

August 18, 2016

TRENDS IN ENTREPRENEURSHIP

This report is part of a series on trends in entrepreneurship by the Office of Advocacy. New businesses are key sources of jobs and innovation, and trends in entrepreneurship have important implications for economic growth. The first report in the series addresses entrepreneurship among Millennials. The next report will address entrepreneurship among immigrants.

THE ASCENT OF THE SENIOR ENTREPRENEUR

By Daniel Wilmoth, PhD

ABSTRACT

Self-employment is increasing among seniors. The percentage of individuals age 62 and over who were self-employed increased from 4.2 percent in 1988 to 5.4 percent in 2015. In contrast, the percentage of individuals under age 62 who were self-employed decreased from 7.2 percent in 1988 to 6.0 percent in 2015. This report explains the increase in self-employment among individuals age 62 and over and the difference in self-employment trends by age group.

During the Great Depression, a former tire salesman named Harland was running a gas station in Corbin, Kentucky. He painted a big advertisement for his gas station on a wall near the highway. When he heard that a business rival was painting over the advertisement, Harland and two of his associates drove to confront him. A shootout ensued. The rival shot and killed one of the associates before Harland ended the exchange by shooting the rival. The rival survived and was convicted of murder.

Harland began selling food at his gas station and then opened a motel and restaurant next door. He perfected his recipe for fried chicken, and, in 1952, in his sixties, Colonel Harland Sanders franchised his Kentucky Fried Chicken for the first time. The company expanded rapidly in subsequent years and had more than 600 locations when he sold most of the operations in 1964.¹

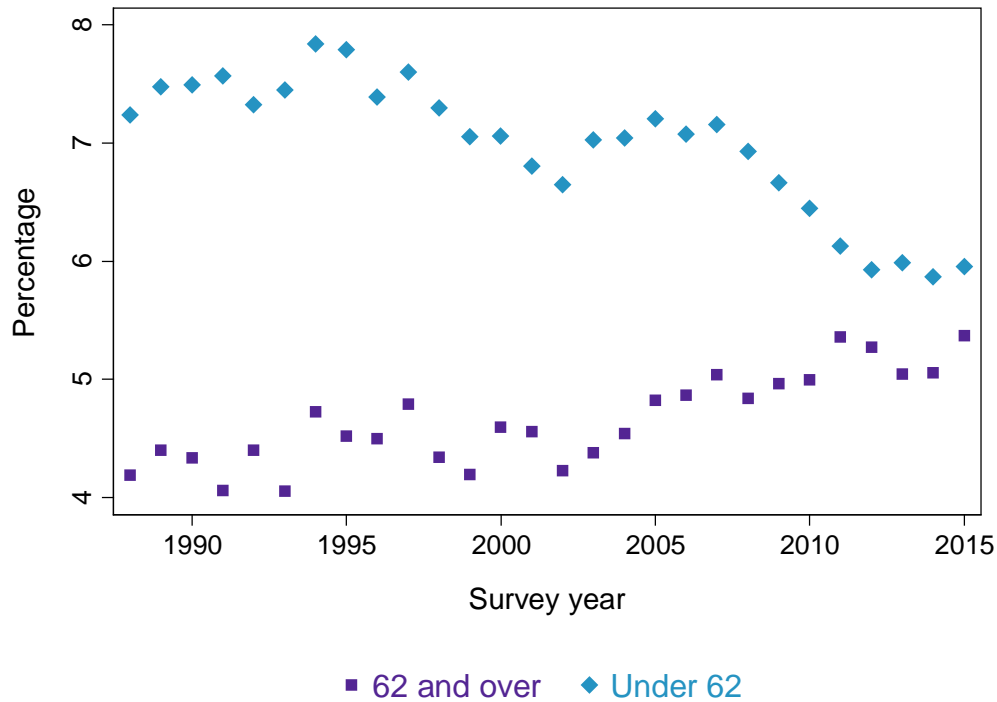
¹ Josh Ozersky, *Colonel Sanders and the American Dream* (Austin, Texas: University of Texas Press, 2012); Alan Bellows, "Colonels of truth," *Damn Interesting*, accessed April 8, 2016, www.damninteresting.com/colonels-of-truth/; Patty Henetz and Jenifer Nii, "Colonel's landmark KFC is mashed," Associated Press and *Deseret Morning News*, April 21, 2004, www.deseretnews.com/article/595057690/Colonels-landmark-KFC-is-mashed.html; Ashlee Kieler, "Kentucky fried chicken started with an iron pan, dining room table, and a gas station," *Consumerist*, May 4, 2015, consumerist.com/2015/05/04/kentucky-fried-chicken-started-with-an-iron-pan-dining-room-table-a-gas-station/.

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Senior entrepreneurs are those entrepreneurs who, like Colonel Sanders, have reached the traditional ages of retirement. In a recent survey, the average age at which retirees reported having retired was 62.² As Figure 1 illustrates, the percentage of individuals age 62 and over who were self-employed rose from 4.2 percent in 1988 to 5.4 percent in 2015. In contrast, the percentage of individuals under age 62 who were self-employed fell from 7.2 percent in 1988 to 6.0 percent in 2015.

Figure 1: Percentages self-employed by age group



Source: Calculations by the author using data from the Current Population Survey by the US Census Bureau.

This report explores those trends in self-employment. The next section describes the data used for the analysis. The third section explains the rise in self-employment among seniors and the difference in self-employment trends by age group. The final section concludes the report with a discussion of policy implications and resources for senior entrepreneurs.

² Rebecca Riffkin, "Average US retirement age rises to 62," *Gallup.com*, April 28, 2015, www.gallup.com/poll/168707/average-retirement-age-rises.aspx.

Data

The data analyzed here were originally gathered through the Current Population Survey (CPS), which is conducted by the Census Bureau on behalf of the Bureau of Labor Statistics. The CPS is the foremost source of data on the labor market in the United States and is used by the Bureau of Labor Statistics to measure employment. The data analyzed here were subsequently processed to facilitate analysis and then made publicly available online.³

When this analysis was performed, 2015 was the most recent survey year for which data were available. The primary measure of self-employment used here is derived from questions introduced in 1988 about respondent employment during the previous week. Questions about employment were asked of individuals age 15 and over. Therefore trends among individuals age 15 and over from 1988 to 2015 are examined here.

The definitions that respondents implicitly use when identifying themselves as self-employed may vary and may not coincide with all conceptualizations of entrepreneurship.⁴ However, self-employment is closely related to entrepreneurship, and the CPS is an attractive source of data for this analysis because the survey is representative of the population of interest, large enough to allow precise measurement of relationships, and has been conducted over a long enough period to allow a meaningful examination of changes over time.

Analysis

This report explores trends in self-employment by examining changes in the relative sizes of three groups—self-employed individuals, employed individuals, and all individuals. Figure 2 depicts the relationships between those groups. Self-employed individuals are a subset of employed individuals, and employed individuals are a subset of all individuals. The relative sizes of the rectangles in Figure 2 correspond to the relative sizes of the groups in 1988 for individuals age 62 and over.

Figure 2: Relationships between groups



Source: Calculations by the author using data from the Current Population Survey by the US Census Bureau.

³ Sarah Flood, Miriam King, Steven Ruggles, and J. Robert Warren, *Integrated Public Use Microdata Series, Current Population Survey: Version 4.0* (Minneapolis: University of Minnesota, 2016).

⁴ For example, some respondents who drive as independent contractors for companies like Lyft or Uber may report self-employment while others may report employment by a private company. The appropriate legal classification of such drivers is, in fact, currently under dispute.

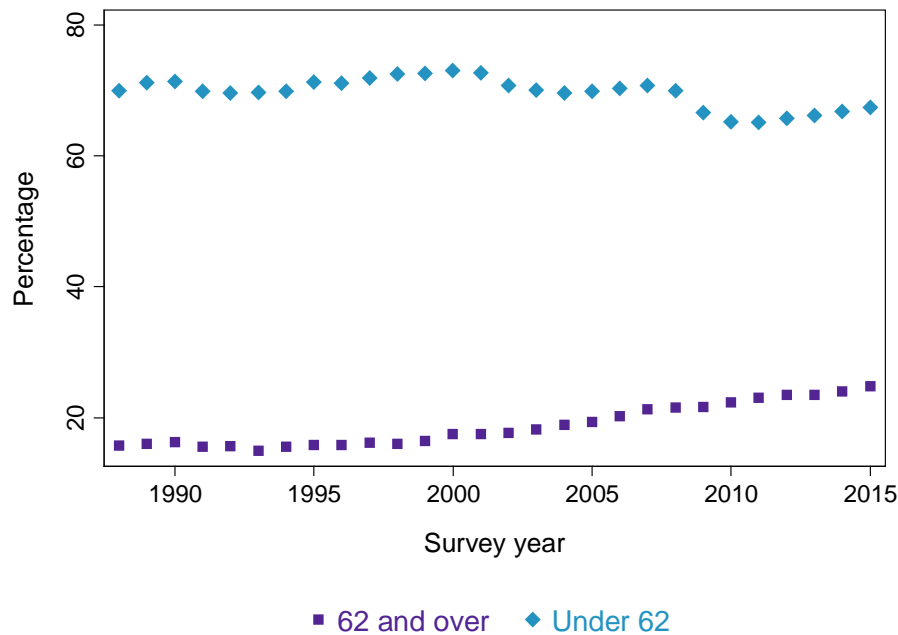
The relative sizes of the groups can be expressed as proportions. The proportion of all seniors who were self-employed is the ratio of the purple rectangle to the green rectangle. The proportion of all seniors who were employed is the ratio of the blue rectangle to the green rectangle. The proportion of employed seniors who were self-employed is the ratio of the purple rectangle to the blue rectangle. Those three proportions are related by the equation

$$\frac{\text{number self-employed}}{\text{total}} = \frac{\text{number employed}}{\text{total}} \times \frac{\text{number self-employed}}{\text{number employed}}$$

Figure 1 shows a substantial increase in the proportion of all seniors who were self-employed between 1988 and 2015.⁵ The equation above shows that the increase could have been caused by (a) an increase in the proportion of all seniors who were employed or (b) an increase in the proportion of employed seniors who were self-employed. Both may have increased, or a sufficiently large increase in one may have overwhelmed a decrease in the other. Similarly, the difference in trends by age group may have been caused by (a) a difference in trends in the proportions of all individuals who were employed or (b) a difference in trends in the proportions of employed individuals who were self-employed.

Figure 3 shows how the proportions of all individuals in each age group who were employed varied between 1988 and 2015. The percentage of all individuals under age 62 who were employed fell from 70.0 percent to 67.4 percent. In contrast, the percentage of all individuals age 62 and over who were employed rose significantly, increasing from 15.7 percent to 24.8 percent.

Figure 3: Percentages employed by age group

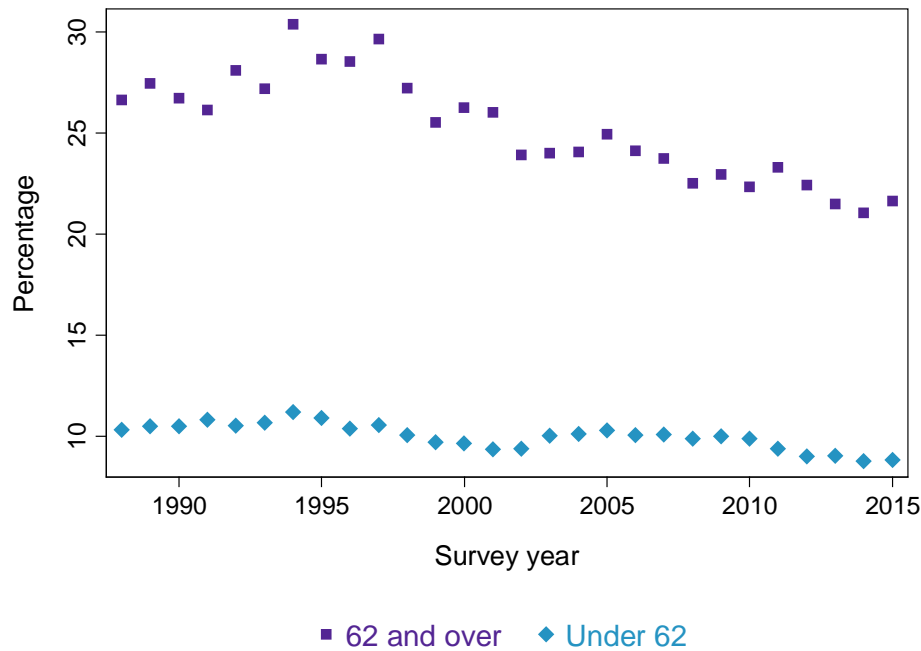


Source: Calculations by the author using data from the Current Population Survey by the US Census Bureau.

⁵ Rates may be reported as proportions or percentages, and both are used in this report. The percentage of individuals in a category is equal to the proportion of individuals in that category multiplied by 100.

Figure 4 shows how the proportions of employed individuals in each age group who were self-employed varied between 1988 and 2015. The percentage of employed individuals under age 62 who were self-employed fell from 10.3 percent to 8.8 percent. The percentage of employed individuals age 62 and over who were self-employed fell by a larger amount, declining from 26.6 percent to 21.6 percent.

Figure 4: Percentages of the employed who were self-employed by age group



Source: Calculations by the author using data from the Current Population Survey by the US Census Bureau.

Figures 3 and 4 reveal an important similarity and an important difference in trends by age group. The proportions of employed individuals who were self-employed decreased for both age groups. The proportions of all individuals who were employed decreased for those under age 62 but increased for those age 62 and over. The difference in trends by age group in the proportions of all individuals who were self-employed was therefore caused entirely by the difference in trends by age group in the proportions of all individuals who were employed. The growth in self-employment among individuals age 62 and over was caused by the significant expansion of employment in that age group.

While the proportion of all seniors who were self-employed increased between 1988 and 2015, the increase would have been larger if the proportion of employed seniors who were self-employed had not declined. If the proportion of employed individuals age 62 and over who were self-employed had remained constant, the percentage of all individuals in that age group who were self-employed would have grown to 6.6 percent rather than 5.4 percent in 2015. Much of the positive impact of the increase in employment among all seniors was offset by the decrease in self-employment among employed seniors.

Discussion

Growing entrepreneurship among seniors has positive implications for the broader economy. A healthy population of businesses can benefit both workers and consumers as competition for employees drives

up wages and competition for customers drives down prices.⁶ Entrepreneurship among seniors will become increasingly important in coming decades as the proportion of the population in that age group continues to grow. Life expectancy at higher ages has been increasing.⁷ The first members of the large Baby Boomer generation⁸ turned 62 in 2008, and the last will not turn 62 until 2026.

However, the decline in the proportion of employed seniors who are self-employed is concerning. Federal policies affect small businesses in many ways, and careful policymaking can induce more seniors to choose entrepreneurship over other types of employment. Federal policy can increase the relative attractiveness of entrepreneurship by establishing a supportive infrastructure, improving the terms and availability of funding for businesses, and reducing the tax and regulatory impacts on businesses.⁹

Colonel Sanders only began franchising his Kentucky Fried Chicken after decades as a streetcar conductor, railroad fireman, lawyer, tire salesman, and gas station manager.¹⁰ Entrepreneurship may be an attractive option for others who, like Colonel Sanders, have reached the traditional ages of retirement. Several resources for aspiring senior entrepreneurs are available from the Small Business Administration at www.sba.gov/content/50-entrepreneurs.



PREVIOUS REPORTS IN THIS SERIES

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www.sba.gov/sites/default/files/advocacy/Millennial_IB.pdf.

⁶ “Benefits of competition and indicators of market power,” *Council of Economic Advisers*, April 2016, www.whitehouse.gov/sites/default/files/page/files/20160414_cea_competition_issue_brief.pdf; “Justice Department requires eBay to end anticompetitive ‘no poach’ hiring agreements,” *United States Department of Justice*, May 1, 2014, www.justice.gov/opa/pr/justice-department-requires-ebay-end-anticompetitive-no-poach-hiring-agreements; Steven A. Morrison, “Actual, adjacent, and potential competition: Estimating the full effect of Southwest Airlines,” *Journal of Transport Economics and Policy* 35 (2015): 239-256; Federal Trade Commission staff, “Pay-for-delay: How drug company pay-offs cost consumers billions,” *Federal Trade Commission*, January 2010, www.ftc.gov/sites/default/files/documents/reports/pay-delay-how-drug-company-pay-offs-cost-consumers-billions-federal-trade-commission-staff-study/100112payfordelayrpt.pdf.

⁷ National Center for Health Statistics, *Health, United States, 2014: With Special Feature on Adults Aged 55-64*, (Hyattsville, MD, 2015), www.cdc.gov/nchs/data/abus/abus14.pdf#016.

⁸ Born from around 1946 to around 1964

⁹ Miriam Segal, “Peer-to-peer lending: A financing alternative for small businesses,” *SBA Office of Advocacy*, September 10, 2015, www.sba.gov/sites/default/files/advocacy/Issue-Brief-10-P2P-Lending_0.pdf; Victoria Williams, “Small business lending in the United States 2013,” *SBA Office of Advocacy*, December 2014, www.sba.gov/sites/default/files/2013-Small-Business-Lending-Study.pdf; For a description of federal efforts to limit the regulatory impact on small businesses, see SBA Office of Advocacy, “A guide for government agencies: How to comply with the Regulatory Flexibility Act,” *SBA Office of Advocacy*, May 2011, www.sba.gov/sites/default/files/rfaguide_0512_0.pdf.

¹⁰ Bellows, “Colonels of truth.”