

RESEARCH

Spotlight



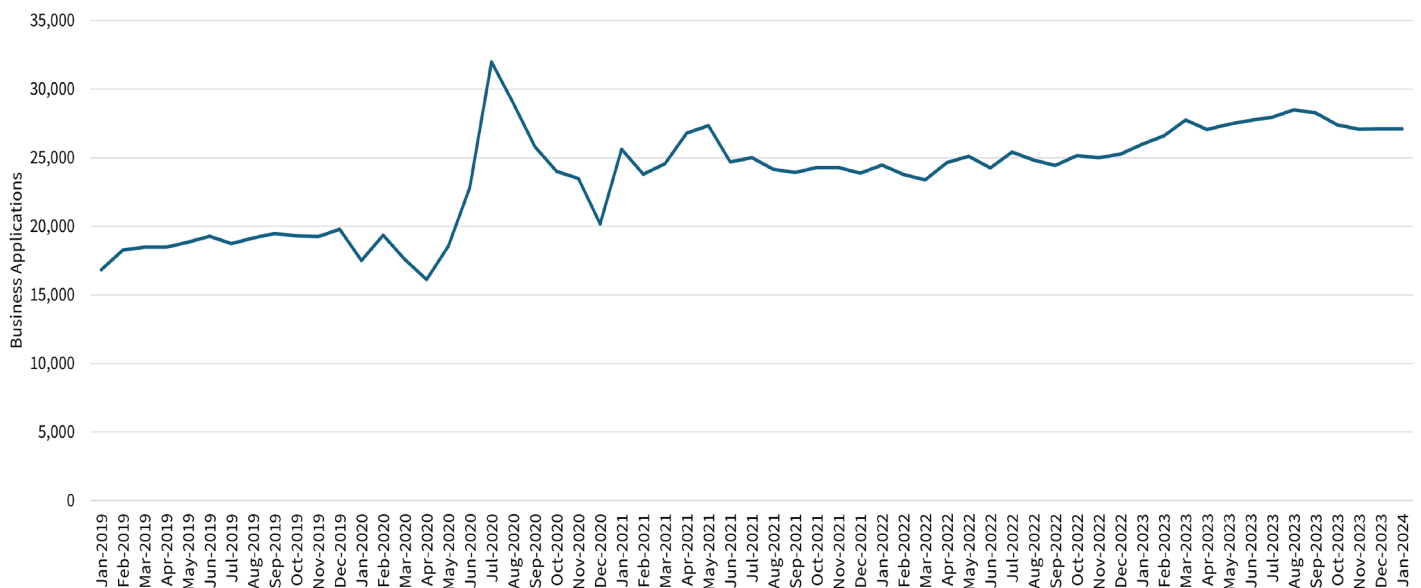
On the Mend:

How the COVID-19 Pandemic Transformed Healthcare Entrepreneurship

By Jonathan Plante, Regulatory Economist • December 2024

The COVID-19 pandemic transformed the world, the country, and the economy as we know it. While some industries shrank under the weight of the unprecedented global health event, others expanded. The latter is particularly true for the Healthcare and Social Assistance sector. As shown in Figure 1, business applications in healthcare and social services¹ almost doubled in July 2020.² Since then, the average growth rate in applications surpassed its pre-pandemic level. Both facts infer that the COVID-19 pandemic initiated a surge in healthcare entrepreneurship that has lasted since March 2020.

Figure 1. Business Applications in the Healthcare and Social Assistance Sector



Source: Business Formation Statistics (BFS)

There are two questions that arise from these data, however. First, it is not evident which sizes of firms—small or large³—drove this increase in healthcare entrepreneurship in July 2020. Second, it is not clear which industries within this sector drove the increase.

¹ This is captured through the two-digit North American Industry Classification System (NAICS) code 62.

² A similar increase in business applications existed at the economy-wide level (total sectors). However, as Haltiwanger (2021:11-12) notes, this surge was dominated by sectors such as Retail Trade, Food and Accommodations, and Health and Social Assistance. See Haltiwanger, “Entrepreneurship During the COVID-19 Pandemic: Evidence from the Business Formation Statistics.” National Bureau of Economic Research. 2021.

³ For ease, a small (large) business is that which has fewer (greater) than 500 employees.

With regards to the first question, small firms are likely responsible for this increase in entrepreneurship. Indeed, research shows that 90 percent of firms start small.⁴ This is no different for the Healthcare and Social Assistance sector, in which 84 percent of businesses start small.⁵

Identifying the industry drivers of the sectoral new business growth cannot be examined as easily. Because different sectors have varying industry compositions, it is not so clear to infer which of the industries within this sector drove the increase in healthcare entrepreneurship. Instead, we must perform some analysis.

To start, we can use establishment entry data from the U.S. Census Bureau’s Business Dynamics Statistics (BDS) database. This database, unlike the data from the BFS database shown above, breaks down data on a four-digit North American Industry Classification System (NAICS) code level. Data on a four-digit NAICS code level represent data on an industry group level.

We can examine the shares of entries for each of this sector’s industry groups in 2019 and 2021⁶ with these data. We use 2019 as a proxy for before COVID-19, and the baseline against which to compare the shares of health services industry group entries for 2021, a year after the start of the pandemic. More specifically, 2019 is used as a baseline to examine the changes—differences—between the 2021 and 2019 entry shares for each industry group. These changes are illustrated for both small and large establishments in Table 1.

Table 1. Change in Healthcare & Social Assistance Industry Group Entry Shares, 2019-2021

NAICS	Industry Group	Total	Small	Large
6213	Offices of Other Health Practitioners	3.23%	1.75%	1.48%
6216	Home Health Care Services	1.85%	1.23%	0.62%
6215	Medical and Diagnostic Laboratories	0.31%	0.18%	0.13%
6239	Other Residential Care Facilities	0.08%	0.08%	0.00%
6223	Specialty (except Psychiatric and Substance Abuse) Hospitals	0.05%	0.01%	0.04%
6219	Other Ambulatory Health Care Services	0.05%	0.16%	-0.12%
6221	General Medical and Surgical Hospitals	0.04%	0.00%	0.04%
6232	Mental Health and Substance Abuse Facilities	0.02%	-0.44%	0.47%
6222	Psychiatric and Substance Abuse Hospitals	-0.02%	-0.02%	0.00%
6242	Community Food and Housing, and Relief Services	-0.02%	0.10%	-0.13%
6211	Offices of Physicians	-0.09%	0.97%	-1.06%
6243	Vocational Rehabilitation Services	-0.11%	-0.04%	-0.07%
6231	Nursing Care Facilities (Skilled Nursing Facilities)	-0.18%	-0.16%	-0.02%
6233	Continuing Care and Assisted Living Facilities	-0.32%	-0.10%	-0.23%
6244	Child Day Care Services	-0.89%	-0.91%	0.02%
6241	Individual and Family Services	-0.90%	-1.12%	0.22%
6214	Outpatient Care Centers	-1.06%	-0.21%	-0.85%
6212	Offices of Dentists	-2.04%	-0.93%	-1.11%

Source: Business Dynamics Statistics; Author’s Calculations

⁴ Author’s calculations, using the sum of 2021 establishment entries from United States Census Bureau’s Business Dynamics Statistics (BDS) database. See also “Survival Rates and Firm Age.” SBA Office of Advocacy. 2019.

⁵ Author’s calculations, using the U.S. Census Bureau’s Business Dynamics Statistics (BDS) database. Specifically, the author calculated the sum of 2021 establishment entries that started with NAICS code 62XX, and then calculated the percent of those entries that were by establishments with fewer than 500 employees.

⁶ 2021 is included because it is likely that many of the entries that occurred after July 2020 were not captured in 2020 data.

Figure 2a. Share of Firms, 2019

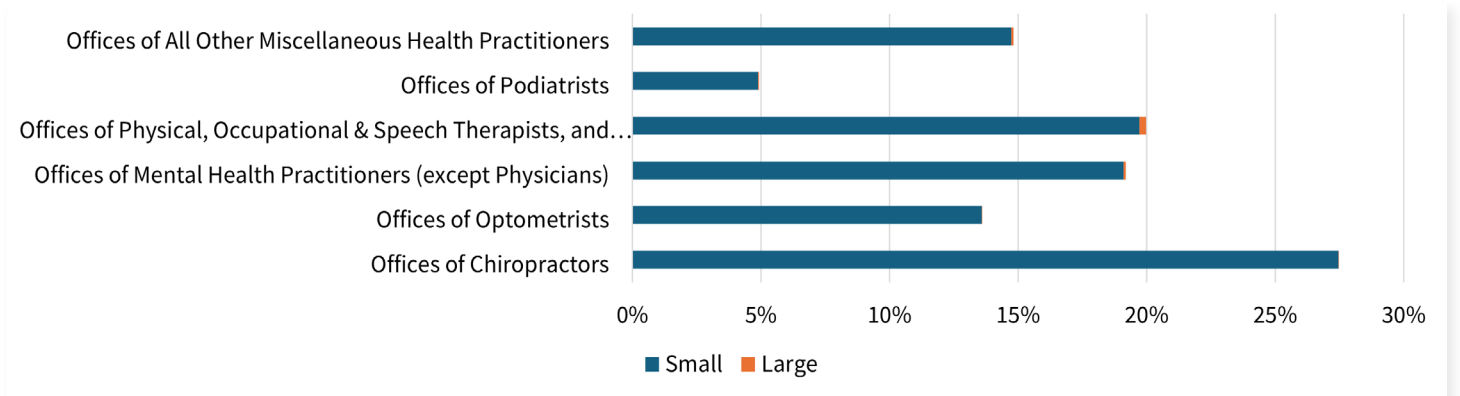
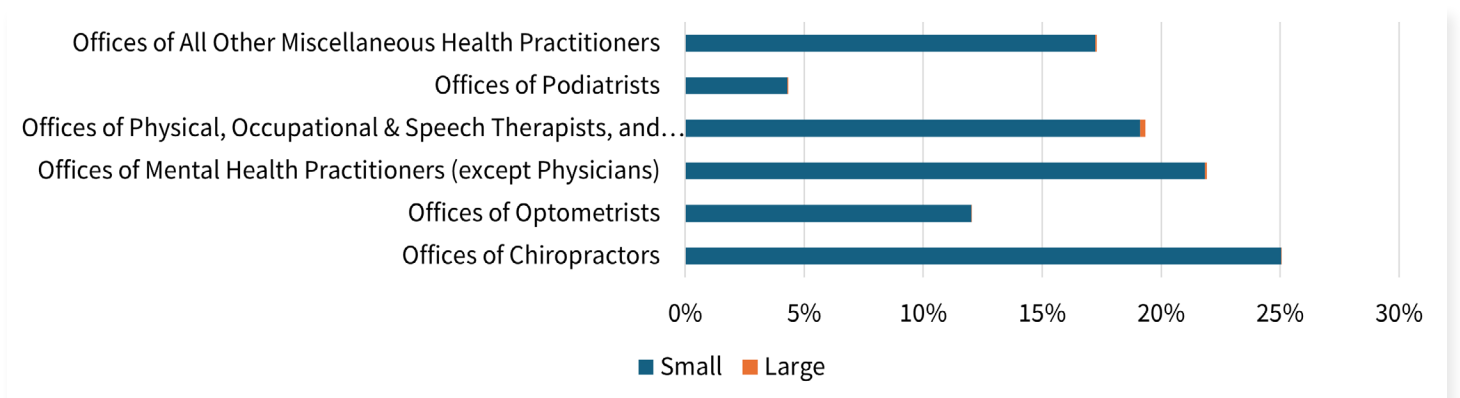


Figure 2b. Share of Firms, 2021



Source: Business Dynamics Statistics; Author's Calculations

Table 1 shows that Offices of Other Health Practitioners (NAICS 6213) had the greatest total change in the share of entries, which had an increase of 3.23 percent. This industry group also had the greatest increase in the share of entries for small establishments, which was 1.75 percent and exceeded the large establishment share change.⁷

These statistics provide plausible answers to which industries within the healthcare sector have been forming new businesses at higher rates. First, the data suggests that Offices of Other Health Practitioners partly drove the increase in the Healthcare and Social Assistance Services sector's business applications in July 2020. Additionally, we can infer that the increase in health services business applications from this industry group was likely driven by small businesses.

This analysis can be expanded to dive deeper into industry detail, however. While some industry groups consist of one industry, other industry groups consist of multiple industries. The latter is the case for the Offices of Other Health Practitioners industry group, which consists of six industries total. To examine the changes among the six industries, we need a database that goes to the six-digit NAICS-level. One such database is the Statistics of United States Businesses (SUSB) database.

More specifically, we can use SUSB's firm data—i.e., the number of firms in each industry—to proxy each industry's share of firms for 2019 and 2021. Figures 2a and 2b show the share of firms for each of the six industries in this industry group for 2019 and 2021, respectively.

⁷ Firm level entry industry statistics are not available in Census's Business Dynamics Statistics, so establishment level entry statistics are used. Establishment entries reflect new business locations and may not necessarily reflect the size of the business or firm opening the location. A firm can operate one or multiple establishments. 83% of all employer establishments are operated by small businesses.

From these figures, we can see that, although Offices of Chiropractors has the highest total distribution of firms for 2019 and 2021, its distribution decreased from 27.5 percent in 2019 to 25 percent in 2021. In fact, all but two industries—Offices of all Other Miscellaneous Health Practitioners and Offices of Mental Health Practitioners (except Physicians)—experienced decreases in their distribution of firms between 2019 and 2021. Between the two industries that experienced increases, Offices of Mental Health Practitioners had the highest increase in share—a total of 2.72 percent and driven by small firms.

These statistics show that firms in the Offices of Mental Health Practitioners industry experienced the highest increase in firm distribution among Offices of Other Health Practitioners industries. This increase was largely driven by small firms. It can be plausibly inferred that small mental health practitioner firms were a main contributor to the increase in health services new business applications seen in July 2020. This inference makes sense, given that the demand for mental services increased during the pandemic—most of which was met through telehealth.⁸

The industry expansions and contractions initiated by the pandemic will continue to provide valuable economic insight for years to come. As we approach five years since the start of the pandemic, it's not clear whether Offices of Mental Health Practitioners remains a key factor in the continued increase in healthcare new business applications. This question can be answered as more recent data becomes available.

⁸ American Psychological Association, "[2021 COVID-19 Practitioner Survey](#)." 19 October 2021.