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

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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 contribute to job creation, innovation and productivity growth

• Great Recession
  • Sharp and persistent decline in employer startups

• COVID-19
  • Early in pandemic new business applications from BFS for likely employer business startups fell sharply
  • But surprisingly: New business applications have surged since June 2020
    • 2020 is highest on record
    • Second wave of surge in 2021 that has continued through February 2022
  • Today: Explore the basic facts about this surprising surge, discuss why and implications for recovery from pandemic
Declining Dynamism and Entrepreneurship, U.S. Private, Non-Farm Sector – Pre-Covid

Source: Census Bureau Business Dynamics Statistics (BDS)
Monthly New Business Applications

Source for BFS is Administrative data Received by Census On Weekly Flow Basis In Real Time

Application for EIN on Form SS-4

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

Monthly BFS released within 2 weeks of end of reference month.

Weekly BFS released Thursday after reference Week

https://www.census.gov/econ/bfs/index.html
HBA tracks actual employer startups
NHBA tracks fluctuations in nonemployers

Actual formations reflect startups in next 8 quarters from applications in current month. Actual startups through 2018.
HBA Applications in month $t$ and New Employer Startups in Next 8 quarters


Controlling for industry and time effects

Slope = 1.0528, SE = 0.0054

Slope = 0.7126, SE = 0.0178
COVID-19 vs. GREAT RECESSION

HBA and NHBA both declined initially in pandemic but have surged through March 6 2022.

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

Great Recession (Week 0 of crisis is week Ending 9/13/08. Week 0 of reference period same week in 2006)

COVID-19 (Week 0 of crisis is week Ending 3/07/20. Week 0 of reference period same week in 2018)
Surge in new applications concentrated in specific sectors
Five 3-digit (NAICS) sectors account for 50% of Surge
Uneven surge across states

New Business Applications for Likely Employers, Selected States

New Business Applications for Likely Nonemployers, Selected States
Rising Between Sector and Between State Dispersion in HBA and NHBA

Dispersion in Between Sector Net Growth Rates for HBA and NHBA

Dispersion in Between State Net Growth Rates for HBA and NHBA
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?
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.
“Bonus” Slides
Early signs of actual startups? Business Employment Dynamics (BED) Establishment Openings?

Establishment openings includes new establishments of existing firms and Reopenings.

New establishments of Existing firms are mostly From large, mature firms.
Startup lag increasing Pre 2018.

Continues with Projections.

This implies takes Even longer to Understand implications Of fluctuations in BFS.