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## TRENDS IN ENTREPRENEURSHIP

This report is part of a series on trends in entrepreneurship. New businesses create new jobs and new products, and trends in entrepreneurship have implications for economic growth. The previous report in the series explains recent increases in entrepreneurship among immigrants.

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# THE RETREAT OF THE RURAL ENTREPRENEUR

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## ABSTRACT

In 1988, more than a fourth of the self-employed lived in rural areas. By 2016, that share had fallen to less than 1 in 6. This report shows that the decline was caused by a population shift away from rural areas and a fall in the rural rate of self-employment. Between 1988 and 2016, the rural rate of self-employment fell by over 20 percent. Despite that decline, the rate of self-employment has remained higher in rural areas than in other areas.

The Homestead, in the hills of southeastern Ohio, once served as a stagecoach stop and inn. Today, it is on the National Register of Historic Places. Visitors can see log cabins, an ancient Indian burial mound, and an old cistern where travelers watered their horses.

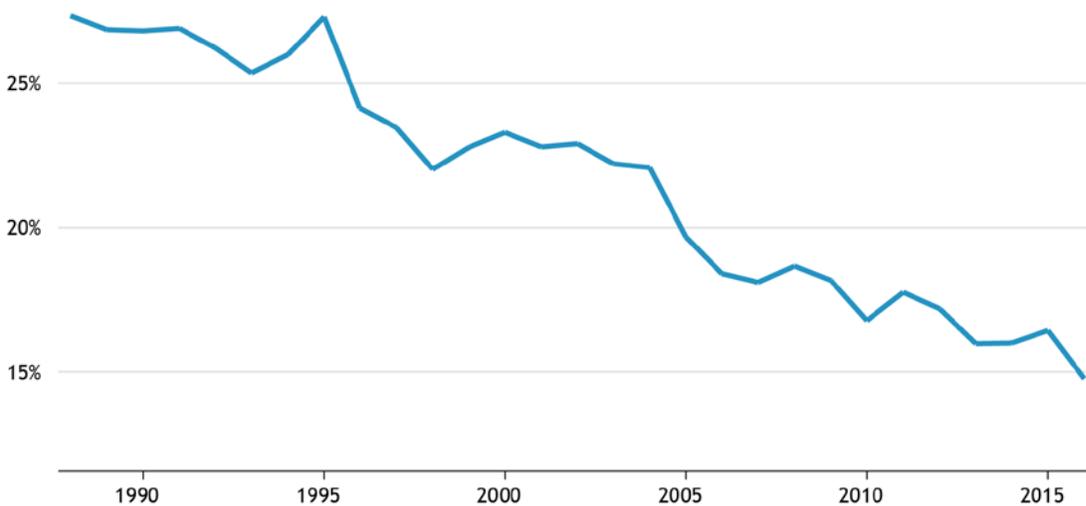
In the 1950s, the building was home to a farmer who raised hogs and made sausage. He appeared in early television commercials wearing a string tie and inviting viewers to “come down and visit.” Some did, and he built a restaurant called The Sausage Shop to feed them.

That farmer’s name was Bob Evans, and The Sausage Shop would become the first Bob Evans Restaurant. The chain spread through Ohio and then several other states. By the time Evans died in 2007, over 500 restaurants were generating sales of over a billion dollars per year.<sup>1</sup>

Residents of rural areas have been more likely than residents of other areas to work for their own businesses, but, in recent decades, the share of the self-employed living in rural areas has fallen. Figure 1 shows that in 1988 more than 1 in 4 self-employed workers lived in rural areas. By 2016, that share had fallen to less than 1 in 6.

<sup>1</sup> “The Farm,” [www.bobevans.com/aboutus/the-farm](http://www.bobevans.com/aboutus/the-farm); The Associated Press, “Bob Evans Obituary,” [www.legacy.com/ns/bob-evans-obituary/89406329](http://www.legacy.com/ns/bob-evans-obituary/89406329).

**Figure 1: Percentage of the self-employed living in rural areas**



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

This essay explores the causes of that decline. Trends in rates of self-employment are shown to have differed between rural and other areas, and the decline in the share of the self-employed living in rural areas is explained in terms of changes in rates of self-employment and changes in the distribution of the population. The essay concludes with a discussion of context, implications, and resources for rural entrepreneurs.

## Data

The data analyzed here were gathered through the Current Population Survey (CPS), which is conducted by the Census Bureau on behalf of the Bureau of Labor Statistics. The data were subsequently processed to facilitate analysis and published online.<sup>2</sup> The CPS is an attractive source of data for this analysis because of its large size, representative sampling, and long period of administration.

In this report, areas are characterized as “rural” if they fall outside of Metropolitan Statistical Areas (MSAs), which are regions of high population density defined by the Office of Management and Budget for statistical purposes. Areas are characterized as “suburban” if they fall within MSAs but outside of central cities.

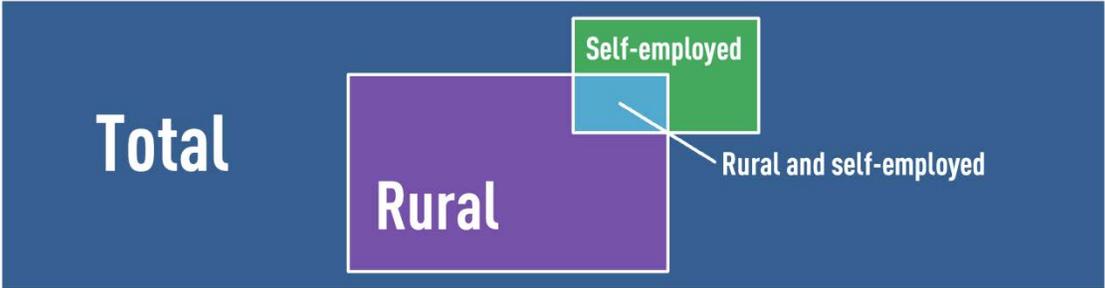
The status in the data that most closely corresponds to common conceptualizations of entrepreneurship is self-employment. The survey questions about self-employment analyzed here were asked of respondents age 15 and older beginning in 1988. When the analysis was performed, 2016 was the most recent year for which data were available, so trends in self-employment between 1988 and 2016 are examined.

<sup>2</sup> 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).

# Decomposing the decline

Figure 2 illustrates the relative sizes of several groups in 1988. The dark blue rectangle represents the population age 15 and over. The purple rectangle represents the portion living in rural areas, and the green rectangle represents the portion self-employed. The light blue rectangle represents the portion both living in rural areas and self-employed.

**Figure 2: Relative sizes of rural and self-employed groups in 1988**



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

The relative sizes of the rectangles correspond to the relative sizes of the groups. The relative sizes of the groups can be expressed as proportions, and those proportions are related by the equation:

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

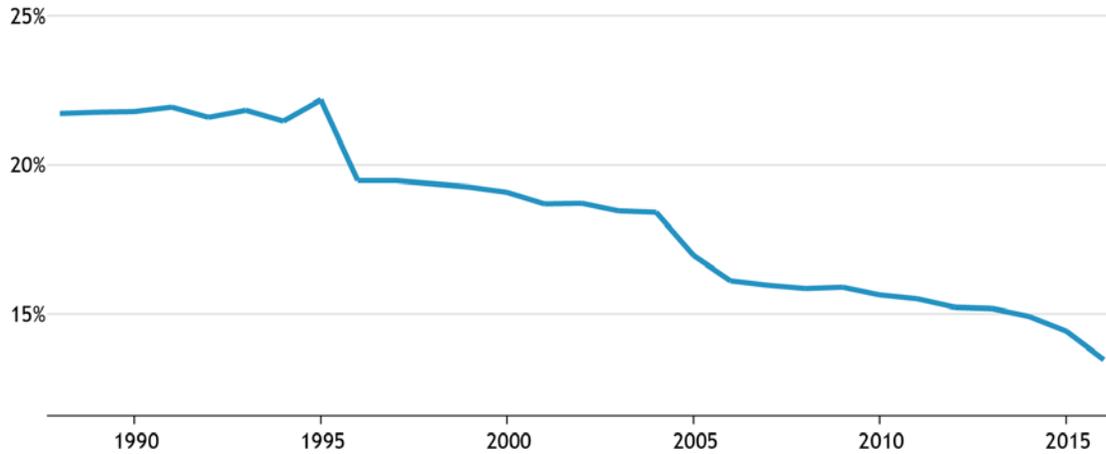
The equation shows that the decline in the share of the self-employed living in rural areas could have been caused by:

- a) decline in the share of the population living in rural areas,
- b) decline in the rural rate of self-employment, or
- c) an increase in the overall rate of self-employment.

All three changes may have occurred, or changes in one proportion may have offset changes in the others.

Figure 3 shows how the share of the population living in rural areas changed between 1988 and 2016. In 1988, 21.7 percent of those old enough to work lived in rural areas. By 2016, that had fallen to 13.5 percent.

**Figure 3: Percentage of the population living in rural areas**

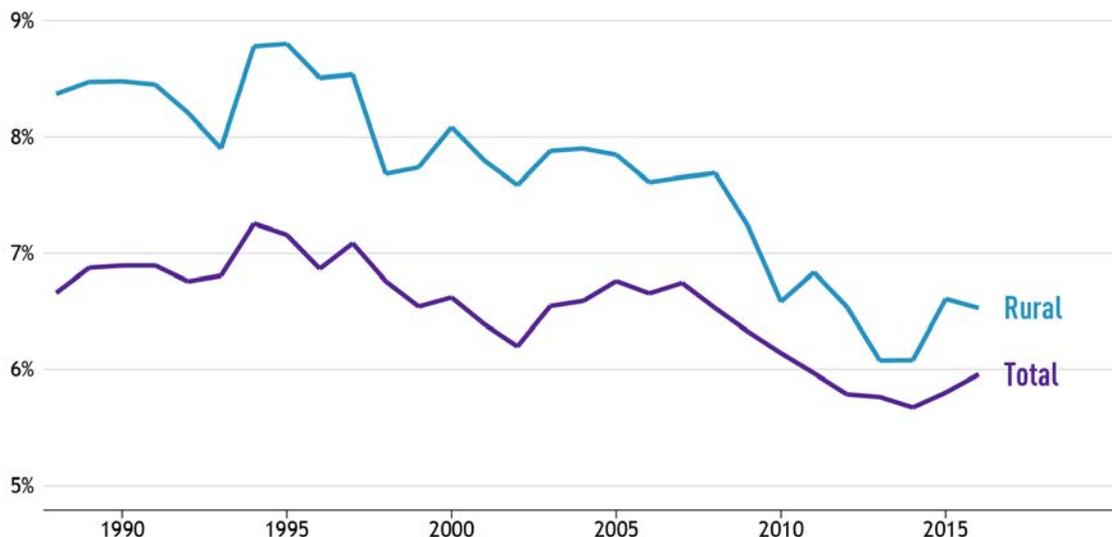


Source: Calculations by the author using data from the Current Population Survey by the US Census Bureau.

A shift of the population away from rural areas contributed to the decline in the share of the self-employed living in rural areas. However, that the shift was not large enough to explain the whole decline. The share of the population living in rural areas declined by only 38 percent, while the share of the self-employed living in rural areas declined by 46 percent.

Figure 4 shows changes in rural and total rates of self-employment. The rural rate declined from 8.4 percent in 1988 to 6.5 percent in 2016. The total rate declined from 6.7 percent in 1988 to 6.0 percent in 2016. The equation shows that the net effect of the changes in rates depends on their implications for the ratio of the rural rate to the total rate. That ratio fell, so the changes in rates contributed to the decline in the share of the self-employed living in rural areas.

**Figure 4: Percentages of rural and total populations self-employed**



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

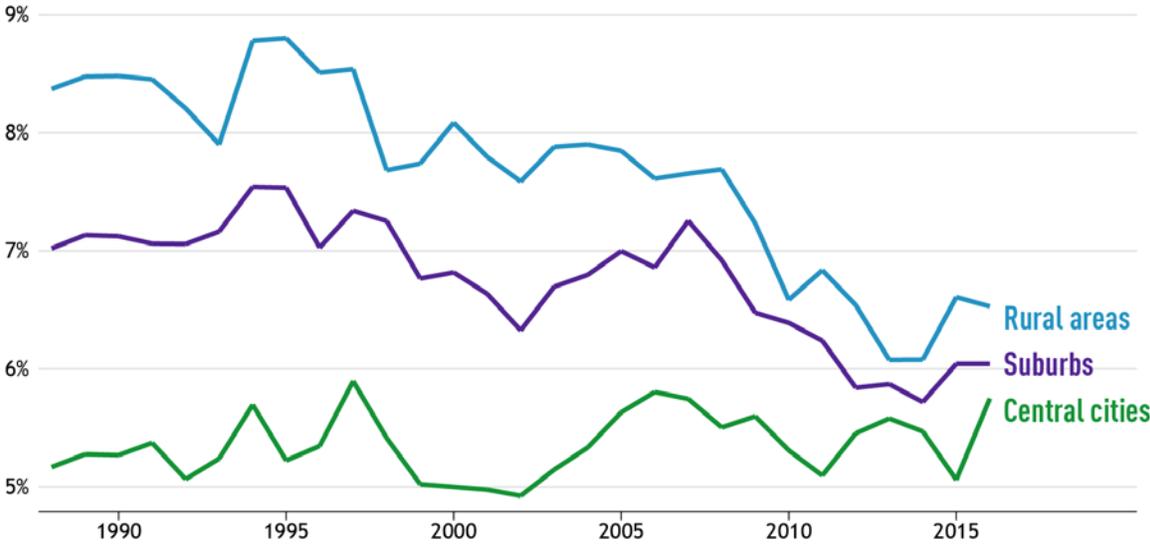
The equation can be used to separate the contributions of different changes to the decline in Figure 1. If rates of self-employment had changed but the population had not shifted away from rural areas, the share of the self-employed living in rural areas would have fallen from 27.3 percent in 1988 to 23.8 percent in 2016. If the population had shifted away from rural areas but rates of self-employment had not changed, the share would have fallen to 16.9 percent in 2016. The sum of the separate contributions exceeds the actual decline to 14.8 percent because the decrease in the difference between rural and total rates of self-employment reduced the effect of the shift away from rural areas.

### Differences between rural and other areas

Figure 4 shows that the rural rate of self-employment declined more than the total rate. Of course, the total population includes the rural population. The differences between rural and other areas can be seen more clearly by separating each type of area.

Figure 5 shows trends in self-employment for rural areas, suburban areas, and central cities. Although self-employment in rural areas declined from 8.4 percent in 1988 to 6.5 percent in 2016, self-employment in suburban areas only declined from 7.0 percent to 6.0 percent. In central cities, self-employment rose slightly, from 5.2 percent to 5.7 percent.

**Figure 5: Percentages self-employed in rural areas, suburban areas, and central cities**



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

The overall decline was created by trends that varied substantially for different types of areas. Figure 5 shows a relationship between the size of the decline and how urban areas were, with the steepest decline in the least urban areas and a slight increase in the most urban areas. As discussed in the next section, that relationship may reveal something about the causes and consequences of the overall decline.

## Discussion

New businesses create new jobs and new products.<sup>3</sup> A healthy population of businesses keeps prices down as businesses compete for customers and wages up as businesses compete for employees. However, entrepreneurship has been declining in the United States.<sup>4</sup>

The relationship in Figure 5 suggests that developments in rural areas have played a significant role in that decline. Although many aspects of life in rural areas are appealing, in recent decades those areas have lagged urban areas in important ways. Earnings in rural areas are lower, and poverty is higher.<sup>5</sup> Rural residents are less likely to hold college degrees.<sup>6</sup> Rural residents are more likely to die young, and that difference has grown as rural deaths from causes like suicide and drug overdose have increased.<sup>7</sup>

Those problems are likely related to the decline in rural self-employment. For example, Figure 3 shows a decline in the share of the population living in rural areas. Migration could contribute to both the decline in rural self-employment and problems like poverty if those seeking to advance their careers are more likely to migrate to urban areas.

Migration to urban areas by those seeking to advance their careers would benefit urban areas at the expense of rural areas. Policy options that increase the attractiveness of careers in rural areas could alter patterns of migration and mitigate negative effects on rural areas. Improved telecommunications and transportation infrastructure can improve educational, employment, and business opportunities. New business formation can be encouraged by providing guidance to aspiring entrepreneurs, improving the terms and availability of financing, and mitigating the burdens imposed by taxes and regulations.

Despite recent declines, the rate of self-employment has remained higher in rural areas than in other areas. Some of today's rural entrepreneurs may, like Bob Evans, be building businesses that will create thousands of jobs and billions of dollars in sales. Resources from the Small Business Administration that may help rural entrepreneurs achieve their goals are described on the agency website at [www.sba.gov](http://www.sba.gov).

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<sup>3</sup> Zoltan J. Acs and Pamela Mueller, "Employment effects of business dynamics: Mice, gazelles, and elephants," *Small Business Economics* 30 (2008): 85-100; John Haltiwanger, Ron S. Jarmin, and Javier Miranda, "Who creates jobs? Small versus large versus young," *The Review of Economics and Statistics* 95 (2013): 347-361; John A. Hansen, "Innovation, firm size, and firm age," *Small Business Economics* 4 (1992): 37-44.

<sup>4</sup> Ian Hathaway and Robert E. Litan, *Declining Business Dynamism in the United States: A Look at States and Metros*, The Brookings Institution (2014), [www.brookings.edu](http://www.brookings.edu); Ryan Decker, John Haltiwanger, Ron Jarmin, and Javier Miranda, "The role of entrepreneurship in US job creation and economic dynamism," *Journal of Economic Perspectives* 28 (2014): 3-24.

<sup>5</sup> Thomas Hertz and Tracey Farrigan, *Understanding the Rise in Rural Child Poverty, 2003-2014*, US Department of Agriculture, Economic Research Service (2016), [www.ers.usda.gov](http://www.ers.usda.gov); *Rural America at a Glance*, 2016 edition, US Department of Agriculture, Economic Research Service (2016), [www.ers.usda.gov](http://www.ers.usda.gov).

<sup>6</sup> *Rural Education at a Glance*, 2017 edition, US Department of Agriculture, Economic Research Service (2017), [www.ers.usda.gov](http://www.ers.usda.gov).

<sup>7</sup> Lenny Bernstein, Anne Hull, and Kimberly Kindy, "A new divide in American death," *The Washington Post* (2016, April 4); Dan Keating and Kennedy Elliot, "Why death rates for white women in rural America are spiking," *The Washington Post* (2016, April 9); Ernest Moy, Macarena Garcia, Brigham Bastian, et al., "Leading causes of death in nonmetropolitan and metropolitan areas—United States, 1999-2014," *Morbidity and Mortality Weekly Report Surveillance Summaries*, 66 (2017); Gopal Singh and Mohammad Siahpush, "Widening rural-urban disparities in all-cause mortality and mortality from major causes of death in the USA, 1969-2009," *Journal of Urban Health: Bulletin of the New York Academy of Medicine*, 91 (2013): 272-292.

## Previous reports in this series

- “The missing Millennial entrepreneurs,” February 4, 2016, [www.sba.gov/sites/default/files/advocacy/Millennial\\_IB.pdf](http://www.sba.gov/sites/default/files/advocacy/Millennial_IB.pdf).
- “The ascent of the senior entrepreneur,” August 17, 2016, [www.sba.gov/sites/default/files/advocacy/Ascent-Senior-Entrepreneur.pdf](http://www.sba.gov/sites/default/files/advocacy/Ascent-Senior-Entrepreneur.pdf).
- “The arrival of the immigrant entrepreneur,” October 6, 2017, [www.sba.gov/sites/default/files/advocacy/Arrival-Immigrant-Entrepreneur.pdf](http://www.sba.gov/sites/default/files/advocacy/Arrival-Immigrant-Entrepreneur.pdf).
- “Explaining the emergence of the immigrant entrepreneur,” January 12, 2017, [www.sba.gov/sites/default/files/advocacy/explaining\\_the\\_emergence\\_of\\_the\\_immigrant\\_entrepreneur\\_508.pdf](http://www.sba.gov/sites/default/files/advocacy/explaining_the_emergence_of_the_immigrant_entrepreneur_508.pdf).

