

By Michael Kling

American entrepreneurship is creating fewer jobs and is weaker than ever, according to a new research paper from the Hudson Institute, a think tank in Washington, D.C.

The number of new businesses peaked at 667,000 in 2006, then dropped to 548,000 in 2009 and to 505,000 in 2010, writes Tim Kane, chief economist of the institute and author of the paper.

The number of new jobs created by start-ups fell to 2.8 million in 2009 then to 2.6 million in 2010, an all-time low, Kane says, citing figures from the Bureau of Labor Statistics.

"The state of entrepreneurship in the United States is, sadly, weaker than ever," Kane laments.

The rate of job creation at start-ups was steady in the 1980s and 1990s at 11 start-up jobs per 1000 people, but their creation collapsed in recent years, Kane writes. "In fact, the rate of start-up jobs during 2010 and 2011, years that were technically in full recovery, are the lowest on record."

The slowdown in entrepreneurship is perplexing because in theory it should be increasing, given the wide technology frontier and the smaller amount of capital required by businesses involved in providing services.

Citing anecdotal evidence, Kane blames tough regulations and uncertainty over taxes. Small businesses must obtain occupational licenses, and the Internal Revenue Service has cracked down on businesses using independent contractors instead of on-staff employees.

The dilemma, Kane says, is that entrepreneurs face no tax or regulatory burdens when hiring a consultant or contractor who lives overseas, but are subject to paperwork and tax burdens when hiring an American.

"By cracking down on employing Americans part-time, and mandating higher benefits, new American policies may be pushing jobs overseas," Kane writes.

Former Silicon Valley entrepreneur Vivek Wadhwa argues that the United States is losing valuable entrepreneurs by becoming increasingly hostile to immigrants.

"Historically and today, the United States continues to benefit directly from the contributions of such immigrants," a research paper, which Wadhwa co-authored, states. "Far from expendable, high-skilled immigrants will remain a critical asset for maintaining U.S. competitiveness in the global economy."