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

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

- “Over the past 15 years, small businesses have created roughly 65 percent of new jobs in America.” President Barack Obama, 2/5/10
- “Small businesses are the job generator of America,” Sen. John McCain, 2/17/10
- President Obama and Sen. McCain have lots of company
  - Every president since Ronald Reagan has made this claim repeatedly
- Both sides of the aisle regularly use this claim to justify policy proposals
  - Including jobs bill in September 2010
- Repeated by so many over so many years, it must be true!...
<table>
<thead>
<tr>
<th>Firm Age</th>
<th>a) 1 to 4</th>
<th>b) 5 to 9</th>
<th>c) 10 to 19</th>
<th>d) 20 to 49</th>
<th>e) 50 to 99</th>
<th>f) 100 to 249</th>
<th>g) 250 to 499</th>
<th>h) 500 to 999</th>
<th>i) 1000 to 2499</th>
<th>j) 2500 to 4999</th>
<th>k) 5000 to 9999</th>
<th>l) 10000+</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) 0</td>
<td>731,515</td>
<td>503,644</td>
<td>498,317</td>
<td>553,181</td>
<td>313,511</td>
<td>292,348</td>
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<td>151,518</td>
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<td>131,178</td>
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<td>D</td>
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<tr>
<td>b) 1</td>
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<td>-20,131</td>
<td>211</td>
<td>-408</td>
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<td>c) 2</td>
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<td>-31,883</td>
<td>-44,488</td>
<td>-26,738</td>
<td>-9,049</td>
<td>-13,579</td>
<td>-23,615</td>
<td>-12,782</td>
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<td>D</td>
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<td>d) 3</td>
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<td>D</td>
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<td>D</td>
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<td>e) 4</td>
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<td>-29,616</td>
<td>641</td>
<td>-4,301</td>
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<td>-298</td>
<td>-4,011</td>
<td>D</td>
<td>D</td>
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<tr>
<td>f) 5</td>
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<td>-19,792</td>
<td>-24,392</td>
<td>-29,425</td>
<td>-14,870</td>
<td>-6,222</td>
<td>-2,449</td>
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<td>-293</td>
<td>-3,418</td>
<td>D</td>
<td>D</td>
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<td>g) 6 to 10</td>
<td>14,577</td>
<td>-71,332</td>
<td>-99,235</td>
<td>-110,111</td>
<td>-40,652</td>
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<td>-9,452</td>
<td>5,437</td>
<td>-20,693</td>
<td>-13,945</td>
<td>-9,903</td>
<td>17,928</td>
<td>-338,705</td>
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<td>h) 11 to 15</td>
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<td>-67,923</td>
<td>-81,876</td>
<td>-40,432</td>
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<td>2,179</td>
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<td>22,441</td>
<td>6,140</td>
<td>69,409</td>
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<td>i) 16 to 20</td>
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<td>12,615</td>
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<td>j) 21 to 25</td>
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<td>-51,490</td>
<td>-22,464</td>
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<td>10,075</td>
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<td>56,563</td>
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<td>m) ALL</td>
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<td>31,901</td>
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<td>82,628</td>
<td>226,188</td>
<td>209,171</td>
<td>253,609</td>
<td>90,973</td>
<td>360,214</td>
<td>2,481,097</td>
</tr>
</tbody>
</table>

Net Employment Growth by Base Year Firm Size

- 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 1999
- i) 1000 to 2499
- j) 2500 to 4999
- k) 5000 to 9999
- l) 10,000 +
Share of Employment in Startups by Firm Size Class

- 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 24
- j) 2500 to 49
- k) 5000 to 99
- l) 10000+
Firm Size: Sensitivity to controlling for age and size methodology

Firm Size Class

- 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) 10,000 +

Legend:
- Pink Square: Base Year Size
- Green Diamond: Current (Avg) Size
- Red Triangle: Base Year Size with Age Controls
- Blue Cross: Current (Avg) Size with Age Controls
Up or Out Dynamics of Young U.S. Firms

Firm Age

Net Employment Growth (Continuing Firms)  Job Destruction from Exit
The Size/Age Distributions

- Small (1-500)
- Large (500+)

<table>
<thead>
<tr>
<th>Firm Births</th>
<th>Young (1-10)</th>
<th>Mature (10+)</th>
<th>Firm Births</th>
<th>Young (1-10)</th>
<th>Mature (10+)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
<td>Job Creation</td>
<td>Job Destruction</td>
<td>Employment</td>
<td>Job Creation</td>
<td>Job Destruction</td>
</tr>
</tbody>
</table>
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

- Firm startup and firm age contributions to job growth consistent with models of industry evolution that stress importance of firm entry, learning, experimentation and selection
What Do We Know About These Dynamics Over the Time?
(and in particular in the Great Recession?)
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

- **Net Job Growth**: Avg 1980-1989 = 2.0, Avg 1990-1999 = 1.9, Avg 2000-2009 = 0.9
Quarterly Job Creation and Destruction Rates, U.S. Private Sector, 1990:2-2010:3, BED
U.S. Quarterly Job Creation Levels by Employer Size Classes, 1990:2-2010:3, BED