

# Remarks on “**The Role of Small Business and Entrepreneurship in Job Creation**”\*

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Without implication these remarks draw heavily on joint research with Steven Davis, Jason Faberman, Ron Jarmin and Javier Miranda.

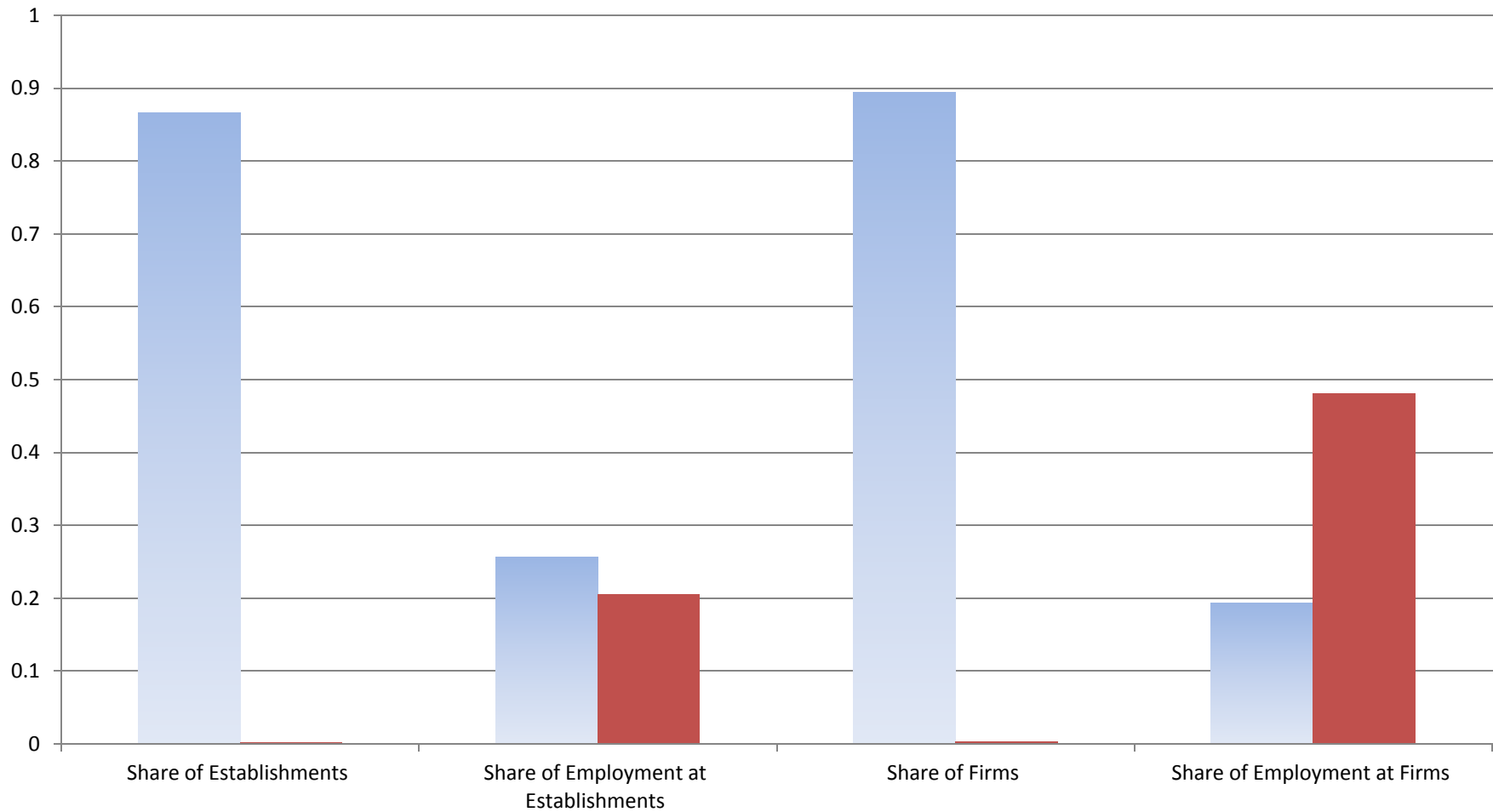
# Overview

- Two excellent papers:
  - First focuses on changes in average size of establishments and in turn establishment startups. Two key highlights:
    - Declining average size of establishments
    - New establishments starting smaller and growing more slowly
  - Second paper focuses on recession and anemic recovery
    - Small Businesses Hit Especially Hard
    - Problem is “mostly cyclical”
    - Small businesses are more pessimistic about sales and growth than any time since 1980
    - Financial constraints not the most critical factor
- Broad comment:
  - Both papers would benefit from taking into account skewness of size distribution of levels of businesses AND growth of activity.

# Why is Skewness Important?

- Partly a matter of perspective
- But skewness and related findings raises questions about key conclusions
  - First paper:
    - Are Facts Robust?
    - How should we interpret?
  - Second paper:
    - Considering expectations of AVERAGE small business interesting but incomplete
      - Especially on an unweighted basis (that is, not weighting by some measure of economic activity).

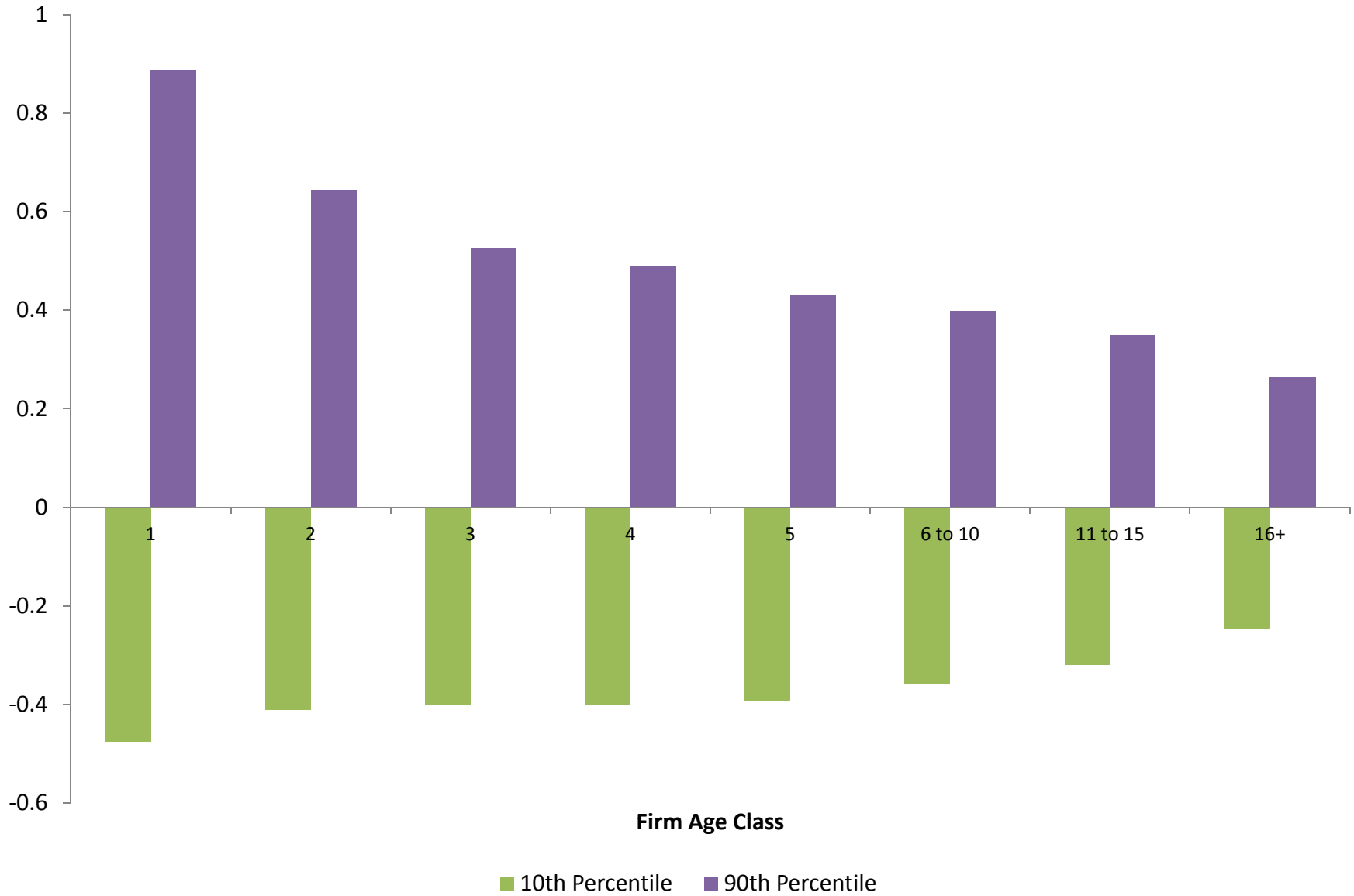
## Skewness in Size Distribution of Firms and Establishments, U.S. Private Sector, 1980-2009



Source: Census BDS

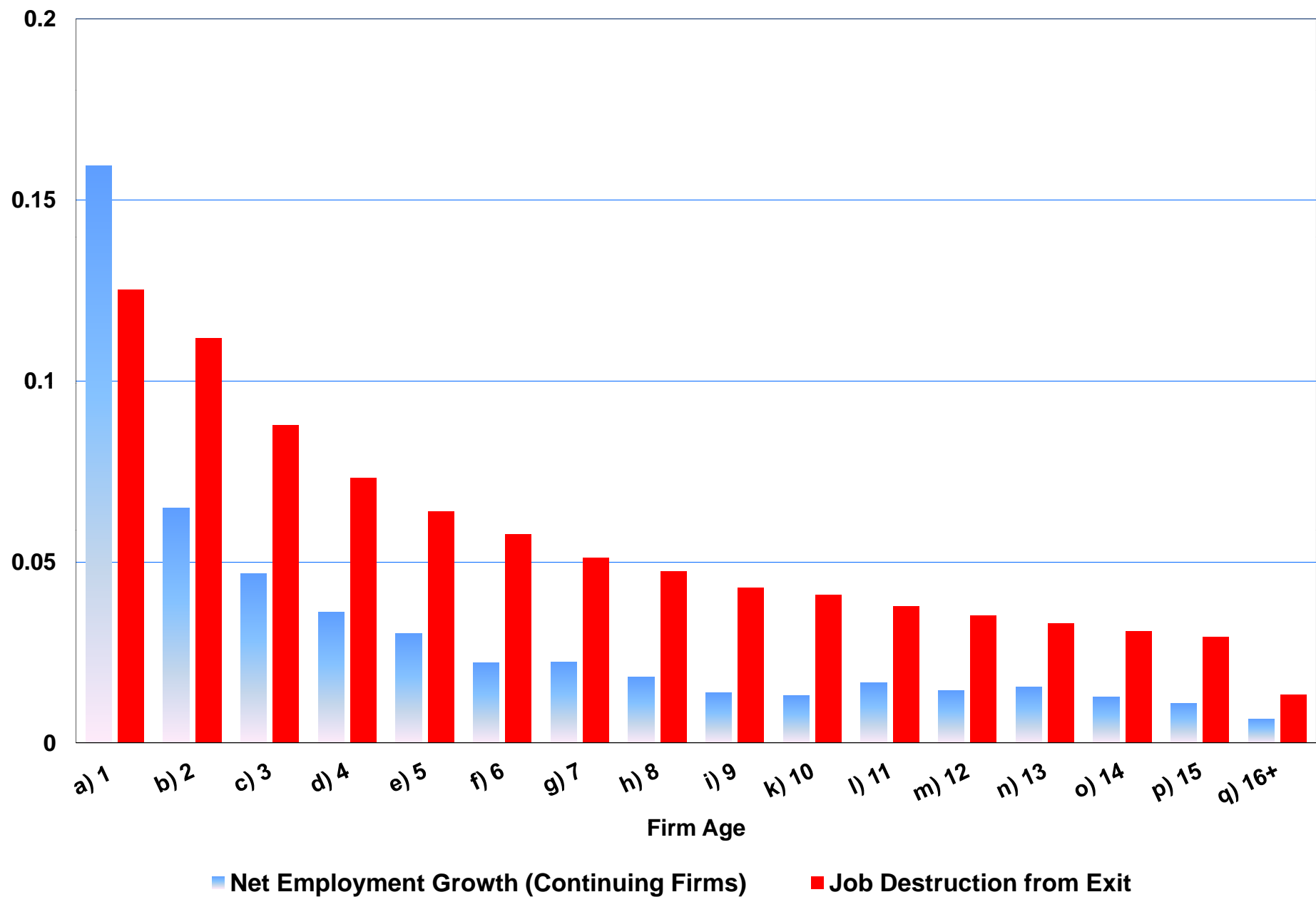
1 to 19 employees 500+ employees

### 90th and 10th Percentiles of Net Employment Growth Rates for Surviving U.S. Private Sector Firms by Firm Age



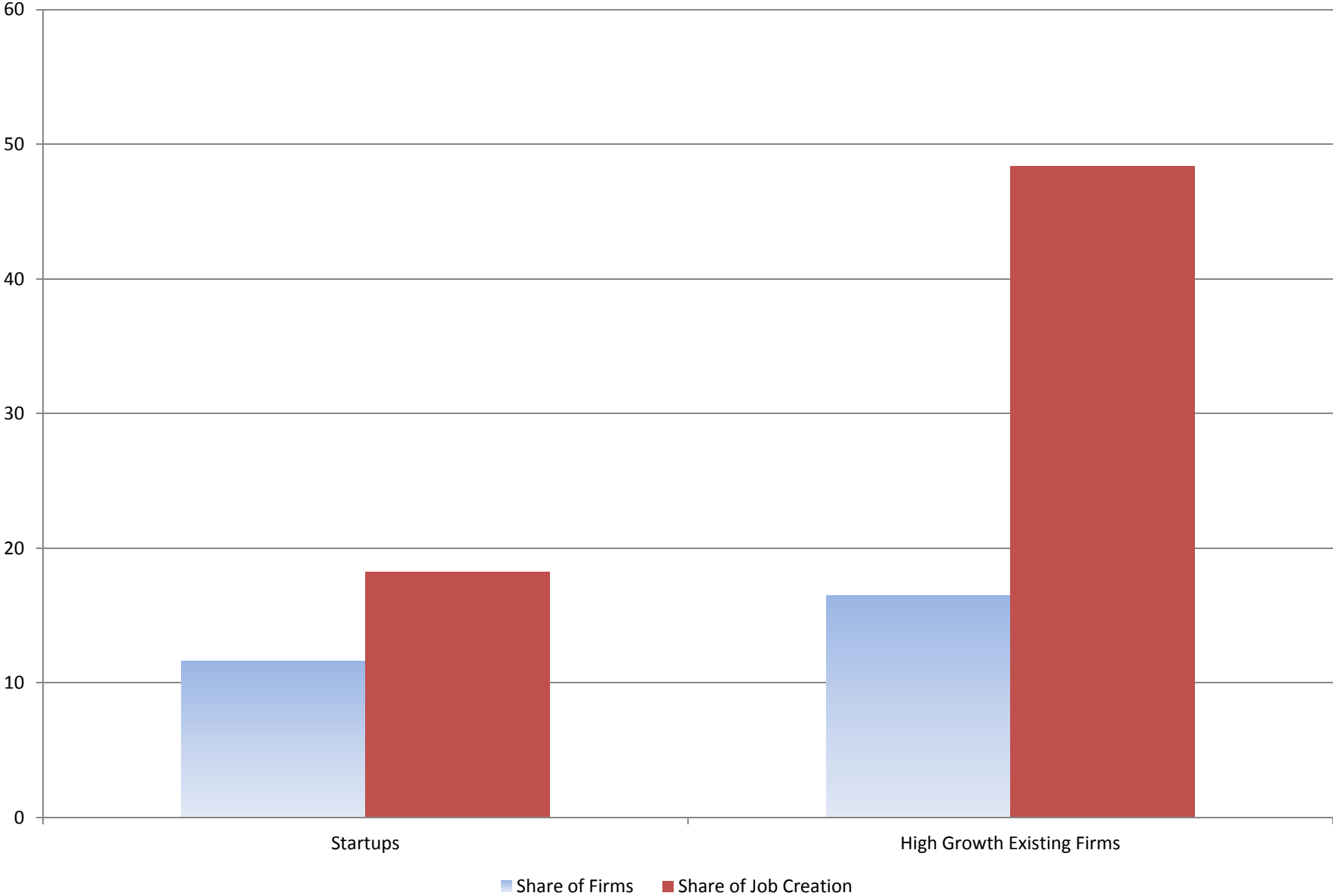
Source: Firm-level data used by Haltiwanger, Jarmin and Miranda (2011)

### Up or Out Dynamics of Young U.S. Private Sector Firms (1992-2005)



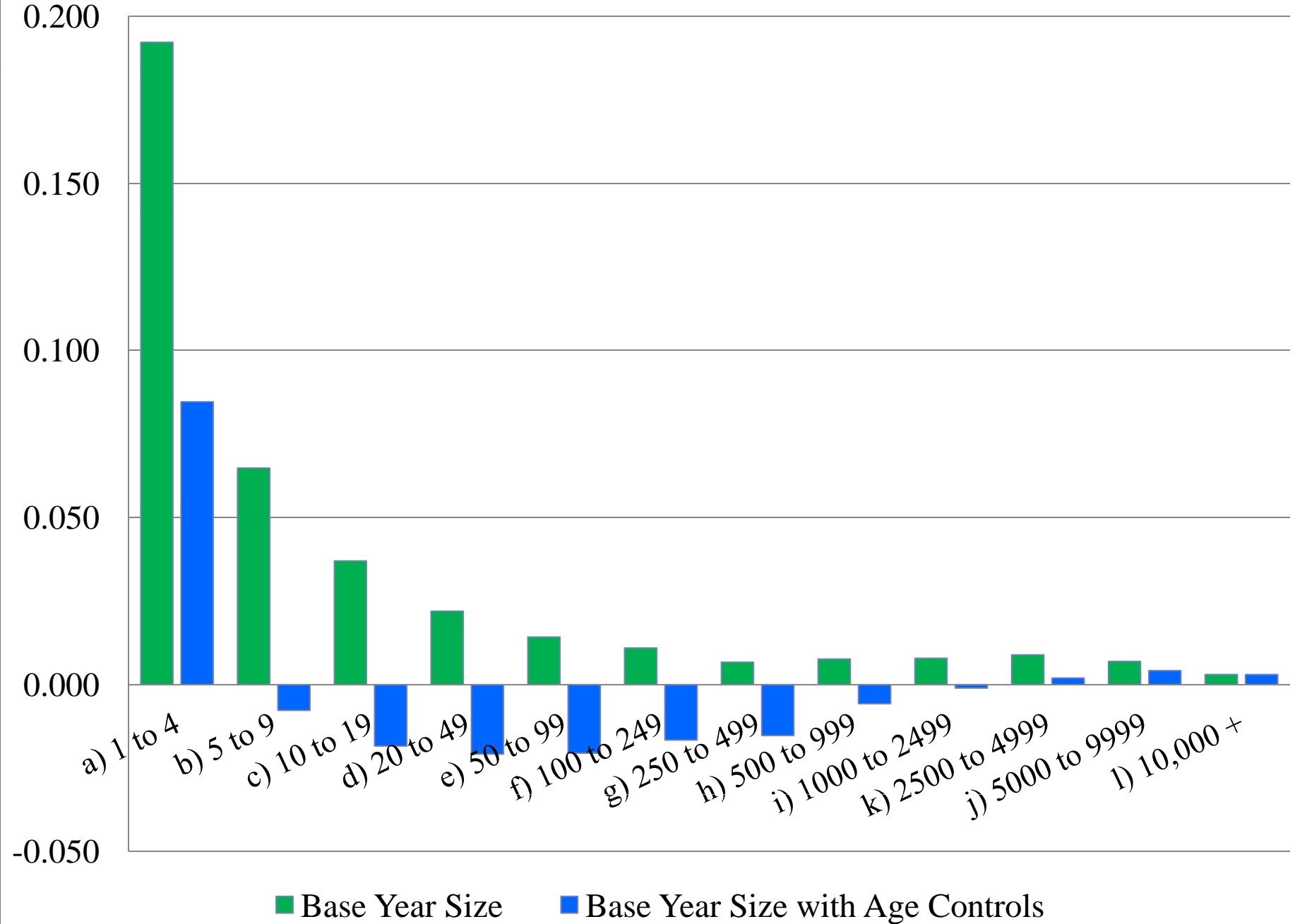
Source: Haltiwanger, Jarmin and Miranda (2011)

**Startups and High Growth (Annual Growth>25 percent) Existing Firms  
Disproportionately Create Jobs, U.S. Private Sector**



Source: Tabulations from Firm-Level Data Used in Haltiwanger, Jarmin and Miranda (2011)

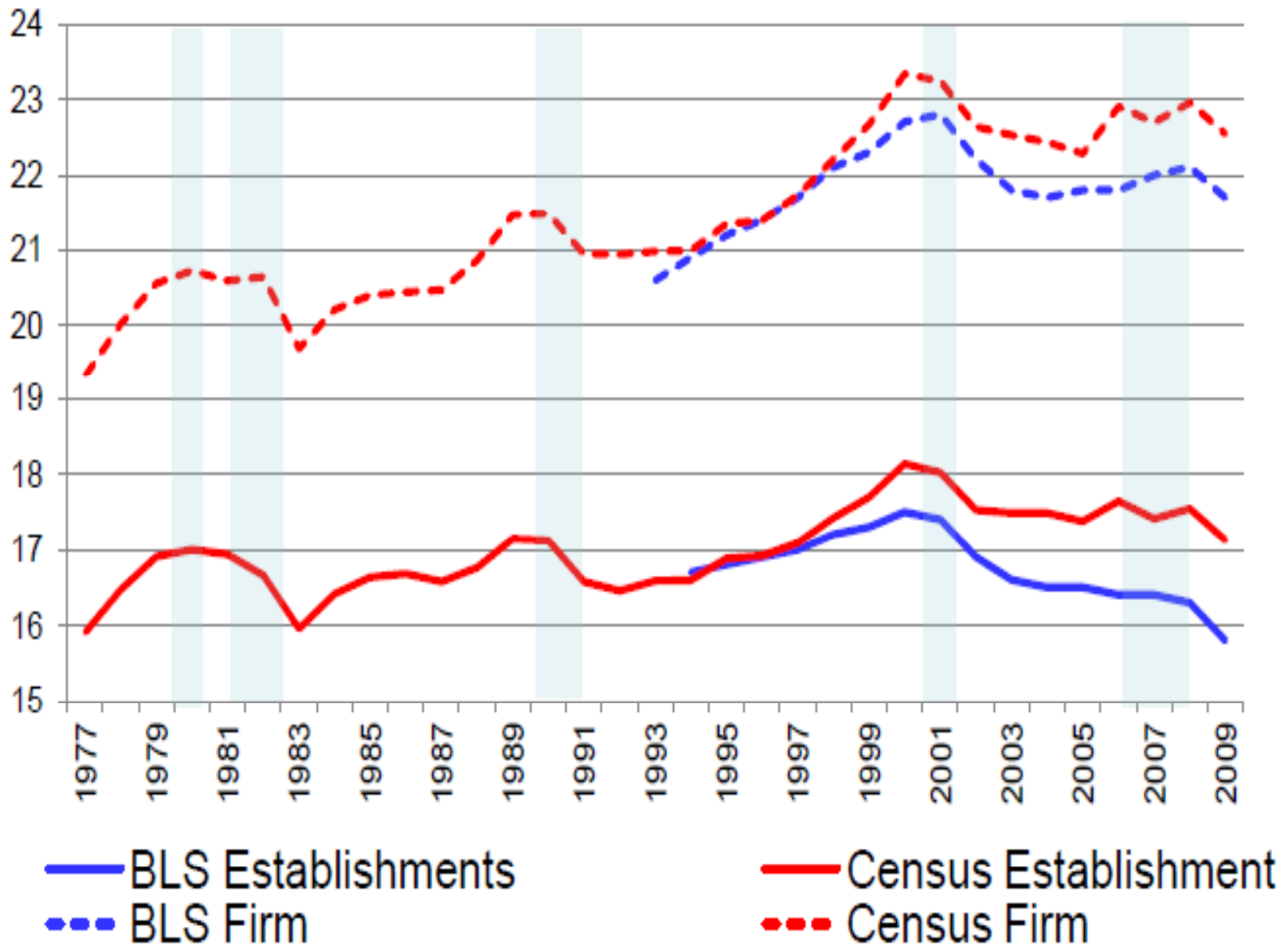
# Net Employment Growth by Base Year Firm Size





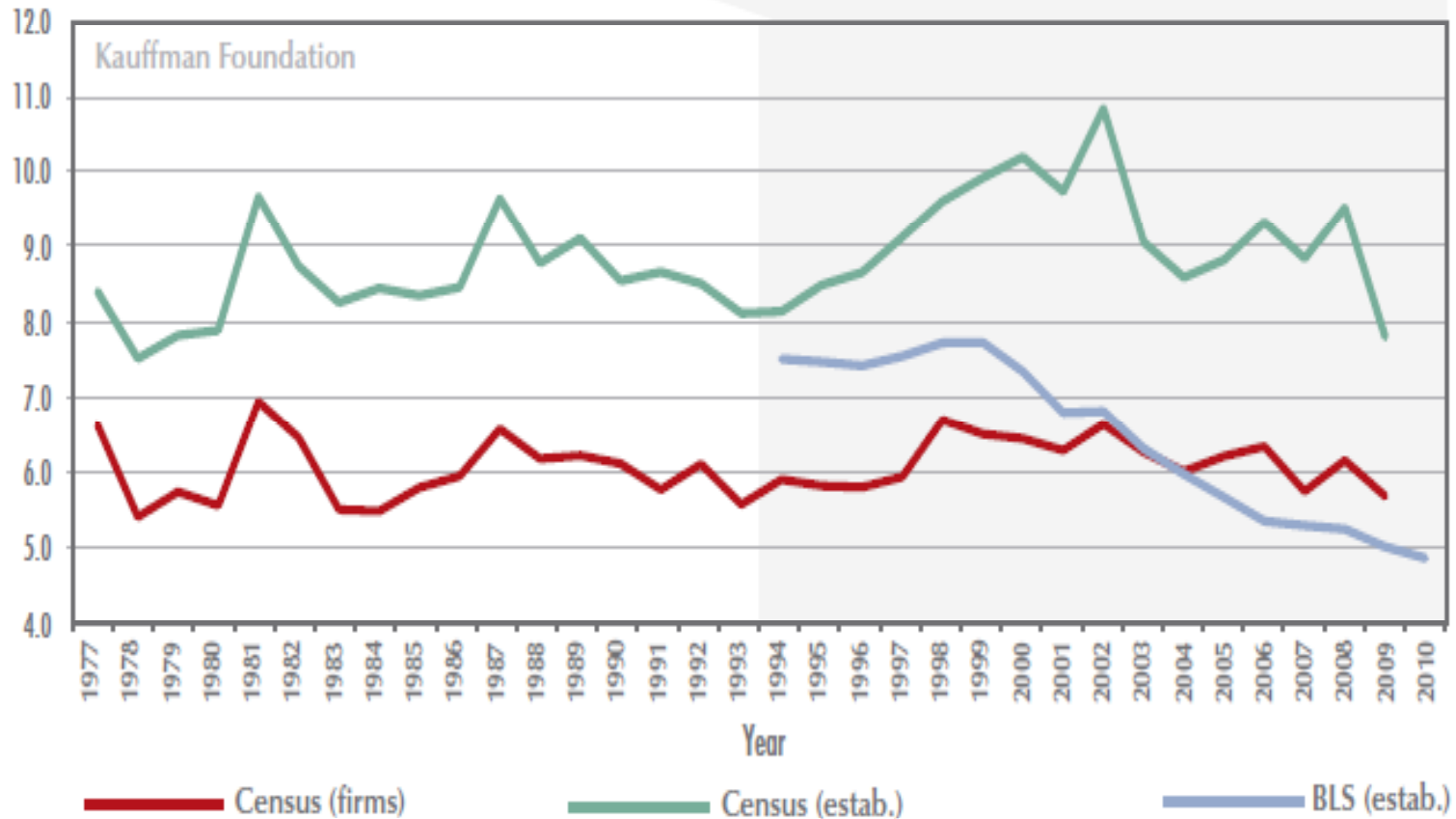
# Robustness of Facts about Average Establishment Size and How to Interpret?

# Average Size of Businesses, Private Sector



Source: Bottom panel of Figure 3 of Choi and Spletzer (2011)

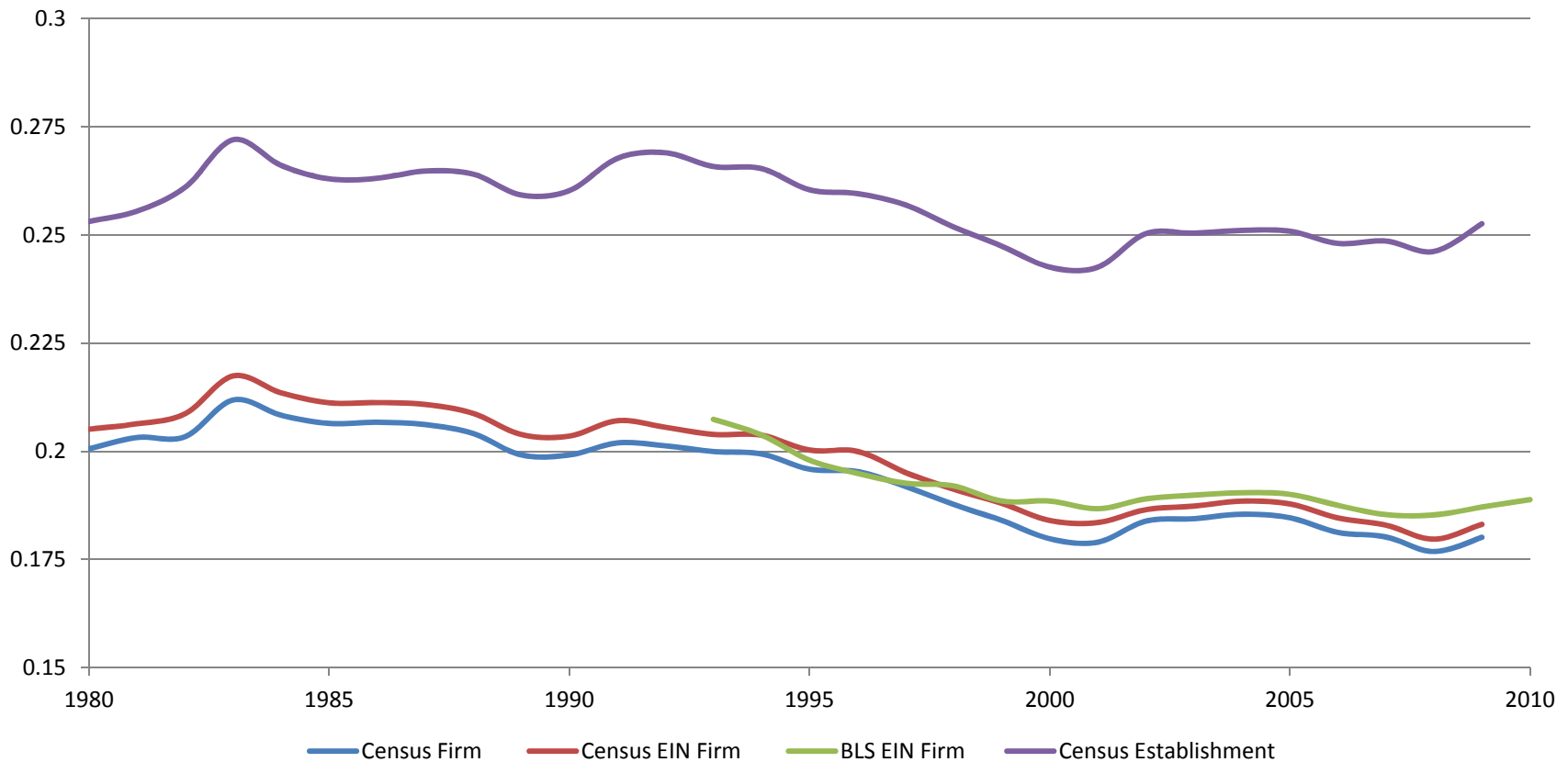
# Average Size of New Firms and Establishments



Source: Figure 7, Litan and Reedy (2011), Kauffman Foundation

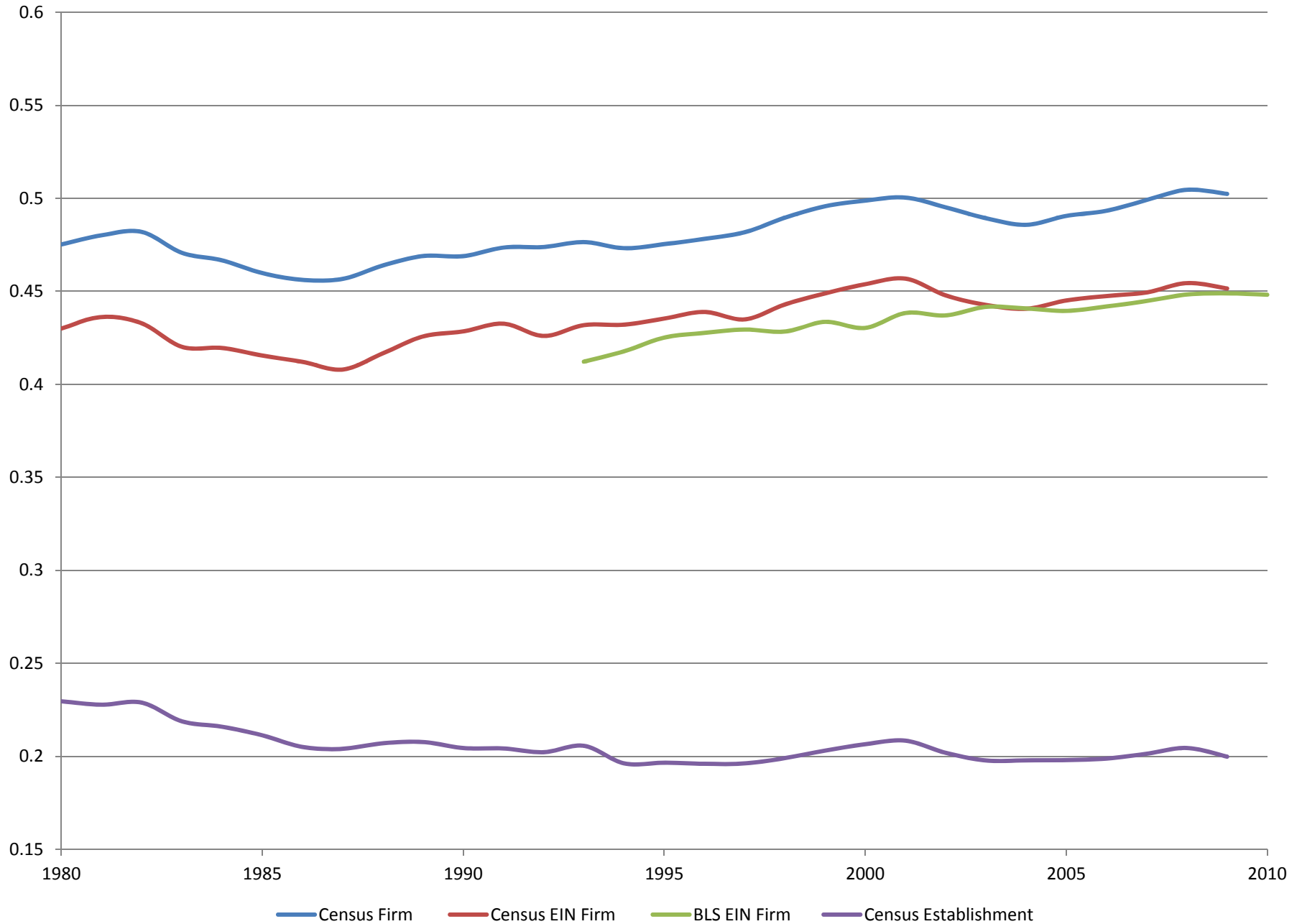
# More Robust to Examine Employment Shares...

## Employment Share for Businesses with 1-19 employees

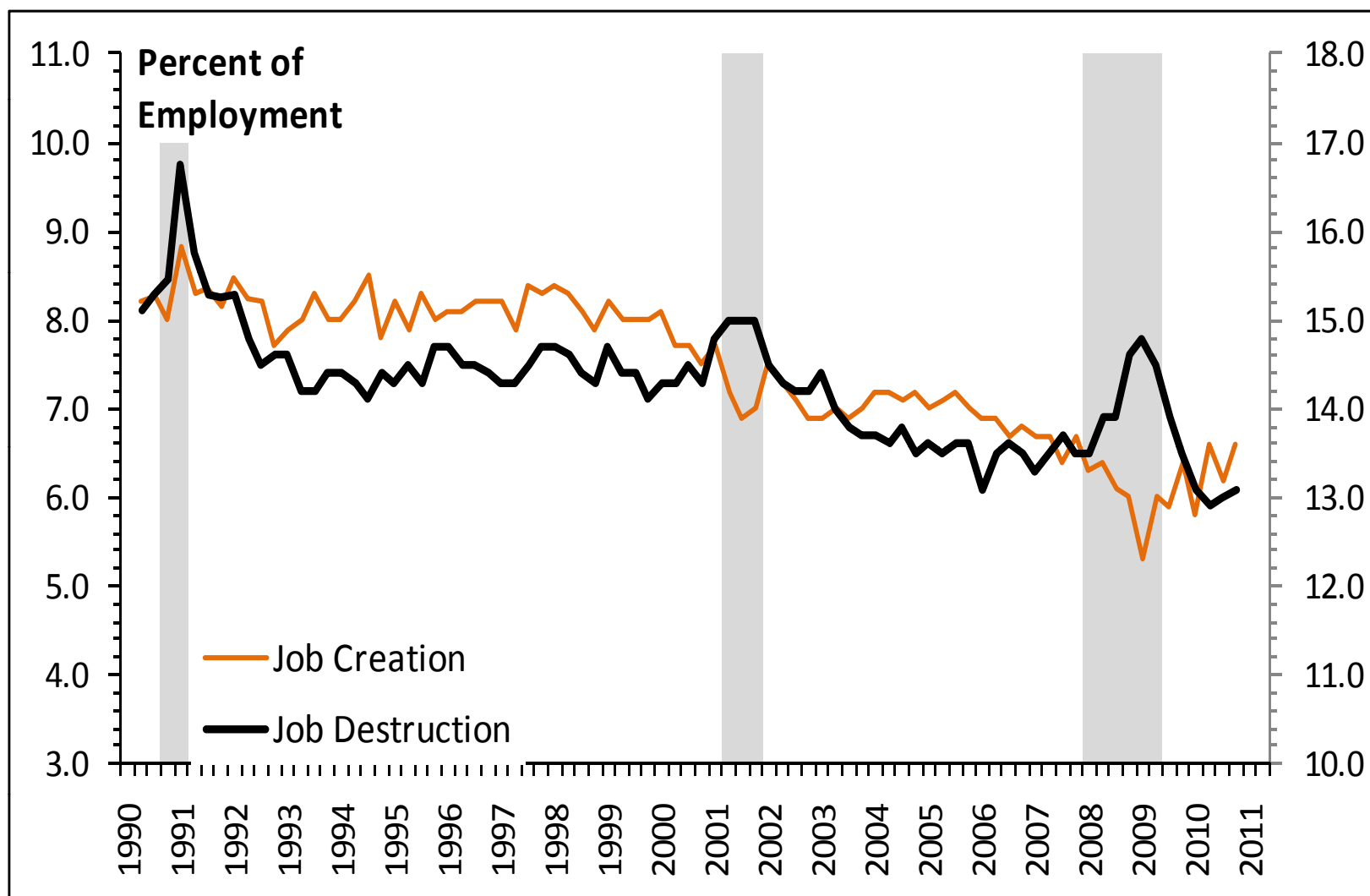


Source: Census BDS and BLS BED (estimated latter from public sources)

## Employment Share for Businesses with 500+ employees



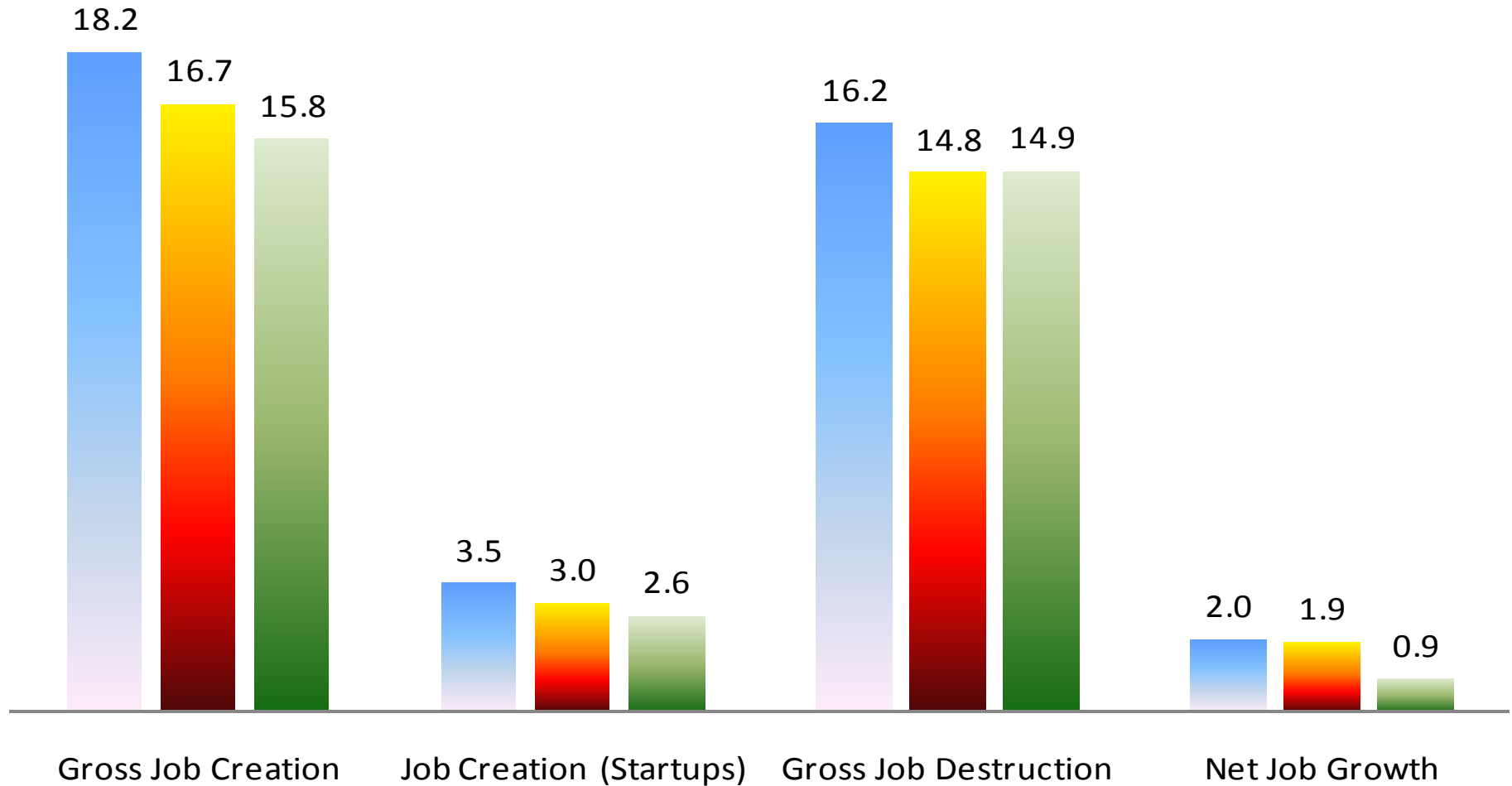
## BLS and Census Business Level Data Show Robust Patterns Highly Relevant for Second paper...



Source: BLS BED DATA, Davis, Faberman and Haltiwanger (2011)

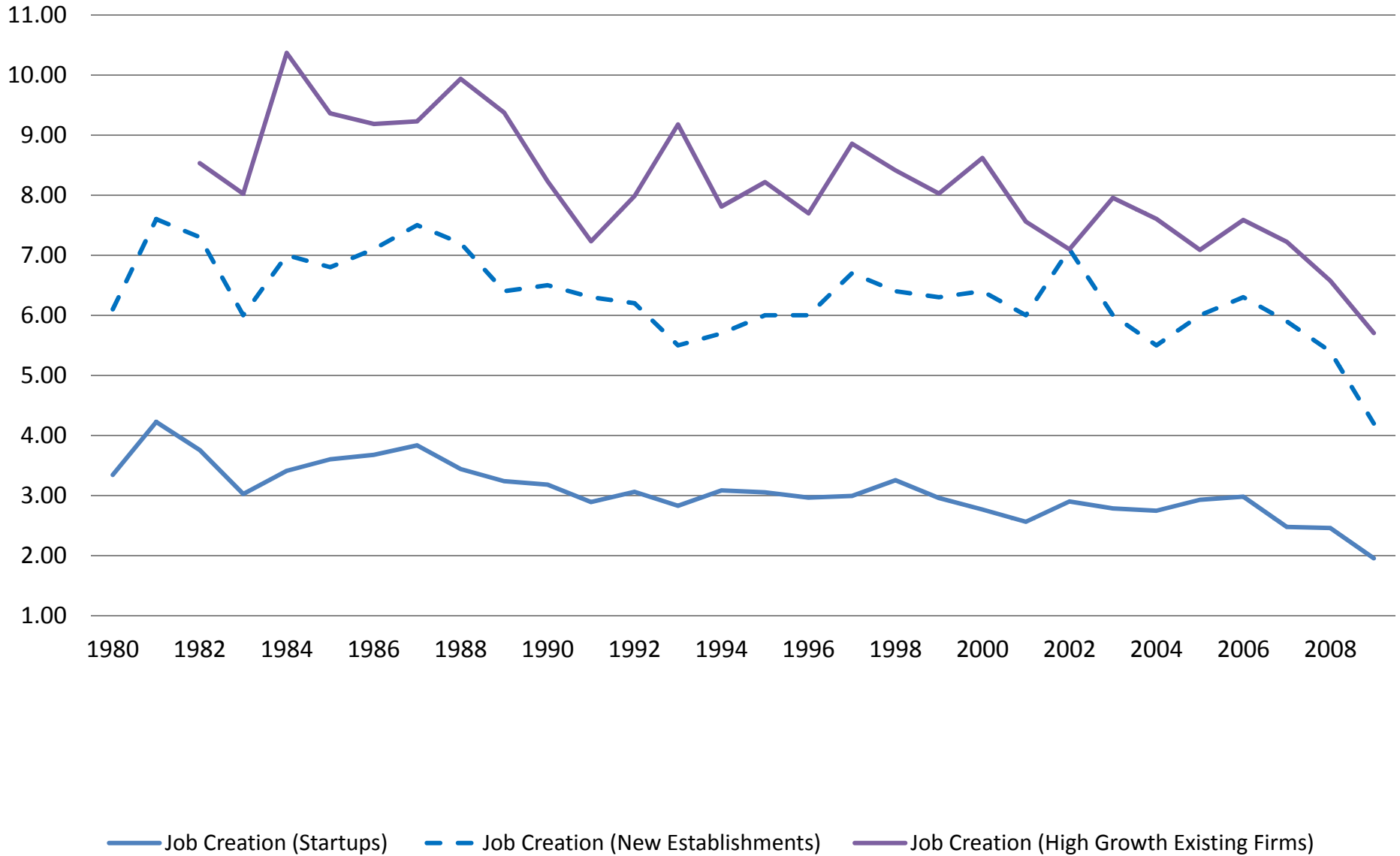
# Trends in Gross Flows and Net Job Creation

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



Source: Haltiwanger, Jarmin and Miranda (2011) Using Census BDS data.

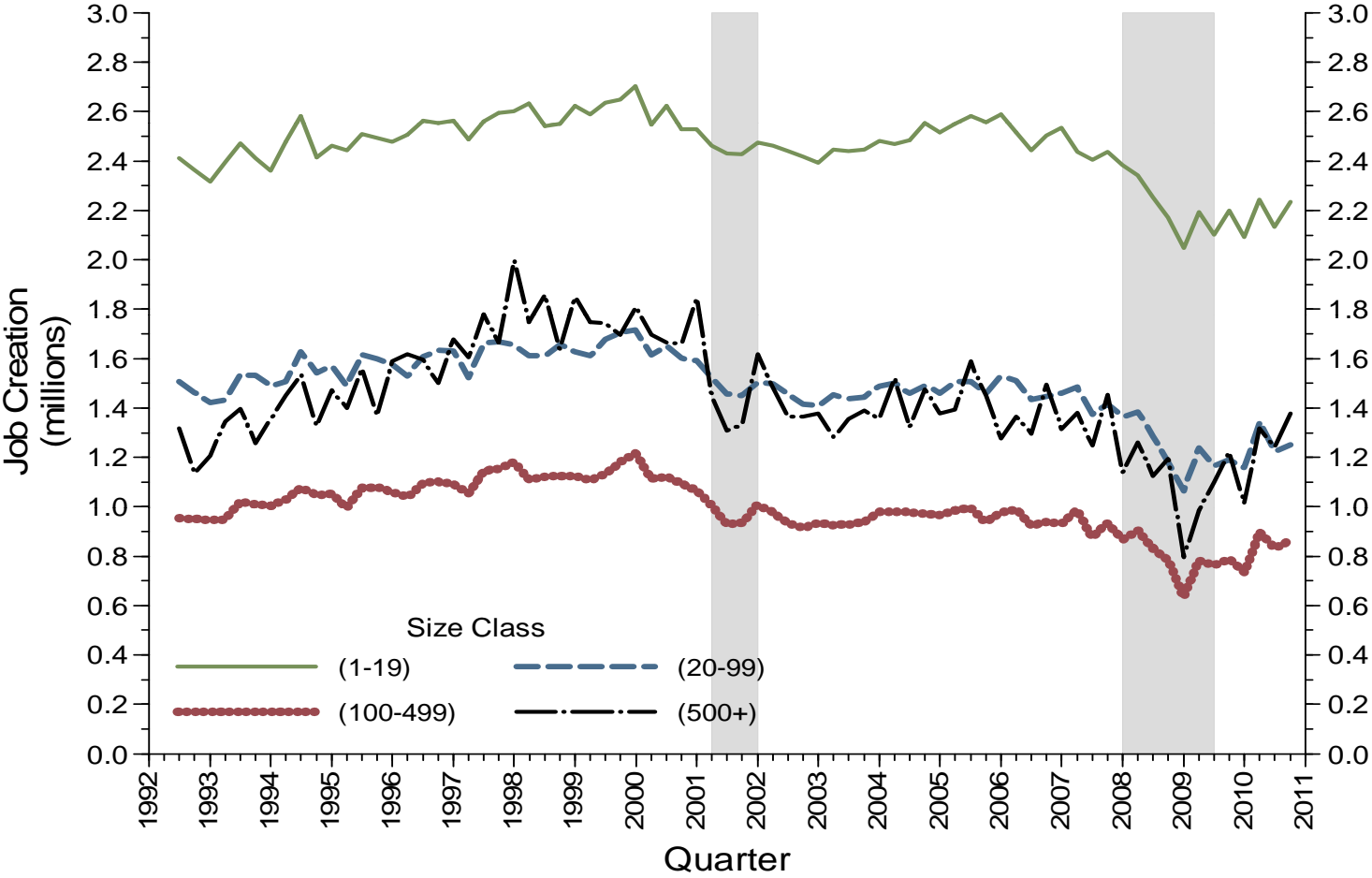
# Job Creation from New Establishments, New Firms and High Growth Existing Firms, U.S. Private Sector



Source: Census BDS Data

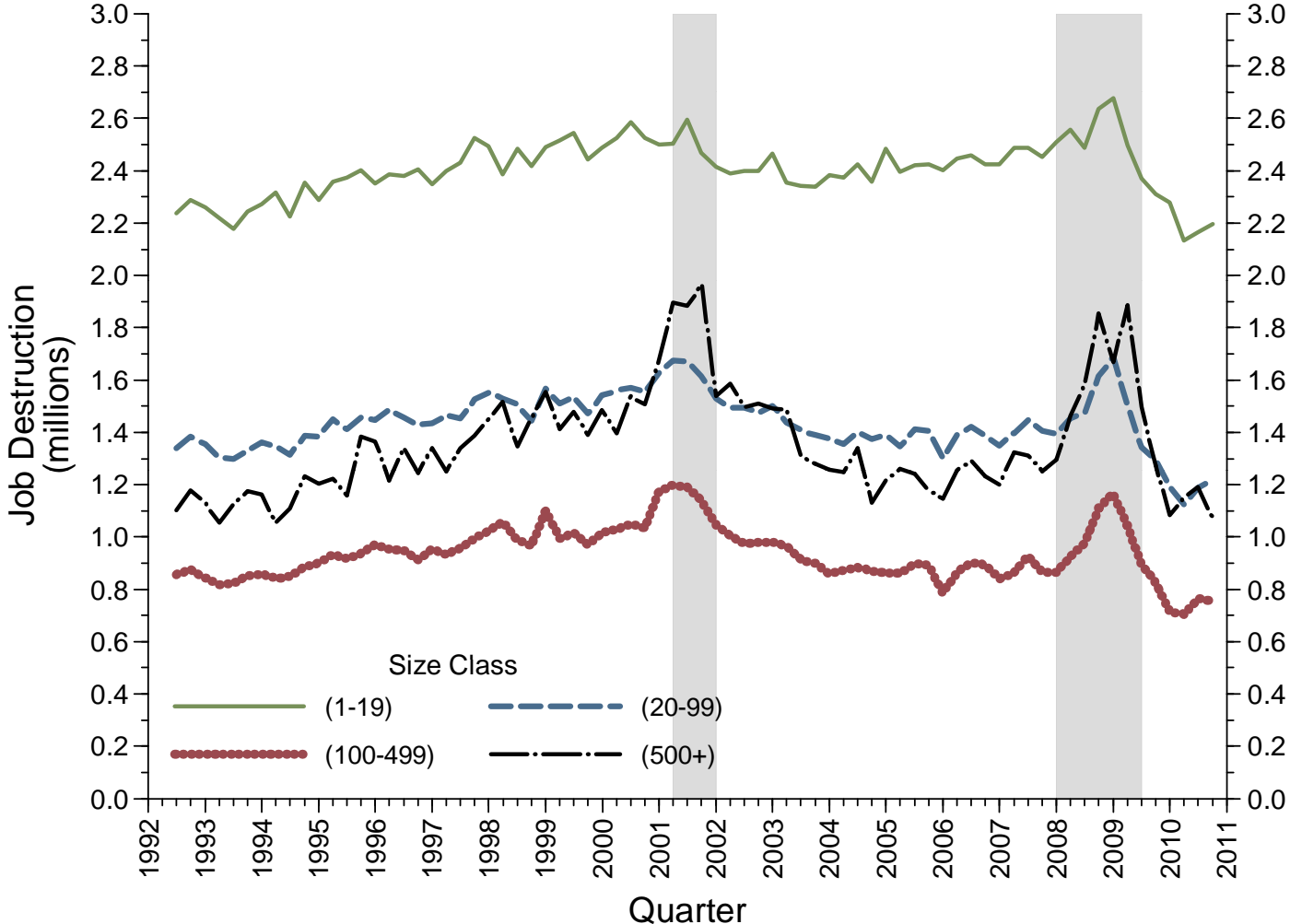


# Gross Job Creation Levels by Employer Size



Source: BLS BED

# Job Destruction Levels by Employer Size



Source: BLS BED

# Key Points About Cycle (and relevant for second paper)

- Startups (and young and small businesses) did take an especially hard hit in recession.
- But declining trends in startups and high growth firms PRIOR to financial crisis
  - Part of declining dynamism of U.S. Businesses
  - So problem is not only cyclical
- Importance of high growth firms implies that (unweighted) average expectations of small businesses from NFIB surveys may not be the most relevant
  - Need to know business conditions and expectations for the (relatively small number of) high growth firms.



## Small Business and Entrepreneurship during an Economic Recovery

# The Role of Small Business and Entrepreneurship in Job Creation

**Moderator: Robin Prager**, Board of Governors of the Federal Reserve System

**The Small Business Sector in Recent Recoveries**

William Dunkelberg, Temple University

**The Declining Average Size of Establishments: Evidence and Explanations**

Eleanor J. Choi, U.S. Bureau of Labor Statistics

**Discussant: John Haltiwanger**, University of Maryland–College Park