

New U.S. Business Establishments: Surging or Stalling?

Paper by Cao, Hyatt, Mukoyama, and Sager

Discussion by Ryan Decker
Federal Reserve Board

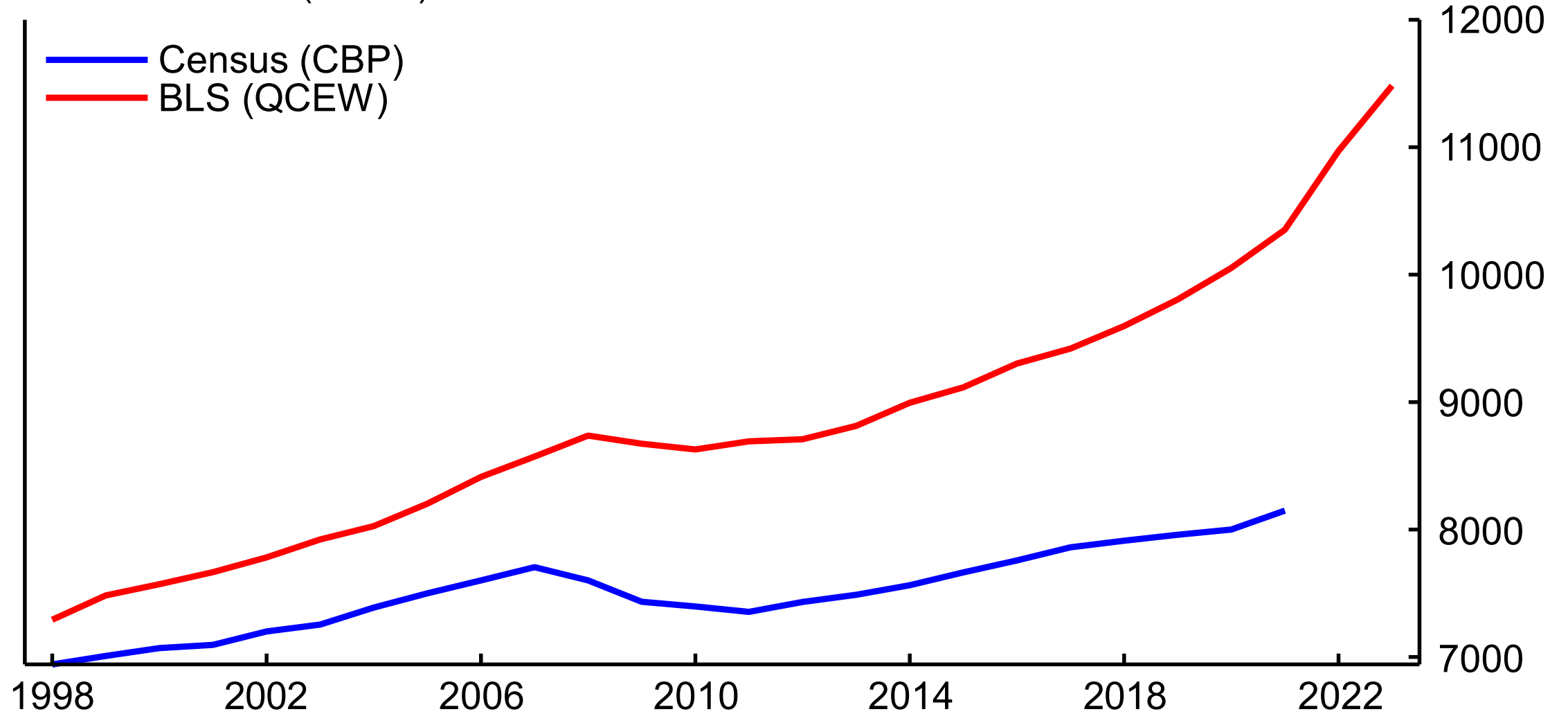
Prepared for the July 2024 CRIW meeting
July 15, 2024

Without implication, this discussion draws on many helpful conversations with Nathan Goldschlag and John Haltiwanger.

The analysis and conclusions set forth here are those of the author and do not indicate concurrence by members of the Federal Reserve staff or the Board of Governors.

Business register discrepancy

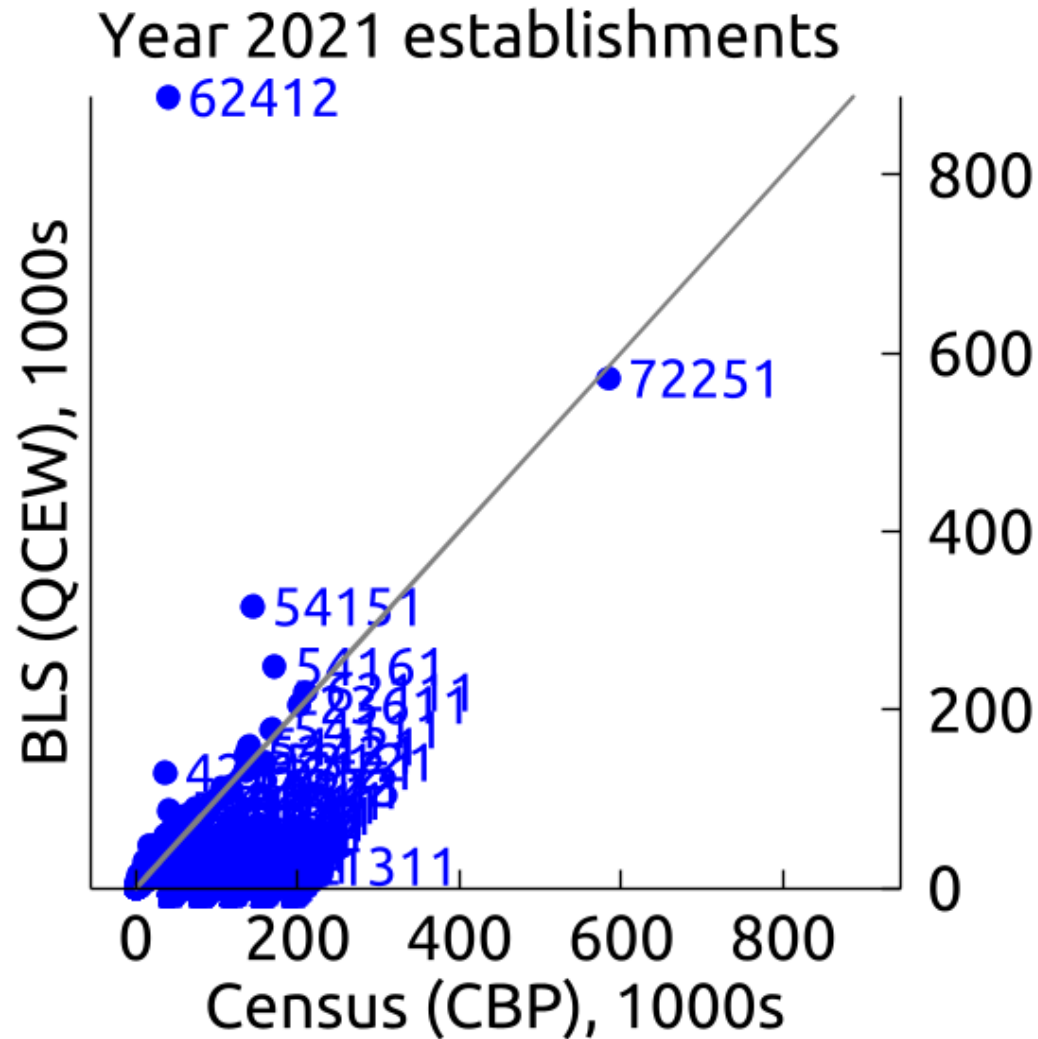
Establishments (1000s)



New work on business register discrepancies is long overdue

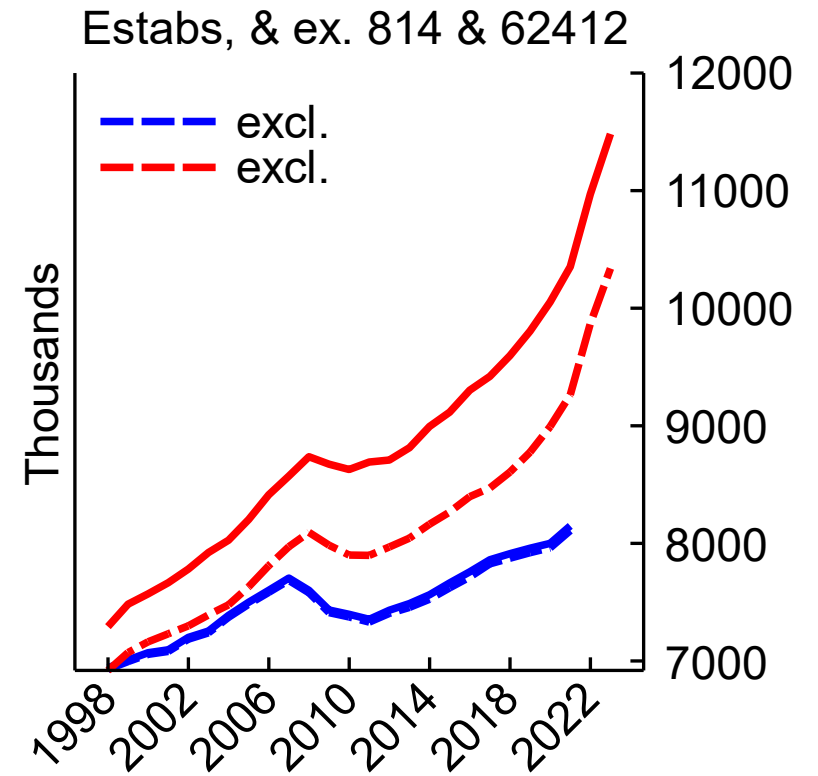
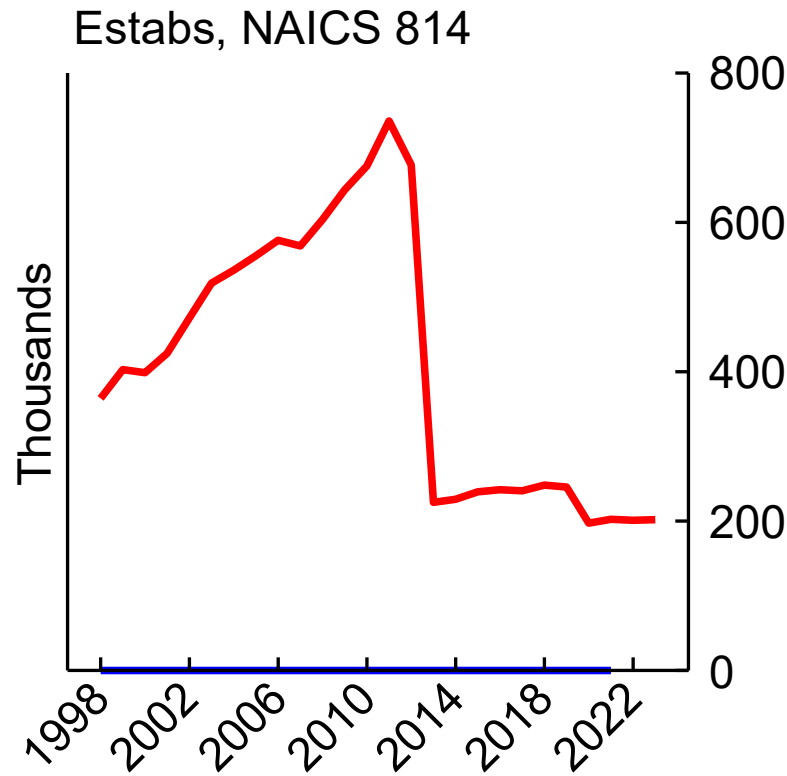
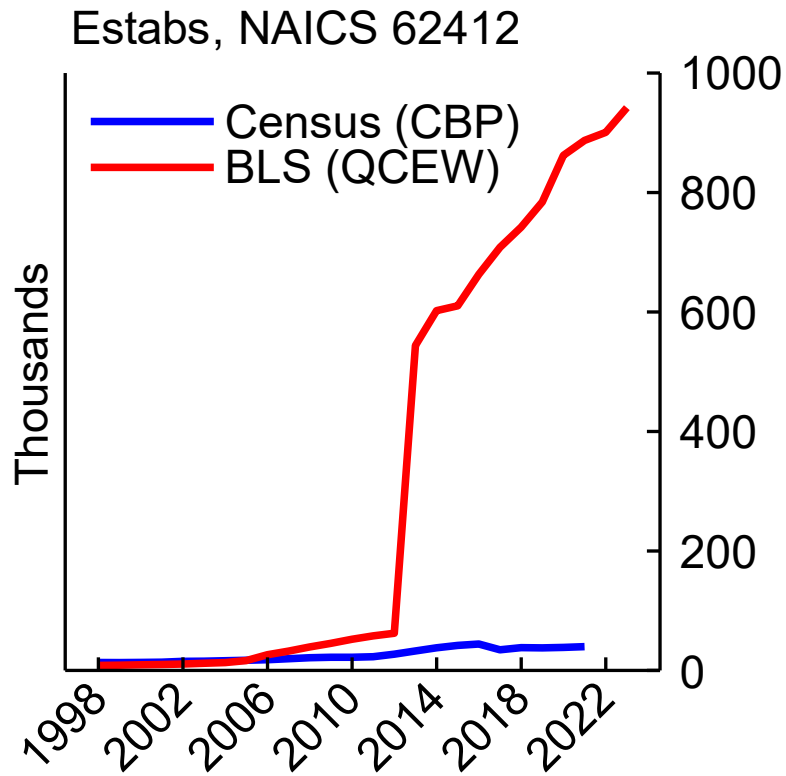
- Problem known for some time (Becker et al. 2005, Fairman et al. 2008) but **getting worse**
- This paper's EIN linkages and multi- vs. single-unit firm analysis very revealing, interesting, and useful
- Some “big stories” depend on business register accuracy
 - Declining dynamism
 - Rising concentration
 - Declining labor share
 - Rising earnings inequality
- This discussion: 3 arguments that...
 - Help characterize the discrepancy
 - Suggest the “big stories” are little affected by the establishment discrepancy

1. Estab discrepancy concentrated in one industry



- **NAICS 62412:** “Services for the elderly and persons with disabilities”
 - “Establishments primarily engaged in providing nonresidential social assistance services to improve the quality of life... such as day care, nonmedical home care or homemaker services, social activities, group support, and companionship”
- The paper highlights this industry, finds BLS has EINs not found in Census

What happened in NAICS 62412? NAICS 814 happened.

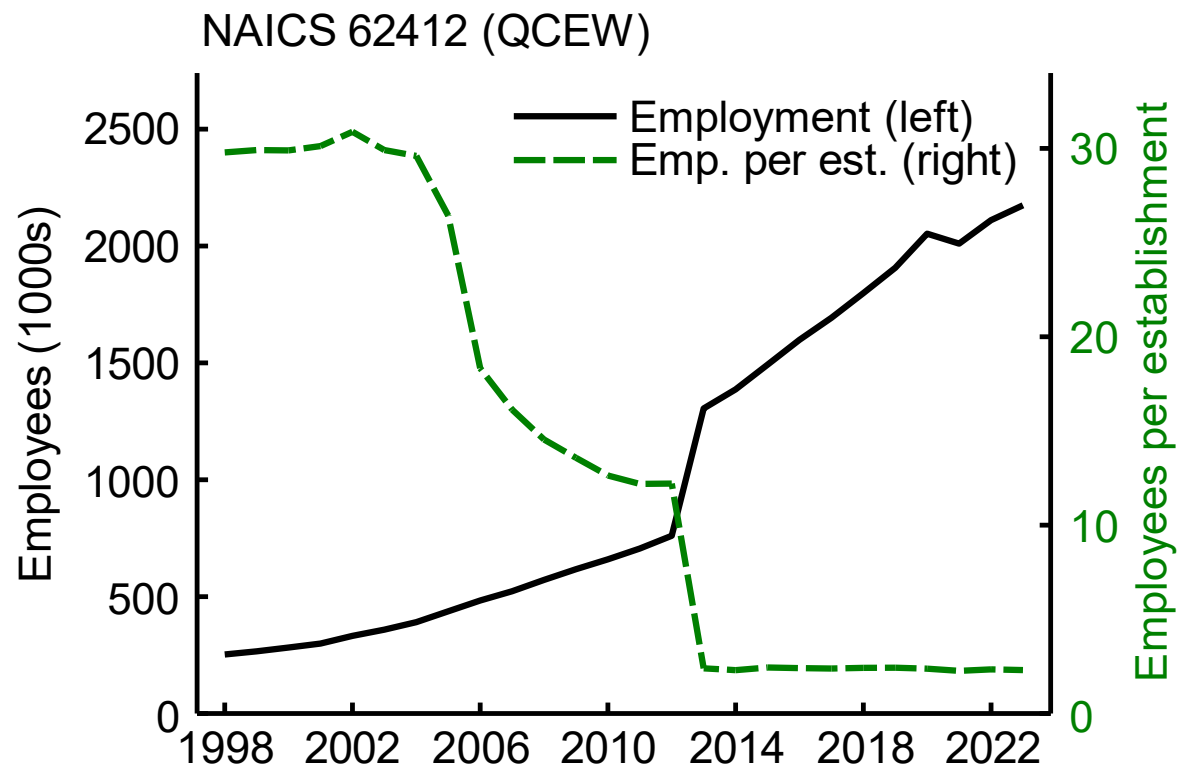


QCEW: Moving estabs from 814 to 62412

- In 2013 QCEW [re-labeled](#) many 814 establishments as 62412
 - BED back-filled the label change to previous years
- Evidently Census did not do this relabeling, leaving these estabs outside of CBP scope.
- **“Home-based”**: Each residence is an establishment, per [QCEW methodology](#)
 - Note, this rule is not used for, e.g., temp help services or construction “dispersed location” workers
- Likely result: This brought many 1-worker establishments into 62412 for QCEW.
- **Estab “entry” is hiring/client acquisition; estab churn is worker/client turnover.**

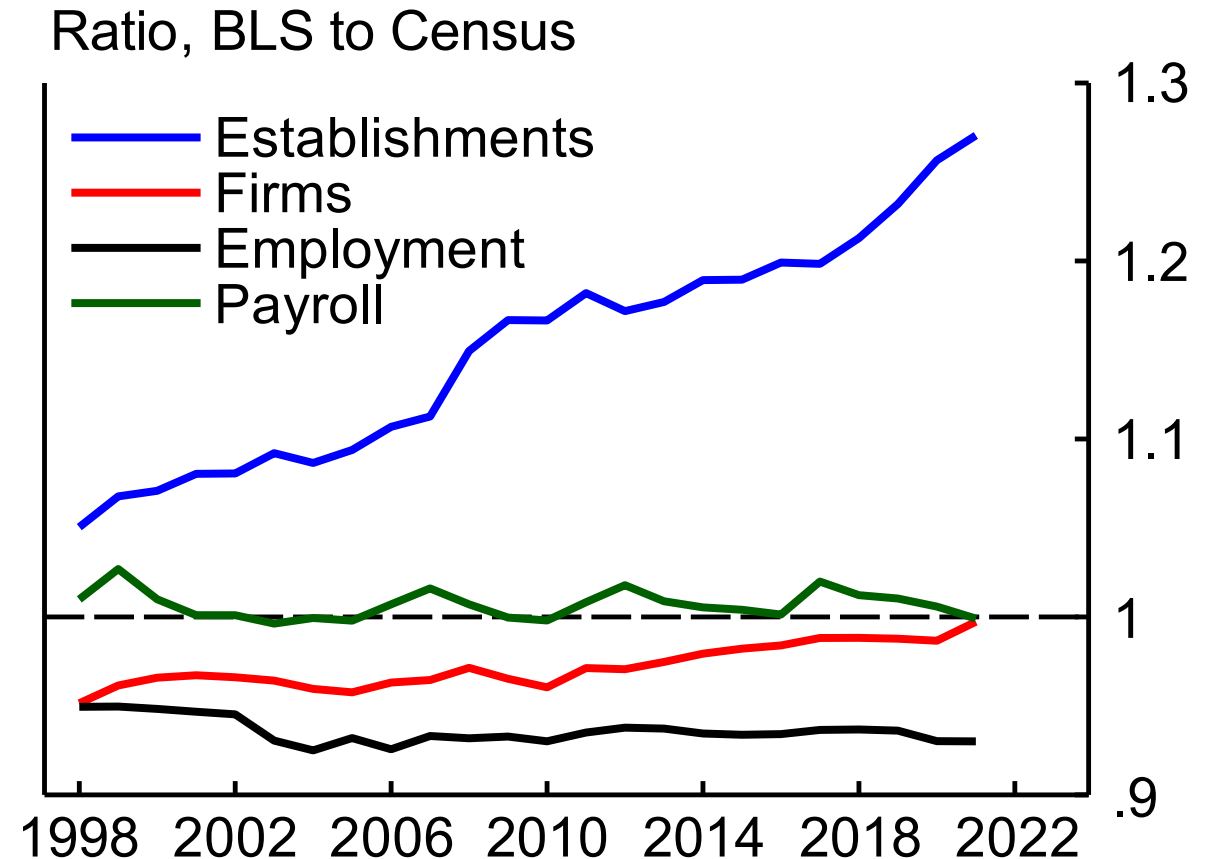
→ High establishment “entry” in this industry does not imply surging business dynamism as considered in the literature

- The QCEW program also reviewed establishments that provide non-medical, **home-based** services for the elderly and persons with disabilities and classified these establishments into services for the elderly and persons with disabilities (NAICS 624120). Many of these establishments were previously classified in the private households industry.

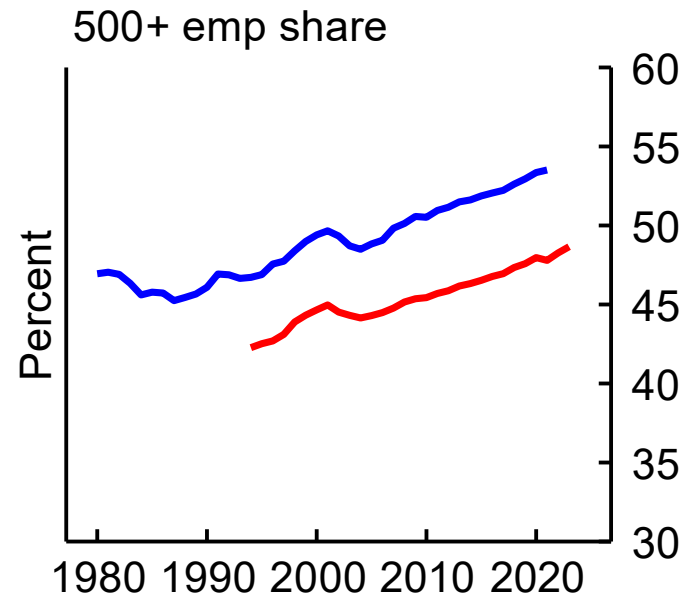
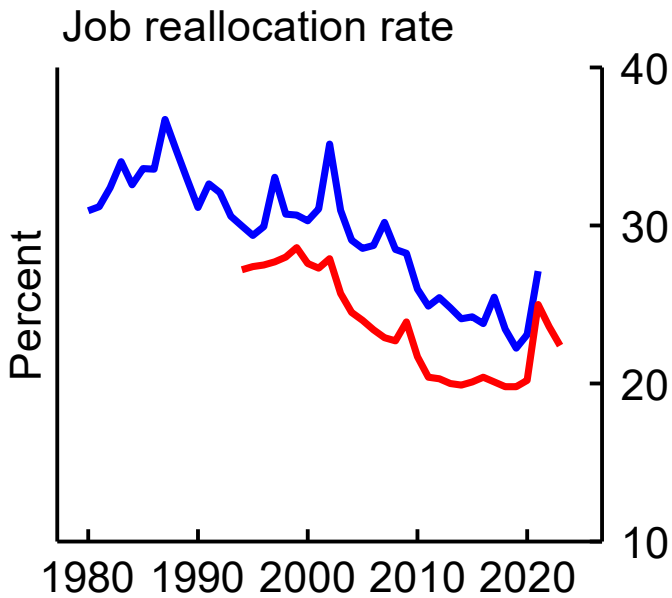
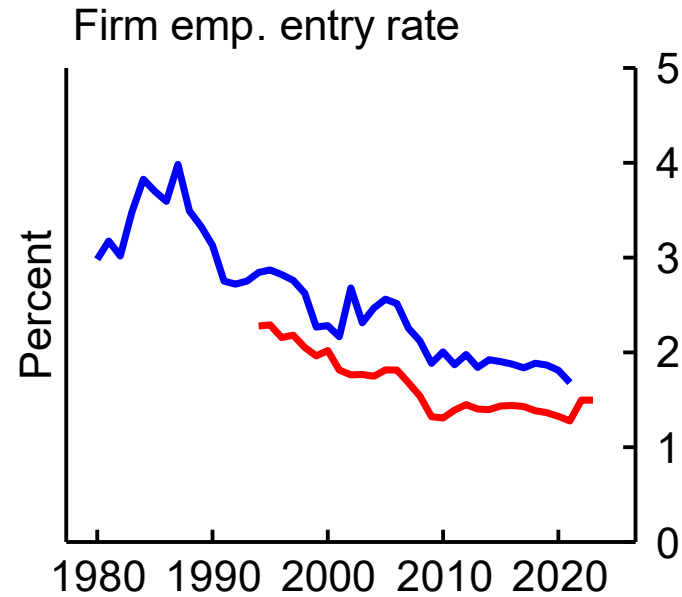
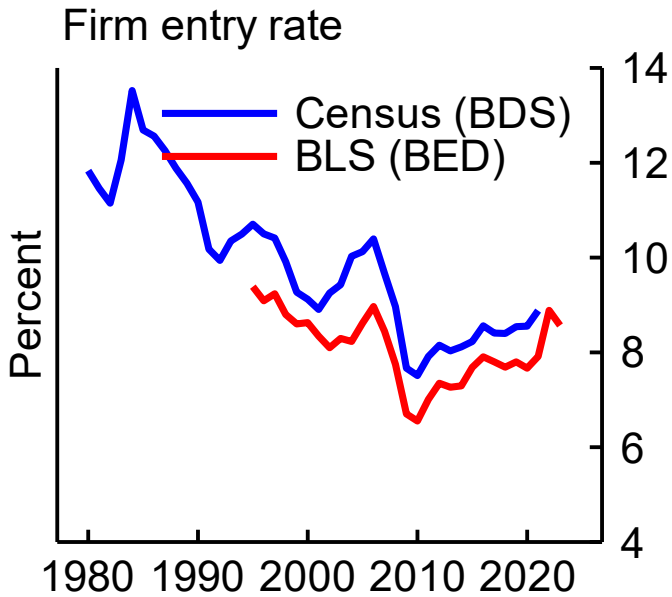


2. Other discrepancies smaller and ~stable

- Most of the “big stories” don’t depend on estab counts
 - Declining dynamism → jobs, firms
 - Concentration → Jobs, revenue, firms
 - Labor share → compensation, income, firms
 - Earnings inequality → compensation, firms
- The establishment discrepancy accounts for little economic activity
- In measures relevant to “big questions,” the BLS-Census discrepancy is much smaller, and relatively stable
 - Side note: emp discrepancy concentrated in mgmt 55, emp services 5613, nonprofit-heavy industries, eg 813



Note: Estabs, employment, payroll compare QCEW to CBP. Firms compare BED to BDS.

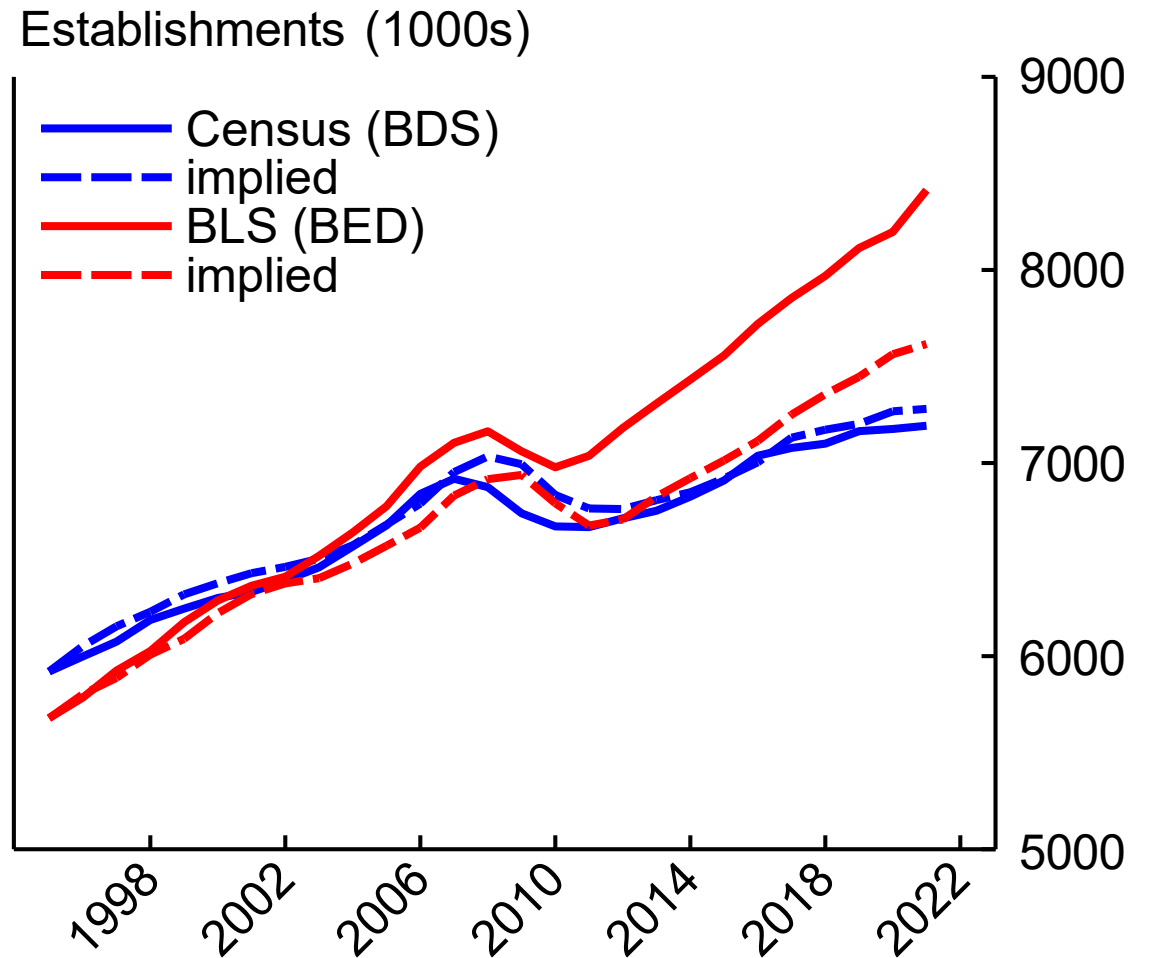


Examples:

- Main “declining dynamism” trends consistent across datasets (Decker & Haltiwanger 2024)
- Concentration trend similar
- (Not shown): Earnings inequality similar (Haltiwanger, Hyatt, Spletzer forthcoming)

3. BLS has excess establishments not accounted for by flows

- Build “implied” establishment count using establishment openings-closures (flows)
 - Start with 1995 level, cumulate
 - BED gap (levels – implied levels) is widespread across sectors
- The likely issue is apples-oranges business register comparison
 - BDS requires March employment
 - BED casts a wider net, but still needs employment to count openings
- Highlights differing business register criteria, and relevant for “dynamism” question (i.e., flows)



Taking stock

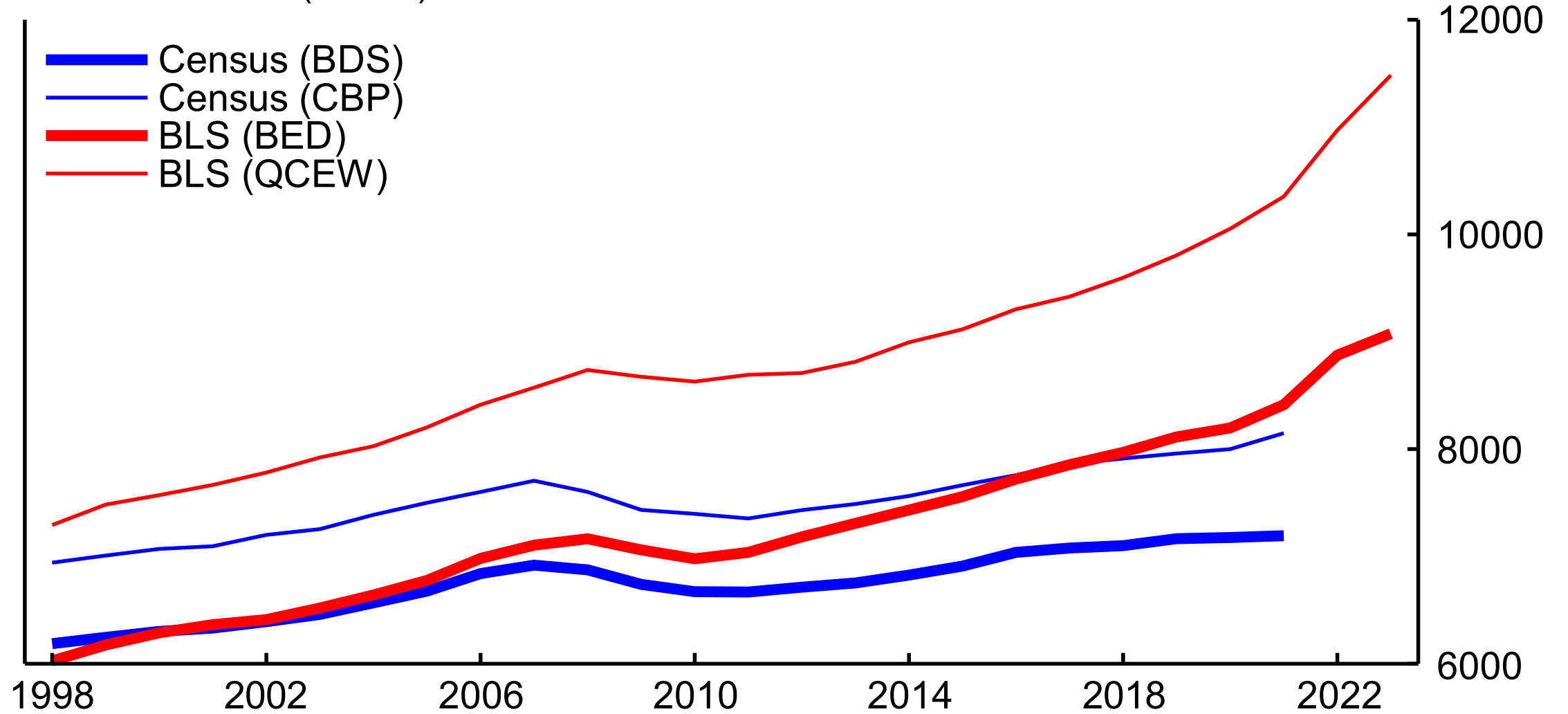
- Applaud the authors' revisiting this issue
 - Establishment count discrepancy not likely to matter much for the “big stories”
 - Other questions (e.g., firm growth, Cao et al. 2018) likely more affected
 - EIN match, multi-/single-unit results are striking
- Looking forward:
 - What do we know about measurement of “dispersed location” workers? Inconsistent across industries?
 - Longitudinal consistency question needs resolving.
 - What is BLS “positive-March-employment” establishment count?
 - Employment discrepancy is notable and requires more exploration.
- Bigger picture:
 - What should be the scope of the business universe we study?
 - Seasonal businesses, farms, private households, nonprofits, railroads, nonemployers... (Decker, Kurtzman, Lutz, & Nekarda 2020).
 - How consistent are the theory and measurement of “establishments” (productive units)?

References

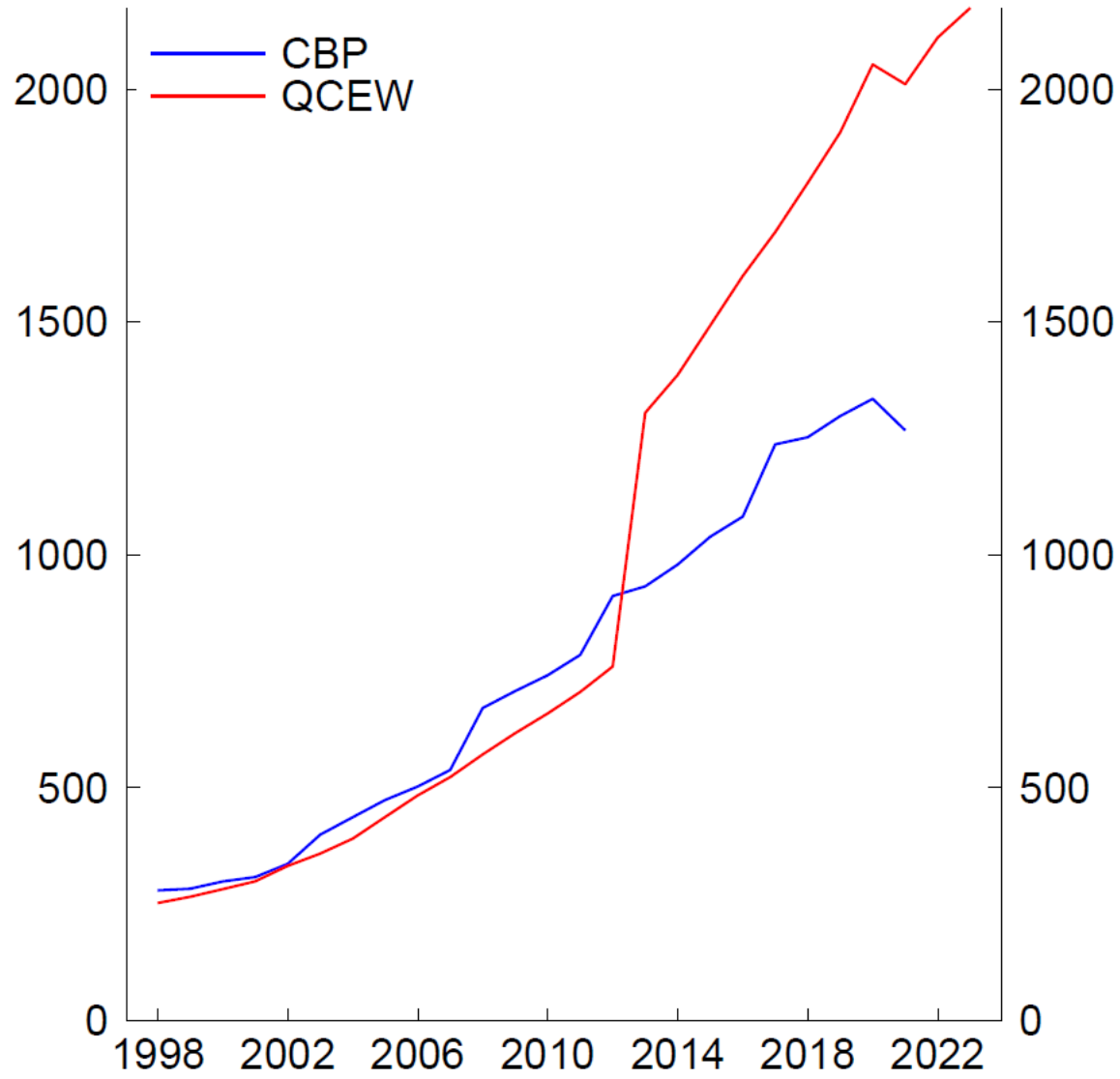
- Becker, Randy, Joel Elvery, Lucia Foster, Cornell Krizan, Sang Nguyen, and David Talan. 2005. “A comparison for the business registers used by the Bureau of Labor Statistics and the U.S. Census Bureau.” At <https://www.bls.gov/osmr/research-papers/2005/st050270.htm>.
- Decker, Ryan, Robert J. Kurtzman, Byron F. Lutz, and Christopher J. Nekarda. 2020. “Across the universe: Policy support for employment and revenue in the pandemic recession.” FEDS working paper no. 2020-099. At <https://www.federalreserve.gov/econres/feds/files/2020099r1pap.pdf>.
- Decker, Ryan and John Haltiwanger. 2024 (forthcoming). Surging business formation in the pandemic: Causes and consequences? Brookings Papers on Economic Activity, Fall 2023. At https://rdeckernet.github.io/website/bpea_final_combined.pdf.
- Fairman, Kristin, Lucia Foster, C.J. Krizan, and Ian Rucker. 2008. “An analysis of key differences in micro data: Results from the business list comparison project.” CES Working Paper no. CES-08-28. At <https://www.census.gov/library/working-papers/2008/adrm/ces-wp-08-28.html>.
- Haltiwanger, John, Henry Hyatt, and James Spletzer. Forthcoming. “Rising top, falling bottom: Industries and rising wage inequality.” American Economic Review. At <https://www.aeaweb.org/articles?id=10.1257/aer.20221574&&from=f>.

Extra slides

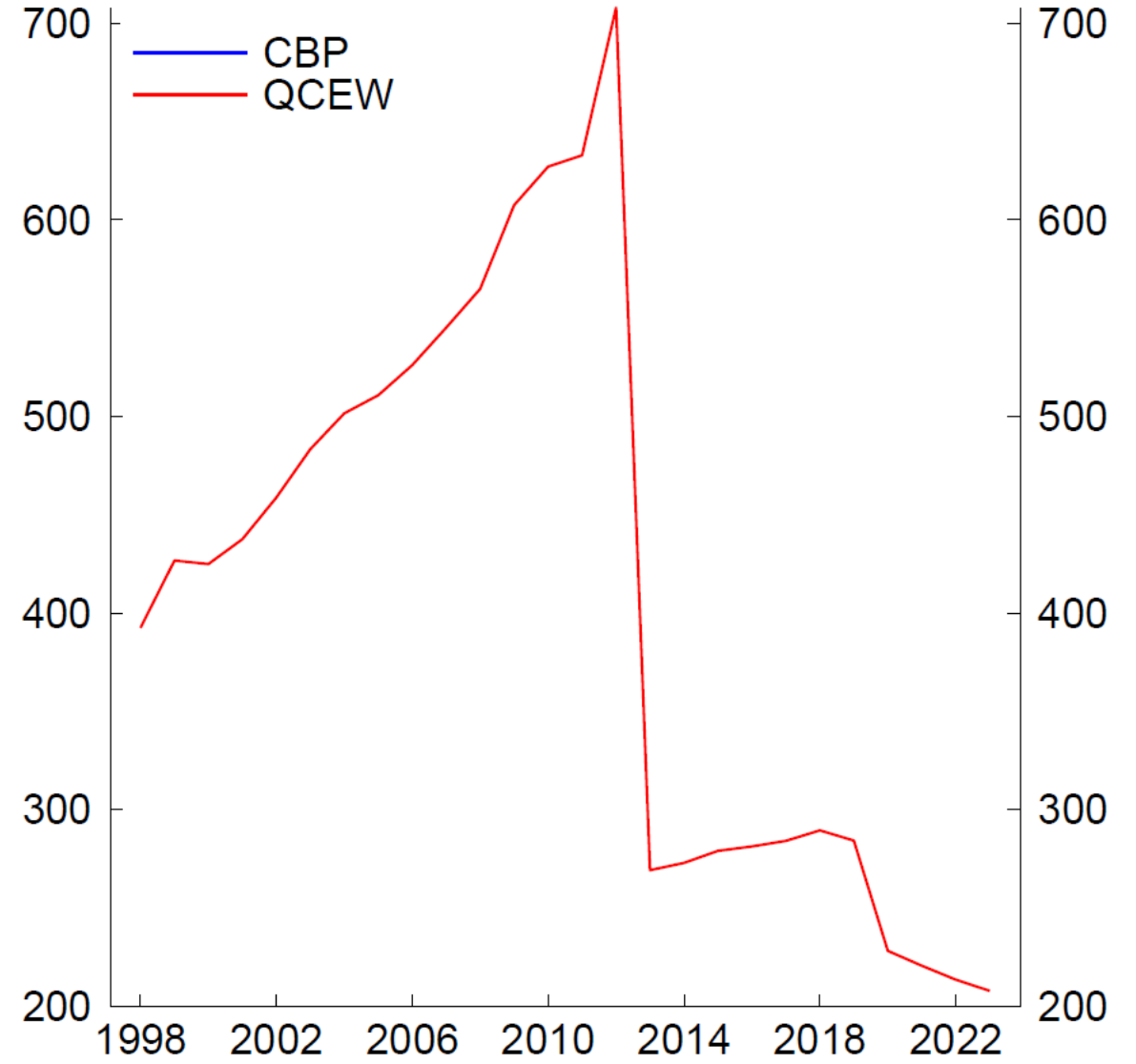
Establishments (1000s)

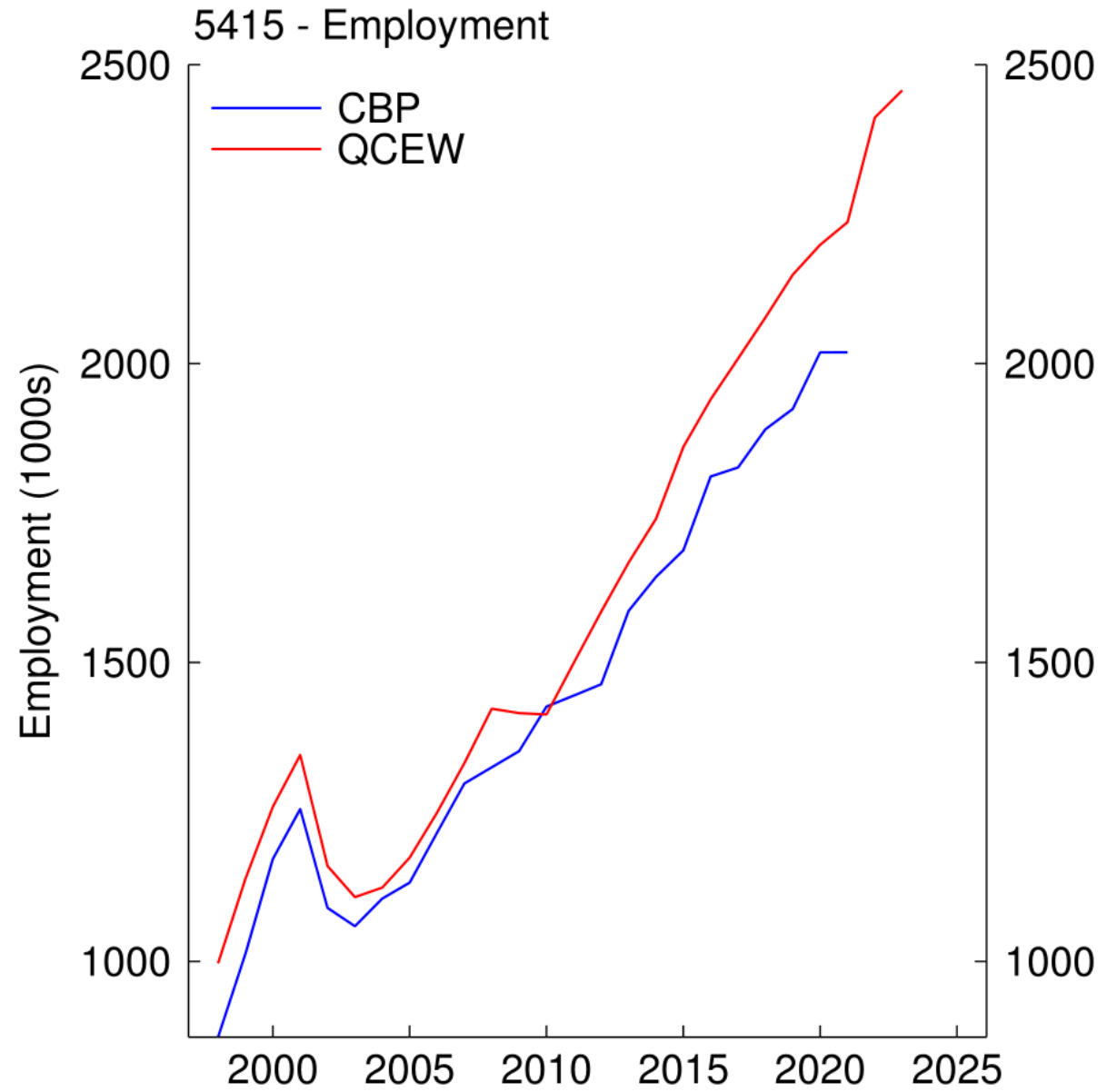
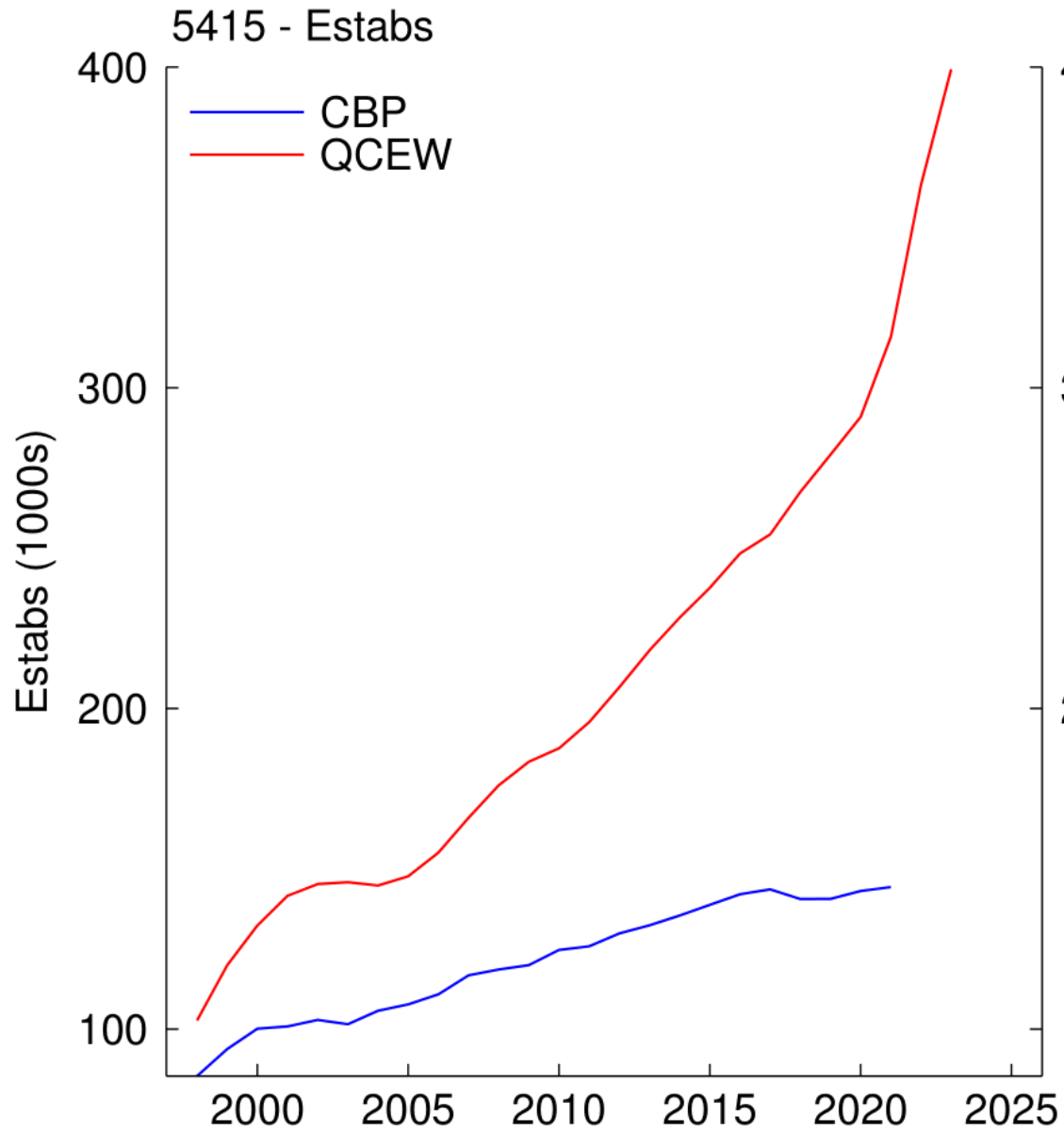


Employment (1000s) - NAICS 624120



Employment (1000s) - NAICS 814





Employment discrepancy

