Why Are So Few Millennials Entrepreneurs?

There’s a popular trope right now that a ton of young people are founders and entrepreneurs. Thanks to a handful of young founders with a disproportionate impact (ala Mark Zuckerberg) and cultural figures like HBO’s *Silicon Valley,* you can easily trick yourself into believing that entrepreneurship is all the craze among young people. Hacker meetups, entrepreneurship clubs and majors on college campuses, and the sudden growth of incubators and accelerator programs can present some sexy fodder for this case.

But this is all misleading. Entrepreneurship among young people is actually relatively *uncommon.* Relatively few young people today own stock in a private company – and a good chunk of those who do likely aren’t entrepreneurs anyway, but rather work for companies who issue equity to their employees.

According to the *Wall Street Journal* (behind a paywall, google the title to gain access to the article), the percentage of young Americans who are entrepreneurs dipped to less than 4% in 2015:

> *Roughly 3.6% of households headed by adults younger than 30 owned stakes in private companies, according to an analysis by The Wall Street Journal of recently released Federal Reserve data from 2013. That compares with 10.6% in 1989—when the central bank began collecting standard data on Americans' incomes and net worth—and 6.1% in 2010.*

Americans today are the most regulated and taxed in the country's history.

The *Journal* offers a couple of hypotheses as to what is behind the dip in entrepreneurship among young people, including stiffer competition in the age of the Internet, lower savings rates among young people in the aftermath of the recession, a decreased appetite for risk, and changes in bank lending policies. These all are possible contributing factors, but I suspect that formal institutions play a larger role in the decline in business ownership.

Between local, state, and federal regulations placed on everything from who is allowed to braid hair to who can tell you what color to paint a wall and where to place a door and a schooling culture and system that encourages young people to waste away the first 22-30 years of their lives away from the market, the systems placed upon young people today create a climate extremely hostile to entrepreneurship and economic growth.

Regulated To Economic Death

Americans today are the most regulated and taxed in the country's history. While some tax rates have dropped in recent years, they've been offset by increases elsewhere and the unprecedented and massive growth in the bureaucracy. It's harder today to simply start a business because of the number of regulations with which one must comply. It was once possible to start a business whenever you realized you were on to something that solved problems for people and for which they would pay you, but the immense regulation of small businesses today makes the barrier to entry so much higher that plucky young upstarts are much less likely to be able to get off the ground.

A few decades ago, Tina may have started a small salon out of her basement when she realized that she had a knack for designing nice and fun haircuts for her friends and family and also realized that this could earn her some extra money for her kids. She'd clear some space away in the basement, put up a sign advertising her service, and even have her nephew man the front desk as business picked up. Not so today. Today, she'd have to pass a number of boards and certifying examinations saying that she is qualified to provide this service (never mind if customers thought she was qualified – it was her competitors who would judge her boards and exams), get a commercial license from her local government, incorporate as a business, get a federal EIN for tax purposes, buy a regulation-friendly sign, and hire staff at a much higher price than her nephew was willing to do the work. And that's just to get off the ground and get started.

Is it any wonder that Tina doesn't go into business today?

Taxing Investment

One of the most nefarious taxation schemes to small business and entrepreneurial growth is the capital gains tax. Used in this election cycle to refer to taxes on "hedge fund managers" (a boogeyman of choice in Election 2016), the capital gains tax is, simply put, the tax on gains from investments. This applies to all sorts of investments, not just millions of dollars made from trading in some dark room like in *The Wolf of Wall Street.* If you flip a house, you have to pay a capital gains tax. If you invest in commodities (i.e., oil, gold, silver, sugar, copper), you have to pay a capital gains tax. If you start a business that issues dividends, you have to pay a capital gains tax.

Most investments (including launching a small business) come with a certain level of risk and are only made if the would-be investor can expect a minimal growth on the payout. If they know that half of their profits are going to be taxed away by the feds and the state government, many people will decide to forego the investment in the first place. Why work twice as hard at creating a profitable business so that you can keep just as much (if not less!) than a waged job would provide?

I have a good friend who flipped a house when he was 16 years old. He and a few friends put all the money they had saved up together to buy an old house. With a loan from the bank, they owned the house and renovated it heavily. They ended up selling it for a 3x ROI. By the time the state and federal taxes were through, they each received a few thousand dollars over their initial investment. At that point, *it would have been wiser to go work at McDonald's for a year* rather than work on the house.

People invest less when they know that more of their returns will be taken from them.

If you have to pay an income tax and a capital gains tax on everything that you worked so hard to build as a small businessperson, what incentive remains to start in the first place? Sure, there are stories about being the one in charge of your work and how good that feels, but you have to pay your bills at the end of the day. Young people know this too well after years of little-to-no financial education and then seeing the FICA taxes on their paychecks the first few times.

Occupational Licensure and Cost Of Working

It's not uncommon to have to pass tests in certain states in order to do your trade. If you're a doctor or an airline pilot, this might make intuitive sense. But what about a florist? Or a hair braider? An interior designer? How about these 102 lower-income occupations?

Defenders of occupational licensure will usually find fringe cases where being “properly qualified” to do a job would have supposedly prevented a negative outcome or will point to how hard they had to work to get to where they are today, but these licenses are almost always just some kind of rent-seeking by firms currently in the market trying to keep out potential competitors. Most of these boards and exams are designed and/or judged by existing firms (would-be competitors) and can be extremely costly.

Going back to our hairdresser, Tina, she would have to pass her state qualifications before she can dress hair for people. If she wanted to do cutting at her shop, there’s a good chance she’d have to pass another set of tests and requirements before she can offer that radical service. This means she’ll have to find the time to go to classes, the money to pay for classes and offset the cost of not working while taking classes, and hope that she passes the examination at the end of the classes.

She may, then, be forced to join a union and pay union dues on top of everything else. (Consider this case of a woman who wasn’t even trying to launch a caretaking business and was forced by the SEIU to join a caretakers' union while caring for her ill son.)

Growing Your Business

Let's say you're a young person who has decided to bear the brunt of the capital gains tax on top of an income tax, the brunt of the regulations declaring how you can and cannot make your living, and even the brunt of any occupational licensure, now it's time to build your business. After operating for a few months, you realize you could use an extra set of hands around your studio to help organize and clean up. You have a friend who is willing to do it in his spare time for a little gas money on the side.

Not so fast! This gas money doesn't cover the minimum wage that your friend is entitled to by law. If you fail to pay him this and the department of labor finds out, you'll be slapped with fines making business impossible for a firm of your size.

So you decide to pay him a minimum wage. Your margins continue to shrink but you could use the extra hands around. As you grow, you could use a second specialist to join you. You have to cut your friend in order to pay for the specialist. The combined cost wasn't worth the marginal addition in value.

It's time to open a second location. Hooray! You've been impressive in your growth and can reinvest some of your profits into a new location. You'll employ more people, serve more happy customers, and all the while grow as a business.

You want to move into the next county over where there is a larger customer base. You find the property, have an agent hired, and are ready to go when you look into the regulations. This new county requires a number of additional licenses to do business and levies a county tax on "corporations." The voters likely thought this meant some company that has offices all over the world and employs people in suits to eat babies – but it turns out that your business is, too, a corporation. You pull back your plans for expansion and settle on staying in your county.

Tech: A Free Domain?

Young people are more likely to take a “safe” and “stable” job than own a business, recent data indicate.

The heavy regulations and taxes placed on trade-based and investment-based businesses might explain why more young people are interested in launching tech companies instead of these traditional operations. Government regulators are notoriously slow to figuring out new technologies (I still have to pay my municipal sewage bill by mail) and the decentralized, low-cost nature of the Internet makes it harder to levy regulations on firms based there instead of a brick-and-mortar location. It should be no surprise, then, that this area is more prone to seeing startups than elsewhere. The regulations levied on a digital marketing firm are fewer than those of a traditional ad agency or for a logistics app instead of a taxi service. Software engineering is a totally new trade compared to construction, and the forces at play stifling construction have yet to develop for software engineering.

As government regulators and rent-seekers learn the ropes of Internet-based firms and as their tracking technologies improve, expect to see it become much harder to create a tech-based product and company.

Drowning in Debt

Legal and regulatory barriers to entry likely discourage a good number of would-be entrepreneurs who are lucky enough to get that far in the planning process. Unfortunately, for more and more young Americans, debt from student loans takes a higher priority than entrepreneurial planning.

Increasing costs of college combined with easy-money from government-backed agencies and banks have made it that around 71% of graduates in 2015 had student loans (up from 64% in 2005 and up from < 50% 20 years ago). The average borrower in 2015 has more than $35,000 in student loan debt. (source) And the trends are just pointing to these numbers increasing.

Launching a risky venture with no guarantee of return on investment is hard enough without debt – it’s nearly impossible when you have hundreds of dollars of student loans to pay back every month. Even if you can get the loans deferred, you still have to worry about whether or not you’ll get to the income levels needed to pay it off in the future.

The Philadelphia Fed reported a strong negative correlation between business formation for businesses with one to four employees and student loan debt. Similarly, areas with a high amount of student loan debt also see the smallest growth in small businesses.

Most small businesses are funded with personal debt in the form of small loans from banks and acquaintances and credit card debt, not huge venture capital pushes as depicted in recent media. Crushing student loan debt makes it harder to manage a $10,000 line of credit on a credit card or a loan from a bank.

But if we recall the WSJ report showing the decline in business ownership between 1989 and 2015, we'll see that the biggest dip happened *before* the recent spike in outstanding student debt. The growth in lifetime-crushing student debt likely contributes heavily to the decline in the past 15 years, but the fact that a large dip happened before this period might indicate that **the problem isn't that fewer people can't start businesses** but rather that **people don't want to start businesses**. (source)

Young people are more likely to take a "safe" and "stable" job than own a business, recent data indicate. There are a variety of additional factors that influence this, but one of the largest is the level at which young people are schooled. The current generation of recent graduates and young professionals is more schooled than any generation before them. Despite this, a growing skill gap and discontentment with work and personal life plagues them.

An actual screenshot of the Google results for "Millennials are" when doing research for this post.

Over-Schooled And Over-Coddled: Risk

The preference of a "safe" and "stable" job (assuming there is such a thing) over owning a business is likely a consequence of being more risk averse than prior generations. Young people today grew up in a weird paradoxical world of being rewarded for everything and being instilled with an intense fear of failure.

Being told that you deserve a reward just for participating creates an odd sense of resentment to even trying in most children. Children are smart enough to know when they are being talked down to, and adults giving them awards for not doing their best feels patronizing, even to a six year old. Why work harder if it is just going to result in the same kind of reward? Why try to get somebody to praise you if they'll do it when you fail anyway?

Getting your foot in the door and gaining experience as a young person is harder than ever.

As children grow older and move into the competitive middle school and high school environments, failure takes on a new tone. Failing at school – which takes up the vast majority of a young adult's life from 6 AM – 5 PM most days for the first 18 years – amounts to failing at much of life. Failing an exam or a class translated into failing out of the top echelon of the schooling world – you wouldn't amount to much in school, wouldn't get into a university of your choice, wouldn't get the job you wanted, and would be relegated to an unhappy existence for the rest of your life. Many, many schoolchildren would rather cheat on exams and risk being caught than risk failing the exam outright.

Even in the extra-curricular world, young adults are overworked and overscheduled. Between competition from peers and pressure from parents, a young person competing in anything from soccer to quiz bowl can't afford to fail. The cost of being found out as a cheater or as a flake are lower than the perceived costs of failure.

A healthy level of risk-tolerance is necessary for success in business. Even traditional businesses have to take risks in taking out loans, trying out new products, and offering services in the community. Most successful entrepreneurs are courageous – a trait that school and a coddling parental generation can beat out of young people.

Over-Schooled: Degree Inflation

Most business owners held some kind of other job before launching their business. If they're working in the startup world and are offering a new and unique service, chances are even higher that they worked for years in a specialized field before launching their product or service. The spike in degree inflation has made it harder to enter the workforce at a younger age. Jobs that had no or minimal credentialing requirements just a few years ago now require a BA or a graduate degree. It's not uncommon to find internships that require a graduate degree.

Getting your foot in the door and gaining experience as a young person is harder than ever. For many entrepreneurs, this experience at another firm was integral to their own venture. This means that would-be entrepreneurs find themselves putting off ventures for years while they complete the formal education requirements to gain the experience they feel is necessary before launching.

Add in the additional factor of life happening and more would-be entrepreneurs drop from the pool. Having 5 years of experience might have made you 27 before out-of-control degree inflation, but today it very well may make you 33 because you had to spend a few years working internships and getting a graduate degree to get that entry level job. Now you have a wife, a baby, a mortgage, and some debt from school, adding more constraints on the flexibility you need to launch a company. You decide to stay at your old job for your family and keep on your way.

Over-Schooled: Schooled Minds

One final factor that I suspect contributes to the decline in entrepreneurship is the effect that schooling has on thinking differently. Successful entrepreneurs (and successful people in general) cite thinking differently than the pack as one of the most important factors for their success. Whether it's making an investment will pay off big time or going to work somewhere that has a lot of potential for growth, these people all set themselves apart first by their thinking that allowed them to make these decisions. They then had the work ethic to carry through and execute on these ideas.

The young adult who solves problems differently than the textbook is slowed down and made to feel inferior.

Schools are notorious for promoting conformity of thought and making people resent the idea of working hard. They promote homogeneity of thought through mandatory curricula and separating young people by age. This is no hippie-dippie, new agey bullshit, either. Think about it in terms of economic thinking.

A young person in school has a strong incentive to mold their way of thinking to that of the people around them. In class, they are rewarded for meeting and exceeding expectations on rubrics and standardized tests. Try as they may, it is nearly impossible for teachers to develop a standard curriculum that promotes difference in thought. Smart students know what their teachers want from exams and will give it to them. The cost of doing things differently is much higher than the cost of conforming to standards and expectations. If you do things differently, expect to pay the cost.

In the lunch room and in the halls, little is different. Having different opinions or lifestyle tastes earns a child or young adult the ridicule of peers and the displeasure of being an outcast.

To succeed in the schooling environment requires nearly the exact opposite as succeeding in the marketplace – an above-average work ethic is the only arguable shared trait. Schools reward conformity in thought and problem-solving. They reward conformity in tastes and desires. The kid who wants to go off and do something entirely different than his peers is shunned or at least finds it difficult to make friends. The young adult who solves problems differently than the textbook is slowed down and made to feel inferior. Having a definite focus is discouraged, especially if it does not relate directly to exams. – instead, focus on getting good grades and getting out of school to succeed.

Success as a young entrepreneur requires an element of deschooling – unlearning the bad habits built up during school. In fact, many affluent entrepreneurs *were not high-achieving students in school.*

The Devil's in the Institutions

The factors that contribute to whether or not somebody decides to launch a business can be broken down into if they can and if they want to. Increases in taxes and government regulations – especially those on small business owners and tradespeople – combined with an immense spike in student loan debt and stricter lending policies by banks make it harder for those who want to start businesses to even get off the ground. An ever-growing schooling regime that rewards conformity of thought and heavily penalizes risk-taking creates a generation of people who don't even want to become entrepreneurs anyway.

To see the next (and current, lost) generation of business owners, value-creators, and innovators take off, freedom to experiment, fail, and the opportunity to try different things need to be reclaimed.

Afternote: Geoff Graham, founder of GuildQuality, has a good piece on the same topic here. He adds factors like having parents who are entrepreneurs and the growth of Intellectual

Property regulation, as well.

I suspect that this demographic factor – having parents who are entrepreneurs begets being an entrepreneur yourself – has even wider implications than the immediate children. Growing up with entrepreneurship in your household makes it seem less daunting, but so does growing up with it in your community. Fewer entrepreneur parents not only mean fewer entrepreneur children, **it means fewer entrepreneurs in general** as the profession moves further and further away from the average young person.

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