

ECONOMIC FINDING

# What Happened to US Business Dynamism?

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Of the many symptoms and likely causes of declining US business dynamism, new research finds that a steady decrease in knowledge diffusion—or transfer of information and technological advances from one firm to another—accounts for at least half of the decrease.

In a healthy market economy, new businesses form every year and others fail. This business dynamism ensures that resources, including labor, are allocated to their most efficient use. Since 1980, though, and especially since 2000, business dynamism in the US has been declining.

There is currently a heated debate about the impact of market concentration and declining business dynamism on the US economy, and whether the two are related. This research finds that the key consideration in resolving this question is the degree of competition within markets, and the relative position of leading and following firms. Of the various factors that shape those competitive relationships and influence the level of business dynamism, the one with the greatest impact is knowledge diffusion, or the degree to which following firms learn from leaders. This

phenomenon accounts for at least half of decrease in business dynamism.

While the authors refrain from offering explicit policy guidance and make a case for further research, they do discuss the strategic use of patents since 2000, which may be a restraining influence on knowledge diffusion. For example, in 1980, 35 percent of patents were produced by the largest 1 percent of the firms, by the 2010s it was 60 percent. Also, the secondary market for patents has evolved to favor large firms, with the top 1 percent buying 65 percent of patents in the resale market, as opposed to 30 percent in 1980. Some of those transactions fit the description of killer acquisitions, whereby large firms buy a patent not to incorporate its new technology, but to put the patent on a shelf, thus squelching the patent’s competitive benefits. If there is a role for policymakers in addressing the decline in business dynamism, it likely does not entail traditional issues like tax rates and subsidies, but necessitates a close examination of the secondary market for patents.

**Figure 1 • Empirical Trends That Inform the Theory**



Notes: Panel 1a is taken from Andrews et al. (2016), Panel 1b from Decker et al. (2018), Panel 1c from Decker et al. (2016b), and Panel 1d from Autor et al. (2017b). Please see paper for full citations.