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Did US Business Dynamism Recover in the 2010s?

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Abstract

We provide evidence showing that the US business entry rates have been either rising or remained flat over the past decade ending their secular decline observed over previous decades. Although the number of startups relative to incumbents has been increasing, their job-size (intensive margin) has decreased substantially. Controlling for these opposite trends reveals that the *size-adjusted* entry rates have remained flat after 2010 at historically minimum values. The vigorous business dynamism reflected in actual entry rates, therefore, masks the weakness of employment creation in new businesses. The average number of hirings per new establishment has fallen from around 6 jobs in the 1990s to nearly 3 jobs in recent observations.

Key words: Business entry rates; Business dynamism; Size-adjusted entry rates; BED; BDS

JEL Classification: E22, E32

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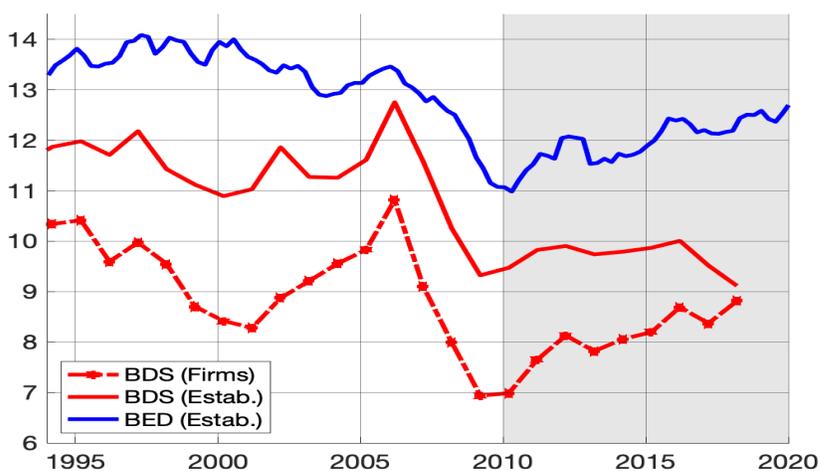
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1 Introduction

There is broad consensus in the literature that the business entry rate – a defining characteristic of business dynamism – has experienced a secular decline (Decker et al. (2014), Decker et al. (2016a), Decker et al. (2016b), Hathaway and Litan (2014), Calvino et al. (2020), Ackcigit and Ates (2021)). This consensus has given impetus to research in determining the sources of declining business dynamism within industries, and across size and age categories. 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.

Figure 1: US entry rates (1994-2020), Annual (%).



Note: Shaded area corresponds to the 2010-2020 period.

But somewhat surprisingly, we show that a very different picture emerges when we consider business entry data over the past decade from the two most prominent databases (Figure 1). In the quarterly Business Employment Dynamics (BED) database, the establishment entry rate experienced a sharp upward trend over the 2010s, approaching the rate observed in the early 1990s (blue line). Put differently, business dynamism is *rising*, and hence appears not to agree with the consensus view. In the annual establishment entry rate series of the Business Dynamics Statistics (BDS) database, the rate also increased from 2010 to 2016, and then declined by approximately the same percentage (red line). Once again, no secular declining trend is observed over the 2010s and business dynamism

seems to have remained roughly the same over the decade. Although the main focus of our paper is on establishments, the renaissance of business dynamism is also reflected in the rising firm entry rate over the past decade in Figure 1 (red dotted line).¹

The 2010s recovery in business dynamism apparent in Figure 1 has not yet received much attention in the literature. We speculate that there are at least two possible reasons. First, the provided evidence on declining business dynamism is primarily based on the 1978 to 2011 period (see, for example, [Hathaway and Litan \(2014\)](#), [Decker et al. \(2016a\)](#), [Andrew \(2020\)](#), [Ackcigit and Ates \(2021\)](#)). Second, the severity of the global financial crisis (2008-2010) might have led researchers to reinforce their views on the declining business dynamism and the apparent reversal in trend effects may have gone unnoticed.

While the secular decline in establishment entry rate, which describes the ‘extensive margin’, appears to have stopped in 2010, it may be the case that the employment generating capacity of new establishments has continued to wane. Indeed, previously, [Sadeghi \(2008\)](#), [Choi and Spletzer \(2012\)](#), and [Decker et al. \(2016a\)](#) have noted that jobs associated with startups or births have declined over the 1990s and 2000s. Based on this evidence, a new establishment in the 2010s (in terms of the jobs associated with the new production unit) is not the same as in the 1990s. How might this changed intensive margin matter for understanding the rising entry rate? Answering this question is the main focus of our paper.

We construct a size-adjusted entry rate to make comparable a new establishment in the 2010s with a new establishment in the 1990s. Since our focus is on the decade of 2010s, we consider the jobs associated with a representative establishment over the 1990s decade to determine the size-adjustment factor. The adjustment with this factor on the series of establishment births and incumbents gives the size-adjusted entry rate, which is the object of our analysis.

We find that the size-adjusted entry rate experienced an even sharper decline until 2010 than the unadjusted entry rate. Since 2010, however, the size-adjusted entry rates have remained flat in both BED and BDS. In fact, including the intensive margin in the determination of the entry rate reinforces the end of the secular decline in business dynamism over the last decade. Taken together, these findings are in sharp contrast with the prevailing view. They do, however, point to a significantly reduced

¹Firm-level data is only provided by the BDS.

job creating capacity of new establishments in the US economy. A single new establishment created three jobs, on average, during the 2010s compared to around six jobs in the 1990s. These facts indicate that while the secular decline in business dynamism ended in the 2010s, the job creation dynamism of new establishments has essentially bottomed out. Our findings provide a useful guidepost for (i) thinking about the nature of business dynamism over the past decade, (ii) developing theoretical models consistent with the post-2010 facts and (iii) informing policy.

The rest of the paper is organized as follows. Section 2 describes the data, presents the empirical analysis, and reports the main findings of the paper. Section 3 concludes.

2 Data and empirical analysis

Two of the most popular publicly available data sets used to study private business and employment dynamics are the BED and the BDS.² The BED series starts in 1992 and is provided by the Bureau of Labor Statistics (BLS) that gathers it from administrative records of the Quarterly Census of Employment and Wages (QCEW). The QCEW covers all establishments under State unemployment insurance and hence embodies almost completely all employment on non-farm payrolls. BDS data have been released since 1978 by the U.S. Census Bureau that collects them from the Longitudinal Business Database (LBD), with a combination of annual snapshot files from the Bureau's Business Register (BR) and corrections to BR data made by the County Business Patterns program. Between the two datasets, BED has been considered more reliable for studying establishments (Sadeghi (2008), and Choi and Spletzer (2012)). This is explained by its advantages in terms of frequency (quarterly vs. annually), readiness (9-month vs. 2-year lags) and smoothness (BDS collects data through the quinquennial economic census program in the years ending in 2 and 7, which creates noticeable spikes as can be observed in Figure 1), among others.³ For this reason, in this section we continue our analysis of the US business dynamics focusing only on BED data. However, in the interest of completeness, we compare size-adjusted entry rates of BED and BDS in subsection 2.4.

²Goetz et al. (2017) provide an overview of the available data for entrepreneurship research (Table 11.1, page 436).

³Section A in the Appendix provides a more detailed comparison of the sources and methodologies used in BED and BDS.

2.1 The BED database and empirical evidence

The BED series that best captures the entrepreneurial activity and the new businesses (startups) is the private establishment births because it excludes re-openings of seasonal businesses (Sadeghi (2008)). There are two elements shaping business creation in BED data: i) the increase in the number of new production units (the extensive margin), and ii) the gains of jobs associated with those new businesses (the intensive margin). Next, we describe the evolution of these two margins and present a way to obtain the job-size adjusted series of new establishments.

2.2 Intensive and extensive margins

The top panel in Figure 2 shows the quarterly BED series of private establishment births (entry). We observe an upward trend since 1994 until the beginning of the financial crisis 2007-08. After 2010, we again observe a sustained upward trend going from around 200,000 new establishments in the quarters of 2010 to over 250,000 per quarter by 2019. The middle panel in Figure 2 shows the total number of workers hired in new establishments. The evolution of this series shows a markedly different pattern. After an upward trend until the year 2000, we observe a secular decline throughout the 2000s, and since then it has remained flat at about 800,000 new jobs per quarter.

We take the ratio of the series in the middle and top panels of Figure 2 to get the average number of jobs created per establishment birth, E_t^{entry} , as:

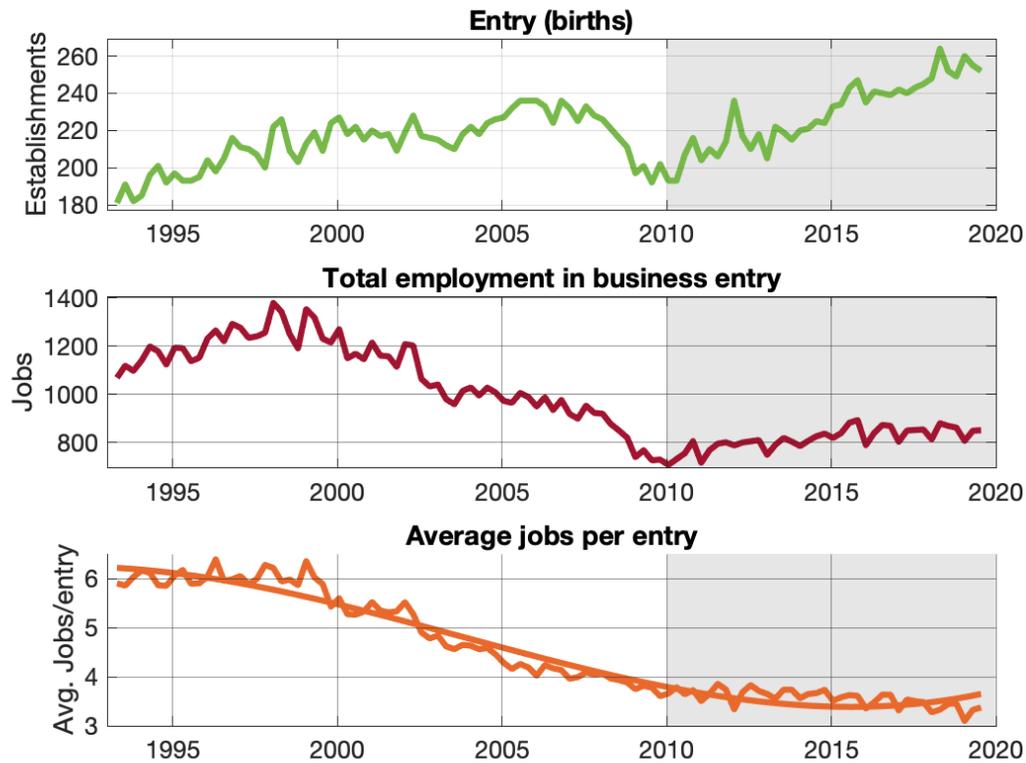
$$E_t^{entry} = \frac{Jobs_t^c}{Births_t} \quad (1)$$

where ‘c’ denotes ‘created’.⁴ The result is displayed in the bottom panel of Figure 2. Remarkably, the average jobs per entry is rather stable around 6 jobs in the 1990s but it initiates a downwards trend by year 2000 that continues over the entire 2000s decade. Such a downward trend is explained by less jobs created in a similar number of new establishment. The bottom panel in Figure 2 also plots

⁴Note that this expression is not the same as that for ‘job creation’ used in the literature. The latter is defined as $\frac{Jobs_t^c}{0.5(Jobs_t + Jobs_{t-1})}$ where $Jobs_t^c$ refers to jobs created at new firms/establishments at time t and $0.5(Jobs_t + Jobs_{t-1})$ is the average number of jobs held in incumbents during periods t and $t - 1$.

the cubic trend confirming the three-phase pattern of this series.⁵ The ‘playground slide’ shape of the series of the number of jobs per entry is replicated in the series of the number of jobs destroyed per establishment exit and, to a lesser extent, in the number of jobs held per incumbent (see Section B of the Appendix for further details and Figures).

Figure 2: Business and job creation in BED quarterly data, 1994-2020



Note: Establishments and Jobs in the top and middle panels are in thousands. Shaded area corresponds to the 2010-2020 period.

The main part of our analysis is to consider the joint dynamics of the intensive margin (jobs associated with a single new production unit) and the extensive margin (the total number of new production units) to determine the ‘effective’ or ‘size-adjusted’ entry. Put differently, if the representative establishment birth came with 6 jobs in the 1990s, and with 3 jobs by the end of the 2010s, then the job size

⁵The cubic trend provides the best fit relative to linear and quadratic trends as shown in Table A1 in Section C of the Appendix.

is 50% smaller in the 2010s than the 1990s. We compute the mean observed in the first decade (the 1990s) and divide the original series by this average value in order to normalize with respect to it. Taking the average over the first decade (the 1990s) has the advantage that it avoids the year-to-year variation in entry. We do this for the series of jobs created per establishment birth (entry). Hence, the size-adjustment factor is given by:

$$\bar{E}_t^{entry} = \frac{E_t^{entry}}{\frac{1}{27} \sum_{t=1993:2}^{1999:4} E_t^{entry}} \quad (2)$$

The denominator in (2) is, precisely, 6.0 jobs at entry.

As shown in the Appendix (Figure 6), the size-adjusted number of establishment births (entry) diverges from the values of the actual BED series after the year 2000. Business creation substantially drops until 2010, the year in which a small but steady growth period begins. By the end of the sample, the size-adjusted establishment births are lower than at the beginning of the series. The opposite happens to the actual series, for which we do not observe a significant drop until the financial crisis (2007-08), but at the end of the sample business creation is considerably higher than at the beginning. In other words, the actual series shows an upward trend whereas the size-adjusted shows a downward trend or a ‘downsizing’ in establishment births.

2.3 Size-adjusted *rate* of entry

We start by computing the size-adjusted series in levels, which result from the product of the actual series and the size-adjustment factor

$$\bar{N}_t^{entry} = \bar{E}_t^{entry} \times N_t^{entry} \quad (3)$$

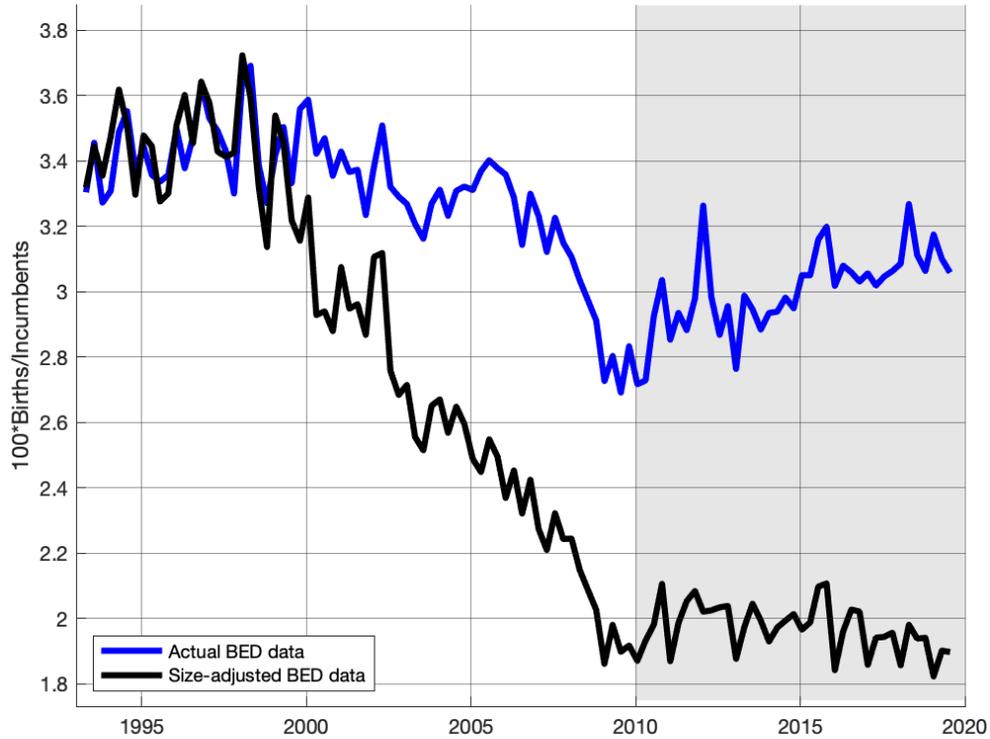
Next, we obtain the size-adjusted entry rate (in percentage terms), which is given by

$$100 \times \frac{\bar{N}_t^{entry}}{0.5 \left(\bar{N}_t^{incumbents} + \bar{N}_{t-1}^{incumbents} \right)} \quad (4)$$

where the average level of incumbents in the current and previous quarter follows the BED concepts and methodology and has also been normalized at the job size of the 1990s.

Figure 3 compares the actual quarterly entry rate from establishment births (blue line) with the size-adjusted entry rate (black line). Remarkably, the actual series of the entry rate shows no clear

Figure 3: BED quarterly entry rates: actual versus size-adjusted



Note: Shaded area corresponds to the 2010-2020 period.

trend throughout the sample period (with values in the vicinity of 3.3% at the beginning and end of the sample). Turning our attention to the size-adjusted entry rates, we can observe three different phases. The first corresponds to observations from the 1990s decade in which they are similar to the actual rates, displaying no trend. The second covers the decade of the 2000s and shows a rapid decline and increasing downward deviation of the size-adjusted rate from the actual rate. And a third phase, starting around 2010, in which the size-adjusted rate does not show a trend while the actual rate displays a rising trend. The size-adjusted rates in the post-2010 period are, however, about a third lower than the actual rate with values falling to rates around 2%.

We replicated the analysis using the broader definition of establishment entry, namely, the series

of openings.⁶ This brings more business units collected for the flow of entry (since it includes reopenings), making the number of jobs per opening lower than the number of jobs per birth. Results are very similar to the ones reported above: the size-adjusted openings rate has a well-marked decline over the 2000s that leaves it at the end of the sample at around 3.5% from the 5.5% of the non-adjusted rates.⁷

2.4 BED versus BDS

We now provide a comparison of US business creation dynamics between BED and BDS databases. Two remarks should be made upfront: i) the sample period extends to 2020 in BED data while BDS data ends in 2018, and ii) BDS provides low-frequency annual observations which cannot trace in-and-out changes that take place in less than 12 months. Table 1 shows some numbers on the establishment entry levels and entry rates. Focusing on the last two columns of panels A and B, we can make a temporal comparison and observe a change in the business entry pattern. On the one hand, the change from 1994 to 2009 was broadly negative. Both the establishment entry in levels and rates experienced a sharp decay (with the exception of establishment entry level in BED data), supporting the well-established fact of a declining business dynamism over that period. On the other hand, however, the change from 2010 onwards was either largely positive or rather small (close to zero), confirming the end of business dynamism that characterized the previous decades. This occurrence is even more noticeable in BED than in BDS data, which may be explained by differences in accounting establishments between both datasets.

Moreover, the change in pattern is starker if one compares the raw series and the size-adjusted series. In Panel B, for example, the changes in BED unadjusted entry rates are -2.18 and 1.24 for the 1994-2009 and 2010-2020 periods, respectively, whereas the changes in size-adjusted entry rates are -6.09 and -0.02, respectively. The numbers in Table 1 confirm, once again, that business dynamism has

⁶Openings are either establishments with positive third month employment for the first time in the current quarter, with no links to the prior quarter, or with positive third month employment in the current quarter following zero employment in the previous quarter.

⁷Our focus in this paper is on entry rates. But analogous to the entry rate, we have examined the exit rate, and it also shows no trend throughout the sample period (with values in the vicinity of 3.3% at the beginning and end of the sample). However, the size-adjusted exit rate exhibits a similar three-phase pattern as for the size-adjusted entry rate, but the effects of the financial crisis of 2007-08 are more apparent with an important spike in the exit rates. These results are available upon request.

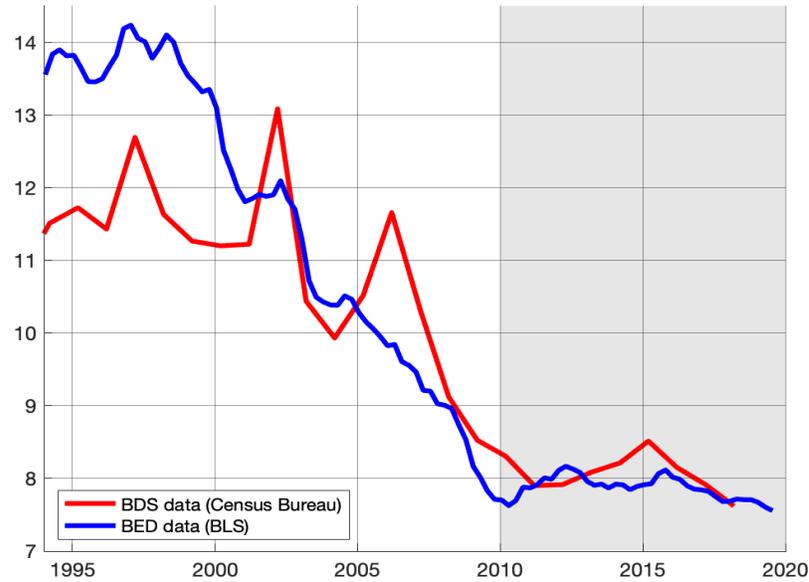
not been declining over the last decade, with strong empirical support in the BED data.

Table 1: Comparing annual data on US business creation, 1994-2018.

	Mean	High	Low	Obs ₂₀₀₉ – Obs ₁₉₉₄	Obs ₂₀₁₈ – Obs ₂₀₁₀
A. Entry level (thousands)					
BED data	872	1013 (2018)	739 (1994)	31 (+4.1%)	206 (+26.0)
BDS data	705	872 (2006)	628 (2009)	–60 (–8.8%)	15 (+2.4%)
BED size-adjusted data	660	870 (1999)	482 (2010)	–272 (–36.0%)	78 (+15.9%)
BDS size-adjusted data	663	861 (2002)	525 (2011)	–80 (–12.2%)	39 (+7.2%)
B. Entry rate, %					
BED data	12.77	14.09 (1997)	11.09 (2010)	–2.18	1.24
BDS data	10.78	12.76 (2006)	9.11 (2018)	–2.55	–0.36
BED size-adjusted data	10.30	14.24 (1997)	7.69 (2009)	–6.09	–0.02
BDS size-adjusted data	9.96	13.09 (2002)	7.62 (2018)	–2.98	–0.68

Finally, Figure 4 shows a comparison of size-adjusted establishment entry rates between BED and BDS. Both rates show a sharp decrease during the 2000s, and then no trend during the 2010s. Together with Figure 1, it is evident that the past decade does not accord with the declining business dynamism in terms of the extensive margin. However, the flat size-adjusted entry rates reflect that business dynamism has ‘bottomed-out’ in terms of the rate of ‘job creation’ dynamism and have remained at their historically low values close to 8%. Thus, our evidence provides a more nuanced view on the rate of business creation in the US economy.

Figure 4: Size-adjusted annual entry rates: BED versus BDS



Note: Shaded area corresponds to the 2010-2020 period.

3 Conclusion

The evidence from the past decade shows a recovery in US business dynamism, as reflected in rising business entry rates. This finding contrasts sharply with the prevailing view that business dynamism experienced a secular decline over the previous decades. We show that business entry rates in the two prominent databases, BED and BDS, strongly support the prevailing view until 2010 but not afterwards. Building on the substantial decline in the job-size of new establishments (intensive margin), we construct the series of size-adjusted entry rates. The size-adjusted entry rates are flat over the 2010s decade. Therefore, the combination of an increasing number of new business units with fewer number of jobs created in them results in the observation of a no-trend pattern: size-adjusted entry rates crawl at historically low levels (around 8% per year). We show that the job creating capacity of new businesses has halved over the past 25 years, from around six jobs to three jobs in each new establishment. From this standpoint, the recovery in the number of new businesses, reflected in actual higher entry rates during the 2010s, in fact masks a worrying stagnation on job creation dynamism.

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Appendices

A Data on private establishments: BED and BDS

Both data sets use establishments as their sampling business unit, which are defined in a similar way: physical locations where an economic activity takes place. Information on the number of establishments, on establishments openings, closings, births and deaths, as well as on their employment levels and changes are reported by BED and BDS. However, the different frequency at which the data is collected translates into different definitions of establishments births and deaths. In the accounting of the BED, births are establishments with positive third month employment for the first time in the current quarter with no links to the prior quarter, or units with positive third month employment in the current quarter and zero employment in the third month of the previous four quarters. In the case of the BDS, an establishment's birth is defined in the year it first reports positive employment in the LBD with the screening taking place in the week that includes March 12. Therefore, while there are only 3 months between checks in the BED series there are 12 months between checks in the BDS series. Establishment deaths are defined accordingly. This implies that the BED can trace in-and-out changes that the BDS misses due to its lower frequency.

With regard to the level of detail, both data sets are similar and provide information at the national and state level by NAICS sector, counting business units and jobs across the same industries. In terms of number of employees, the numbers accounted in both BED and BDS are comparable, with a higher level in BDS data. Also, BED and BDS exclude self-employed individuals from their lists of establishments and employments.

However, there are important differences when it comes to the number of establishments. BED data provide more multi-establishment businesses than BDS data. Both BED and BDS identify single-unit enterprises through the Employer Identification Number (EIN), which is a rather simple process. Contrary to the simpler case of single-unit establishments, difficulties arise with multi-unit enterprises as EIN and establishment are not equivalent since each EIN can be associated with many establishments, but each establishment is associated with only one EIN. The BED uses the information from the Multiple Worksite Report (MWR) that separates establishments operated by the same employer. The MWR is included in the QCEW since 1991, when the list of BDS establishments had already been

built up. Actually, the BDS relies on the responses to the Company Organization Survey (COS), which for the case of companies with less than 500 employees is only emailed to a selected group. Therefore, it is possible that the lower number of establishments in BDS is due to a relatively low selection for the COS as well as a low response from some establishments/firms to such survey. In other words, it may well be the case that the Multiple Worksite Report (MWR) used by the BED does a better job in breaking multi-unit enterprises up by establishments. [Sadeghi et al. \(2016\)](#) inform that in 2011 the QCEW file contained nearly 0.5 million multi-establishment businesses that had not been included in the BDS, a very similar number to the gap observed in our series. In fact, this difference has increased over time and, at the end of 2018 the number of incumbent establishments registered in the BDS list was 7,073,351, while in the BED database the registered establishments were 8,157,100. Consequently, the level of establishment entry and the entry rate are higher (especially in the 2010s) in BED data. Moreover, jobs per birth do not fall in the BDS data as much as they do in BED data precisely because of the lower number of establishment births.

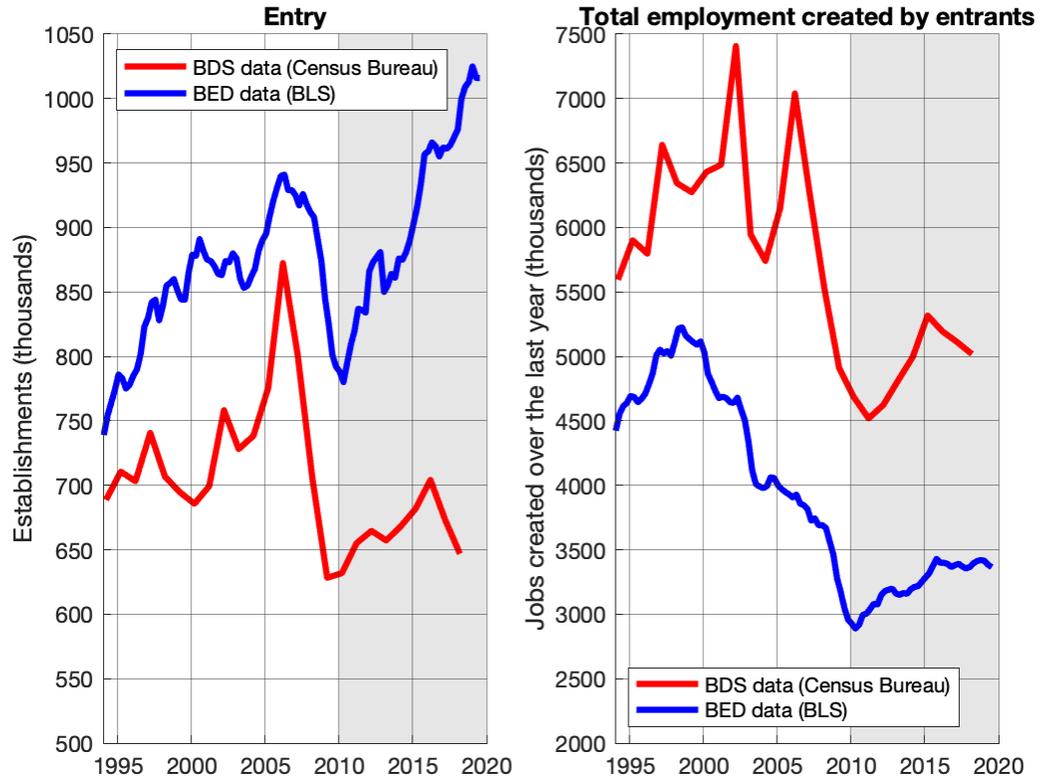
B Additional Figures

Figure 5 provides a comparison of the annual series of new establishments and new jobs between the BDS and BED. The left panel shows the establishment entry. As discussed above, the BED has more establishments relative to BDS, and we observe an increasing divergence between the two since 2010. The right panel shows employment at entry. The level of employment at entry is higher in the BDS, and both databases show an upward trend since 2010.

The left-side panel of Figure 6 shows the intensive margin of employment in US establishment births (entry), establishment deaths (exit) and total establishments (incumbents) from BED quarterly data. Over the decade that runs from 2000 to 2009, there is a remarkable downsizing of the employment observed in business units:

- The number of new jobs per birth falls from 6 hirings to 3.5 hirings (approximately 40%)
- The number of lost jobs per death falls from 5.5 firings to slightly about 3 firings (approximately 45%)
- The number of jobs held per incumbent falls from 17 to 15 (approximately 12%)

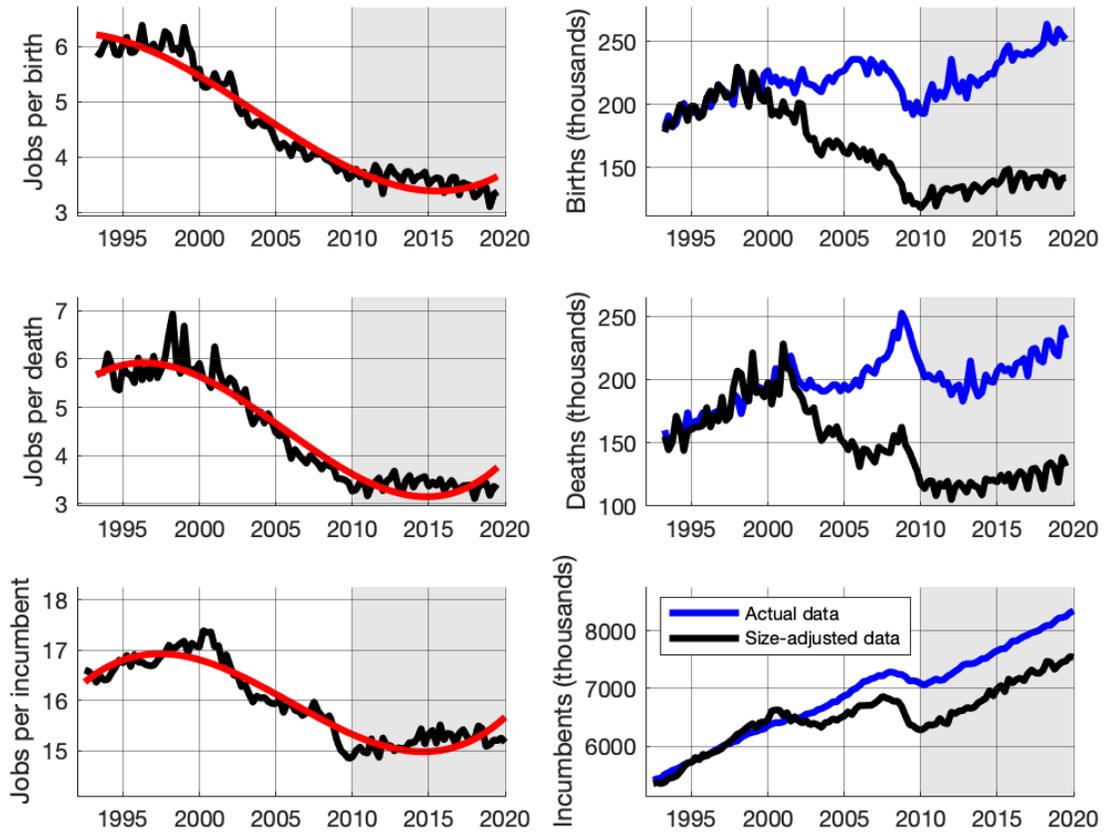
Figure 5: Entry and employment at entry: annualized BED versus annual BDS



Note: Shaded area corresponds to the 2010-2020 period.

Hence, the changes in the job dynamics that are observed in the flows of entry and exit lead the downsizing found in the number of jobs registered per incumbent. The red lines, featuring a playground slide pattern, are the cubic fit to the original series. These cubic fits outperform the overall statistical significance found in either the quadratic or the linear fittings. On the right-side panel of Figure 6, the actual data series of US establishment births, deaths and incumbents are visually compared to the size-adjusted series. The downsizing effect is increasingly observed after year 2000 because the size-adjustment factor is normalized at the average level reported along the observations of the 90s decade. By 2010, both size-adjustment establishment births and deaths are around 80,000 less units than in the raw series. The gap accumulates to nearly 600,000 for establishments. Over the 2010s, the differential between original and size-adjusted series keeps rising for births and remain at similar

Figure 6: Flows of jobs and establishments in BED quarterly data, 1994-2020



Note: Shaded area corresponds to the 2010-2020 period.

levels for deaths and incumbents. Therefore, it is the 2000s decade when the downsizing occurs and it is the 2010s decade when the effect of the weaker job creation has larger effects for the divergence between original and size-adjusted series.

C Regressions to estimate the detrending of employment in US businesses

Table A1: Time detrending of business and employment flows. OLS regressions with BED data (1994-2020)

	Constant	t	t^2	t^3	R^2
<i>Employment at entry (births)</i>					
Linear trend	6.24 (0.064)	-0.0316 (0.0010)			0.900
Quadratic trend	6.65 (0.081)	-0.054 (0.0035)	0.000213 (0.0000317)		0.931
Cubic trend	6.22 (0.091)	-0.0080 (0.0073)	-0.00087 (0.00016)	0.00000673 (0.00000098)	0.953
<i>Employment at exit (deaths)</i>					
Linear trend	6.23 (0.086)	-0.0328 (0.0014)			0.842
Quadratic trend	6.48 (0.128)	-0.047 (0.0055)	0.000129 (0.000050)		0.852
Cubic trend	5.62 (0.119)	0.0478 (0.0096)	-0.00207 (0.00021)	0.0000137 (0.00000128)	0.931
<i>Employment per incumbent</i>					
Linear trend	17.09 (0.076)	-0.020 (0.0012)			0.732
Quadratic trend	17.16 (0.116)	-0.024 (0.0048)	0.000034 (0.000041)		0.733
Cubic trend	16.30 (0.098)	0.066 (0.0076)	-0.00197 (0.000157)	0.0000119 (0.00000092)	0.896

Note: Numbers in parenthesis indicate the standard deviation of the estimated coefficient displayed above them.