

# “Surging Business Formation in the Pandemic: Causes and Consequences”

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# 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

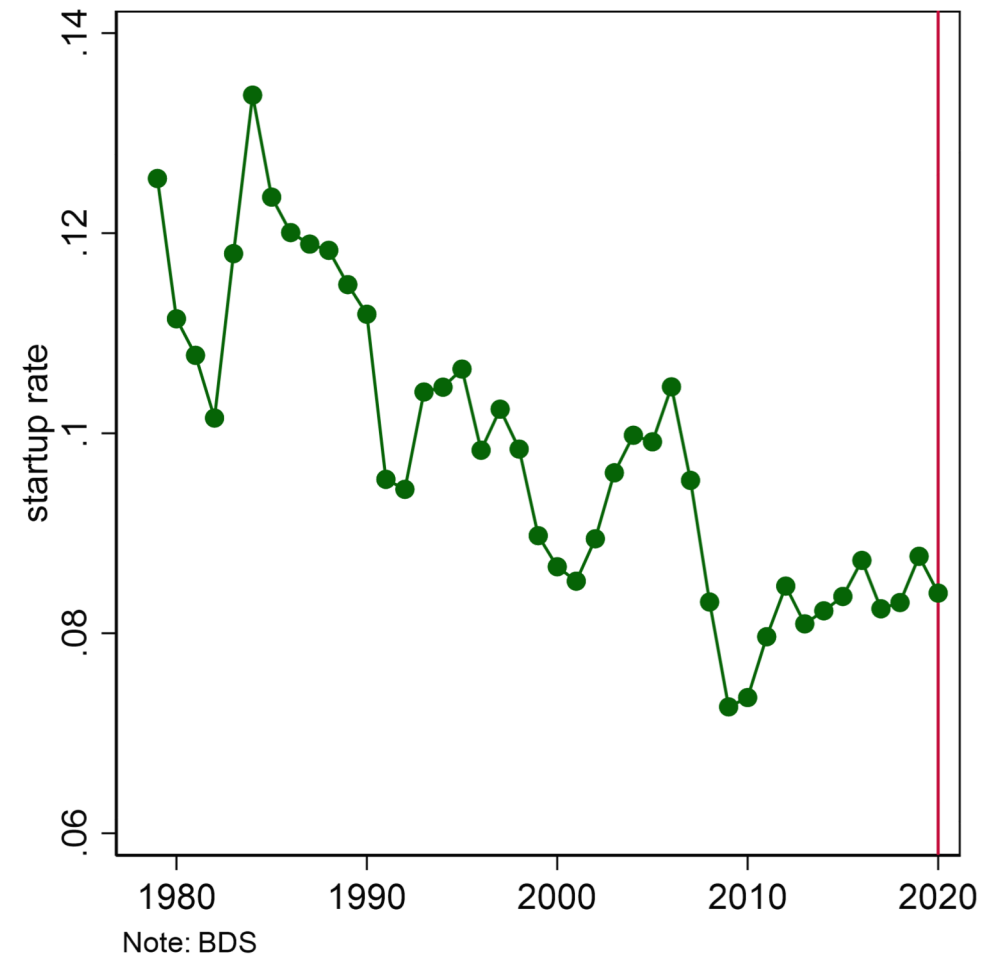
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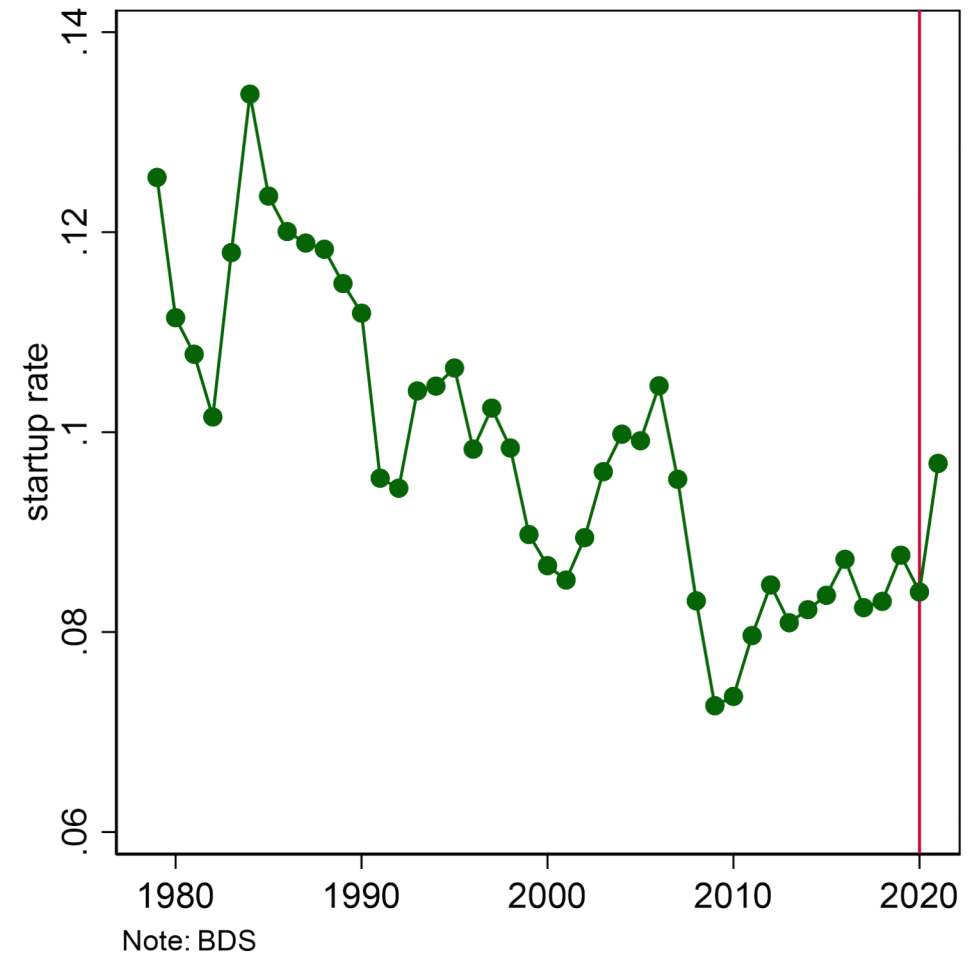
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# Overview of paper and its contributions

- 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

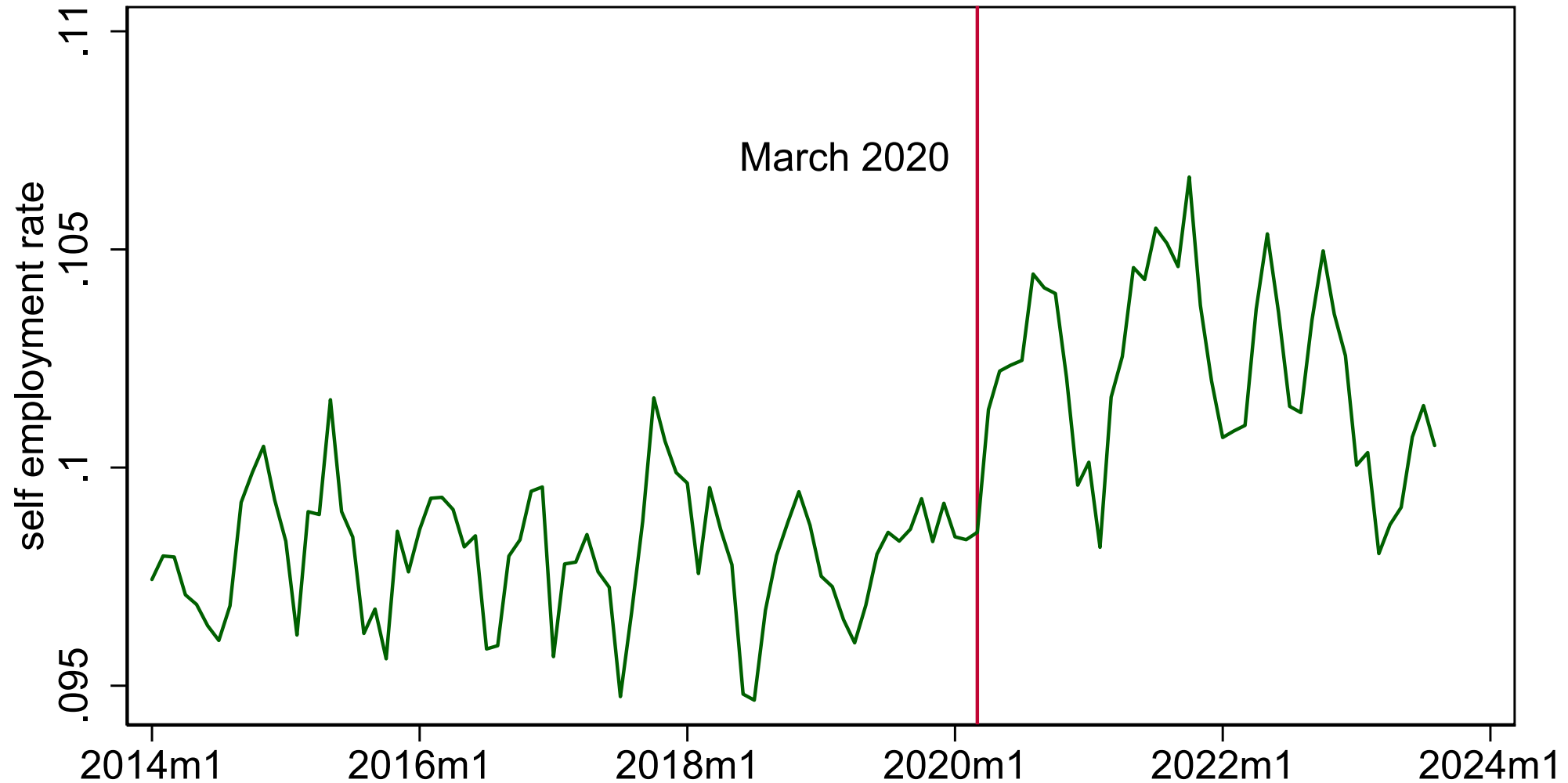
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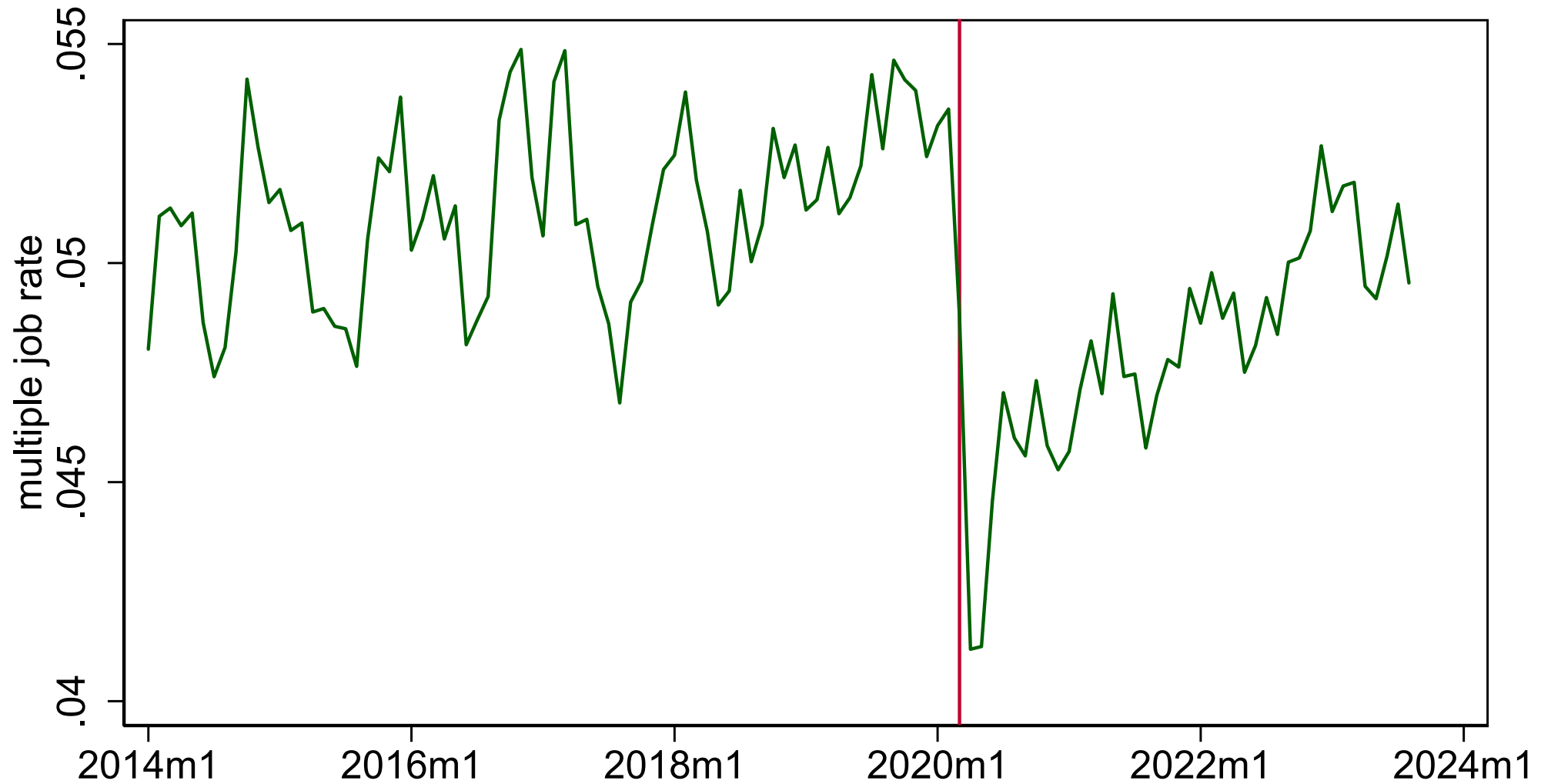
# Part 1: examining the types of new businesses

# Self employment surges post March 2020



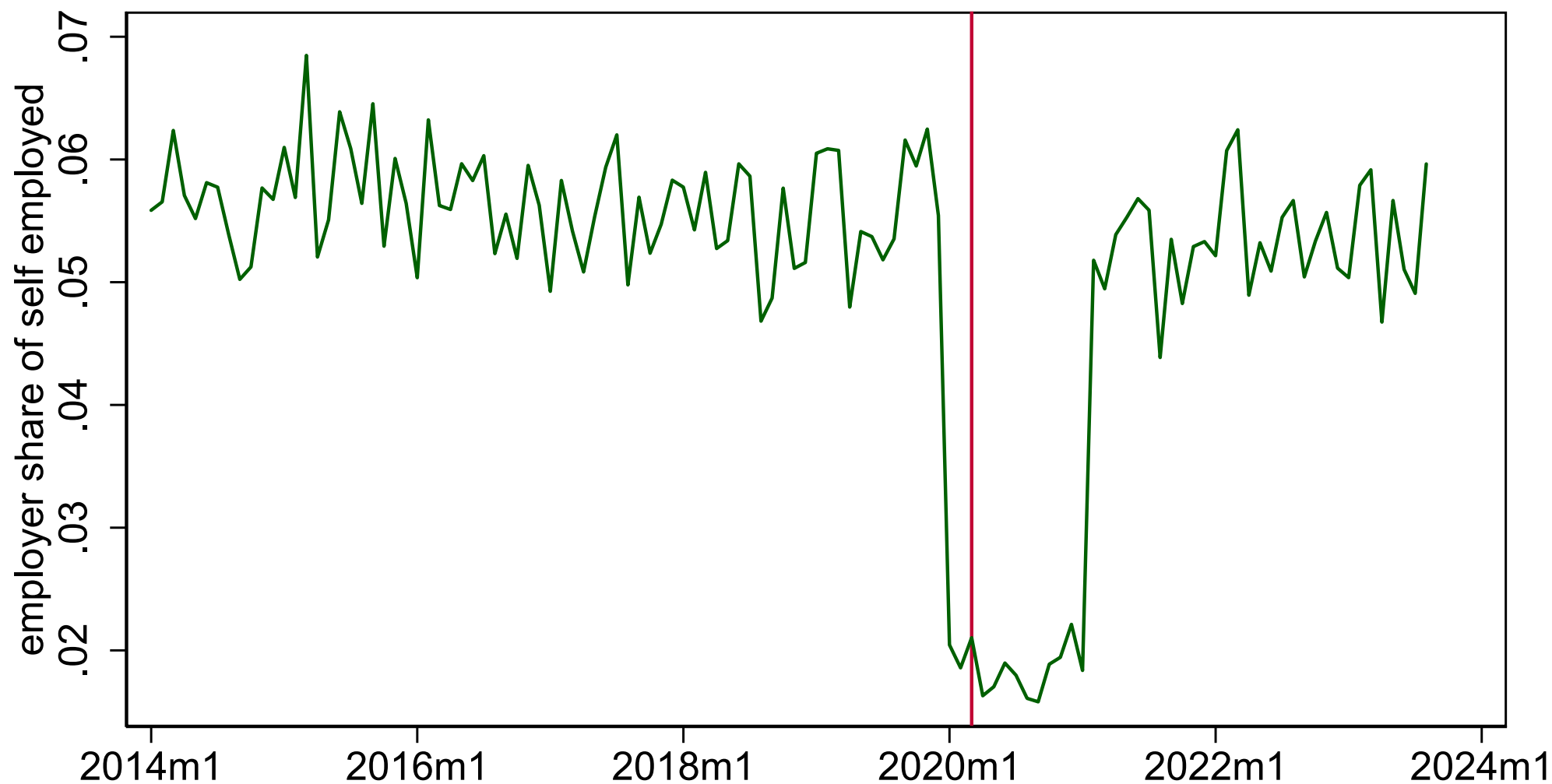
Note: CPS

# 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

Rank	NAICS	Description	Hurst and Pugsley (BPEA 2011) Small Business Industry Rank
#1	454	E-commerce	Unranked
#2	484	Truckers	#28 (4841) #32 (4842)
#3	812	Personal care services	#19 (8121)
#4	561	Building services	#6 (5617)
#5	236	Residential Construction	#1 (2361)

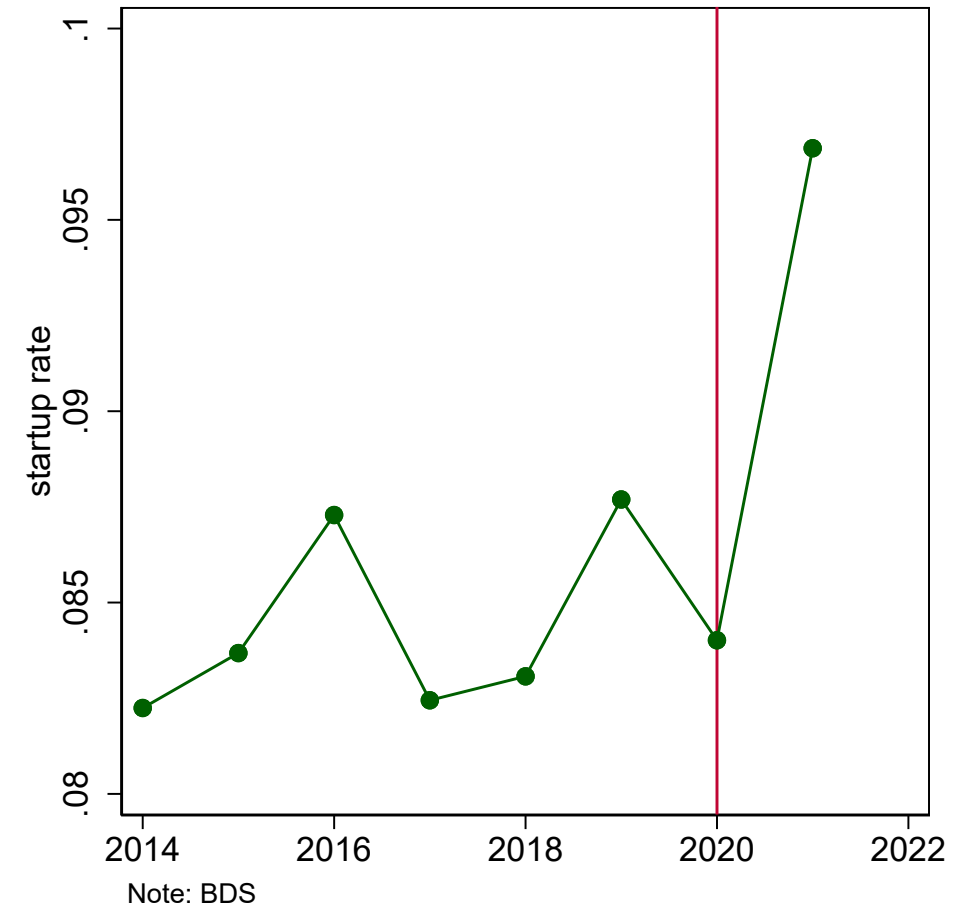
New businesses are smaller and unlikely to be growth oriented

## Part 2: implications for future startup rate

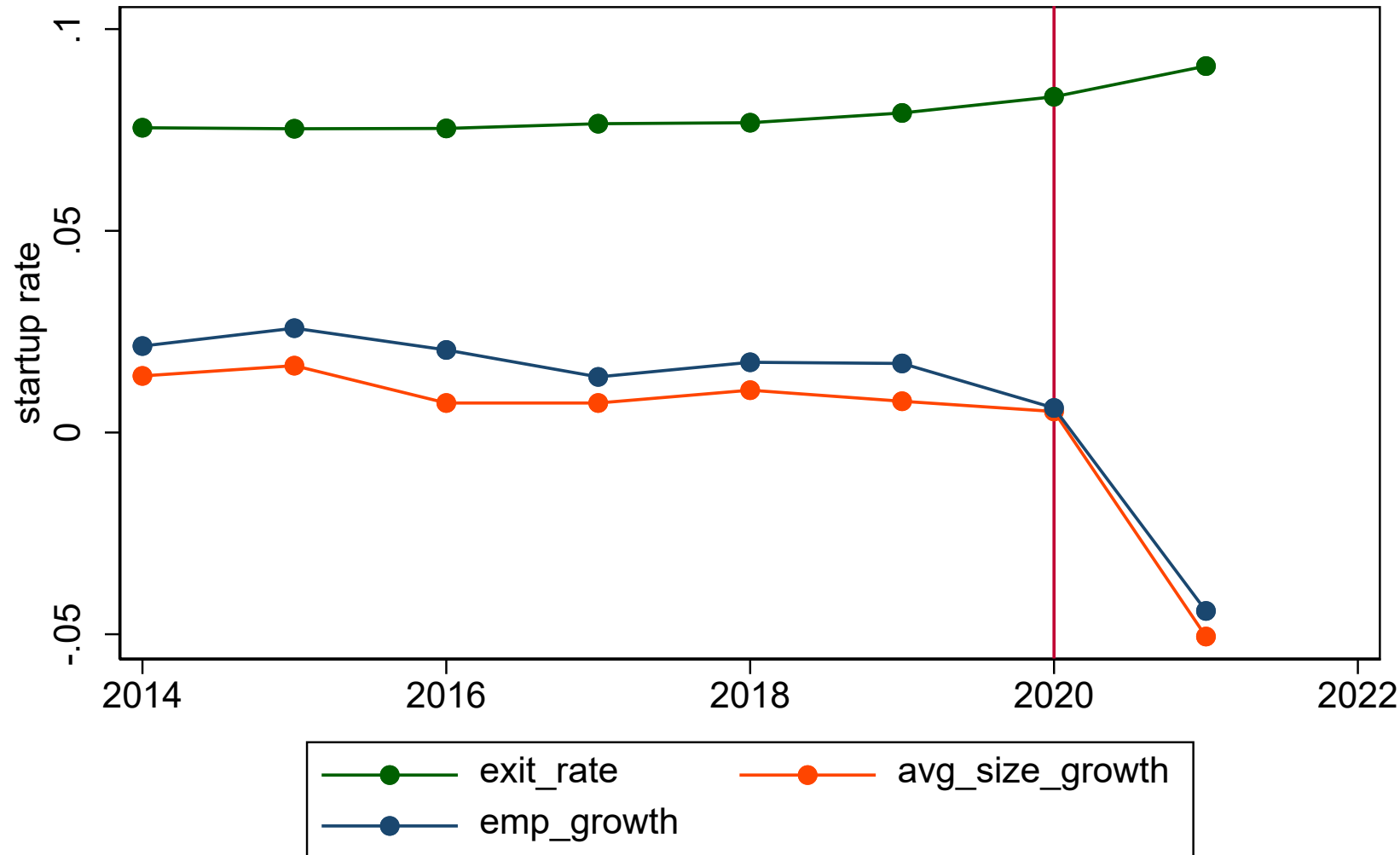
# Some Startup Rate Accounting

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

- 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



Note: BDS



# 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