



# Promoting Entrepreneurship Among Millennials

By Sarah Ayres Steinberg November 10, 2014

Young Americans want to start their own businesses, but the weak economy, high student-debt levels, and a complicated legal and regulatory framework—as well as traditional views about who can be an entrepreneur and what constitutes entrepreneurship—are holding them back. More than half of Millennials today express a desire to start a business, but fewer of them are creating new businesses than previous generations did at a similar age.<sup>1</sup> As a result, our economy will grow at a slower pace and experience lower levels of both productivity and innovation in the future. Moreover, Millennials, who are already suffering some of the worst consequences of the economic downturn, will miss out on the opportunities provided by entrepreneurship, including creating wealth, improving their quality of life, and making important contributions to the economy.

This issue brief discusses the hurdles preventing today's youth from starting businesses. Generation Progress brought together groups of young entrepreneurs in three different cities—Oakland, California; New York; and Columbus, Ohio—and asked them about their experiences, the challenges they have faced, and what policies they would recommend to remove the barriers of starting a business. This brief discusses the common themes that emerged from these discussions and pinpoints the key issues that should concern policymakers, educators, business organizations, and others who want to increase the level of entrepreneurship among Millennials.

---

The interviews cited in this brief took place in Oakland, California, on April 10, 2014; in New York on April 23, 2014; and in Columbus, Ohio, on May 7, 2014. The roundtables involved 33 people in their 20s and 30s who had started their own businesses.

These key issues include:

- Easing the burden of student-debt repayment
- Developing a strategic plan to boost entrepreneurship
- Understanding social enterprises
- Promoting the development of a diverse entrepreneurial community
- Creating tools for navigating entrepreneurship’s legal and regulatory framework
- Expanding access to early and fast capital

---

## Why entrepreneurship?

Entrepreneurship is important because startups play a key role in the economy.

According to research by the Kauffman Foundation, nearly all of the net job creation in the United States occurs in firms that are less than 5 years old. Between 1977 and 2005, existing firms lost about 1 million jobs per year, while new firms—those in their first year—added an average of 3 million jobs.<sup>2</sup> In 2007, young firms ages 1 to 5 years old—excluding startups—created 8 million of the 12 million new jobs added that year, or about two-thirds of the total job creation.<sup>3</sup>

However, the fact that new firms create most new jobs does not mean that they are inherently better than other firms—or that they create more jobs in the long term. New and young firms make up the majority of all companies in the United States, which means that their large role in job creation is “partly structural.”<sup>4</sup> Moreover, because fewer than half of all startups are still in business after five years, it is not clear whether they have such a large positive effect on job creation in the long term.<sup>5</sup> Nevertheless, economists generally agree that startups play an important role in job creation.

New firms do more for the economy than just create jobs. Startups spur innovation—a key driver of economic growth—and new firms have been shown to increase productivity in the overall economy.<sup>6</sup> This is because startups contribute to “business churn,” which reallocates labor and capital more effectively, preventing stagnation and promoting long-term growth.<sup>7</sup>

In addition to promoting growth in the broader economy, entrepreneurship offers important benefits to individuals. People who start their own businesses gain independence and autonomy. They are able to tailor their work to their own unique skillsets, choose where they do business, set their own hours, and determine their working conditions. If they are successful, they gain jobs that may pay wages superior to what they would earn working for someone else. For Millennials, who are disproportionately unemployed or stuck in low-wage, low-quality jobs, starting a business could offer a quality of life not otherwise available in this economy.

To be sure, not everyone is cut out to be an entrepreneur. A successful entrepreneur must have good initiative, dedication, a high tolerance for risk, and a willingness to work long, hard hours—sometimes for little pay. But for those who have the right characteristics, starting a business can lead to high levels of financial security and personal satisfaction.

Yet entrepreneurship among Millennials is low relative to that of other generations. Looking at estimates of entrepreneurial activity from 1996 to 2012, the Kauffman Foundation found that during this period, young people experienced a decline in business creation rates, even taking into account the fact that these rates have always been lowest among the youngest age group of 20 to 34 years old. During the same time period, business creation rates among older age groups either increased or stayed the same.<sup>8</sup>

But young people want to be entrepreneurs. According to a new poll by the Kauffman Foundation and Young Invincibles, 54 percent of 18- to 34-year-olds either want to start a business or have already started one.<sup>9</sup> This is especially true among young people of color, with 64 percent of young Latinos and 63 percent of young African Americans indicating that they want to start their own businesses.<sup>10</sup> Despite their strong interest, 38 percent of all young people surveyed said that they have delayed starting a business because of the economy.<sup>11</sup>

---

## Common themes

The following sections detail the common themes that emerged from our discussions and the key issues that affect Millennials' desire and ability to start their own businesses.

### Ease the burden of student-debt repayment

Roundtable participants consistently cited student debt as one of the biggest hurdles to starting a business, confirming many experts' view that today's record-high student-debt levels are inhibiting entrepreneurship and broader economic growth.

In a recent report, the Consumer Financial Protection Bureau explained the impact of student debt on small business creation:

*For many young entrepreneurs, it's critical to invest capital to develop ideas, market products, and hire employees. High student debt burdens require these individuals to take more cash out of their business so they can make monthly student loan payments. Others note that unmanageable student debt limits their ability to access small-business credit; some report being denied a small-business loan because of student loan debt.<sup>12</sup>*

The growth of student-loan debt between 2000 and 2010 had a significant negative affect on small business formation during that time, according to a preliminary paper on research by Brent Ambrose, a professor of risk management at Pennsylvania State University, and Larry Cordell and Shuwei Ma, both economists at the Federal Reserve Bank of Philadelphia.<sup>13</sup> Indeed, the topic of student-loan debt elicited groans from our discussion participants. One participant said “I don’t even want to think about it. I’m in forbearance now, but soon that’ll be \$700 a month I can’t invest back in my business.” Student-loan debt prevented another participant from starting a business altogether. “My mom owned her own business for years, and I wanted to follow that path after I graduated,” he said. “But after taking on so much student debt, I realized it just wasn’t the right time to take on more debt.”

Moreover, many young entrepreneurs have a high debt-to-income ratio as a result of their student debt. This makes it hard for them to take out loans and limits their ability to expand their businesses. Yet participants wanted to make it clear that they valued their respective educations. As one participant put it, “It’s a double-edged sword because I wouldn’t be here without my education, but it means I need to be more serious about the paper chase.”

Some had clear ideas about what can be done to reduce the negative effect of student debt on small business creation. One participant stated that “We should allow student borrowers to refinance their debt at the same levels banks borrow from the government.” In the report “It’s Our Interest: The Need to Reduce Student Loan Interest Rates,” the Center for American Progress proposed allowing borrowers to refinance their student loans.<sup>14</sup> Lowering interest rates would allow struggling borrowers and would-be entrepreneurs to lower their monthly payments, freeing up income to invest in new businesses.

Another possibility, also discussed in the recent Center for American Progress report “How Qualified Student Loans Could Protect Borrowers and Taxpayers,” is the establishment of Qualified Student Loans that cannot be discharged in bankruptcy.<sup>15</sup> Student-loan debt, unlike most other debts—such as credit card debt—is generally not dischargeable in bankruptcy. As a result, student debt can follow borrowers to the grave, and those who fail to make payments see their wages garnished, their tax refunds taken, and their Social Security checks seized.<sup>16</sup> Creating Qualified Student Loans—clear and public standards for loans that cannot be easily discharged in bankruptcy—would expand options for troubled borrowers, improve transparency in higher education, and encourage more prudent student lending.

## Develop a strategic plan to boost entrepreneurship

Many organizations—from government agencies, to chambers of commerce, to business schools—aim to support business development. But participants in our discussions believed that these organizations often lack a strategic plan to support entrepreneurship that is both informed by business owners and effectively advertised to businesses. As one business owner put it, “Why isn’t the mayor convening conversations like this [roundtable]?”

With regard to the government’s role, participants noted that the government too often fails to direct resources toward public investments that would most benefit business creation. According to one business owner, “Money in this city should go towards things that raise the quality of life. Everyone wants transit, but nobody wants to pay for it.” Another added, “It’s important to look not just at the costs of public investments, but to look at the cost-benefit ratio.”

Specifically, participants criticized governments for failing to invest in adequate infrastructure. One business owner pointed out that the owner of an Internet business in her city is unable to get reliable Internet access in the downtown business district. Any strategic plan for bolstering entrepreneurship must include investments in the infrastructure necessary to support new businesses.

The subject of the tax code also came up, with participants agreeing that it poses a hindrance to small business creation. As one business owner explained, “We need progressive tax reform. The tax code is too complex and big corporations use expensive lawyers to pay no taxes, while the self-employment [taxation rate] is too high.”

Roundtable participants did not just criticize government for lacking effective strategic plans to promote entrepreneurship; they noted that universities—and business schools in particular—“talk a lot more about connections and resources than they actually provide for entrepreneurs.” One business owner was forced to switch to an online degree after his MBA program failed to offer flexible class times. There was also a sense that business organizations could do more outreach and advertising regarding their services. Discussion participants widely agreed that “the Chamber [of Commerce] and other organizations that provide services to businesses are terrible about saying what services they provide.”

Governments, universities, and business organizations should develop strategic plans to support entrepreneurship. In doing so, they should specifically seek out the input of young business owners and entrepreneurs. The young people in our discussion groups emphasized that it was difficult to make their voices heard over the needs of the established “old boy’s network.” One business owner, explaining how an effort to improve Internet infrastructure in his city fell apart, said “One important person complained and the city caved and said ‘it’s too much work.’ If you aren’t in the old boy’s network, it’s hard to get anyone to listen.”

Organizations should also seek to expand and replicate programs that are proven to help young entrepreneurs. Participants in our discussions highlighted a number of local and national organizations that were particularly helpful when it came to starting businesses. These included the Brooklyn Small Business Development Center, which offers free technical assistance to startups, and NYC Business Solutions, a division of the NYC Department of Small Business Services that offers free services to entrepreneurs, including business courses, legal assistance, and assistance to navigate government.<sup>17</sup> Through its FastTrac program, the Kauffman Foundation provides classroom-based training for entrepreneurs looking to start or grow their businesses.<sup>18</sup>

## Understand social enterprises

Public opinion polling has shown that Millennials are uniquely driven to promote social good, and the entrepreneurs in our discussion groups were no exception. Millennials are civic minded, demonstrating higher rates of volunteerism than their parents showed in the 1970s and 1980s.<sup>19</sup> This commitment to community extends to Millennials' career ambitions. Sixty-one percent of 18- to 26-year-olds polled in a 2011 Deloitte Volunteer IMPACT survey said they would prefer to work for a company that offers volunteer opportunities.<sup>20</sup> Another survey found that more than 90 percent of MBA students are willing to forgo financial benefits in order to work for an organization with a better reputation for corporate social responsibility and ethics.<sup>21</sup> Millennials value job fulfillment over monetary reward, and their job fulfillment is highly correlated with the feeling that their work makes a valuable contribution to society.<sup>22</sup>

Indeed, many of the business owners in our discussion groups had started companies with a social mission, and they expressed that too many traditional organizations set up to support entrepreneurs failed to understand mission-driven businesses. One business owner explained, "I struggled with not having something 'innovative' enough because I'm not developing a product and a lot of things are very product-driven. People aren't oriented to a culture change project, and they kept asking me 'What's the app? What's the new technology?'"

Governments, business organizations, foundations, and universities should recognize that many Millennials want to integrate social change into their business plan, and these organizations should incorporate an understanding of social enterprise into the services they provide. Although traditional sources of financial assistance and business support are often highly profit driven, many young people feel that promoting social change is just as important as making a profit. One business owner explained, "If my business is self-sustaining and can maintain a staff, that's enough for me. Anything on top of that is a bonus."

## Promote the development of a diverse entrepreneurial community

Participants in our discussion groups emphasized that a strong and diverse entrepreneurial community was an important factor in where they decided to locate their businesses. One business owner explained, “Our generation has a sense of community, and I like to feel the rush of community.” He went on to describe visiting a friend in New York City, saying that “They run a ping pong league for tech businesses, and it made me want to be a part of that community. That’s why people go to the coasts, because they have that strong community.”

For the participants in our discussion groups, community building was just as important as financial resources. As one business owner put it, “Money isn’t going to solve all the problems. We need to create strong networks, strong local supply chains, and build real community.”

Young businesspeople want this community to be both inclusive and diverse.

Millennials are the most racially and ethnically diverse generation in our nation’s history, and the business owners we spoke to wanted to see that diversity reflected in their local entrepreneurial communities. Participants complained that segregation and lack of diversity in their cities and communities hinder innovation and creativity. One person noted, “One challenge is segregation in this city. One part of the city has its own community and the other part of the city isn’t connected to the ‘cool kids.’ There’s not enough diversity in the entrepreneurship community. Everybody looks alike.” Others agreed, pointing out that “there are huge demographics that are not engaged,” and “the city is diverse, but ethnic communities are also isolated.”

Business owners and business associations can build community by creating places for entrepreneurs to work and interact with each other, including incubators and accelerators; organizing social events such as competitions and mixers; establishing professional organizations; planning Meetups; hosting festivals and conferences; and initiating any other activities designed to bring together a diverse community of businesspeople.

Participants also felt that mentorship should be part of developing a strong startup community. One young business owner noted that “Not every businessperson wants to give away all their information to the competition, but sometimes more established people are in a position of wanting to be a mentor. Organizations could do more to identify those people and connect them to people who are just starting out.” Other participants pointed out that even structured peer-to-peer mentoring could be valuable, as they often struggle to find the time to network and engage with other entrepreneurs their own age.

## Create tools for navigating state and local legal and regulatory frameworks

While roundtable participants acknowledged that paperwork is necessary to start and run a business, they pointed out a number of areas where governments could help businesses more efficiently navigate their legal and regulatory requirements. One business owner summarized his recommendations simply, saying “Forms should be electronic, you should get a quick response, and you should be able to call a phone number and talk to a human when you have a question.”

Licensing and permitting were cited as an issue that causes needless cost and confusion for new business owners. One startup’s build-out was delayed six months due to the zoning board’s slow response, and another business was hit with an unexpected \$10,000 fine for “a parking lot that wasn’t supposed to be a parking lot,” even though it had been used as one by individuals and businesses for years. One participant said that he wanted to follow the rules, but that “there’s no resource to ask ‘what are the rules I might be breaking?’”

Fortunately, as one business owner pointed out, “open data can make navigating zoning so easy.” For example, San Francisco has partnered with License123 to create a one-stop shop for entrepreneurs and small business owners. Here, they can search and discover all the documentation that they need to start a business in the city.<sup>23</sup> The prospective business owner enters the industry, type of business, and location and is immediately provided with all the city, state, and federal permit and license forms required to start the business. Other cities should consider similarly streamlining their paperwork requirements.

Another challenge that small business owners face is applying for the advanced premium tax credit for health insurance purchased through the Health Insurance Marketplace. Because of the difficulty of estimating income, one new business owner spent four months trying to get health insurance. He explained, “It ended up taking a handwritten letter and talking to a human who has had personal experience with freelancing.” The U.S. Department of Health and Human Services should look into streamlining the process for self-employed workers to apply for the premium tax credit for health insurance purchased through the Health Insurance Marketplace.

## Expand access to early and fast capital

All entrepreneurs must secure financing for their businesses, usually through loans, grants, and venture capital. Participants in our discussion groups raised two issues that posed a challenge when they were raising capital to start their businesses.

The first was access to early seed capital. Traditionally, entrepreneurs are expected to raise money first from their friends and family as lenders or grant-makers look to this early fundraising as a sign of a company’s viability. However, the friends and family of young entrepreneurs who come from less privileged backgrounds—including many young people of color—often do not have significant financial resources to invest in their business ideas. As one business owner explained, “I don’t have friends and family who can kick in thousands of dollars, so the whole entrepreneurship structure doesn’t really work for me.”

The second issue was the amount of time it took to receive funding from various entities. One business owner described a “nightmare experience” with the Small Business Administration in which it took five months after being approved for a loan to actually get the funding. Our discussion participants also criticized private foundations. They pointed out that “the grant world is a job in itself” and described the “long, difficult process” of applying even for relatively small grants of less than \$10,000.

At least one foundation, the John S. and James L. Knight Foundation, is experimenting with fast financing for startups. After submitting a five-minute description of their idea, applicants hear back from funders within four weeks regarding interest in their projects.<sup>24</sup> Foundations should consider creating similar programs that offer quick turnaround for fast-moving ideas, especially those related to digital innovation.

---

## Conclusion

Millennials face no small share of challenges in today’s economy, including high unemployment levels, low-wage jobs, ever-increasing college costs, and crippling student-debt levels. Boosting entrepreneurship is key to growing the economy as a whole and to creating financial opportunities that this generation of young people might not have otherwise. Promoting startup creation among Millennials will require action from government, industry, private nonprofits, and entrepreneurs themselves.

*Sarah Ayres is a Policy Analyst on the Economic Policy team at the Center for American Progress.*

---

## Endnotes

- 1 Robert W. Fairlie, "Kauffman Index Of Entrepreneurial Activity" (Kansas City: Ewing Marion Kauffman Foundation, 2012), available at [http://www.kauffman.org/~media/kauffman\\_org/research%20reports%20and%20covers/2013/04/kiea\\_2013\\_report.pdf](http://www.kauffman.org/~media/kauffman_org/research%20reports%20and%20covers/2013/04/kiea_2013_report.pdf).
- 2 Ewing Marion Kauffman Foundation, "The Importance of Startups in Job Creation and Job Destruction" (2010), available at <http://www.kauffman.org/what-we-do/research/firm-formation-and-growth-series/the-importance-of-startups-in-job-creation-and-job-destruction>.
- 3 Dane Stangler and Robert E. Litan, "Where Will The Jobs Come From?" (Kansas City: Ewing Marion Kauffman Foundation, 2009), available at [http://www.kauffman.org/~media/kauffman\\_org/research%20reports%20and%20covers/2009/11/where\\_will\\_the\\_jobs\\_come\\_from.pdf](http://www.kauffman.org/~media/kauffman_org/research%20reports%20and%20covers/2009/11/where_will_the_jobs_come_from.pdf).
- 4 Dane Stangler and Paul Kedrosky, "Neutrality and Entrepreneurship: The Structural Dynamics of Startups, Young Firms, and Job Creation" (Kansas City: Ewing Marion Kauffman Foundation, 2010), available at [http://www.kauffman.org/~media/kauffman\\_org/research%20reports%20and%20covers/2010/09/firmformationneutrality.pdf](http://www.kauffman.org/~media/kauffman_org/research%20reports%20and%20covers/2010/09/firmformationneutrality.pdf).
- 5 Robert Ray Dilger, "Small Business Administration and Job Creation" (Washington: Congressional Research Service, 2013), available at [http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=2019&context=key\\_workplace](http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=2019&context=key_workplace).
- 6 Douglas Holtz-Eakin and Chihwa Kao, "Entrepreneurship and Economic Growth: The Proof Is in the Productivity." Working Paper 50 (Syracuse University Center for Policy Research, 2003), available at [http://www.maxwell.syr.edu/uploadedFiles/cpr/publications/working\\_papers2/wp50.pdf](http://www.maxwell.syr.edu/uploadedFiles/cpr/publications/working_papers2/wp50.pdf).
- 7 John Haltiwanger, "Job Creation and Firm Dynamics in the United States." In Josh Lerner and Scott Stern, eds. *Innovation Policy and the Economy*, vol. 12 (Chicago: University of Chicago Press), available at <http://www.nber.org/chapters/c12451.pdf>.
- 8 Fairlie, "Kauffman Index Of Entrepreneurial Activity."
- 9 Ewing Marion Kauffman Foundation, "Young Invincibles Policy Brief" (2011), available at [http://www.kauffman.org/~media/kauffman\\_org/research%20reports%20and%20covers/2011/11/millennials\\_study.pdf](http://www.kauffman.org/~media/kauffman_org/research%20reports%20and%20covers/2011/11/millennials_study.pdf).
- 10 Ibid.
- 11 Ibid.
- 12 Rohit Chopra, "Student Debt Domino Effect?," Consumer Financial Protection Bureau, May 9, 2013, available at <http://www.consumerfinance.gov/newsroom/student-debt-domino-effect/>.
- 13 Brent W. Ambrose, Larry Cordell, and Shuwei Ma, "The Impact of Student Loan Debt on Small Business Formation." Working Paper (Pennsylvania State University and the Federal Reserve Bank of Philadelphia, 2014), available at [http://papers.ssrn.com/sol3/Delivery.cfm/SSRN\\_ID2417676\\_code17092.pdf?abstractid=2417676&mirid=1](http://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID2417676_code17092.pdf?abstractid=2417676&mirid=1).
- 14 Anne Johnson and Tobin Van Ostern, "It's Our Interest: The Need to Reduce Student Loan Interest Rates" (Washington: Center for American Progress, 2013), available at <http://americanprogress.org/issues/higher-education/report/2013/02/13/53061/its-our-interest-the-need-to-reduce-student-loan-interest-rates/>.
- 15 Joe Valenti and David Bergeron, "How Qualified Student Loans Could Protect Borrowers and Taxpayers" (Washington: Center for American Progress, 2013), available at <http://americanprogress.org/issues/higher-education/report/2013/08/20/72508/how-qualified-student-loans-could-protect-borrowers-and-taxpayers/>.
- 16 Federal Student Aid, "Understanding Default," available at <https://studentaid.ed.gov/repay-loans/default> (last accessed June 2014).
- 17 NYC.gov, "Everything You Need To Know About Paid Sick Leave," available at <http://www.nyc.gov/html/sbs/nycbiz/html/home/home.shtml> (last accessed June 2014).
- 18 Ewing Marion Kauffman Foundation, "Kauffman FastTrac," available at <http://fasttrac.org/> (last accessed June 2014).
- 19 "Youth Volunteering Rate Much Higher than in the 1970s and '80s" CIRCLE, May 3, 2011, available at <http://www.civicyouth.org/youth-volunteering-rate-much-higher-than-in-the-1970s-and-80s/>.
- 20 Deloitte, "Deloitte Volunteer IMPACT Survey" (2011), available at [http://www.deloitte.com/assets/Dcom-United-States/Local%20Assets/Documents/us\\_2011DeloitteVolunteerIMPACTSurvey\\_datatable\\_060311.pdf](http://www.deloitte.com/assets/Dcom-United-States/Local%20Assets/Documents/us_2011DeloitteVolunteerIMPACTSurvey_datatable_060311.pdf).
- 21 David B. Montgomery and Catherine A. Ramus, "Corporate Social Responsibility Reputation Effects on MBA Job Choice." Working Paper 1805 (Stanford University Graduate School of Business, 2003), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=412124](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=412124).
- 22 iOpener Institute for People and Performance, "Job fulfillment, not pay, retains Generation Y talent" (2012), available at [http://www.iopenerinstitute.com/media/73185/iopener\\_institute\\_gen\\_y\\_report.pdf](http://www.iopenerinstitute.com/media/73185/iopener_institute_gen_y_report.pdf).
- 23 City and County of San Francisco, "San Francisco Business Permits and Licenses," available at <http://sf.license123.com/> (last accessed June 2014).
- 24 John S. and James L. Knight Foundation, "Apply for Funding," available at <http://www.knightfoundation.org/apply/> (last accessed June 2014).