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Democratizing Entry: Banking Deregulations, Financing Constraints, and Entrepreneurship

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Abstract

We examine entrepreneurship and creative destruction following US banking deregulations using Census Bureau data. US banking reforms brought about exceptional growth in both entrepreneurship and business closures. The vast majority of closures, however, were the new ventures themselves. Although we do find evidence for the standard story of creative destruction, the most pronounced impact was a massive increase in churning among new entrants. We argue that creative destruction requires many business failures along with the few great successes. The successes are very difficult to identify *ex ante*, which is why democratizing entry is an important trait of well-functioning capital markets.

Keywords: [Business Exit or Shutdown](#); [Market Entry and Exit](#); [Capital Markets](#); [Entrepreneurship](#); [Outcome or Result](#); [Business Startups](#); [Banks and Banking](#); [Banking Industry](#); [United States](#);

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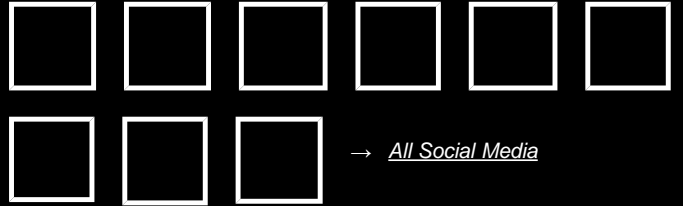
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