to Support Inclusive Growth

Infrastructure, affordable housing, and other community-oriented investments are critical to creating ecosystems that support innovation, while enhancing mobility and improving access to neighborhoods of opportunity for lower-income workers. Housing wealth, for example, is an important source of capital or collateral for entrepreneurial ventures. Yet the racial gap in accumulated wealth, in part driven by housing inequities, will likely weigh on entrepreneurship as our nation becomes more diverse. America's many diverse communities are also supported by a complex, interconnected network of infrastructure, which facilitates commerce and enhances quality of life. In particular, dynamic growth requires a well-designed logistical context for conducting business and a workforce with the resources needed to be healthy, safe, and productive. Competitive cities of the future will also prioritize the integration of new technologies into all types of infrastructure, to drive efficiencies, support and connect innovative businesses, and improve access to neighborhoods of growth and opportunity.

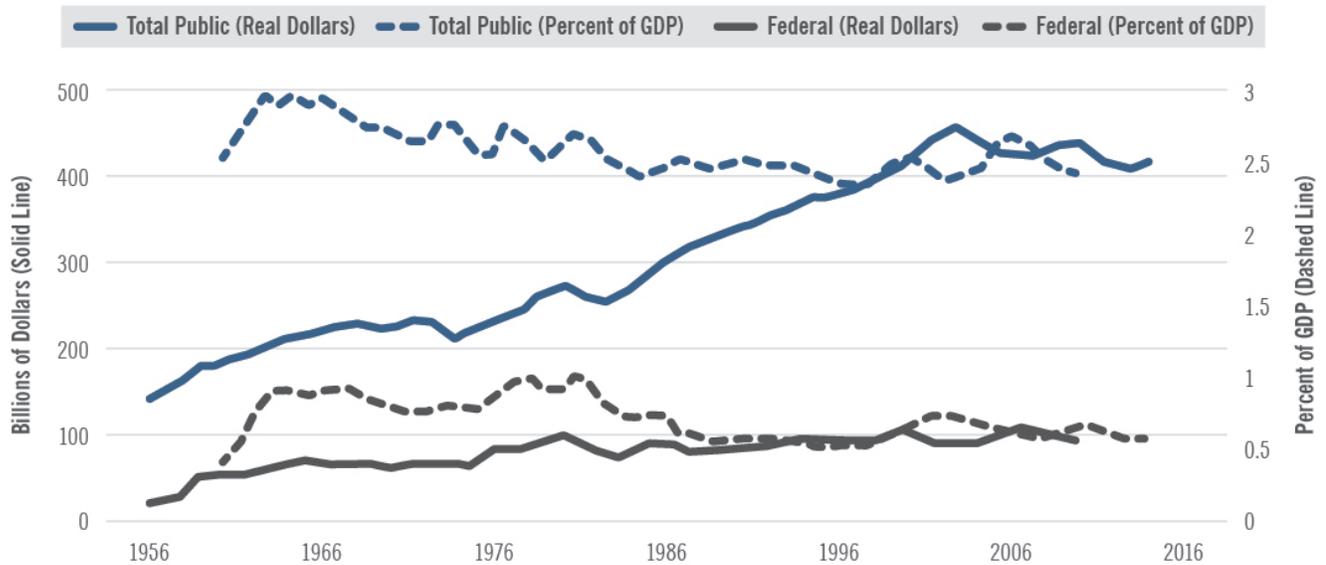
Infrastructure Investment

A key component of growth is building a physical ecosystem that is conducive to entrepreneurship and dynamism. This means investing in the economic, social, and digital infrastructure that companies need to compete in a global and changing economic environment. To ensure that this growth is inclusive, infrastructure investments should also better connect workers with jobs and opportunity.

In interviews with BPC, many experts expressed concern about the current state of U.S. infrastructure. Over the past sixty years, public investment in transportation and water infrastructure reached a high of 3 percent of GDP in 1959 and then has stayed relatively stagnant at around 2.5 percent of GDP since the early 1980s.⁷¹ Most public infrastructure spending is at the state and local level where long-term budgetary challenges have limited the ability to keep up with infrastructure needs, which are a long-term budgetary liability themselves.

Infrastructure like roads, bridges, and airports—everything needed to transport goods and services—directly impacts business competitiveness, access to markets, and the ability to attract skilled labor. Businesses and their workers also need access to clean water, reliable electricity, and fast broadband. Yet the most recent assessment from the American Society of Civil Engineers (ASCE) graded American infrastructure a D+ (the same score as in 2013, and a slight increase from the “D” the nation received in 2009).⁷² Public spending on infrastructure has also generally remained stagnant over the past few decades despite continued population growth.

Figure 13. Public Infrastructure Spending, 1956-2014



Source: Congressional Budget Office

Roads and bridges are often identified as needing infrastructure investment, but research shows that other components of the surface transportation system may need attention as well. One economist pointed out that ports are often left out of these discussions because they don't fit well into the largely state-driven models of infrastructure investment. However, when the American Association of Port Authorities surveyed port leaders, nearly one-in-three said they need at least \$100 million for intermodal upgrades to meet projected 2025 freight volumes.⁷³ Additionally, approximately \$6 billion worth of goods and materials move through ports daily, making investment essential for preventing congestion and keeping goods moving.

While these challenges may be vast, there is a wide range of ideas and reforms to draw upon. In our recent report on modernizing U.S. infrastructure, "[Bridging the Gap Together: A New Model to Modernize U.S. Infrastructure](#)," BPC presented a new model for infrastructure investment that focused on prioritizing economically-beneficial projects, improving standardization and value-for-money analysis, enabling states and localities to pursue a full range of partnerships with the private sector, and leveraging the innovation of the private sector.⁷⁴ Recommendations include exploring public-private partnerships as a means for delivering infrastructure projects, creating new and reforming existing financing tools, and accelerating project delivery and permitting.⁷⁵

William Galston and Robert Puentes from the Brookings Institution have suggested "shoring up existing programs" such as the Highway Trust Fund to rebuild basic infrastructure.⁷⁶ The fund is supported by a federal gasoline tax that has not been raised in more than twenty years, and which has been further undermined by the rise in vehicle fuel efficiency. Additionally, they proposed reforming laws to allow states and local governments greater freedom to address their infrastructure needs, such as raising the cap on passenger facility charges and reconsidering existing restrictions on interstate tolls. These sorts of changes could free up revenue to fund surface transportation projects.

Though discussions of infrastructure often focus on physical structures such as roads, bridges, and buildings, a 21st century economy requires an expanded definition of infrastructure that includes digital tools as well. According to a recent report, while more than 90 percent of low-income families have internet access, many families struggle with low quality service that makes it difficult to fully utilize the web for schoolwork, job searching, and other essential functions. Almost six-in-ten people surveyed for the report who have a home computer say it runs too slowly (59 percent), indicating that they are likely using outdated technology, and 52 percent say their internet service is too slow.⁷⁷

Participants in BPC's Colorado roundtable stressed the importance of high-speed internet. They mentioned that, while broadband internet was widely available in the Denver metropolitan area, the lack of access in other parts of the state posed significant challenges to residents. In another interview, a former elected official gave the example of a small Midwestern town that lost out on a bid to attract a new Honda facility in large part because of the lack of broadband in the community.

Smart infrastructure investments can have a host of benefits including improved health, increased economic mobility, and more. Some have also argued that increased infrastructure spending will cause companies to increase investment in anticipation of a boost in sales resulting from stronger job and wage growth. Increased aggregate demand raises investment and can also help boost productivity. Cultivating a healthy, dynamic economy will require attention to the essential infrastructure that allows employers and employees alike to operate and stay connected to the social and economic systems that drive progress.

Chattanooga, Tennessee provides a great example of a city that has worked to incorporate digital infrastructure into its infrastructure base. In 2010, the city introduced a fiber-optic network called "the Gig" to provide high-speed internet access. The Gig has become part of a multifaceted strategy within the city to promote entrepreneurship that includes the work of entrepreneurial support organizations and an emphasis on the issue by the mayor. Especially notable is the creation of an Innovation District, a 140-acre area that provides workspace for startups and other organizations related to business development. These districts have become popular in other metropolitan areas such as Boston, Philadelphia, and Detroit, and are meant to provide entrepreneurs and existing companies with a space that is attractive to young workers and conducive to business growth.

Collaborative Networks

As the Chattanooga example shows, it is increasingly important to build public spaces and communities where would-be entrepreneurs and new business can connect to share best practices and advocate for themselves with the strength of a group behind them. Such communities have been particularly important for minority business leaders who often face additional barriers to accessing capital and institutional knowledge.

According to one interviewee, an initiative known as the Mayor's Council for Women in Chattanooga had great success in bringing women leaders together to publish two white papers with policy recommendations that were presented to policymakers. The city is currently engaged in a similar effort with a recently-formed Minority Business Task Force, which

is tasked with making policy recommendations that will especially assist minority business owners with getting their business started and expanded.

Leaders gathered for BPC’s Colorado roundtable also specifically cited open access to collaborative networks as a major reason for the success of small businesses in the state. They emphasized the importance of being able to connect with other entrepreneurs and the need for small and large businesses to be able to access a more cooperative, networked supply chain. Similarly, another interviewee saw the private sector initiative called “1 Million Cups” as a promising networking model for entrepreneurs struggling to get started. This initiative involves prompting local communities to have weekly meetings that crowdsource a solution to a particular business problem faced by an entrepreneur.⁷⁸ As the chart below shows, efforts like these are becoming more popular and are thus likely to be replicable in many communities and even across states.

Figure 14. Public Infrastructure Spending, 1956-2014



Source: Kauffman Foundation

Affordable Housing

Increasing the affordable housing supply in urban areas may seem less immediately applicable to business and entrepreneurship than other issues, but research shows that it could potentially have large ramifications for economic growth and dynamism. Addressing regulatory impacts on housing affordability and supply also has a long history of bipartisan interest. From President Reagan’s Commission on Housing in 1981 to the 1991 release of a report by the Advisory Commission on Regulatory Barriers (also known as the “Kemp Commission” in honor of then-HUD Secretary Jack Kemp), and the bipartisan Millennial Housing Commission a decade later, which made removing regulatory barriers to affordable housing a key part of its recommendations, policymakers have searched in a bipartisan and pragmatic way for the best strategies to address this problem.

Factors such as NIMBY-ism and land-use restrictions artificially constrict housing supply and drive up prices for renters and homebuyers. This can limit the ability of workers as well as aspiring entrepreneurs to live in the urban areas that are often at the center of growth, innovation, and opportunity. For instance, a recent series of reports by the nonprofit organization Next 10

found that despite large-scale economic growth in California, workers were leaving the state due to high housing costs.⁷⁹ A small business leader in Colorado mentioned that business leaders were hesitant to build facilities in urban areas where their employees couldn't afford to live.

A wide variety of thinkers and institutions including New York Times columnist Paul Krugman, former Treasury Secretary Larry Summers, and the R Street Institute, a conservative think tank, have all expressed support for rolling back regulations that limit the development of new housing.⁸⁰ To aid states and localities in pursuing this objective, the Obama administration released a housing development toolkit with recommended actions to break down barriers to the production of affordable housing such as zoning, other land-use regulations, and lengthy development approval processes.⁸¹

In a 2016 article from the Kauffman Foundation's New Entrepreneurial Growth Agenda, Brink Lindsey of the Cato Institute suggested three policies for promoting the construction of new housing: prohibiting downzoning until areas reach a set target for new housing units; providing neighbors with tax rebates from revenue from new housing developments; and transitioning from property taxes to land-value taxes to encourage development.⁸² On the federal level, housing vouchers and the Low Income Housing Tax Credit are just two programs that have been proven effective in helping low-income Americans find affordable housing, though both fall far short of meeting estimated levels of need.

Expanding the Talent Pipeline for the Innovation Economy

Workforce development and the need for more highly skilled workers was a concern BPC heard throughout our research and interview effort. Sound tools and training programs are needed to equip individuals with the skills they need to compete in the labor force or to start a business of their own as well as to ensure that employers have access to workers with skills that match their needs.

Workforce Training

There is no shortage of interest in workforce development programs across the ideological spectrum, but creating a coherent and effective national strategy remains challenging.

In a Brookings Institution paper, Elisabeth Jacobs argues that federal job training programs over the last 50 years have largely been underfunded, narrowly targeted at low-income populations, poorly coordinated within the government, focused entirely on supply side issues, and kept distinct from broader macroeconomic policy.⁸³ Her research emphasizes the role that federal policy should play in testing new ideas, providing honest evaluation of programs, and helping to replicate best practices. Information on the benefits of potential programs could also be made available to potential trainees through report cards or career counseling.

In 2014, the Workforce Innovation and Opportunity Act was enacted with bipartisan support in an attempt to operationalize a similar vision. The law seeks to streamline and improve the taxonomy of federal training programs across agencies.⁸⁴ Rules implementing the act were finalized in the summer of 2016, making it too early to determine the ultimate efficacy of this

legislation.⁸⁵ Ideally, new federal workforce training initiatives will take into account the best practices identified by numerous think tanks, including the left-leaning Center for American Progress. In a 2013 report, CAP developed a proposal advocating for increased investment in apprenticeship programs. The report describes these apprenticeships as “a highly effective method of training and education that delivers a big return on public investment.”⁸⁶ The CAP plan proposed a number of ideas for expanding apprenticeships, such as building an online registry of apprenticeships that the public can easily browse and creating a tax credit to incentivize businesses to hire apprentices.

Current workers may also require refresher academic courses in order to succeed in new job training programs or community college courses. To help assist this segment of the workforce, Third Way argues for the creation of mid-career “Prep for Success” programs that would help pave the way for extensive training courses.⁸⁷ In fact, one innovation-focused mayor that BPC interviewed stressed the importance of matching “specific job openings with quickly changing training to get people on the path to the middle class.”

Finally, there may be an opportunity to connect at-risk young adults with programs that promote entrepreneurship. According to a recent poll commissioned by the Association for Enterprise Opportunity (AEO), 45 percent of youths 18-24 years old who are underemployed and not in school expressed an interest in starting a business.⁸⁸ Expanding existing programs that work with young people to develop business skills and programs to create apps and other tools can help introduce people to entrepreneurialism and business opportunities. As the AEO report put it, “Nonprofits could consider partnering with incubators specializing in digital technology to develop apps and perhaps video games that inspire youth—in fun, accessible, relevant ways—on entrepreneurship.”⁸⁹ The next step, as one business leader and philanthropist noted in an interview, will be to introduce the basic concepts of finance and enterprise management at an earlier stage in primary education.

Targeted Education Reforms

Targeted education reforms are another potential avenue for spurring long-term economic growth. Investments in human capital are a critical component of productivity growth.

One interviewee praised the work of Nevada Governor Brian Sandoval who has focused on ensuring that the state’s education system is responsive to emerging economic needs. The interviewee explained that the opening of a Tesla plant in the state and the resulting economic activity has created a large number of new jobs. However, workers need a minimum of an associate’s degree for many of these new positions. Governor Sandoval, a Republican, worked with Democrats in the state legislature to enact legislation to provide more students with access to courses to acquire the technology skills they need to fill these positions.

Venture capitalist Marc Andreessen has articulated several ideas for creating an educational system that could facilitate the creation of more startups.⁹⁰ His ideas include specific entrepreneurial magnet and charter schools, summer entrepreneurship programs, more technology internships for interested students, and interdisciplinary college programs focused on business, technology, and the liberal arts.

A prominent business leader noted that the educational system should be utilized to expose students to entrepreneurial opportunities. “There’s been a trend towards entrepreneurial programs for kids. If you’ve seen your parents or uncle start a business, you may be aware of that opportunity. But if you haven’t been exposed to that you might not know that it was possible.”

Bolstering these ideas, stakeholders who attended the roundtable in Colorado spoke of the need for greater financial literacy among youth, and discussed the need for programs that promote financial literacy beginning at the elementary school level and continuing through secondary and post-secondary schooling.

Research has shown that, in the United States, very few students receive personal financial education beyond the elementary school level. According to a biennial survey conducted by the Council for Economic Education, only 17 states require high school students to study personal finance, and only 20 require the study of economics. The study also shows that state mandates are currently the main driver of financial literacy and economics curricula in schools,⁹¹ though many stakeholders have cited philanthropic efforts and public-private partnerships as additional potential avenues for expansion.

Modernizing Workplace Benefits and Social Services

One theme that arose from BPC’s survey was the question of how workplace benefits and social services can be more effectively distributed in a modern economy. As one interviewee with leadership experience in the public and private sector said, “We need to look at treating people fairly in a way that is competitive.” Portability of benefits was an issue that interviewees from both political parties mentioned as being both important and possibly ripe for action. An economy that meets the demands of the 21st century requires a system of benefits and services that is modernized accordingly.

Health Insurance

In an interview, a leading economist suggested that in a globalized business world where technology frees workers from the traditional work environment, our current system of tying workers to employer-based benefits might no longer make sense. The current employer-provided health insurance system can make it difficult for employees to leave their jobs to start new businesses out of fear of losing access to an insurance policy that they and their families find suitable. This has consequences for a dynamic economy, as workers may stay in jobs that do not fully utilize their potential skills or potential entrepreneurs may decide that forgoing their employer-provided health insurance to launch a new business is too risky.

Some employees already have Health Savings Accounts (HSAs), which involve setting aside money for medical expenses as part of a high deductible plan. Since HSAs are attached to the individual, some argue that they should be expanded as a model for consumer-driven health care, in order to encourage portability and flexibility.⁹²

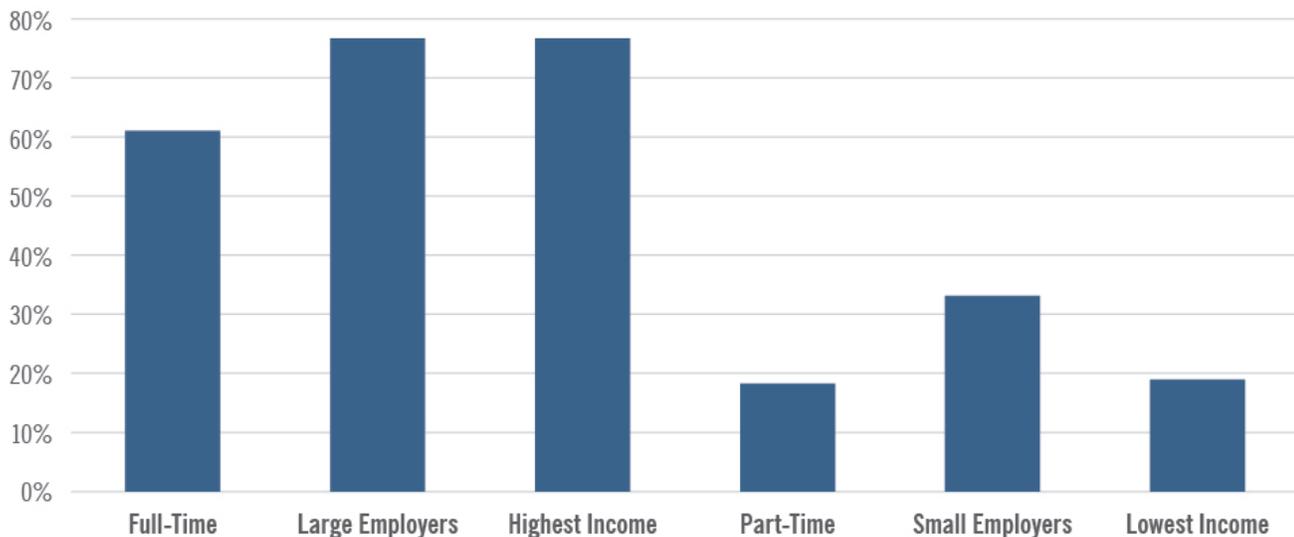
Retirement Savings and Pensions

There may also be room to explore the possibility of making pension and retirement benefits more portable for workers. This was a goal of the former administration—in his 2016 State of the Union address, President Obama said to a joint session of

Congress, “It’s not much of a stretch to say that some of the only people in America who are going to work the same job, in the same place, with a health and retirement package, for 30 years, are sitting in this chamber.”⁹³

Some American workers already utilize Individual Retirement Accounts (IRAs) to save for retirement, and one economist interviewed cited IRAs as a model for portable benefits, since they are attached to an individual rather than an employer. The economist noted that IRAs are not a solution for everyone as they tend to be predominantly utilized by high-income Americans. Low-income Americans often cannot afford to save for retirement at all, as shown in the Figure 15.

Figure 15. Public Infrastructure Spending, 1956-2014



Source: Kauffman Foundation

In order to encourage even a minimal level of savings, the Obama administration launched a free, simplified version of other IRA models. Called “myRA,” the program has no fees and can take small contributions. BPC’s recent report “[Securing our Financial Future: Report of the Commission on Retirement Security and Personal Savings](#),” recommended enhancing the myRA program to provide a supplemental retirement savings option targeted towards irregular, part-time, or low-earning workers.⁹⁴ The report also recommended other policy solutions, like reforming the rules around multiple employer plans, to make it easier for small businesses to provide retirement benefits at a lower financial and administrative cost.⁹⁵

Unemployment Insurance

Another issue raised was whether or not existing social service programs could be reformed to better incentivize entrepreneurship. In France, for example, entrepreneurs can continue to receive unemployment insurance for a limited period of time when they start a business. They are also guaranteed access to the program again if their business fails, changing their risk calculation.⁹⁶ In a study conducted by economist Johan Hombert and colleagues, the policy was linked to a 10 percent increase in business startups across all industries, and showed promise for being replicable in the United States and other

developed economies.⁹⁷ Similarly, researchers have found that 80 percent of participants in Germany’s program of start-up subsidies for the unemployed were integrated into the labor market with relatively high labor income after five years.⁹⁸

State Children’s Health Insurance Program (SCHIP)

In a study of families that had access to the State Children’s Health Insurance Program (SCHIP), economist Gareth Olds found that SCHIP increased the self-employment rate by 23 percent (3.4 percentage points).⁹⁹ These businesses were also more likely to be high-quality ventures, meaning they were businesses that actually hired employees rather than just serving as supplementary income for an individual: according to Olds’ analysis, SCHIP increased the number of incorporated businesses by 31 percent (1.4 percentage points) and the self-employment share of income by 16 percent (5.7 percentage points). The program also increased firm survival rates by 8 percent, firm birth rates by 12 percent, and incorporated firm birth rates by 32 percent.¹⁰⁰

Supplemental Nutrition Assistance Program (SNAP)

Olds performed a similar study to examine what effect, if any, the increase in availability of food stamps in the mid-2000s had on entrepreneurship. After using three statistical strategies to define the relationship, Olds found that “newly-eligible households are 20 percent more likely to own a business as a result of the policy, driven by an increase in new firm birth of 12 percent.”¹⁰¹ As with the SCHIP study, the startups tied to the increase in food stamp eligibility were often high-quality firms: the probability of owning an incorporated business increased by 16 percent as a result of the policy.

Additionally, “the expansion of SNAP also increased the length of the work-year by 2.5 percent and the work-week by 5 percent relative to the baseline—a labor supply increase equivalent to 1.1 million full-time workers.”¹⁰² Interestingly, Olds found that the results were driven entirely by people who were eligible for food stamps but didn’t enroll, suggesting that the policy doesn’t necessarily increase dependency, but encourages entrepreneurs who are held back by uninsured risk. This was borne out during our conversations with a labor leader, who asserted that “leaving aside ideology and interest group politics,” workers are objectively less likely to become business owners if they face food and health insecurities.

Conclusion

From dozens of diverse stakeholders, BPC consistently heard a deep sense of urgency about the need for a more dynamic, innovative, and inclusive economy. And while obstacles clearly exist, and political rhetoric is so often divisive, there is growing consensus around several discrete policy areas that hold promise for meaningful bipartisan action. The challenge will be to align a diverse array of experts who can coalesce around a short list of key priorities designed to strengthen new and growing businesses and the workforce needed to support them. Improving America's long-term economic outlook requires that policymakers confront our new economy. It is BPC's hope to develop bipartisan, broadly shared solutions to key policy areas identified in this report.

Endnotes

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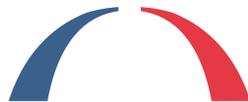
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