“Surging Business Formation in the Pandemic: Causes and Consequences”
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BPEA Fall 2023
Gratitude to organizers

• John was my discussant in my BPEA Fall 2011 paper with Erik Hurst

• Think hard about reconciling the BFS findings with my work with Karahan and Sahin on *declining* business formation
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Overview of paper and its contributions

• Great paper!

• **Contribution 1**: Definitive and encouraging out of sample evidence on Census Business Formation now/forecasting

• Gold standard 2021 Census BDS (released yesterday) confirms findings

• **Contribution 2**: Characterizes the surge in business formation geographically and across sectors

• **Contribution 3**: Outlook for future business formation and dynamism

• Suggestive evidence, but here the paper is cautious, too early to tell
My discussion

• Focus on types of new businesses and bring complementary evidence from household surveys
• Help interpret the aggregate evidence and make some (bold) predictions

• Bottom line:
  • 1) The surge even among employers is primarily self-employment and small businesses
  • 2) The effects on the startup rate are likely to be transitory
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Part 1: examining the types of new businesses
Self employment surges post March 2020

Note: CPS
Multiple job holding declines: not side hustles

Note: CPS
Self employed with employees drops by 2/3 in initial surge

Note: CPS
Top 5 industries by BFS 2020-21 increase in applications relative to 2010-19 pace

<table>
<thead>
<tr>
<th>Rank</th>
<th>NAICS</th>
<th>Description</th>
<th>Hurst and Pugsley (BPEA 2011) Small Business Industry Rank</th>
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<tbody>
<tr>
<td>#1</td>
<td>454</td>
<td>E-commerce</td>
<td>Unranked</td>
</tr>
<tr>
<td>#2</td>
<td>484</td>
<td>Truckers</td>
<td>#28 (4841) #32 (4842)</td>
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<td>#4</td>
<td>561</td>
<td>Building services</td>
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<td>#5</td>
<td>236</td>
<td>Residential Construction</td>
<td>#1 (2361)</td>
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</table>

New businesses are smaller and unlikely to be growth oriented
Part 2: implications for future startup rate
Some Startup Rate Accounting

\[ SR_t = \frac{ExitRate_t + EmpGrowth_t - AvgFirmSizeGrowth_t}{1 + EmpGrowth_t} \]

- Startup rate is replacement + growth
- Growth feeds back on future SR through future exit
- Exit is highest for young and small firms
2021 surge is explained by replacement and shrinking firm size
Effects on the startup rate are going to be transitory

- In the long run the startup rate is governed by labor supply growth and how it shapes age composition

\[ SR = \frac{ExitRate + EmpGrowth}{1 + EmpGrowth} \]

- Exit rate and average size will eventually stabilize

- But before this happens, the startup rate is likely to rise further: from recovering labor supply, increased exit, and possibly further reductions in firm size

- Even during this rise, effects on dynamism will be limited. Is this the most productive reallocation of labor?
Conclusions

• Outstanding application of BFS and validation of its relevance with comprehensive set of Census and BLS data on employers
• The surge in business formation accompanies an increase in self employment and the “typical” small businesses
• Even if surge is persistent, I am more pessimistic about prospects for recovering business dynamism