Entrepreneurship During the COVID-19 Pandemic: Evidence from the Business Formation Statistics

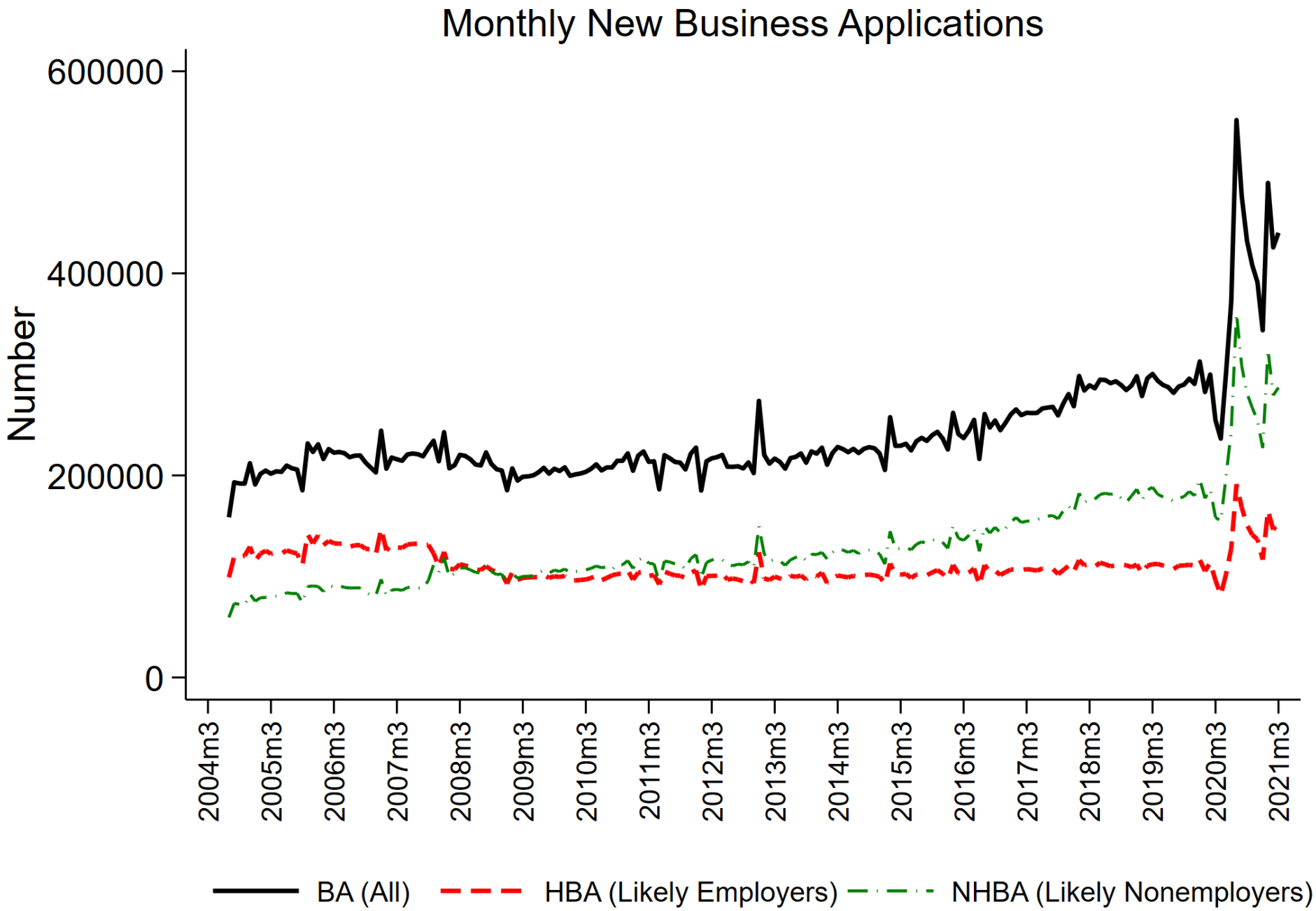
By

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*This presentation, without implication, draws on collaborative research with numerous colleagues I have worked with in the development and analysis of the Business Formation Statistics (BFS). The research and development papers for the BFS with these colleagues are cited extensively in the text and included in the references. This paper uses public domain data only. The views expressed in the paper are those of the author alone.

Overview

- New employer businesses disproportionately contribution to job creation, innovation and productivity growth
- Great Recession
  - Sharp and persistent decline in employer startups
- COVID-19
  - Early in pandemic new business applications for likely employer business startups fell sharply
  - But surprisingly: New business applications have surged since June 2020
    - 2020 is highest on record
  - Today: Explore the basic facts about this surprising surge, discuss why and implications for recovery from pandemic

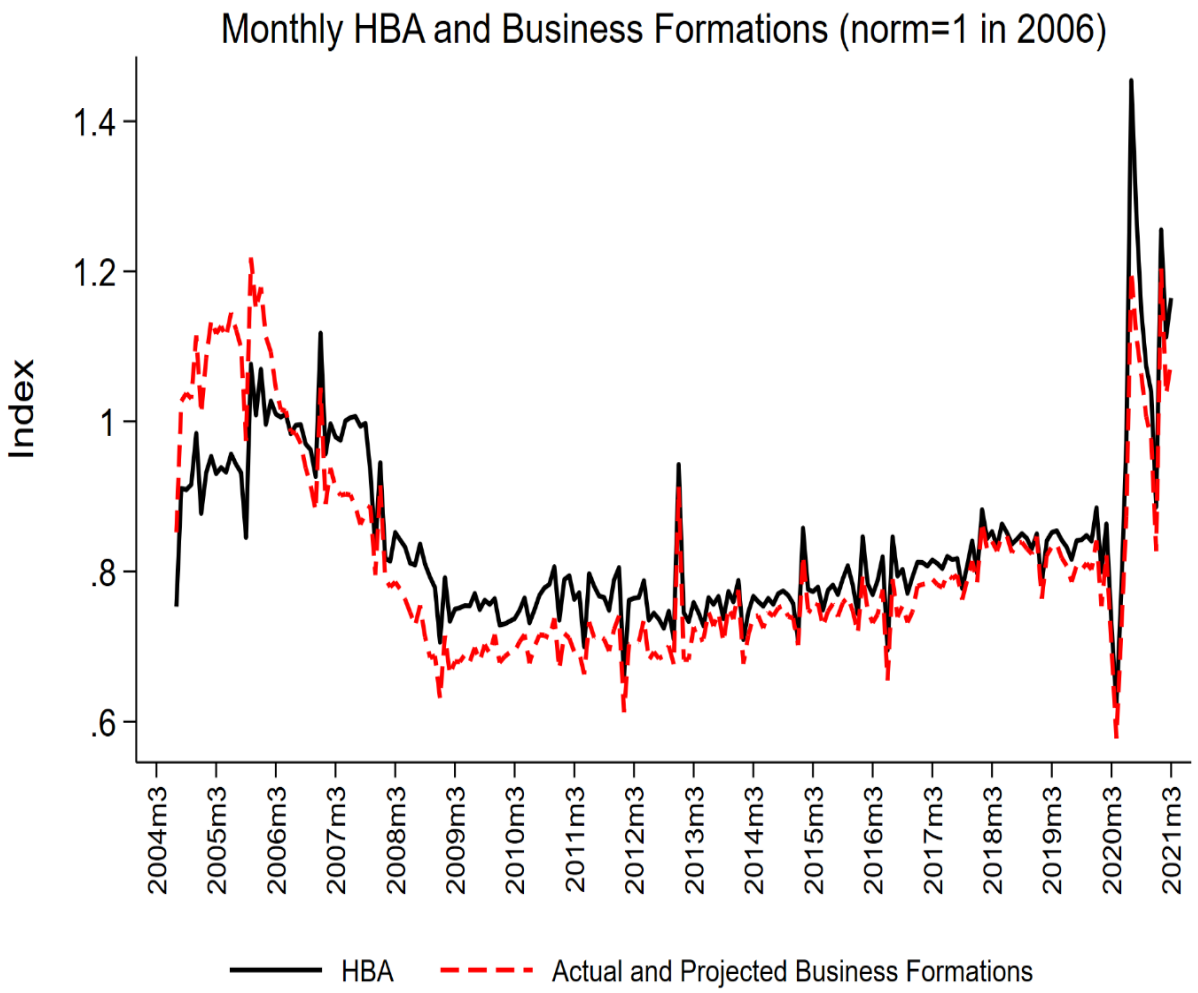


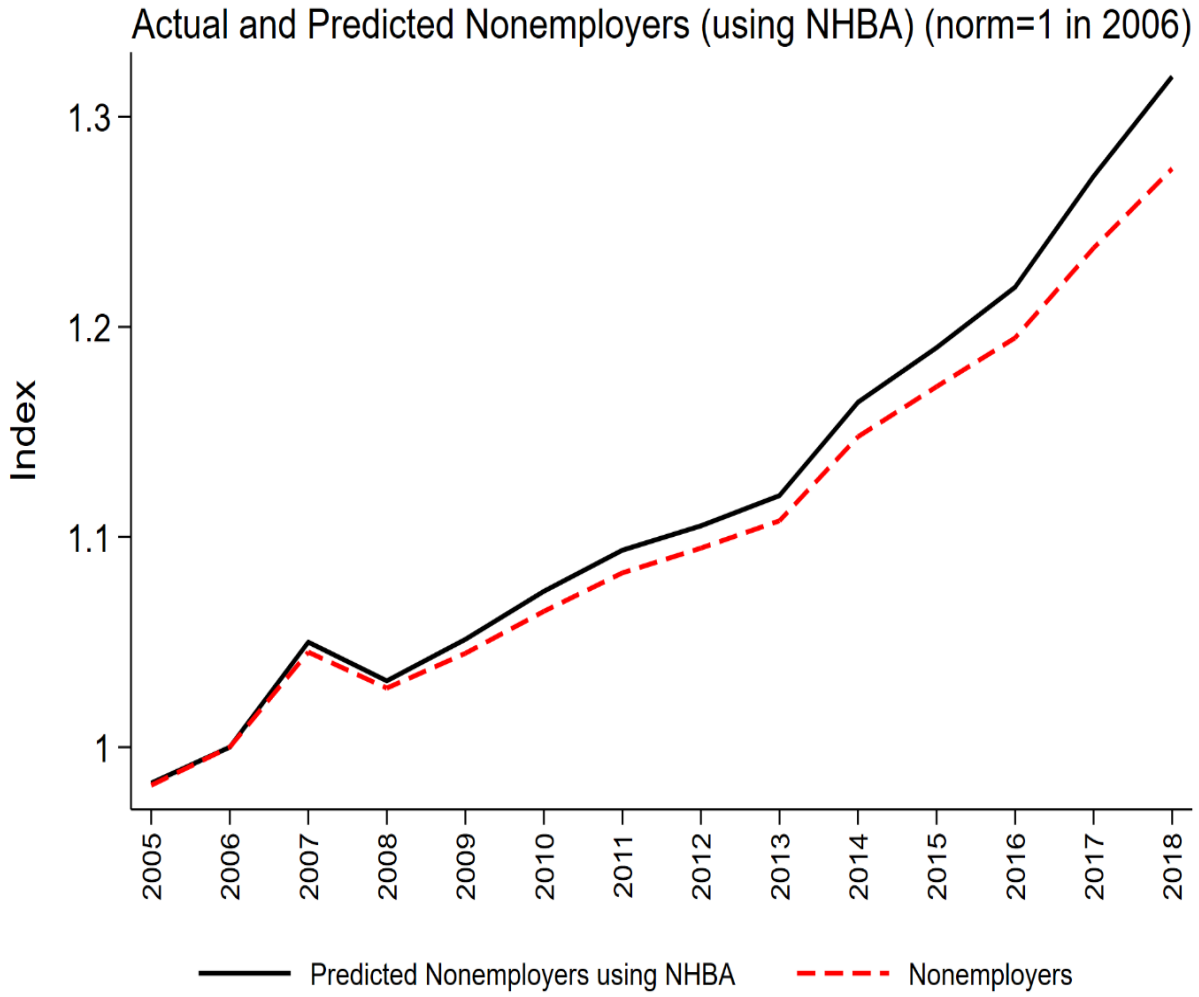
New applications data
For EINS to IRS.

Administrative data
Received by Census
On Weekly Flow Basis
In Real Time

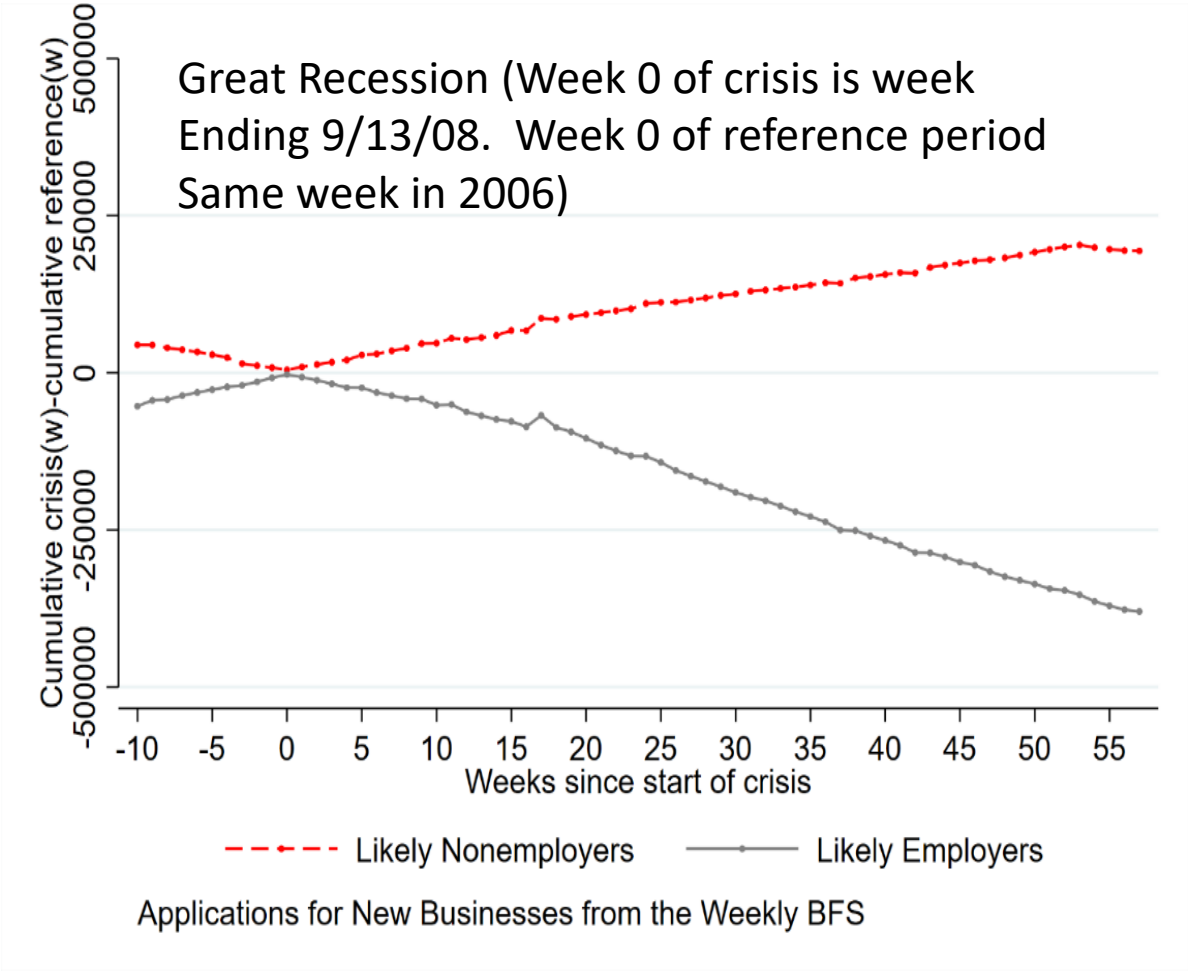
Application form includes
Requested information
about motivation,
LFO, industry, location

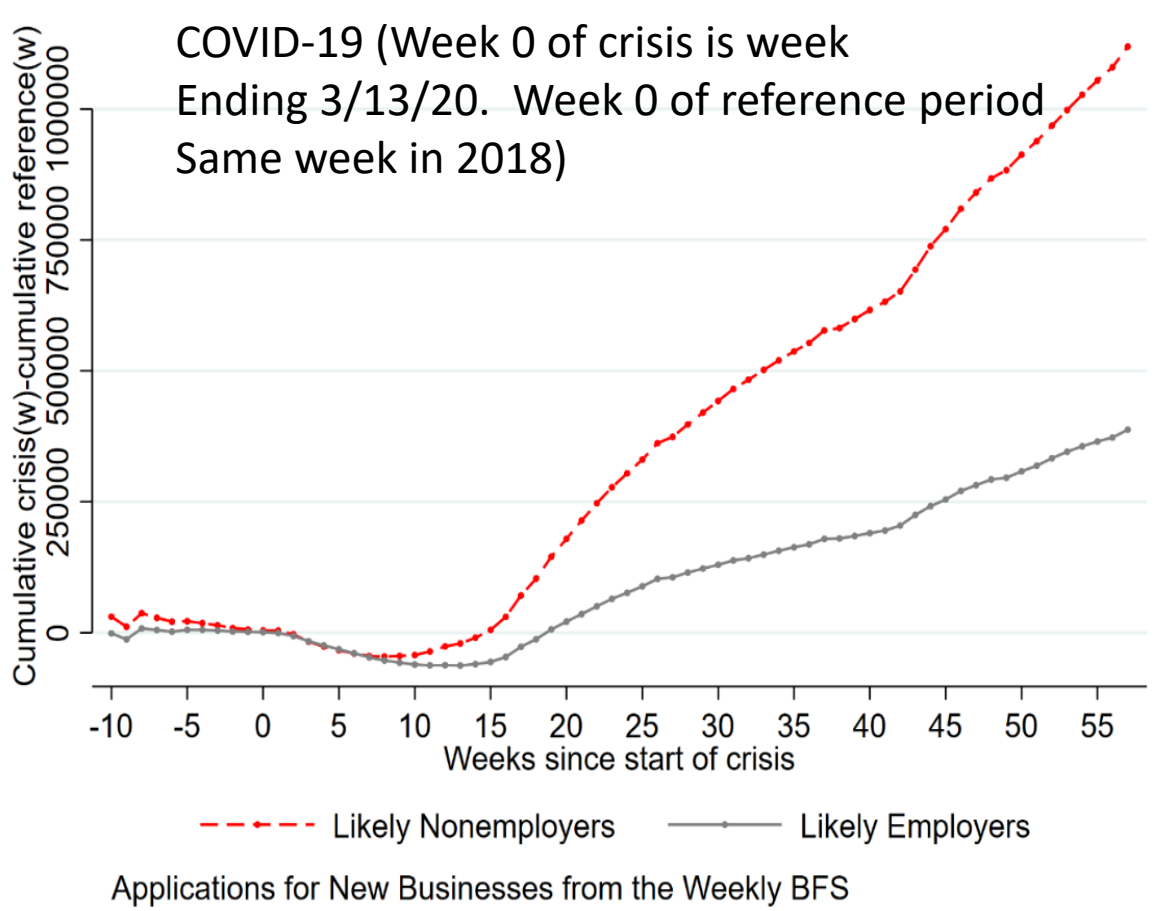
HBA tracks actual employer startups
NHBA tracks fluctuations in nonemployers





COVID-19 vs. GREAT RECESSION

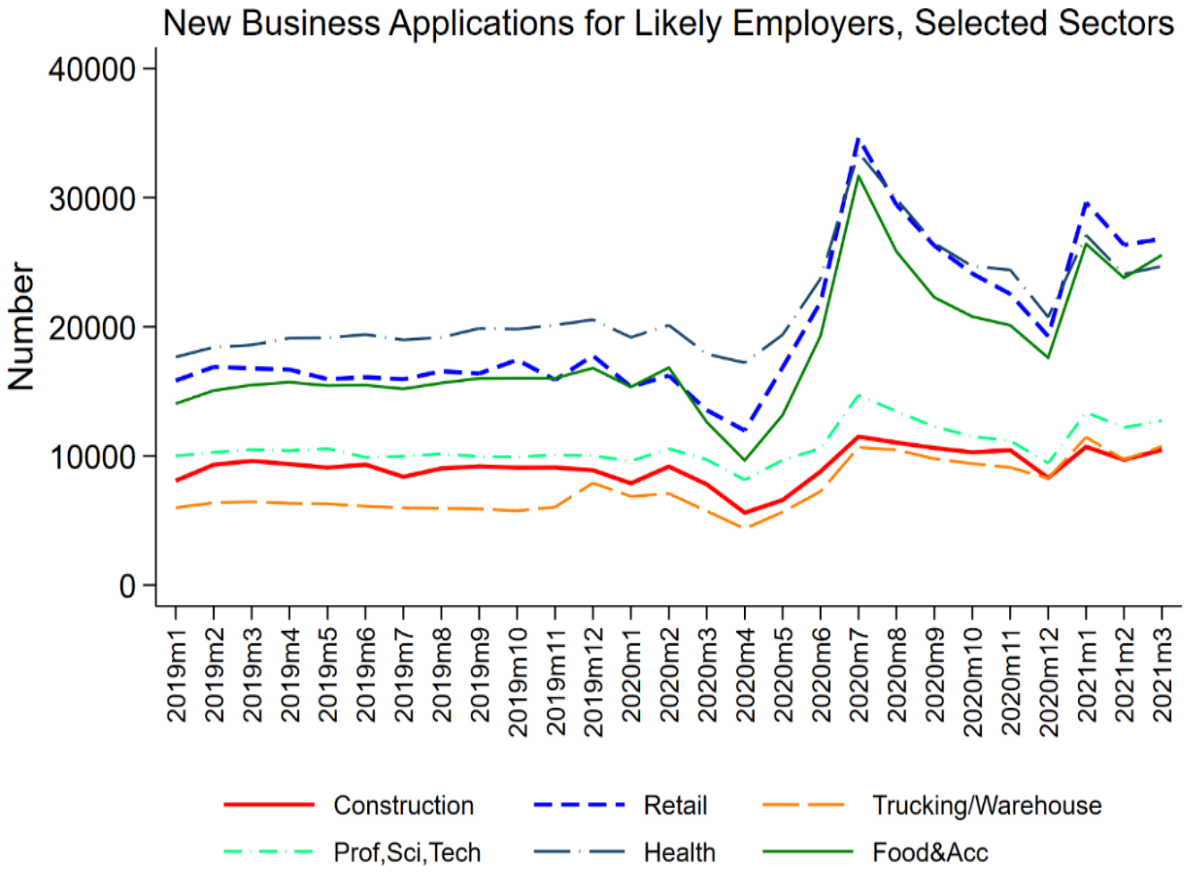


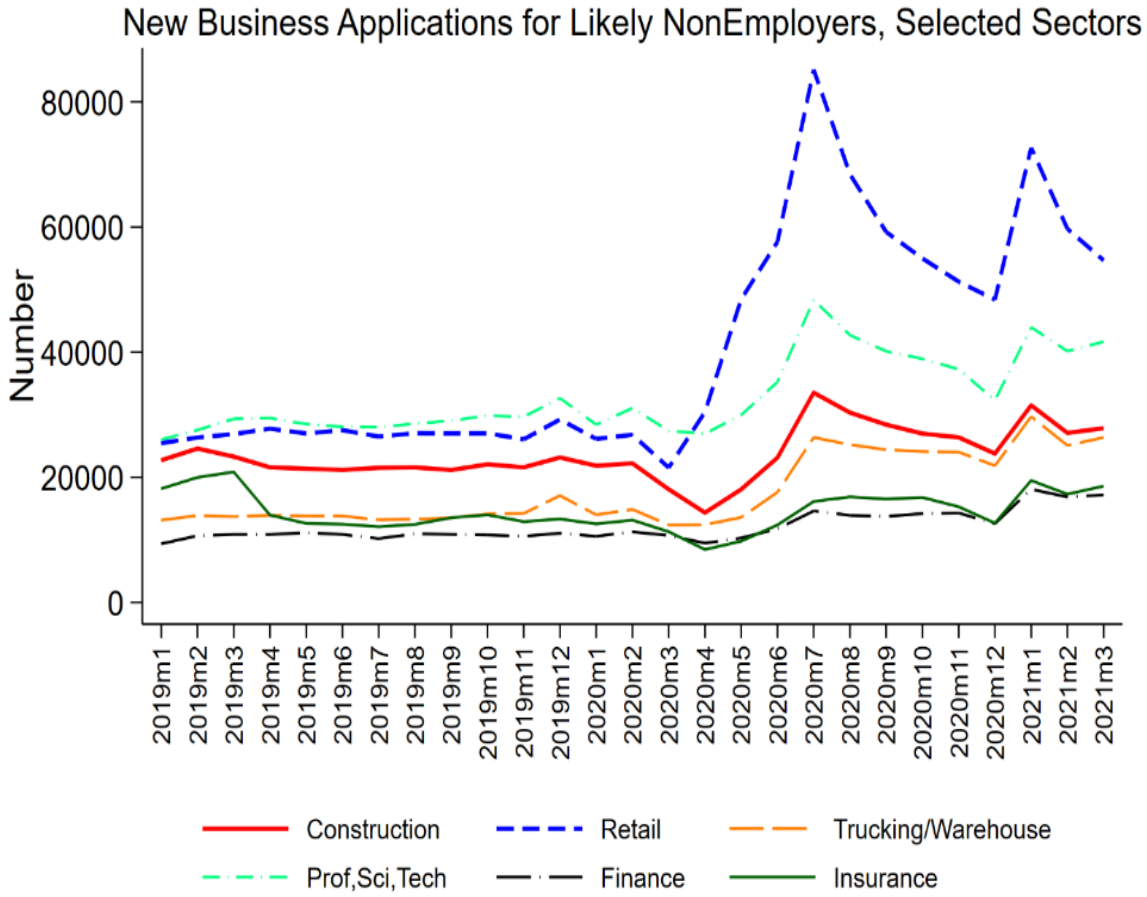


HBA declined sharply after Lehman Bros. Collapse relative to Same reference weeks in 2006. NHBA rose mildy.

HBA and NHBA both declined initially in pandemic but have surged in second half of 2020 through mid April 2021

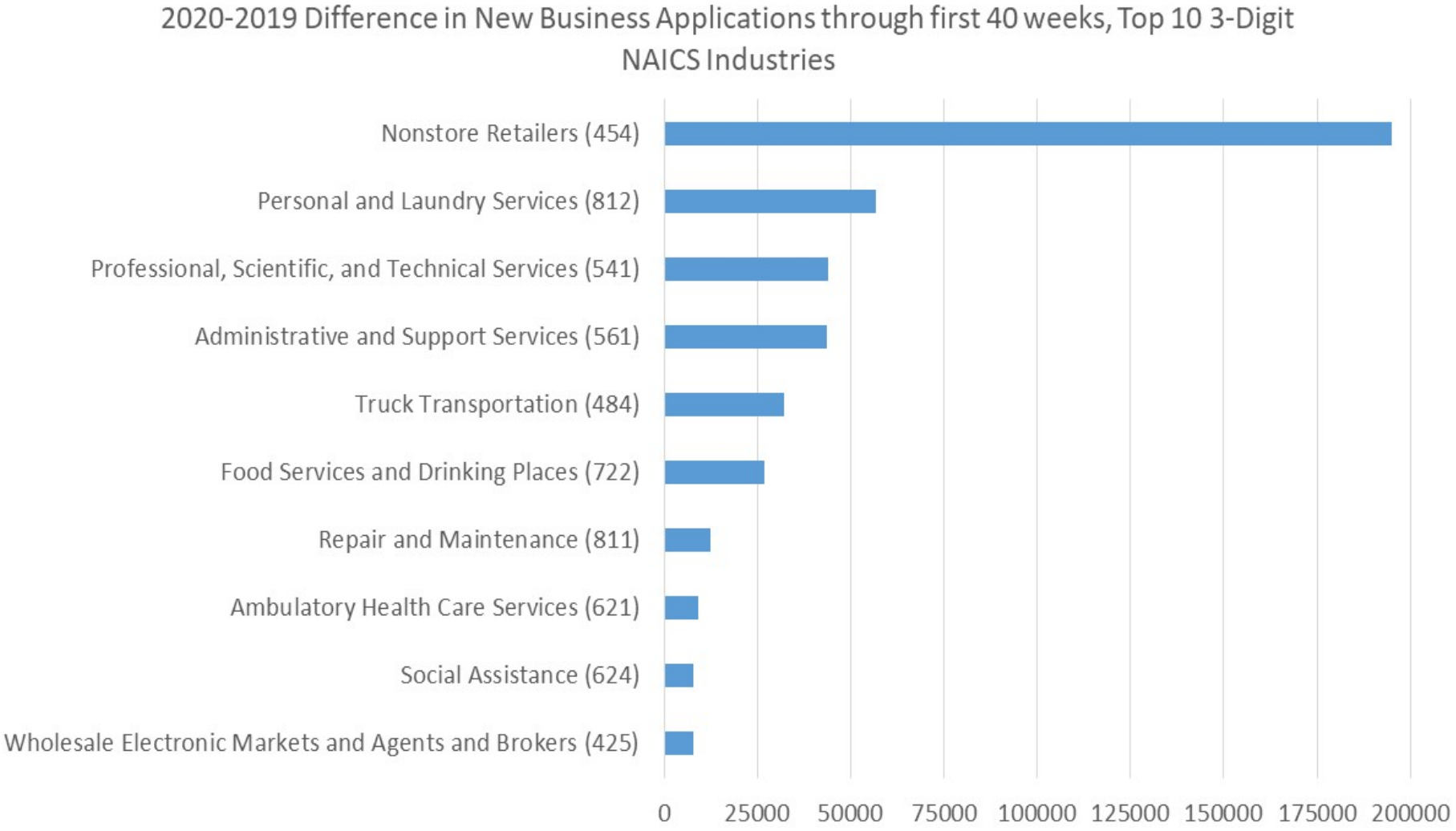
Surge in new applications concentrated in specific sectors





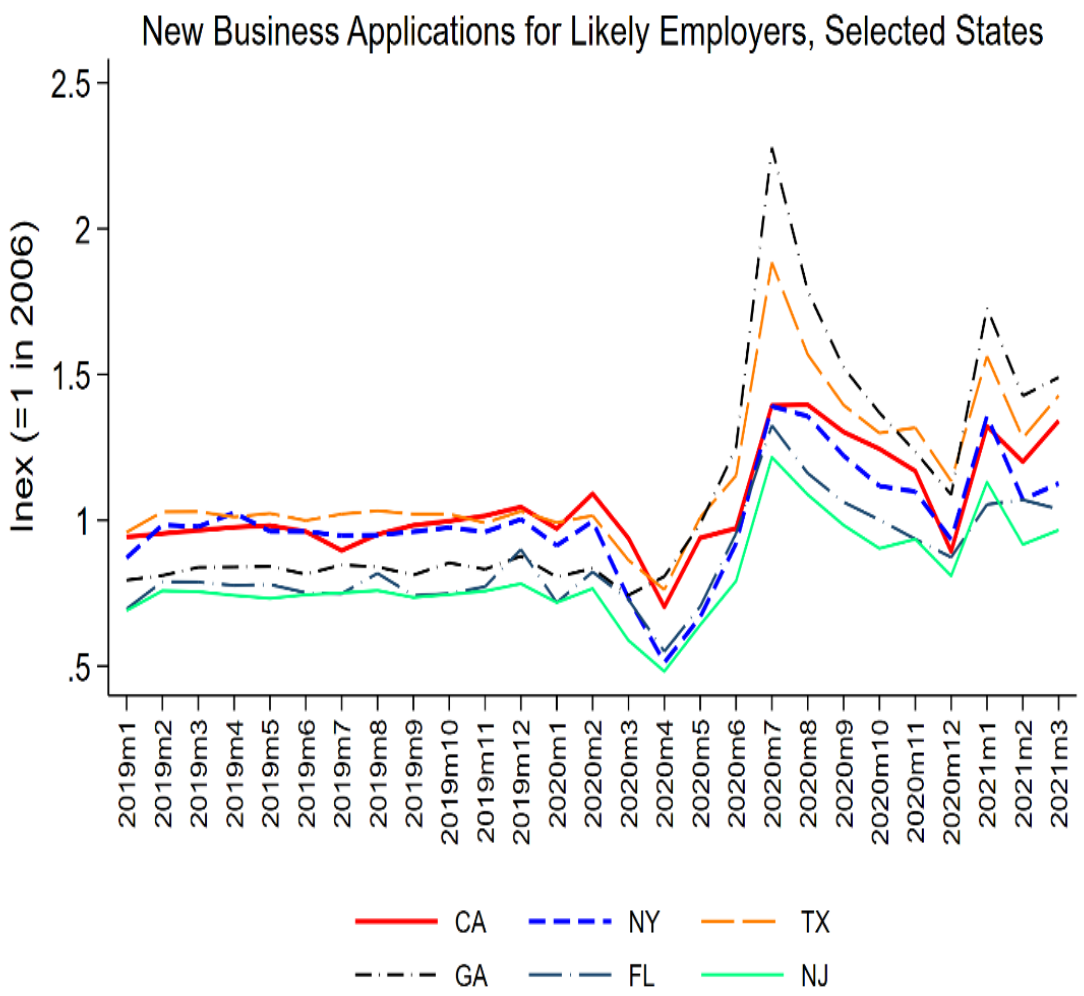
Many of these are sectors where ***existing*** small businesses have suffered especially large contractions (see Buffington et. al. 2021 evidence from Small Business Pulse Survey).

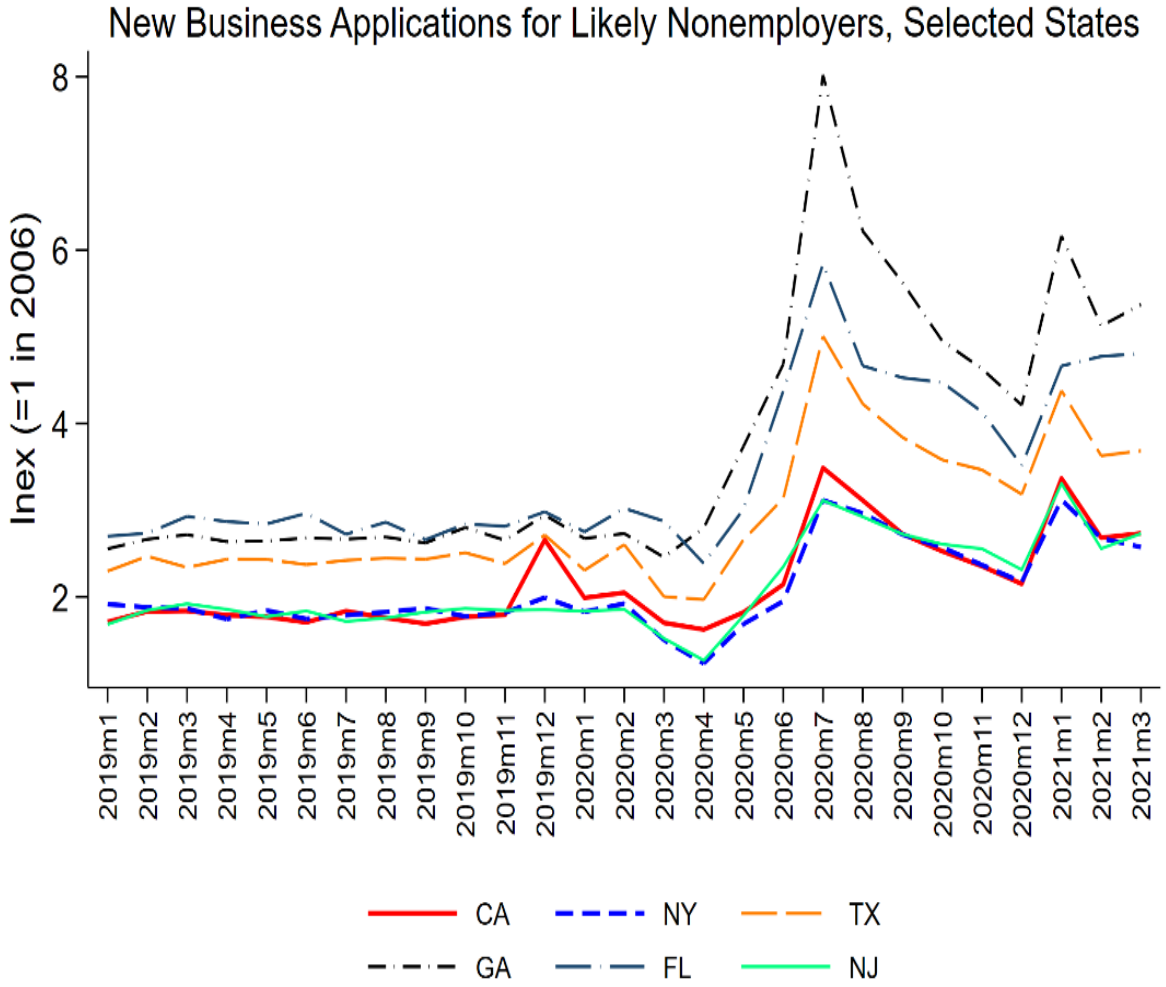
Ten 3-digit (NAICS) sectors account for 75% of Surge



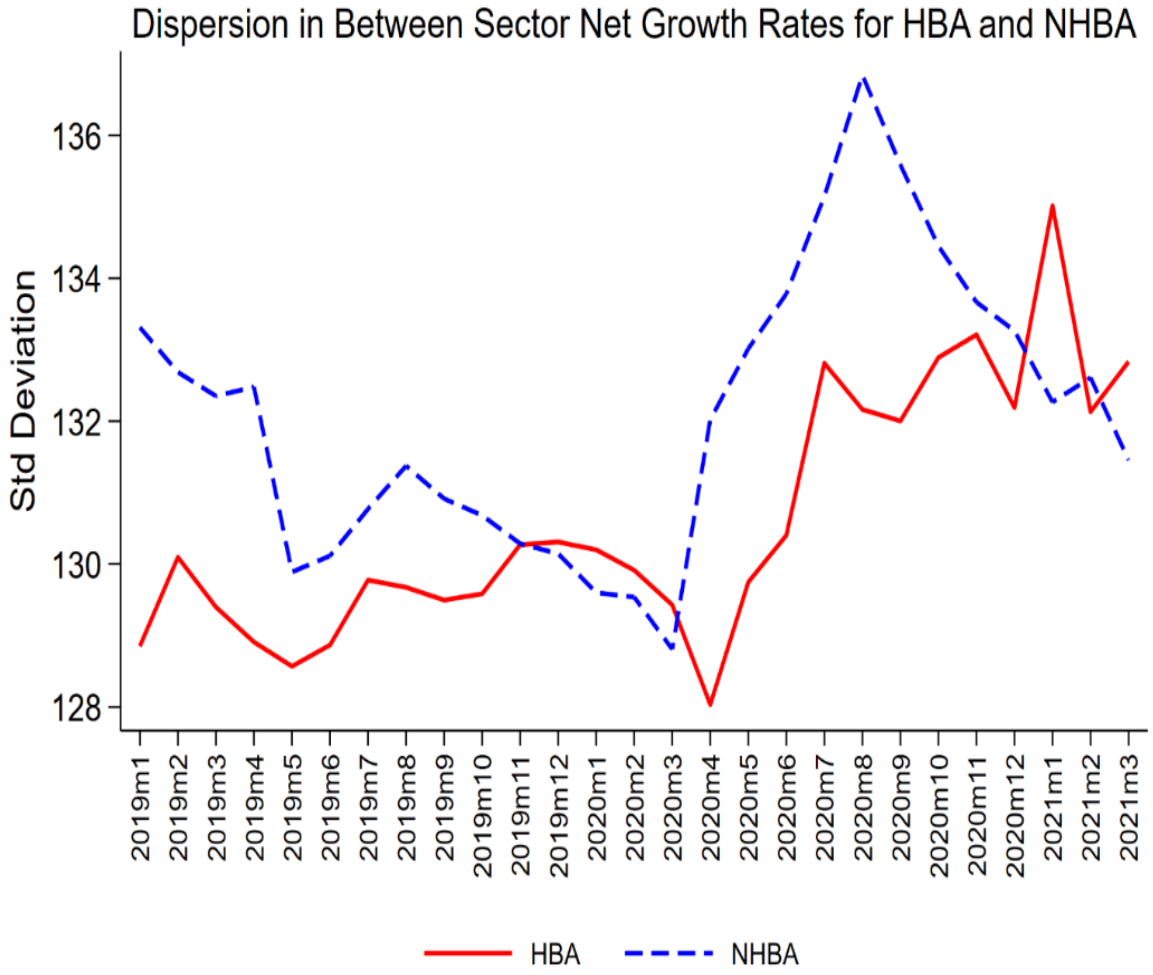
Source: Census Bureau, Business Formation Statistics. NAICS 3-digit code in parentheses.

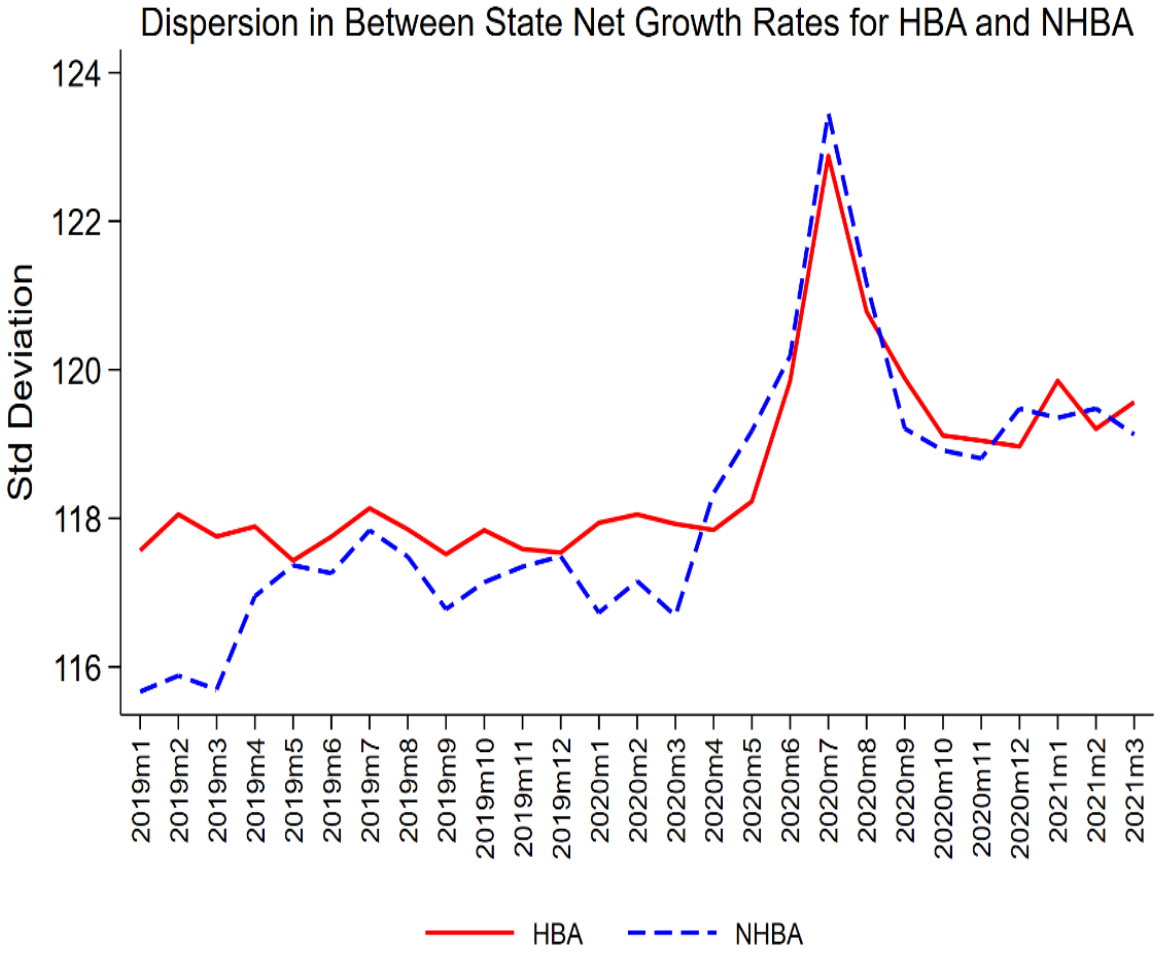
Uneven surge across states



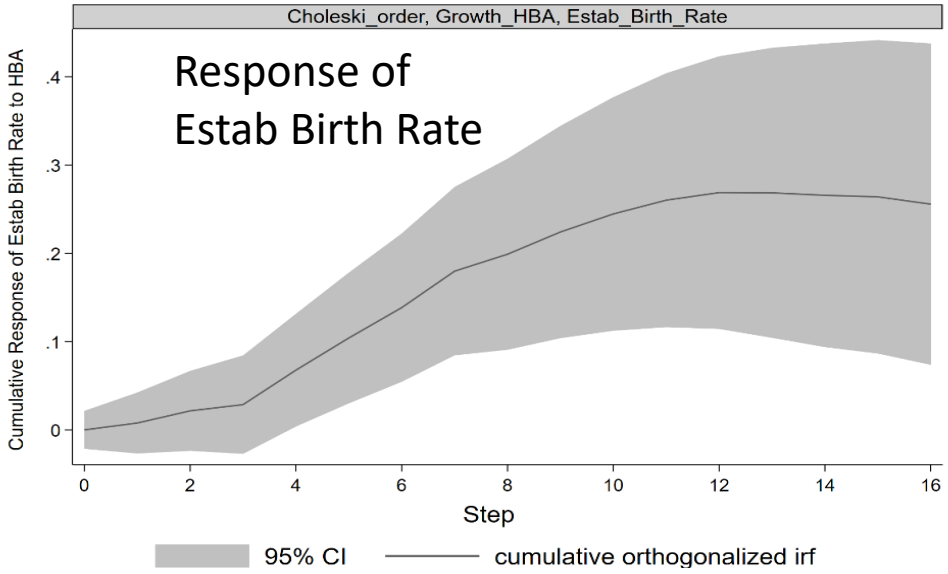


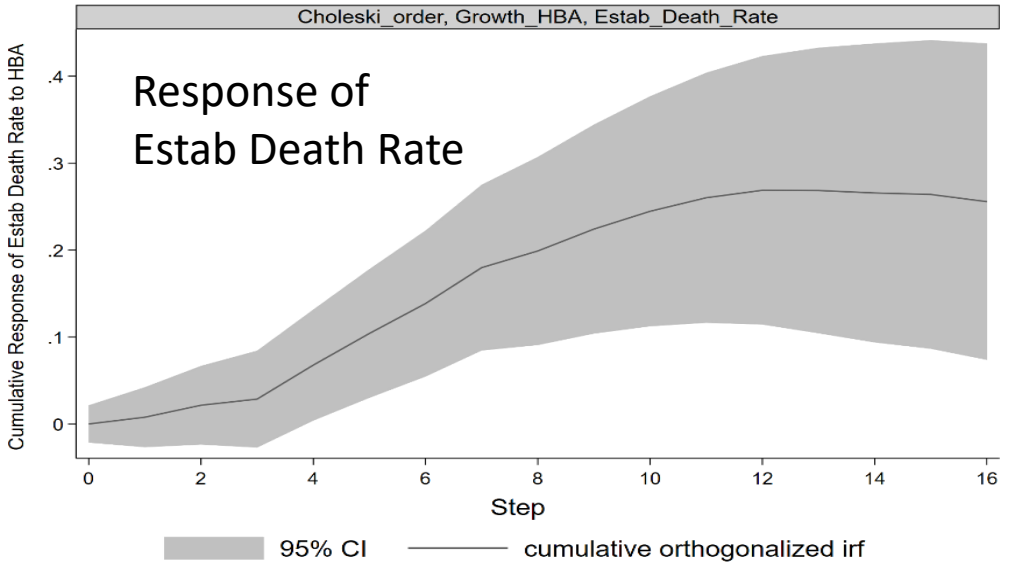
Rising Between Sector and Between State Dispersion in HBA and NHBA



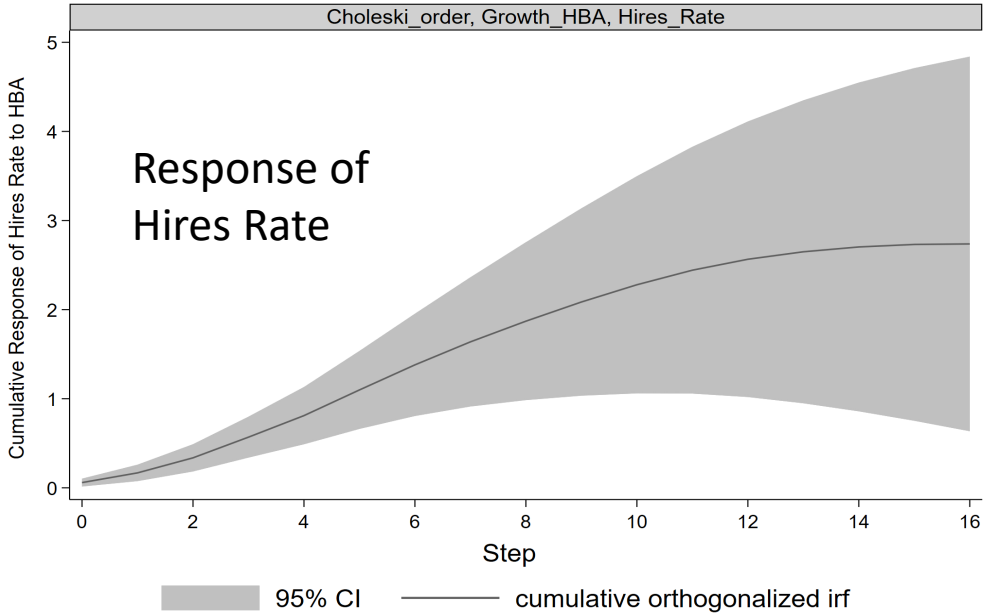


Innovations in HBA lead Business and Worker Turnover

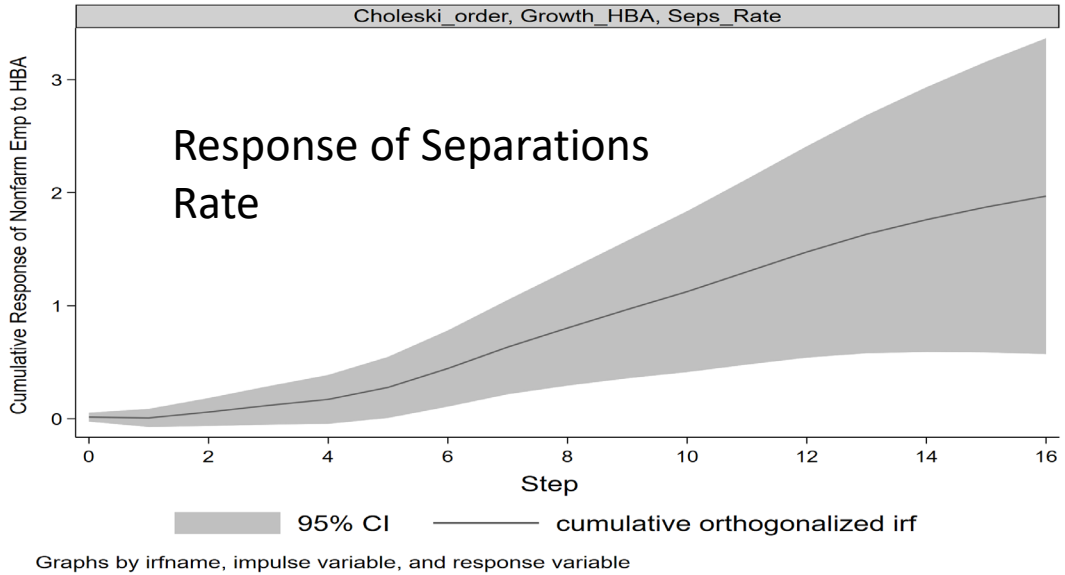




Graphs by irfname, impulse variable, and response variable



Graphs by irfname, impulse variable, and response variable



Graphs by irfname, impulse variable, and response variable

Why? What is Different from Great Recession?

- Financial market conditions collapsed in Great Recession with especially adverse impact on startups and young businesses (Davis and Haltiwanger (2019))
- In contrast, financial markets have remained robust in COVID-19 recession.
- Restructuring and Reallocation:
  - COVID-19 has provided incentives for changing structure of businesses and work.
  - Existing small businesses amongst hardest hit. More of a challenge to pivot.
  - Open questions: How permanent shift to online mediated transactions and remote work?
- CARES Act?
  - PPP provides support for existing small businesses (must have been in business by February 2020). Holding aggregate conditions constant, supporting incumbents stifles entry (Acemoglu et. al. (2018))
  - Stimulus may have helped startups (Fazio et. al. (2021). Employers vs. Nonemployers?

Potential implications of this surge for post pandemic recovery?

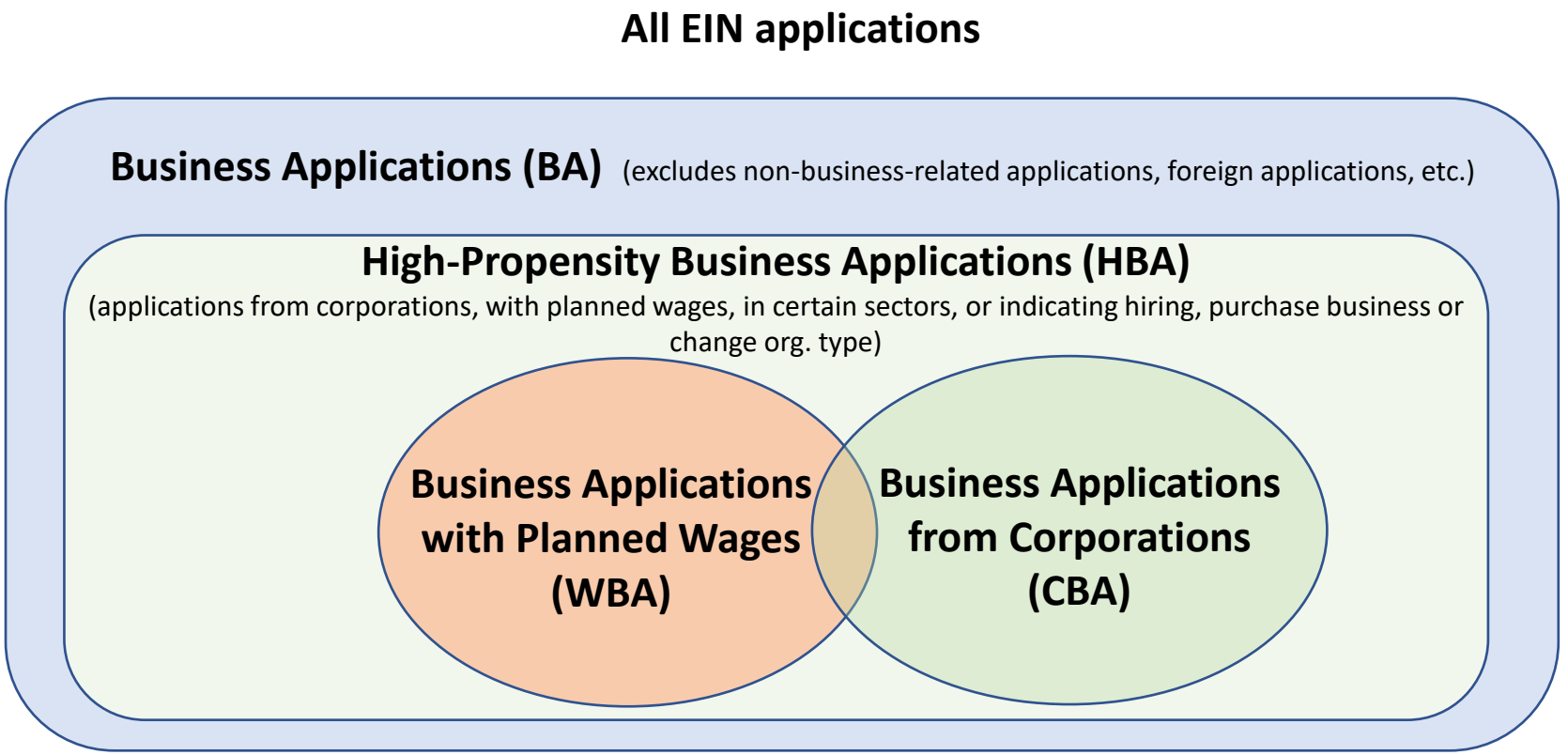
- Long lags:
  - Applications especially for employer startups are at early stage of nascent entrepreneurship
- Up or out dynamic of employer startups
  - Most new employer startups exit in first five years.
  - Most don’t grow
  - A small fraction grow rapidly and make disproportionate contributions to job creation, innovation and productivity growth (Haltiwanger et. al. (2013), Decker et. al. (2014), Guzman and Stern (2020))
- Startups are part of ongoing creative destruction.
  - Surge in startups yields higher pace of business and worker turnover.

Extra Slides

Business Formation Statistics (BFS): A New Product from U.S. Census Bureau

- The BFS stems from new applications for businesses by applying for an EIN with the IRS via Form SS-4.
- Census has long received this data to build its Business Register.
- In 2018, experimental quarterly BFS released based on Bayard et. al. (2018)
- Data are timely and granular: Census receives data by Monday of earlier week.
- Starting in April 2020, weekly BFS released on Thursday after prior reference week.
- In January 2021, monthly BFS with industry and geographic detail (SA and NSA) released within 2 weeks of end of reference month.
- Presentation today uses weekly data through 4/17/21 and monthly data through March 2021.

Business *Application* Series



Application form includes requested information about motivation for application, legal form of organization, industry,