

The critical role of *new* firms

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

Any opinions and conclusions expressed herein are those of the author and do not necessarily represent the views of the U.S. Census Bureau. All results have been reviewed to ensure that no confidential information is disclosed.

Why do we care about new firms at all?

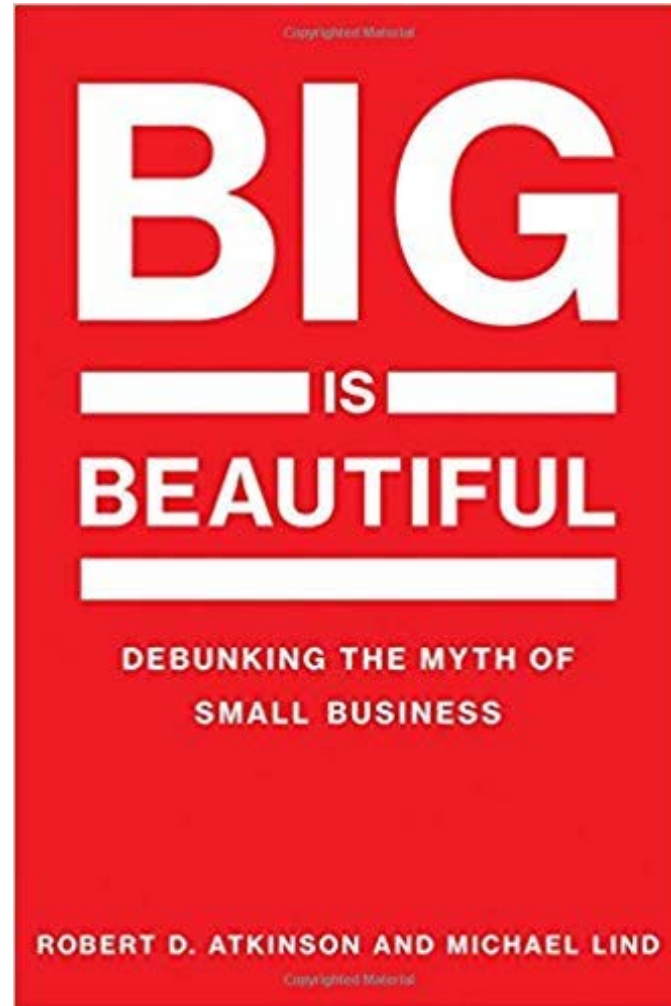
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- Incumbents seem to have key advantages
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 - Access to funds (internal/external)
 - Capital stock (physical, intangible, human)
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- Within-firm “property rights” (Grossman & Hart 1986)
- Incentive systems (Holmstrom & Milgrom 1991)
- “Growth options” (Myers 1977)
- “Disruption”/ “innovator’s dilemma” (Christensen 1997)
- Revenue function curvature (Lucas 1978, Hopenhayn 1992)

What do we see in the data?

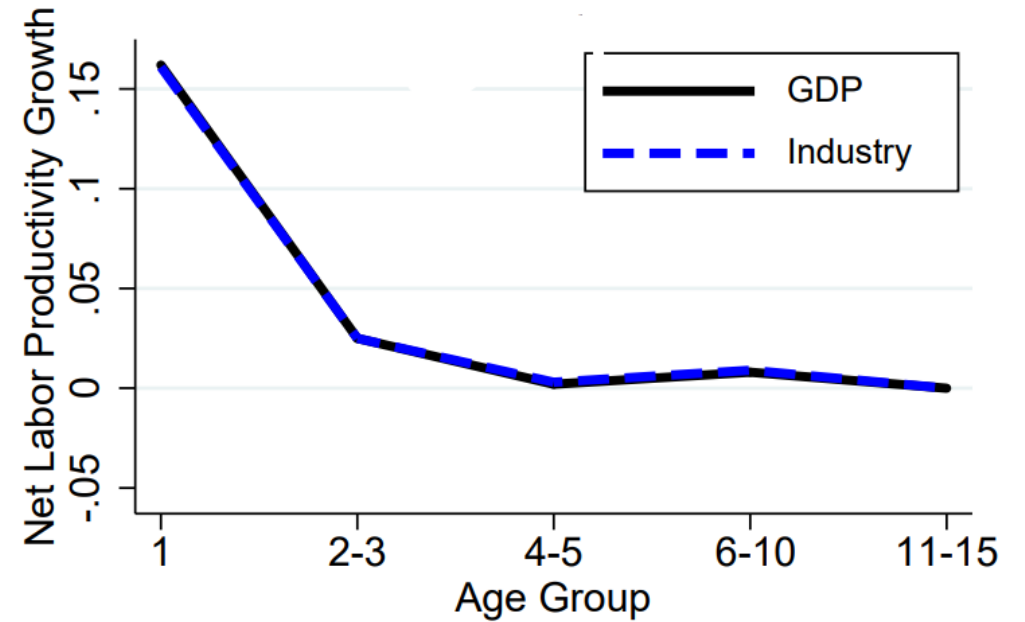
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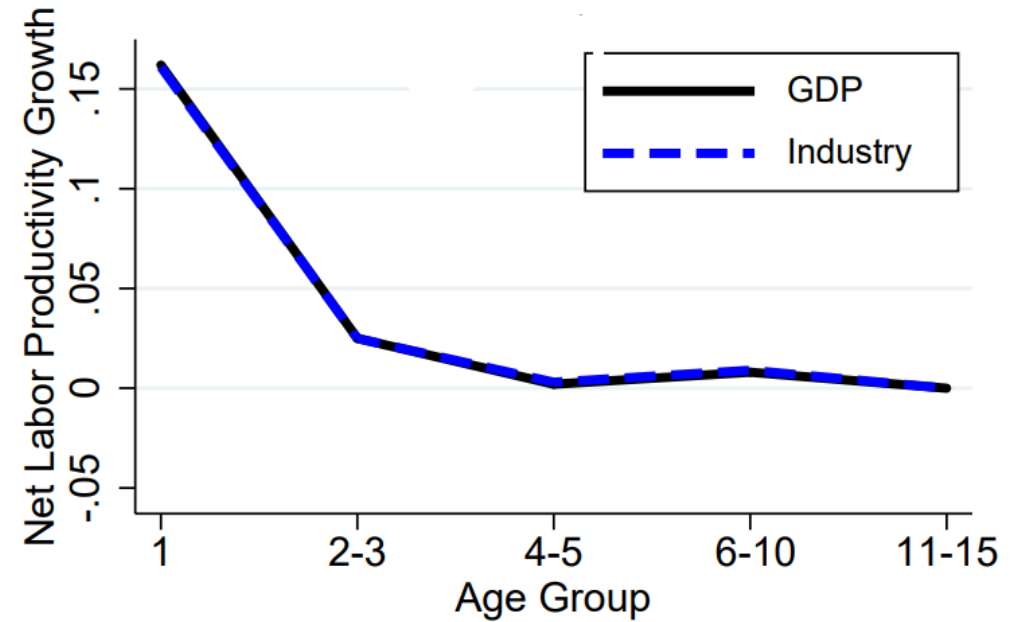


Gross output per worker, 1996-2012. Source: Alon, Berger, Dent, Pugsley 2018

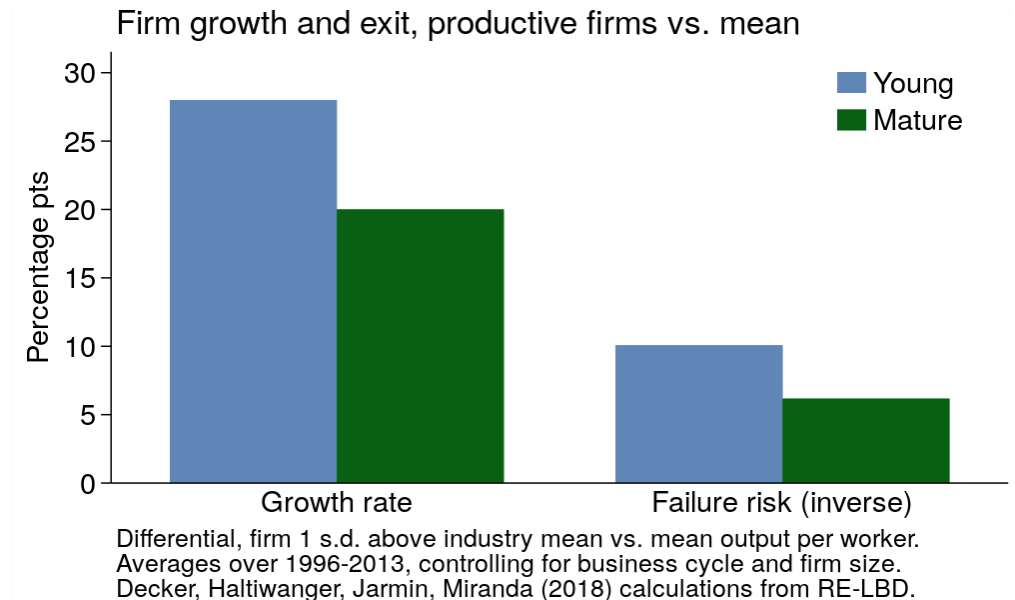
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- *Productivity selection* acts more intensely on young firms (Decker et al. 2018a)
 - Though selection has weakened



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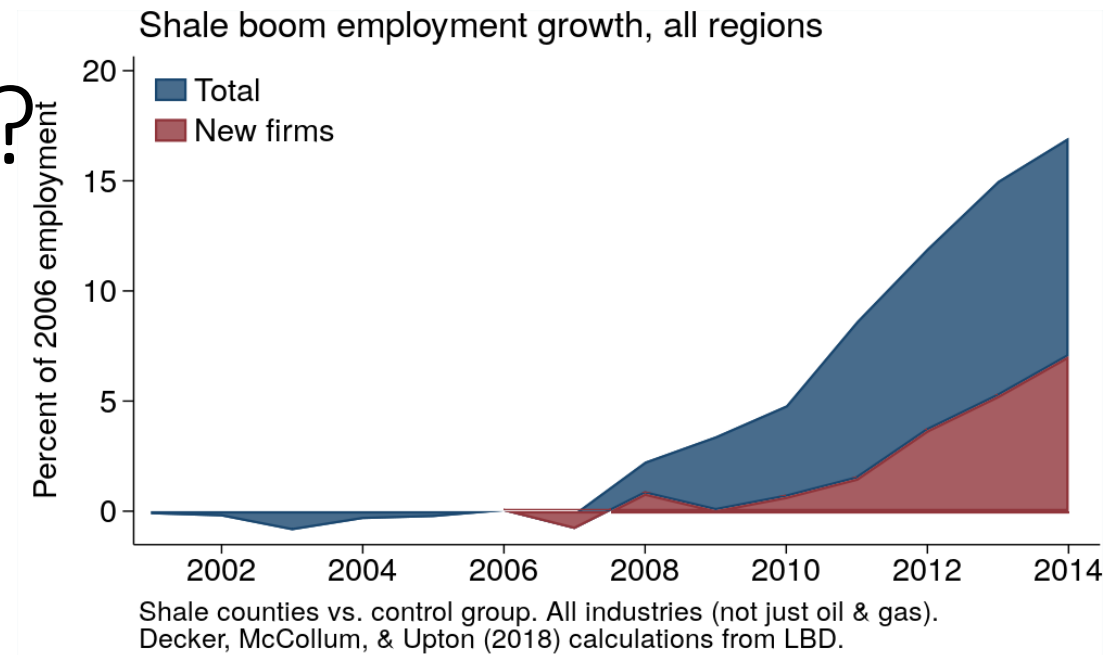
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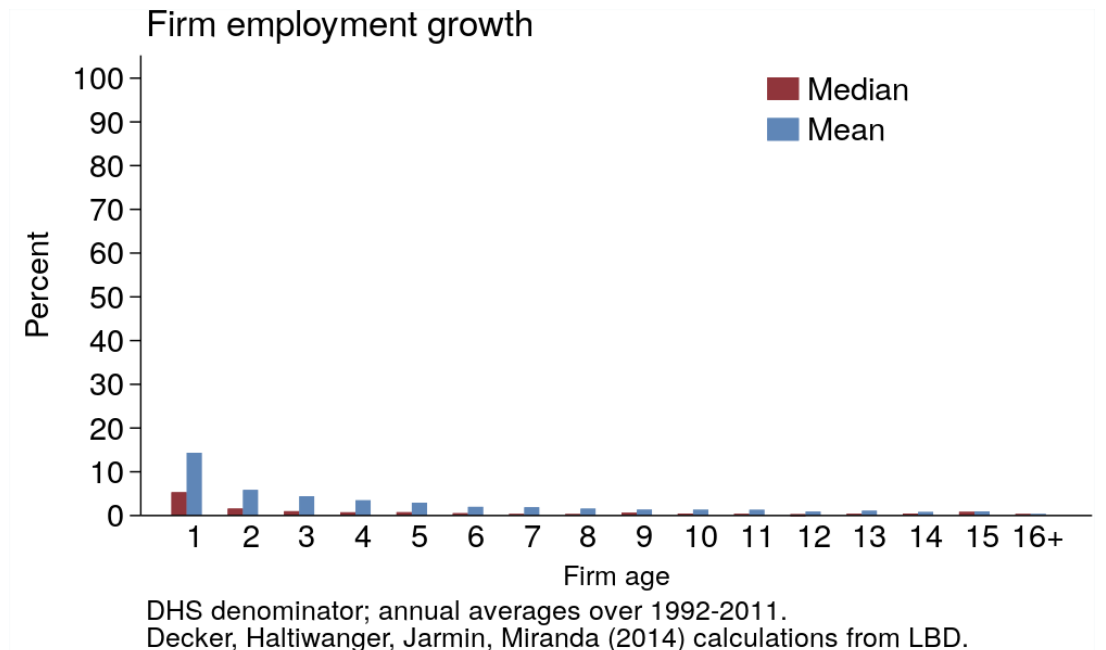
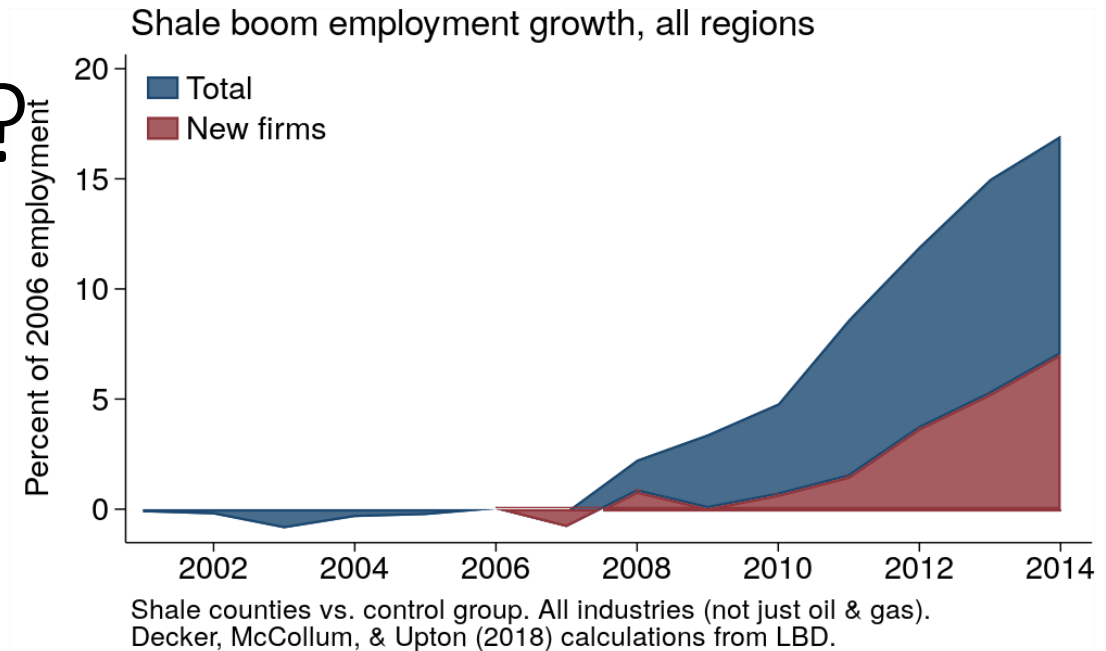
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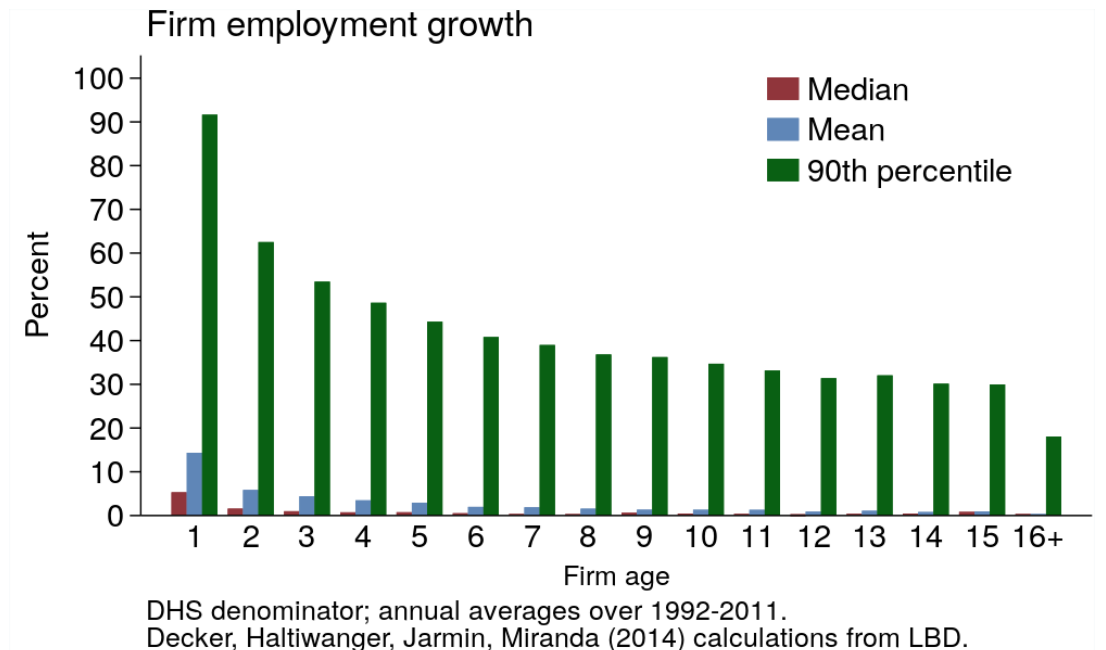
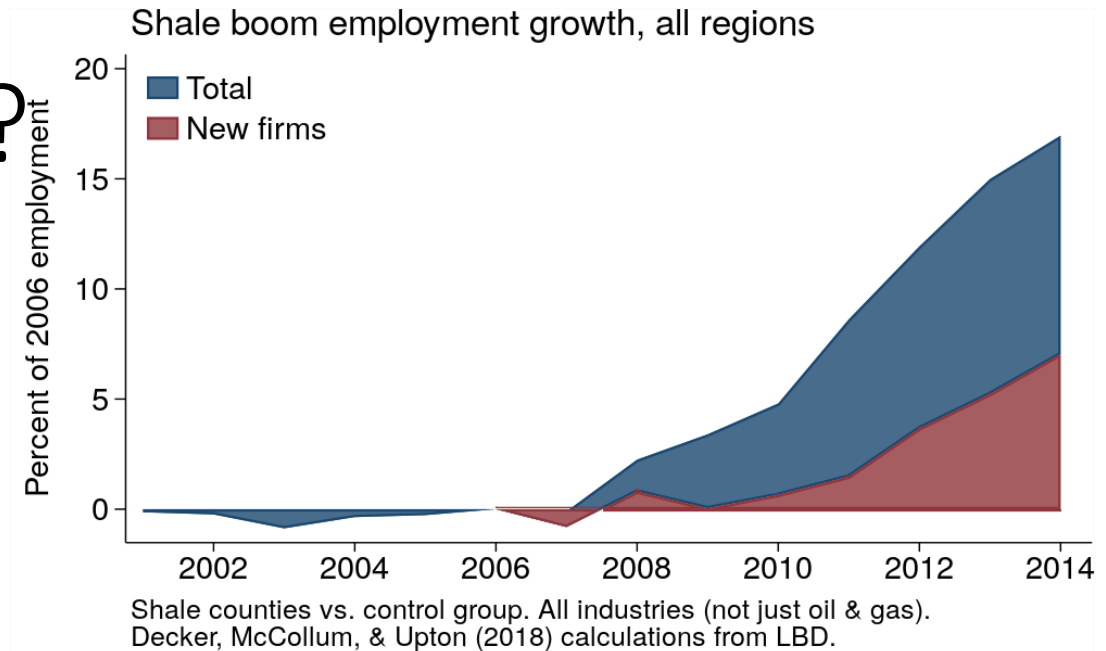
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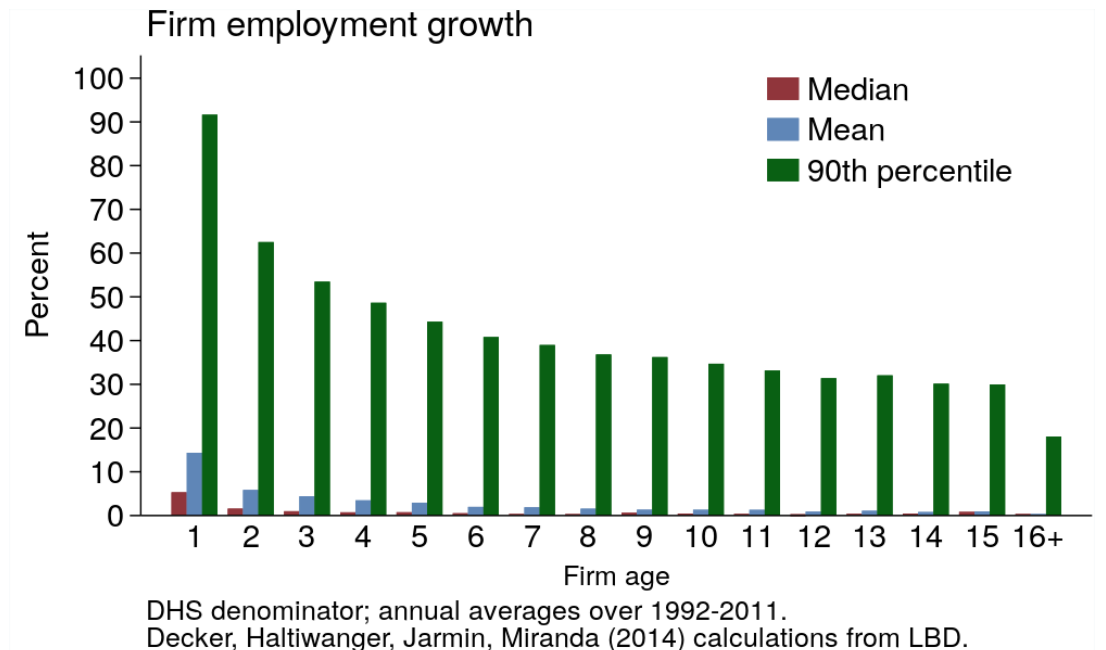
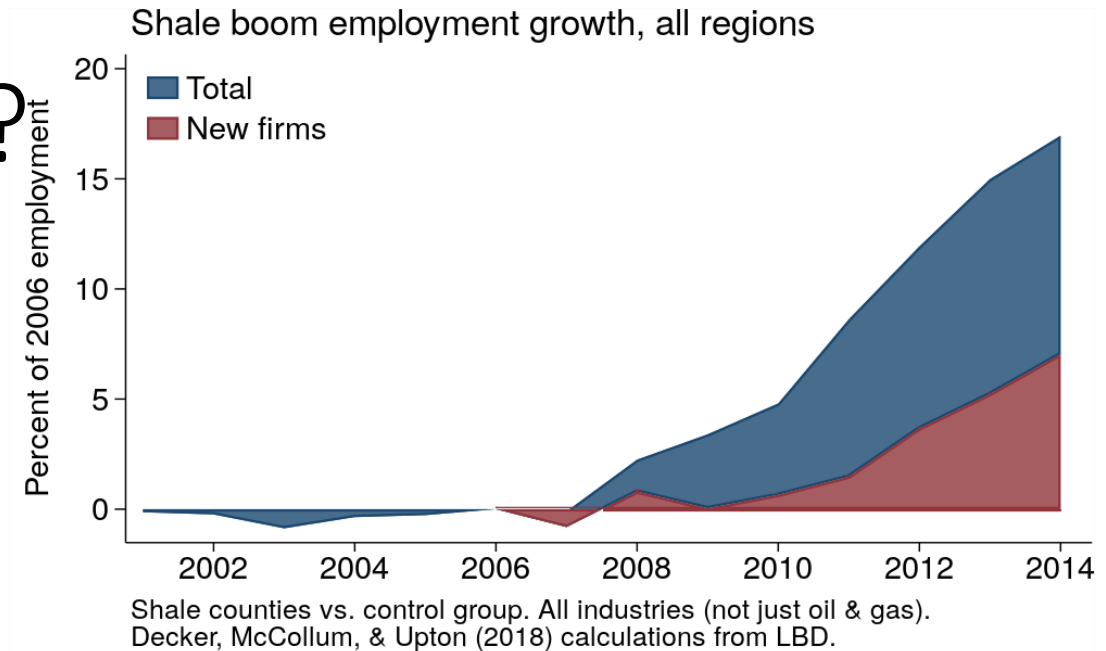
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- High failure rate, BUT typical cohort retains 80% of entry employment at age 5 (Decker et al. 2014)



Entrants play critical role...

- ...and spawning is an important source of entrants
 - Can access some advantages of incumbents (“entrepreneurial incubators” as in Avnimelech & Feldman)...
 - ...without some of their constraints
- Role of spawns in overall entrant contributions is likely disproportionate
 - And understated? Even threat of spawning can boost innovation (Amador & Landier 2003)