

## Creative Destruction 2020-2021

Taken from the Your Economy Time Series (YTS) databases (quarterly and annual), here is a summary of the U.S. economy since the beginning of the pandemic (Q1 2020) thru the end of 2021(Q4 2021):

### Highlights

- Employment growth stalled in the fourth quarter (Q4) of 2021 - the seventh quarter since the start of the COVID epidemic - indicating little or no employment growth in 2021
- Businesses that expanded employment unexpectedly rose in 2020 which represented expanded employment opportunity among the destruction
- Businesses that contracted employment also rose in 2020 due to the on-set of Omicron variant and increasingly severe supply chain problems
- Most businesses didn't adjust their employment level at all
- While small (<10 employees) businesses were primarily responsible for the late 2021 employment stall, sole proprietors increased in Q4 of 2021 after decreasing the previous two quarters

### Summary

The last two years have witnessed unprecedented economic change across the globe and within US communities of every size. While it's been easy for laymen, journalists, and scholars to observe the closing of businesses and the numerous layoffs, it takes more work to appreciate some of the new opportunities ushered in by such radical economic upheaval. Austrian-born political economist, Joseph Schumpeter, described such economic reordering as "gales of creative destruction." This is the "process of industrial mutation that continuously revolutionizes the economic system from within, incessantly destroying the old one, incessantly creating a new one."

While 'gales' of economic restructuring are not new processes, we are tempted to think they are due to their recent speed and intensity.

If we look closely, we can witness the employment churn caused by these gales in both the BDRC's annual and quarterly Your Economy Time Series (YTS) data. The headline-grabbing news is that the number of business deaths jumped significantly

from 2019 to 2020 at the start of the COVID-19 pandemic, while the number of business births fell precipitously. And, as expected, the data also shows a large increase in the number of surviving businesses that reduced their employment via layoffs. Yet, the data also shows that the number of businesses that expanded employment unexpectedly rose. Of course, like in all years, most businesses didn't adjust their employment level at all. But the ones that did expand employment represent unexpected market opportunities among the destruction, as these businesses grew to meet new demand created in such areas as COVID prevention and treatment and serving homebound families and workers.

This churn is also evident at quarterly time increments. For example, employment growth stalled in the fourth quarter (Q4) of 2021 - the seventh quarter since the start of the COVID epidemic - dynamically distinguishable from the government (Bureau of Labor Statistics - BLS) data. In quarters leading up to Q4 the economy had begun settling into its new pattern of activity, and so by Q4 there was a fall in the number of businesses undergoing any employment change, including births, deaths, and expansions. However, the number of businesses that contracted did increase largely due to the on-set of the Omicron variant and increasingly severe supply chain problems, primarily effecting small businesses (<9 employees). And yet, despite this short setback to overall growth, the economy's individual contributors emerged at a higher rate than before as the number of sole proprietors increased in Q4 after declining in the previous two quarters.

BDRC's YTS dataset offers researchers and policy makers an unequalled ability to examine the finer dynamics of Schumpeter's gales of creative destruction, as external events such as epidemics and global supply chains disruptions impact the national and local economies. It offers deeper insights into how these changes are manifest throughout every single county of the country. It can do this better than government statistics or any other private-sector source because it tracks all businesses (including sole proprietors and proprietors or the equivalent of the governments "non-employer" database) and all industries (including agriculture). Thus, YTS provides an independent, valuable, current, and different view of economic change over time than any source available to researchers, scholars, and policy makers.

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