Abstract

Recent research suggests that entrepreneurial activity has been declining in the US in recent decades. This paper adds to this evidence by showing that the share of the labor force engaged in entrepreneurial activity has declined by 20% from 1988 to 2016. It also documents that there has been a major change in the composition of entrepreneurs as the decline has been much larger for higher education groups. This new evidence indicates that at least part of the driving force for these trends is not skill-neutral. I investigate the ability of skill-biased technical change to explain these patterns using a general equilibrium model of occupational choice. Changes in technology have resulted in a rapid increase in demand and wages for high skill people. This has increased the production costs of entrepreneurs and increased the value of the outside option (being an employee) for high skill people giving them a particularly strong incentive to switch. I quantitatively evaluate this mechanism using the model and a rich set of data on labor market choices, income and business size. I find that it can explain 15% of the decrease in the entrepreneurship rate for college educated people and 25% of the change in the relative entrepreneurship rates of college and non-college educated people.