Who Creates Jobs? Small vs. Large vs. Young*

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Talk based on:

Strong claims continue to be made on the role of small businesses and job creation.

- From policymakers and pundits, an often repeated refrain is that “small businesses are the primary creators of net new jobs”
  - Typical claim is that small businesses account for about two thirds of net job creation
- Both sides of the aisle regularly use this claim to justify policy proposals
  - Jobs bill in September 2010
  - Extending tax cuts in December 2010
- Repeated by so many over so many years, it must be true!...
Table 1 Net Job Creation by Firm Size and Firm Age, U.S. Private Sector, 2005 (Panel A – BASE YEAR SIZE)

| Firm Age | a) 1 to 4 | b) 5 to 9 | c) 10 to 19 | d) 20 to 49 | e) 50 to 99 | f) 100 to 249 | g) 250 to 499 | h) 500 to 999 | i) 1000 to 2499 | j) 2500 to 4999 | k) 5000 to 9999 | l) 10000+ | All |
|----------|-----------|-----------|-------------|-------------|-------------|--------------|--------------|--------------|----------------|----------------|----------------|-------------|-------|------|
| a) 0     | 731,515   | 503,644   | 498,317     | 533,181     | 313,511     | 292,348      | 157,120      | 151,518      | 186,087        | 131,178        | 211            | 3,518,419   |       |
| b) 1     | 79,759    | -12,547   | -20,836     | -47,837     | -41,006     | -57,188      | -48,830      | -5,476       | -14,532        | -20,131        | -178,494       | 211          | -338,705 |
| c) 2     | 26,506    | -24,840   | -31,883     | -26,738     | -18,026     | -9,049       | -13,579      | -23,615      | -12,782        | D              | D              | -150,749    |       |
| d) 3     | 7,535     | -22,650   | -26,855     | -37,824     | -15,918     | -8,981       | -7,548       | -11,581      | -12,114        | D              | D              | -74,035     |       |
| e) 4     | 20,456    | -18,442   | -23,212     | -29,616     | 641         | -4,301       | -5,436       | -298         | -4,011         | D              | D              | -102,902    |       |
| f) 5     | 4,808     | -19,792   | -24,392     | -29,425     | -14,870     | -6,222       | -2,449       | -6,849       | -293           | -3,418         | D              | D           |       |
| g) 6 to 10 | 14,577 | -71,332   | -99,235     | -110,111    | -40,652     | -1,324       | -9,452       | 5,437        | -20,693        | -13,945        | -9,903         | 17,928      |       |
| h) 11 to 15 | 15,663 | -47,730   | -67,923     | -81,876     | -40,432     | -27,666      | -9,530       | 2,179        | -2,028         | 22,441         | 6,140          | 69,409      |       |
| i) 16 to 20 | 5,673  | -36,856   | -58,236     | -71,299     | -35,979     | 9,780        | -5,725       | 10,200       | 3,204          | 12,615         | 10,491         | 2,158       |       |
| j) 21 to 25 | 2,923  | -28,173   | -42,609     | -51,490     | -22,246     | -13,346      | 3,901        | 10,269       | 36,484         | 10,075         | 9,889          | -56,563     |       |
| m) ALL   | 910,431   | 182,683   | 31,901      | -58,175     | 27,438      | 164,036      | 82,628       | 226,188      | 209,171        | 253,609        | 90,973         | 360,214     | 2,481,097 |

Firm Size: Sensitivity to controlling for age and size methodology

Firm Size Class

- Base Year Size
- Current (Avg) Size
- Base Year Size with Age Controls
- Current (Avg) Size with Age Controls
“Up or out” Dynamics for Young Firms

Net Employment Growth for Continuing Firms by Firm Age
Job Destruction from Firm Exit by Firm Age
Interpretation

• More nuanced view of role of small businesses as “primary creators of jobs”?
  ▪ More informative to focus on firm startups and firm age
    □ No systematic relationship between firm size and net growth once we control for firm age
    □ Firm startups contribute substantially to gross and net job creation
    □ Firm startups tend to be small
    □ Young firms very volatile (up or out)
    □ Firm age patterns don’t yield patterns that can be misinterpreted given regression to the mean effects

• Related evidence shows “up or out” dynamics important for productivity growth.

• All part of constant restructuring and reinvention of U.S. economy as it adapts to changing economic conditions and grows.
What Do We Know About These Dynamics Over Time?
(and in particular in the Great Recession?)
Gross Job Creation and Destruction Rates, U.S. Private Sector
Job Creation and Business Startup Rates, U.S. Private Sector

- **Gross Job Creation**

- **Job Creation (Startups) -- Right Axis**

- **Job Creation (New Establishments) -- Right Axis**
Trends in Gross Flows and Net Job Creation
