

Economics

How Covid Inspired a New Generation of Entrepreneurs

The pandemic forced everyone to adopt new technology and rethink their jobs, spurring our economy to lean in to independent work.

By Allison Schrager

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The pandemic inspired a surge in new businesses. *Photographer: Paras Griffin/Getty Images*

Humans normally respond to big unforeseen shocks in one of two ways: either they recoil from risk-taking like we saw after the Great Depression, leading to creation of the modern welfare state and a generation that feared the stock market; or they accept that risk is part of life and learn to embrace it – like they did in the Roaring Twenties after the 1918 flu and 1920 recession.

So far it looks like we're going with the 1920s – at least from an economic risk perspective. Entrepreneurship rates are up.

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That might seem counterintuitive. After all, the past year was exceptionally hard on small businesses, leading many to shut down. But the number of new business applications from the U.S. Census is up 38% compared to the year before the pandemic. Nothing similar to this happened during the Great Recession or dot-com bust. The Census classifies two types of business applications, those that will probably grow and hire other people (called High Propensity applications), and business that will stay small and mostly limited to its founder. The

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latter dominates the “all other kinds of applications” category, and may include things like consulting, contract work, or small-scale catering. Economist John Haltiwanger dug into the data and estimates that most of the new businesses will probably stay small, not hire more workers, though application rates are up for both kinds of businesses.

New Business Applications

The pandemic prompted a surge in entrepreneurship

Source: U.S. Census Bureau

Note: High Propensity describes businesses that will probably grow and add workers; data are seasonally-adjusted.

Haltiwanger estimates most of the new applications are in certain industries: retail, food, professional, scientific and technology services. There is more growth in Texas, Georgia and Florida compared to New York and California.

Could this be the return of a risk-taking economy? There are reasons to think not. Both large and small-scale entrepreneurship have their benefits, but they also mean more risk because pay and benefits are more uncertain, especially for the self-employed. Lots of people lost their jobs in the last year and may have started a business because they had no other choice. They may prefer the stability of regular employment once they can find a job. Another reason it could be a temporary blip is the Cares Act, passed last year, may have facilitated entrepreneurship. One study estimates the stimulus checks spurred entrepreneurs by providing some needed cash, especially for minorities.

There are other reasons, though, that make me optimistic this could be the start of a long-lasting trend – and one we should welcome. The nature of work is always changing. Before the industrial revolution created the factory model, it was common to work independently from home. Maybe we're going back to that.

Even before the pandemic there were reasons to think the traditional employer/employee model was not necessary for the new economy. Technology makes gig or contract work easier because it's easier to find customers and work for people far away. Work has also become more uniform. Consider, for instance, that everyone uses the same word processing software. This makes consulting and contract work more viable because you can support multiple clients. Despite these big technology shifts, self-employment and contract work had not taken off in a big way in the last few decades.

It could be now. The pandemic forced everyone to adopt new technology and rethink work, and it may have accelerated those long running trends. Many people have come to like working from

home and having more flexibility. But that may not fit with traditional employment once we go back to normal. Employers are already demanding people return to the office and hinting (strongly) that while working from home may be an option at least some of the time, it will signal you are less dedicated and engaged with your job. If people want to continue with remote work and crave more flexibility, contract, gig work or consulting may be their best option.

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Another reason to believe we are in a more entrepreneurial economy is that the number of business applications continued to rise this spring, even as the economy opened and wages increased. The fact there are more new business applications in the states that reopened the quickest suggests that easing economic restrictions may lead to even more entrepreneurship. Or it could reflect the start of a new kind of economic sorting in America, where risk-takers who want to be entrepreneurs cluster in states where financial and health-care uncertainties are more tolerated in exchange for fewer regulations and lower taxes.

The next few years will reveal how meaningful these trends are and if they do signal a new way of working. But there's one last consideration that suggests at least some of the burst of entrepreneurship will recede: the Biden administration so far is not embracing independent work. It's favoring more unions and forcing companies to classify contractors as employees. This is seen as a good way to protect workers from undue risk. But if people prefer non-traditional work – and many do – the government shouldn't fight it, and instead find ways to make independent work less risky, including by offering better health care and retirement benefit options.

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