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Endangered Species: Young U.S. Entrepreneurs

New Data Underscore Financial Challenges and Low Tolerance for Risk Among Young Americans



A New York collaborative workspace for entrepreneurs. *MARK ABRAMSON FOR THE WALL STREET JOURNAL*

By

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The share of people under age 30 who own private businesses has reached a 24-year-low, according to new data, underscoring financial challenges and a low tolerance for risk among young Americans.

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.

The Journal’s findings run counter to the widely held stereotype of 20-somethings as entrepreneurial risk-takers. The sharp decline in business ownership among young adults, even when taking into account the aging population, adds to worries about business formation heading into 2015, economists said. The number of new U.S. business establishments fell in the first quarter of 2014, according to the latest available data from the U.S. Labor Department.

It is difficult to pinpoint the precise reasons for the decline in private business ownership among young Americans. One theory is that they face more post-recession challenges raising money. Such fast-growing sectors as energy and health care likely require a significant access to credit or capital.

Fewer Owners

Share of households headed by someone under 30 that has a stake in or owns a privately held business.



Source: Federal Reserve Survey of Consumer Finances
The Wall Street Journal

The decline also reflects a generation struggling to find a spot in the workforce. Younger workers have had trouble gaining the skills and experience that can be helpful in starting a business. Some doubt their ability.

Business ownership among young adults likely remained at low levels in the year that just ended, say some economists. “I wouldn’t expect to see a major pickup” in young adults starting or owning businesses this year, given that it’s easier for them to find jobs, said Robert Litan, a Brookings Institution economist.

Matthew Sattler, 22, of New York temporarily set aside his entrepreneurial dreams in 2014. He created a social-rewards app in college. But in February, he instead took a job in financial planning and analysis with a major airline.

Having watched as his own father ran a custom home-building firm, Mr. Sattler said entrepreneurship seemed too difficult a path at his age. “It’s much more challenging to be successful without experience,” he said.

Some would-be entrepreneurs fret of stiffer competition in the Internet age. The broad use of the Web “raises the level of skills that are required to establish a business” because it vastly expands the number of potential competitors, said Daniel Pierson, 25, who lives outside Boston.

Mr. Pierson started a landscaping business at age 12, worked on two startups in college and received a master’s degree in engineering in 2013. But in 2012, he took a job with a consumer-electronics company.

The proportion of young adults who start a business each month dropped in 2013 to its lowest level in at least 17 years, according to the Ewing Marion Kauffman Foundation, a Kansas City, Mo., nonprofit that focuses on entrepreneurship. People ages 20 to 34 accounted for 22.7% of new entrepreneurs in 2013, down from 26.4% in 2003, it found.

The plunge in business ownership captured in the Fed survey is an “interesting and worrisome finding,” said John Davis, faculty chair of the Families in Business Program at Harvard Business School. If the trend continues, he said, the U.S. economy could become less vibrant.

“We need startups not only for employment, but also for ideas,” Mr. Davis said. “It’s part of the vitality of this country to have people starting new businesses and trying new things.”

The decline in young entrepreneurs is part of a broader drop in private business ownership over the past 25 years. Between 2000 and 2012, new business formation slowed even in such high-growth sectors as technology, according to economists John Haltiwanger and Ryan Decker of the University of Maryland and Javier Miranda of the Census Bureau.

Slowing U.S. population growth since the early 1980s has reduced the supply of potential entrepreneurs of all ages, and lessened demand for new goods and services, said Mr. Litan of the Brookings Institution. Meanwhile, business consolidation has led to more formidable competition for startups, making it harder for new entrants to gain a spot in the market, he said.

Overall, the U.S. “startup rate”—new firms as a portion of all firms—fell by nearly half between 1978 and 2011, according to an analysis by Mr. Litan and his research partner, economist Ian Hathaway.

The costs of operating many types of small businesses have come down in the past decade, with the greater use of technologies that reduce labor costs. But young entrepreneurs face formidable financial hurdles.

The average net worth of households under 30 has fallen 48% since 2007 to \$44,354. More than half of 18-to-29-year-olds reported one or more financial problems in the past year, a 2014 Pew Research Center survey found.

Their poorer financial condition hurts young graduates’ ability to tap their own savings, draw equity from a home or obtain bank loans to cover their startup or ongoing business costs, said Karen Mills, a senior fellow at Harvard Business School and a former head of the U.S. Small Business Administration, which sponsors programs to help small firms obtain financing.

Many banks that pulled back on small-business lending during the recession that stretched from December 2007 to June 2009 have continued to keep lending standards tight. The amount of small-business loans held by banks increased by 1.8% in the third quarter of 2014 from the same period a year earlier, according to the Federal Deposit Insurance Corp. But the beneficiaries of the increase are more likely to be established companies, analysts said.

The decline in business ownership among young graduates also reflects a relatively low appetite for risk. Young people have less confidence, said Donna Kelley, a professor at Babson College. In an annual survey she oversees, more than 41% of 25-to-34-year-old Americans who saw an opportunity to start a business said fear of failure would keep them from doing so, up from 23.9% in 2001. “The fear of failure is the measure we should be most concerned about,” she said.

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