Mice, Gazelles and Elephants: The Menagerie of U.S. Business Dynamics

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“Cut a few thousand jobs here, boss, a few thousand jobs there, and they start to add up.”
Share of Establishments by Firm Size, 2005

- Micro Firms (1-9 employees), 3,956,622
- Small-Medium (10-500 employees), 1,669,297
- Large Firms (500+ employees), 1,030,481
Share of Employment by Firm Size, 2005

- Micro Firms (1-9 employees), 13,332,034
- Small-Medium (10-500 employees), 46,147,894
- Large Firms (500+ employees), 56,374,911
U.S. Labor Productivity: Comparison Between Actual and Random Allocation of Size of Businesses
Share of Reallocation Between and Within Detailed Industries

- Between Industry: 13%
- Within Industry: 87%
Business Startups as Percentage of Employment and Net Growth

Share of Employment

Share of Net Growth
Percent of Jobs Accounted for by New Firms (All and Selected Size Classes)

- All Startups
- Large Startups (250-499)
- Micro Startups (1-4) (Right Scale)
Are there Gazelles?

![Graph showing firm age and net survivors vs. job destruction from exit.](image-url)
Contribution of Net Entry to Productivity Growth (10-year horizon)

-1  -0.5  0   0.5  1   1.5  2

All Retail Department Stores General Merchandise All Manufacturing

Share

Continuing Estabs  Net Entry
In Retail Trade, selection and learning effects play critical roles....
Usually as
Main Messages

Creative Destruction ubiquitous feature of U.S. (and other healthy market economies)
- Large Magnitude
- Creation in Recessions, Destruction in Booms
- Idiosyncratic Effects (Difficult to Pick Winners)
  - Young, small businesses “Up or Out”
- Productivity Enhancing

No free lunch
- Costly for firms and workers
- Breakdowns in the process?
  - Collapse of Financial Markets?
- But evidence clearly shows distorting process can have adverse consequences on allocative efficiency