



# Did US business dynamism recover in the 2010s?<sup>☆</sup>

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## ABSTRACT

We provide evidence that both firm and establishment entry rates in the US have been increasing over the past decade, seemingly ending the decline observed over previous decades. However, neither the job creation and destruction rates nor the reallocation rates show signs of recovery. These conflicting features are reconciled after we control for the changes in job size of business units. As a result, we conclude that business dynamism flattened at historically low levels during the 2010s.

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## 1. Introduction

Business dynamism in its broad definition covers two dimensions of economic activity: business units (entry and exit) and their corresponding labor flows (creation, destruction and reallocation of jobs). Typically, however, business entry rates have been used as the headline indicator of this process. The relationship between exit rates and business dynamism is less straightforward. Under the Schumpeterian ‘creative destruction’ view, a rising exit rate along with a rising entry rate is a sign of business ‘churning’ which may foster economic growth. Thus, increasing entry and exit rates, taken together, is consistent with the notion of increasing business dynamism. This is precisely what we document in Fig. 1 for both firm- and establishment-level in recent years.

In the annual Business Dynamics Statistics (BDS) database released by the US Census Bureau, the US firm-level entry rate (the rate of start-ups born relative to incumbents) shows a steady increase since 2010. The renaissance of business dynamism is also reflected in the quarterly series of establishments provided in the Business Employment Dynamics (BED) database of the Bureau

of Labor Statistics.<sup>1</sup> The establishment entry rate experienced a sharp upward trend over the 2010s, approaching the average rate observed in the early 1990s (see Fig. 1). The exit rates are also increasing albeit lagging behind the entry rate.

These post-2010 rising trends sit oddly with the consensus in the literature that business dynamism experienced a secular decline over the past decades (Decker et al., 2014; Hathaway and Litan, 2014; Haltiwanger, 2015; Decker et al., 2016b,a). The latter stylized fact has given impetus to research in determining the sources of such slowdown of business dynamism within industries, and across size and age categories (Calvino et al., 2020; Decker et al., 2020; Andrew, 2020; Ackcigit and Ates, 2021). It has also motivated a range of policy discussions and debates on trade agreements, tax and regulation policies, incentives for innovation, and other supporting measures for business creation. Interestingly, however, when we bring in the labor dimension, the lack of business dynamism remains.

The main focus of our paper is to reconcile these opposing features in the data and determine the direction of business dynamism over the past decade. To that end, we construct size-adjusted entry and exit rates keeping a constant job-size of business units across time. Our results show that the size-adjusted entry and exit rates have bottomed-out for both firms

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<sup>1</sup> Goetz et al. (2017) provide an overview of the available data for entrepreneurship research (Table 11.1, page 436). Although the BDS sample period begins in 1978, we have considered the first observation in 1994 to have a common reference period with that of the BED. As previously stated, the focus of our paper is the 2010s decade.