

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....

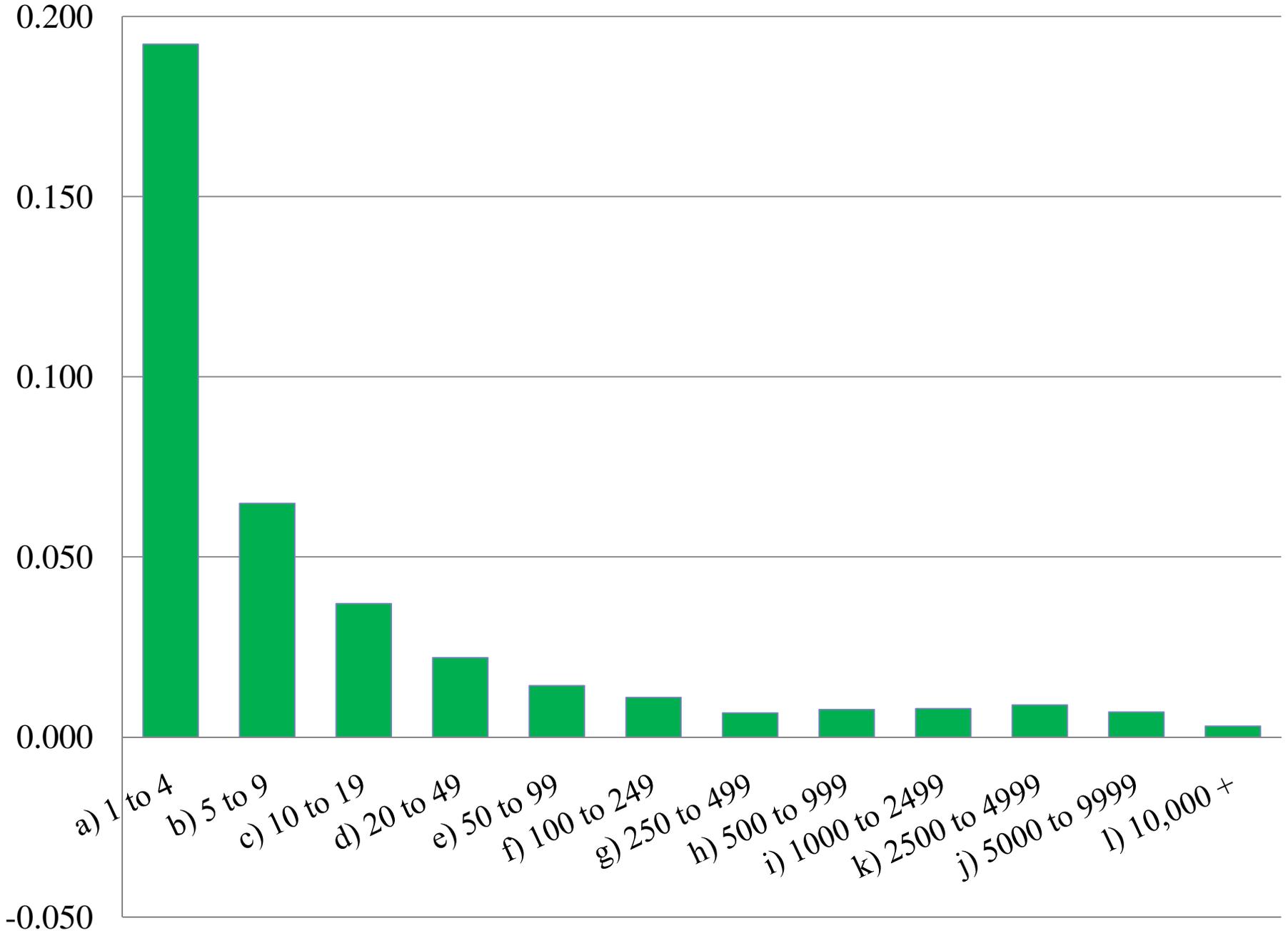
- ❑ *“Over the past 15 years, small businesses have created roughly 65 percent of new jobs in America.”* President Barack Obama, 2/5/10
- ❑ *“Small businesses are the job generator of America,”* Sen. John McCain, 2/17/10
- ❑ President Obama and Sen. McCain have lots of company
 - Every president since 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 1 Net Job Creation by Firm Size and Firm Age, U.S. Private Sector, 2005 (Panel A – BASE YEAR SIZE)

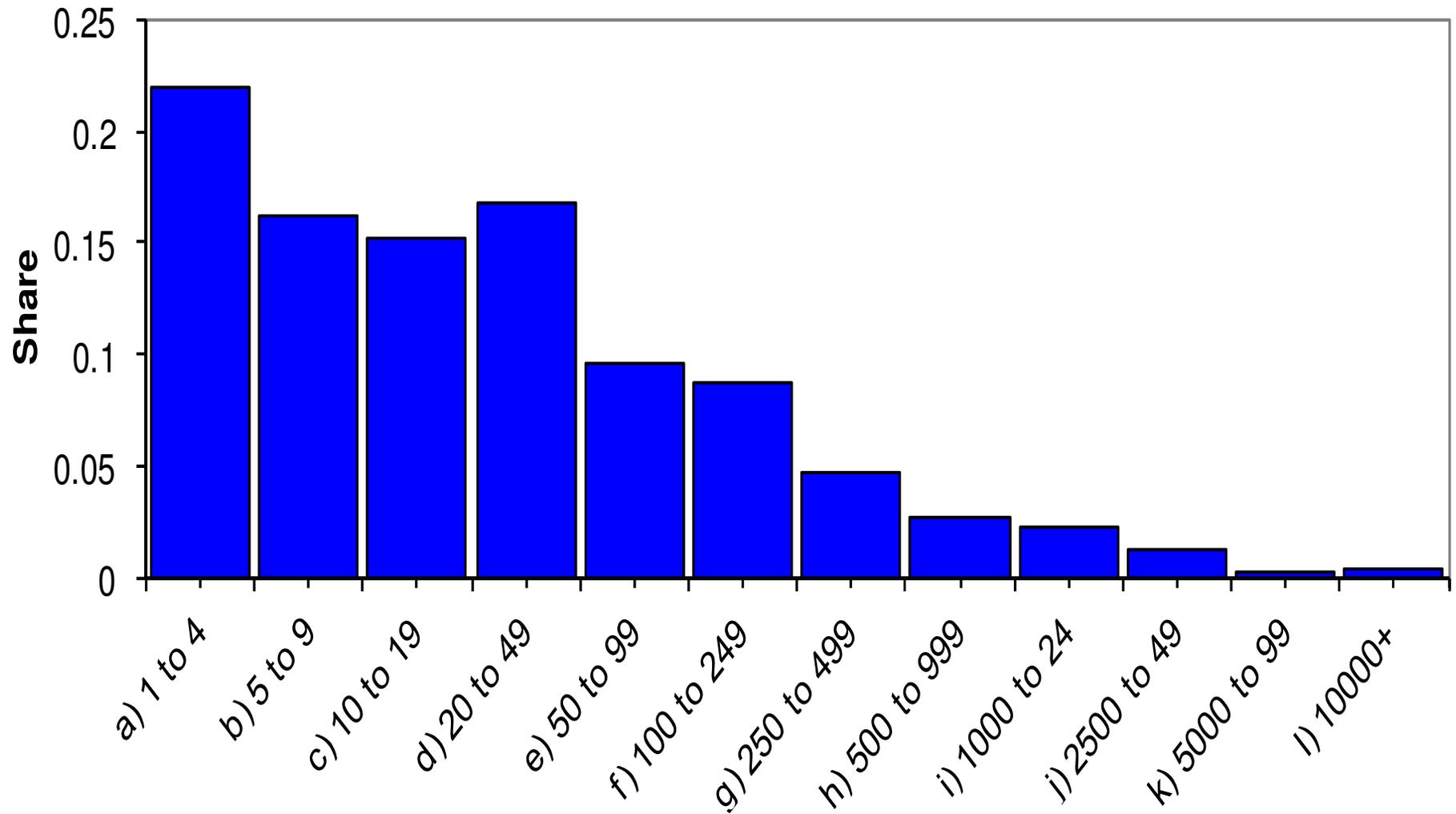
Firm Age	Firm Size (Base Year)												All
	a) 1 to 4	b) 5 to 9	c) 10 to 19	d) 20 to 49	e) 50 to 99	f) 100 to 249	g) 250 to 499	h) 500 to 999	i) 1000 to 2499	j) 2500 to 4999	k) 5000 to 9999	l) 10000+	
a) 0	731,515	503,644	498,317	553,181	313,511	292,348	157,120	151,518	186,087	131,178	D	D	3,518,419
b) 1	79,759	-12,547	-20,836	-47,837	-41,006	-57,188	-48,830	-5,476	-14,532	-20,131	211	-408	-188,821
c) 2	26,506	-24,840	-31,883	-44,488	-26,738	-18,026	-9,049	-13,579	-23,615	-12,782	D	D	-178,494
d) 3	7,535	-22,650	-26,855	-37,824	-15,918	-14,813	-8,981	-7,548	-11,581	-12,114	D	D	-150,749
e) 4	20,456	-18,442	-23,212	-29,616	641	-9,816	-4,301	-5,436	-298	-4,011	D	D	-74,035
f) 5	4,808	-19,792	-24,392	-29,425	-14,870	-6,222	-2,449	-6,849	-293	-3,418	D	D	-102,902
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	-338,705
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	-161,353
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	-153,974
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	-140,886
k) 26+	1,016	-38,599	-71,235	-107,390	-48,873	10,309	19,924	85,473	56,436	143,701	58,245	307,517	416,524
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

Source: U.S. Census Bureau, Business Dynamics Statistics at http://www.ces.census.gov/index.php/bds/bds_home

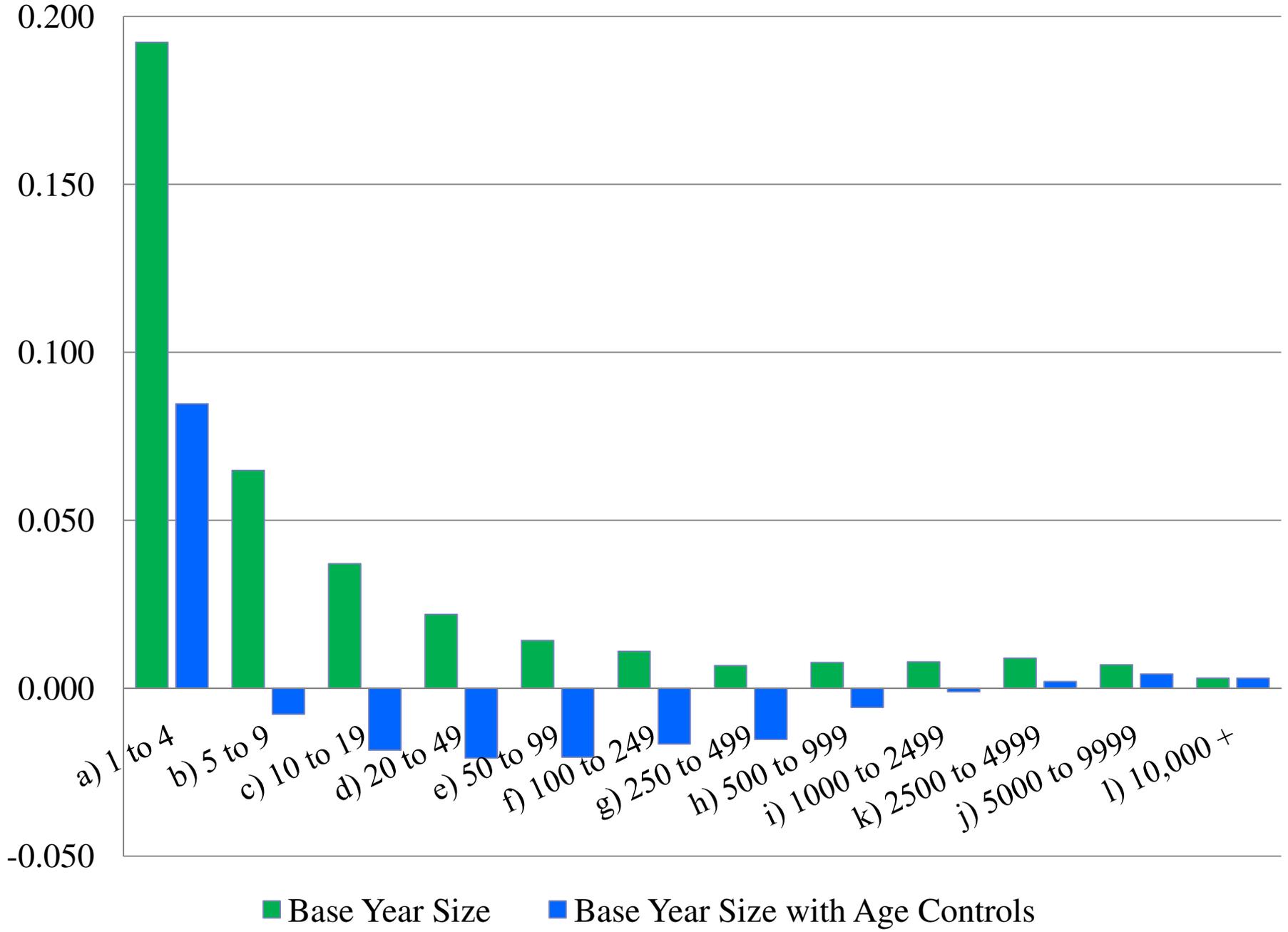
Net Employment Growth by Base Year Firm Size



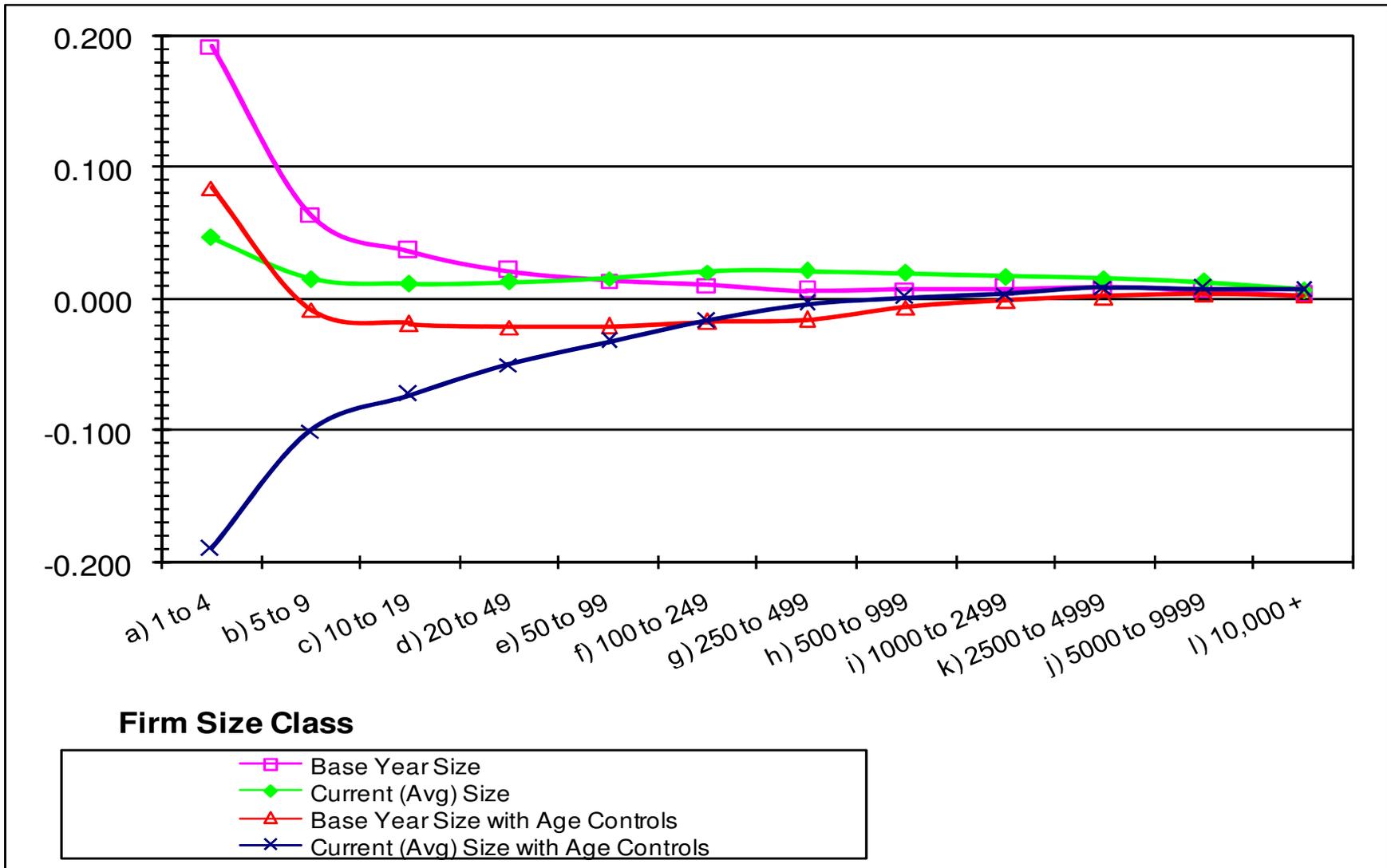
Share of Employment in Startups by Firm Size Class



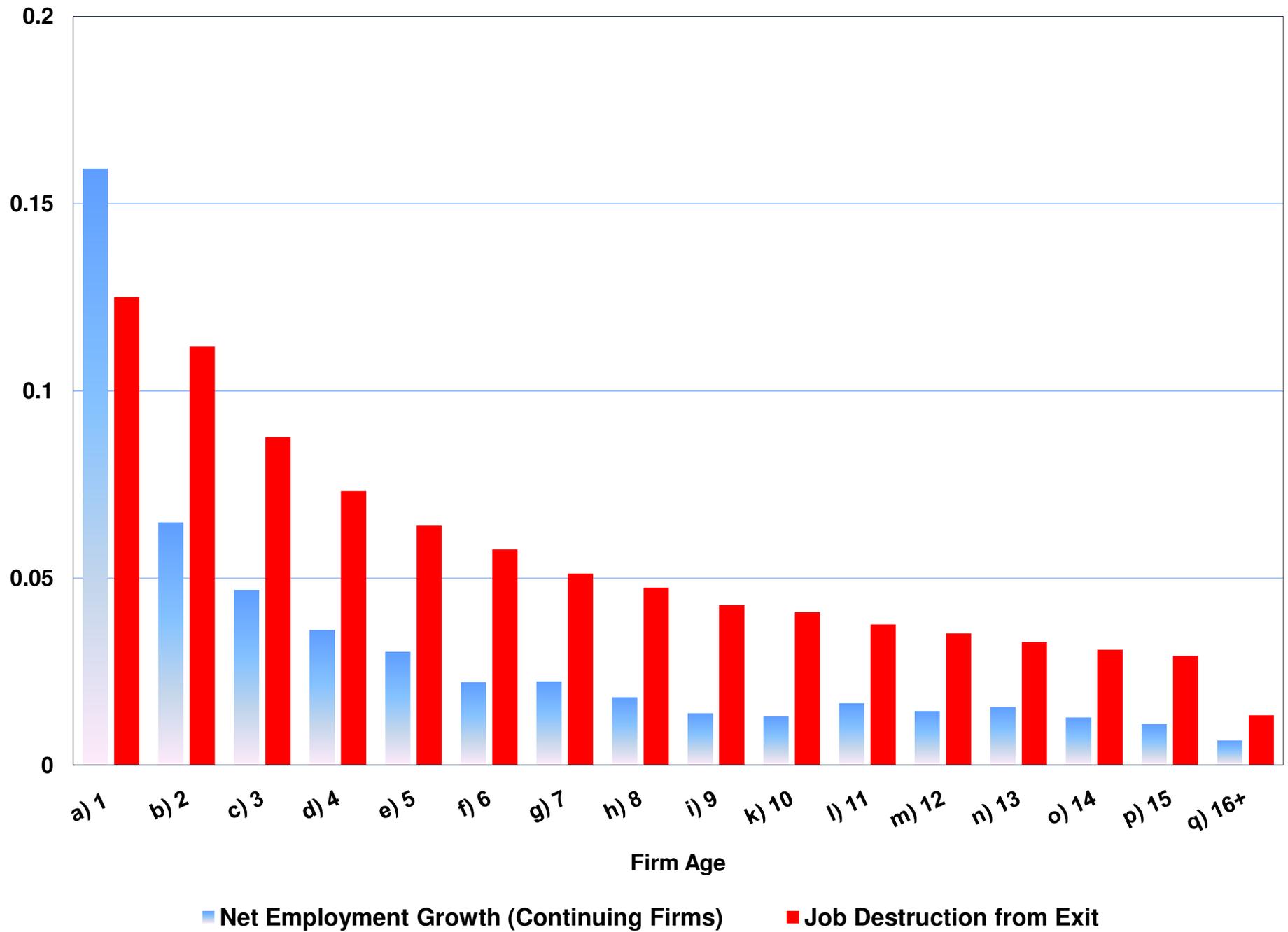
Net Employment Growth by Base Year Firm Size



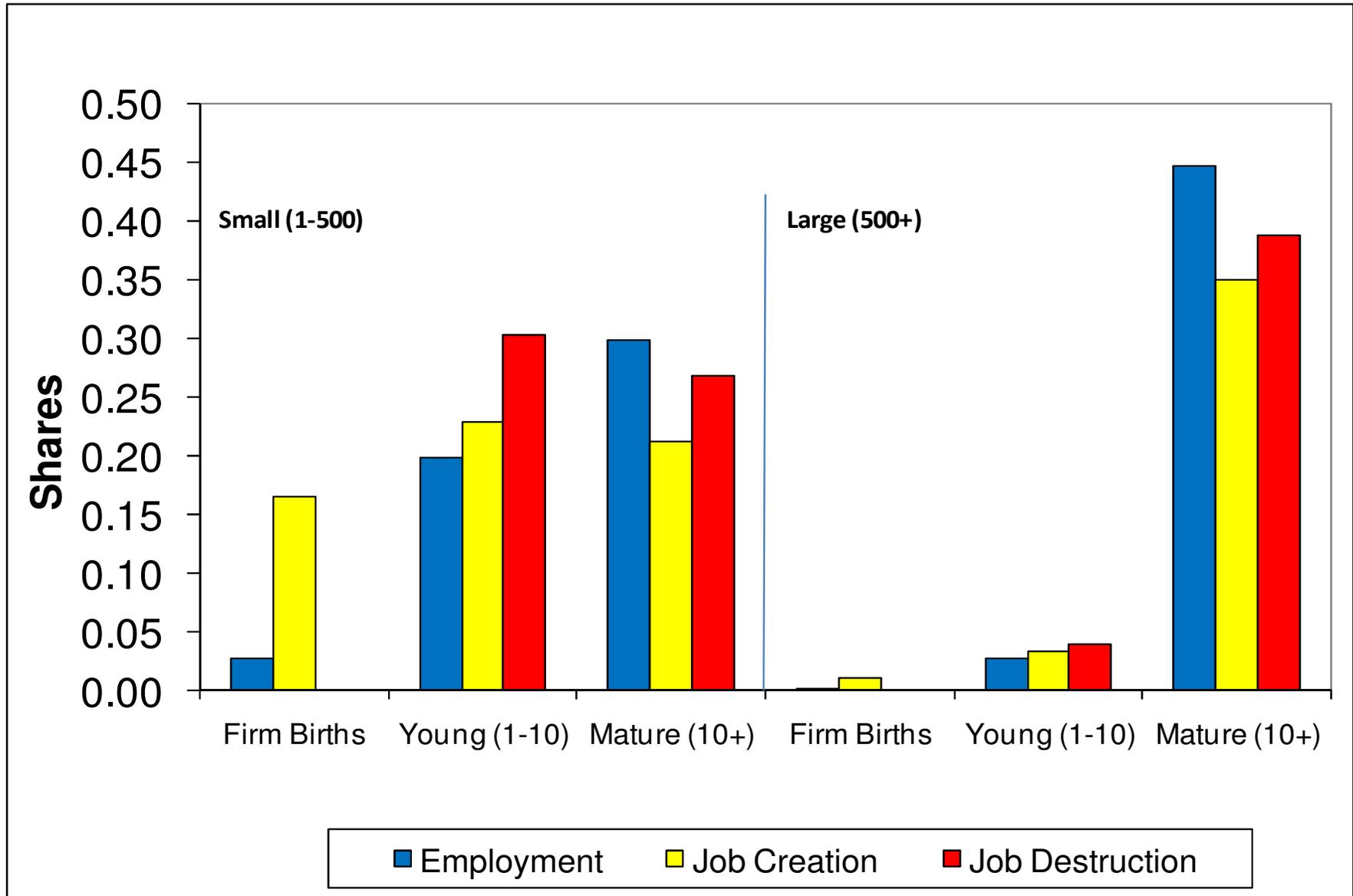
Firm Size: Sensitivity to controlling for age and size methodology



Up or Out Dynamics of Young U.S. Firms



The Size/Age Distributions



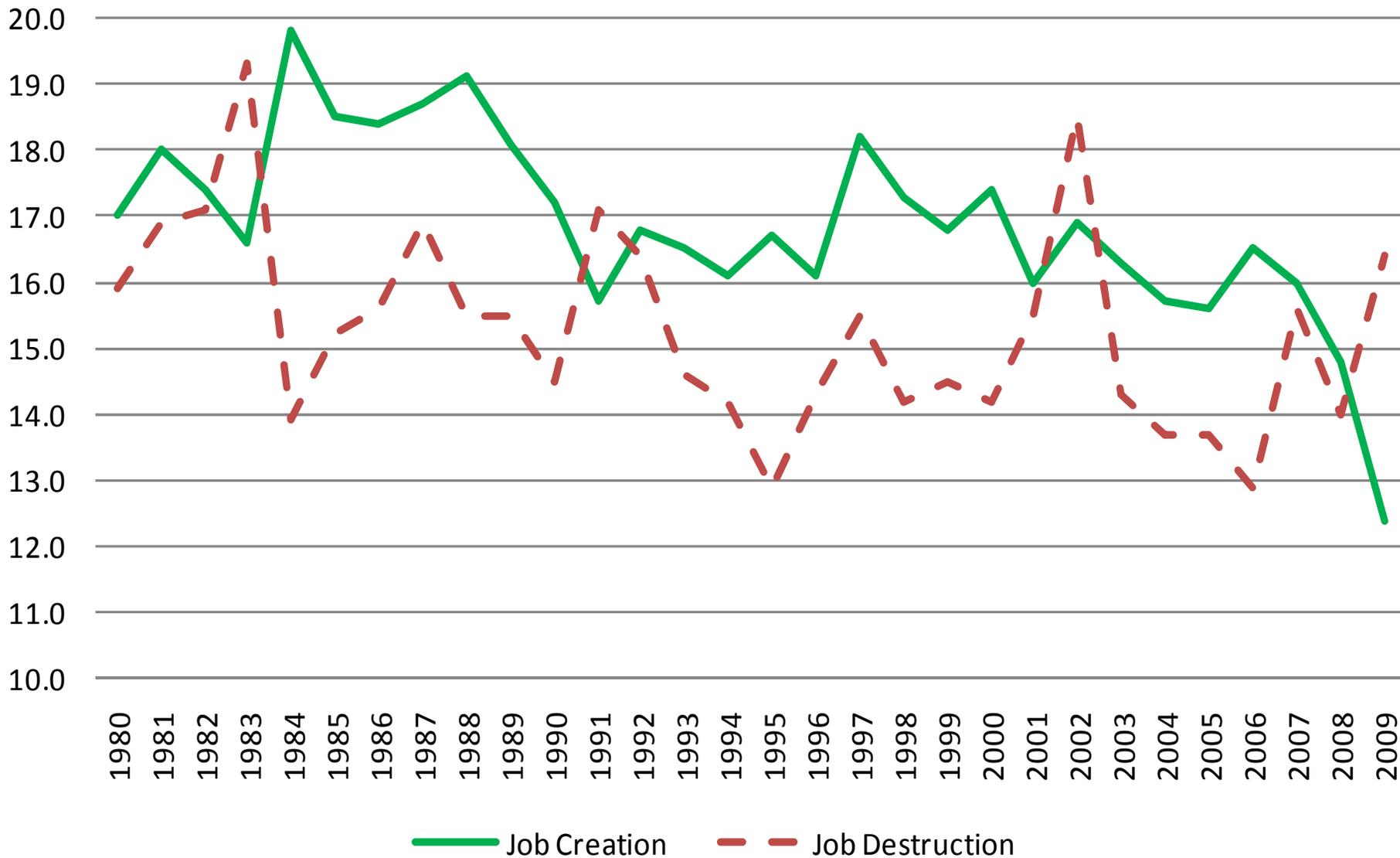
Interpretation

- 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

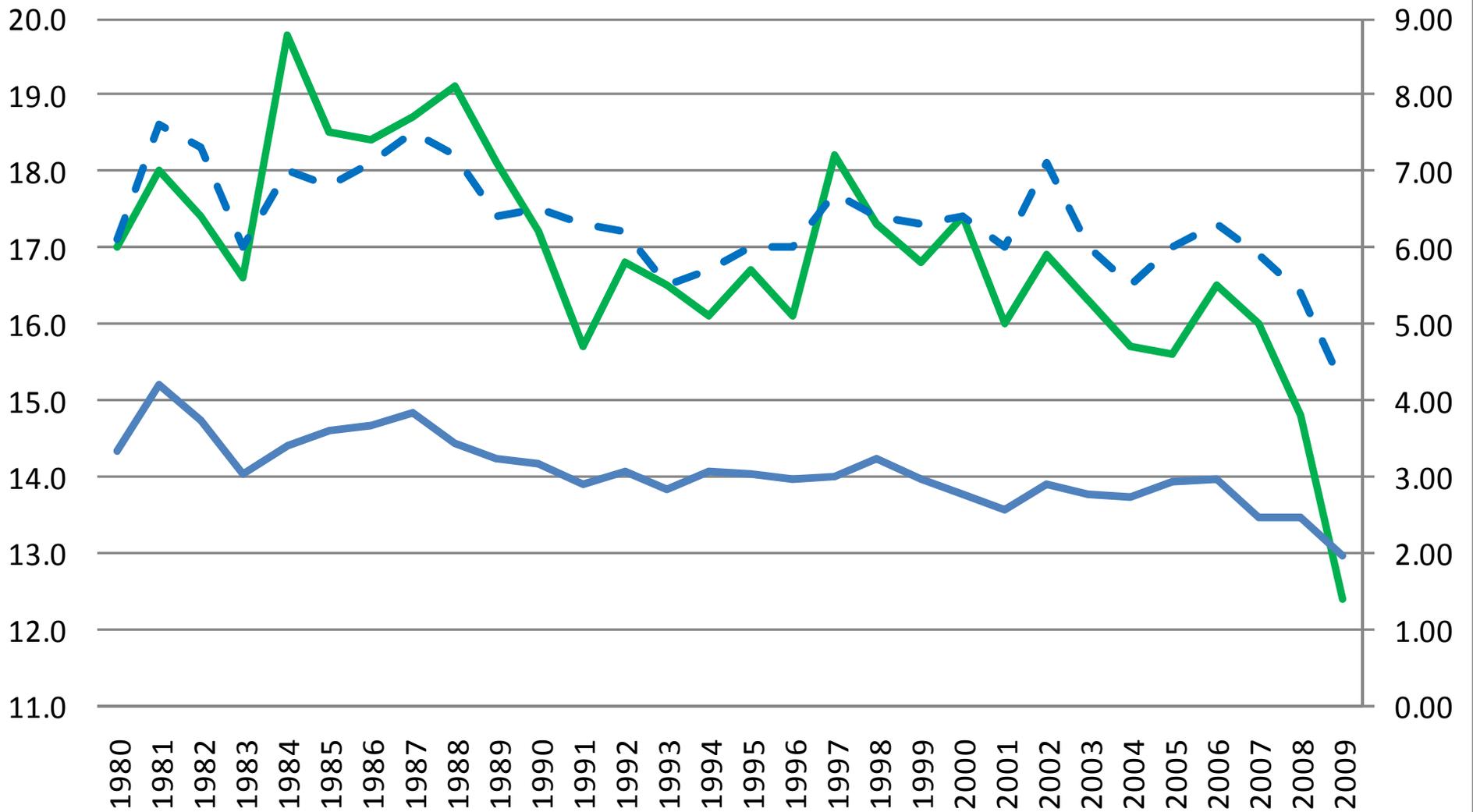


**What Do We Know About These
Dynamics Over the Time ?
(and in particular in the Great
Recession?)**

Gross Job Creation and Destruction Rates, U.S. Private Sector



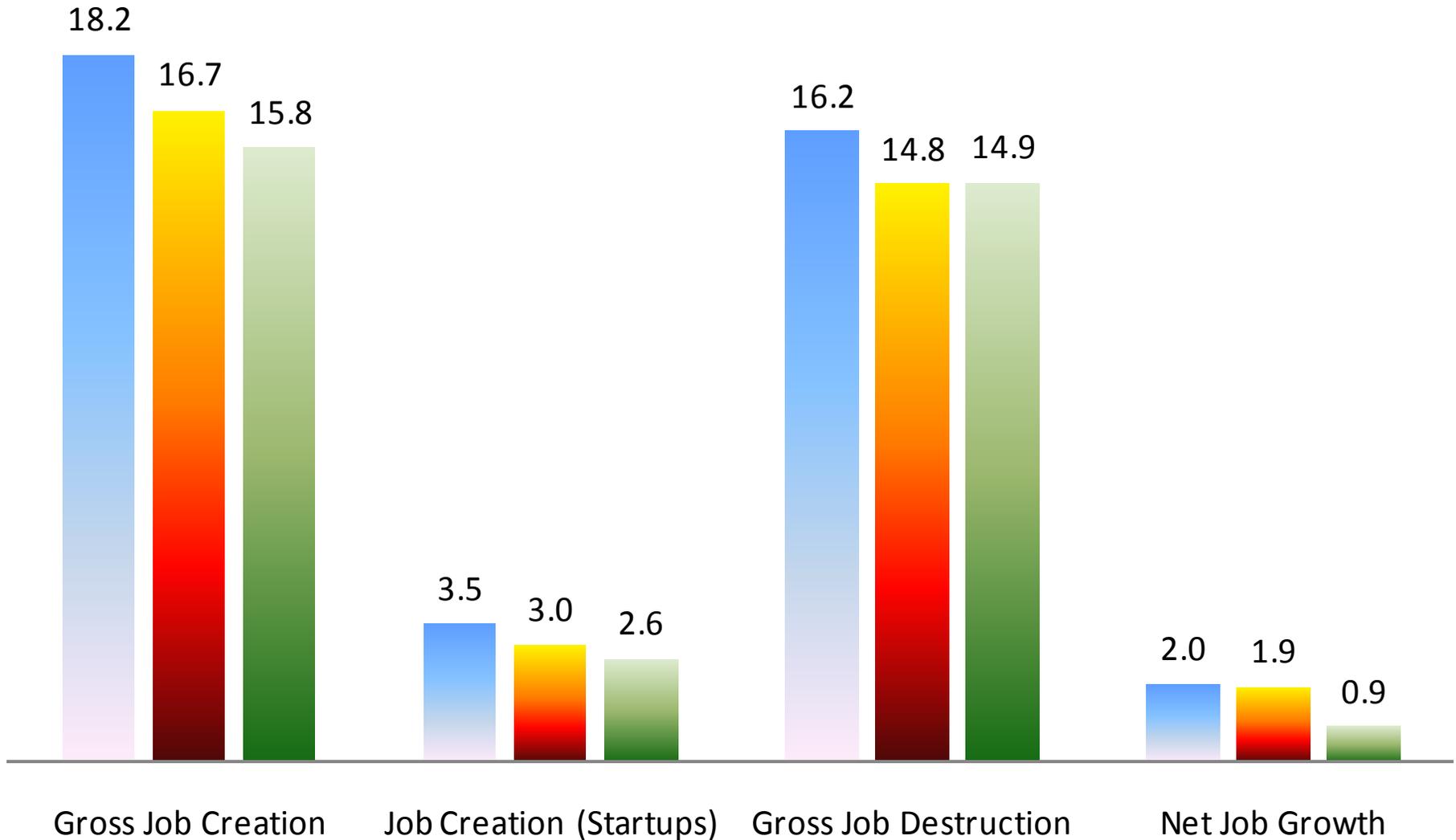
Job Creation and Business Startup Rates, U.S. Private Sector



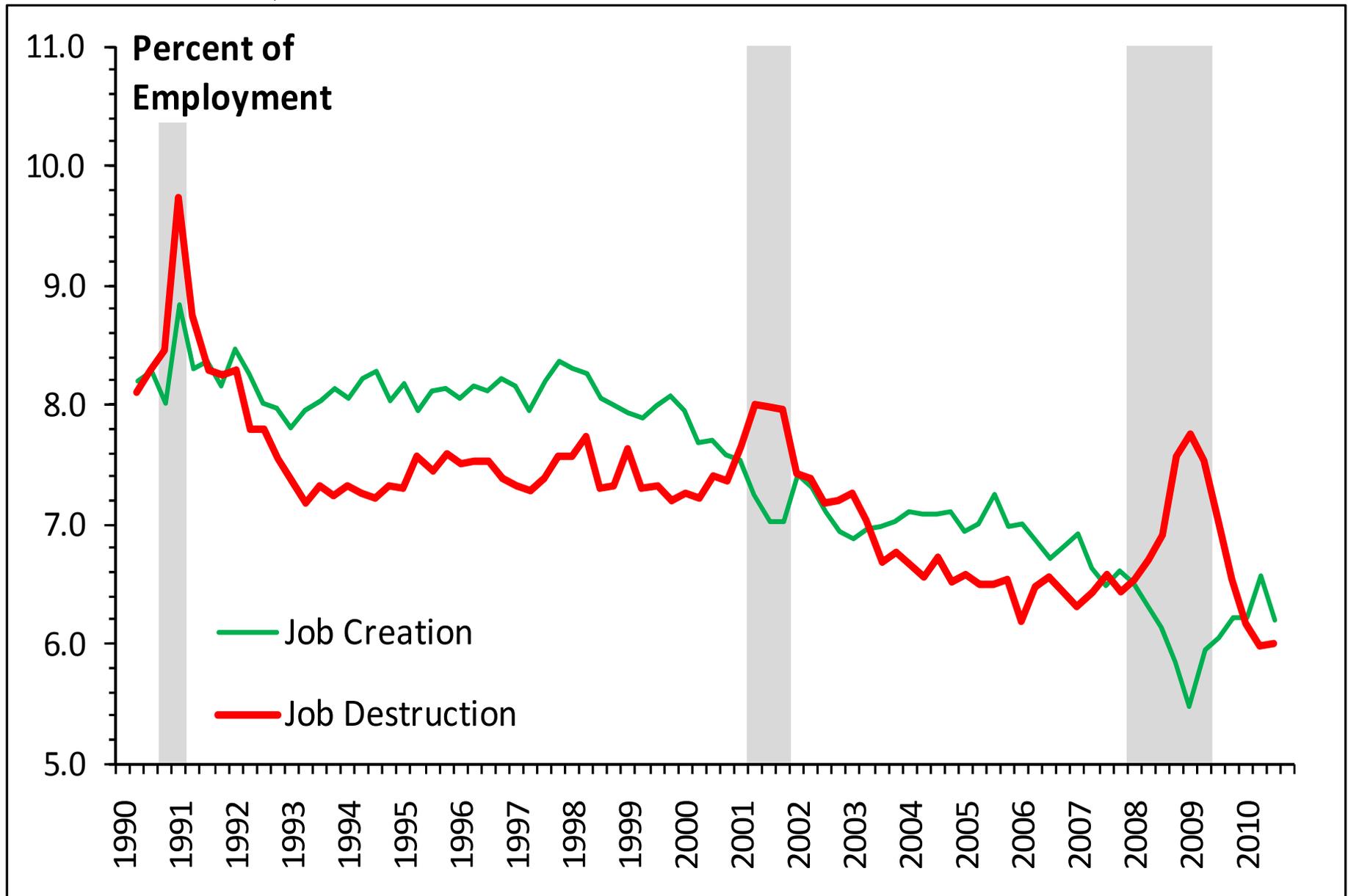
- Gross Job Creation
- Job Creation (Startups) -- Right Axis
- - - Job Creation (New Establishments)-- Right Axis

Trends in Gross Flows and Net Job Creation

Avg 1980-1989 Avg 1990-1999 Avg 2000-2009



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

