

Macro Roundup Article

Headline: [Demographic Origins of the Start-up Deficit](#)

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Tweet: [@yfathikarahan](#) et al argue that 52% of the decline in US start-ups since the late 1970s is explained by a drop in labor supply growth linked to demographics. The findings are supported by cross-state startup and labor supply growth data.

Summary: The start-up rate is linked in equilibrium to the pace of labor supply growth, which slowed dramatically in the late 1970s. The slowdown in US labor supply growth can explain up to 52% of the declining start-up rate and up to 80% of start-ups' decline in employment share. It explains the widespread declines across markets since the labor force growth slowdown affected them nearly universally, and it explains the stability of average incumbent dynamics conditional on their age, with aggregate effects following from the resulting shift towards older firms. We validate the model's implications using variation across states and in the aggregate time series. Why should labor supply growth affect the start-up rate at all? Ultimately, growing labor supply requires growing labor demand, which can only arise from a decline in the real wage that allows incumbent labor demand to expand or through entry of new firms. A lesson from models of firm dynamics is that in the long run, free entry of new firms relieves any pressure on the real wage from shifts in labor supply.

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Primary Topic: Growth

Topics: Academic paper, Database, Demographics, GDP, Growth, Weekly, Workforce

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