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# Small Business Share of Economic Growth

by Joel Popkin and Company. 2001. [50 pages.]
Washington, D.C.
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## Purpose

Knowing small businesses' share of economic output helps to understand their role in the economy, but no data are available from government sources. To find out this statistic, Joel Popkin and Company used various data sources to create estimates by industry.

This extends work previously done by Joel Popkin and Company for the SBA that calculated the small and large business shares of private nonfarm output for the period 1958-1992 (most recently under contract SBAHQ-95-C-0021).

## Overall Findings

A more appropriate title for this report might be "Small Business Share of the Economy," as following firms through time and determining which size class causes economic growth is difficult, if not impossible, with current data.

The study did find that the importance of small business in the economy overall is closely tied to the continued robust growth in the small-business-dominated sectors of the economy, particularly services. This may be obvious, because in a growing economy some small businesses will grow out of their "smallness" and become big businesses as they expand their employment. That is part of an ongoing process in the life cycle of many businesses and reflects a myriad of factors. Some of those factors will be positive for businesses in general and for the small businesses that are growing rapidly.  And that can be true even though the net effect may be a downward trend in small business share. Growth in industry sectors most conducive to small business startup and expansion helps promote an ongoing stream of new small businesses and the continued health of many others.

Overall, the small business share of private sector gross domestic product (GDP) has remained around 50 percent. This is a result of services becoming both a larger part of the economy and less small-firm-oriented, while manufacturing has become dominated by small firms.

**Small Firm Share of Private Nonfarm GDP Estimates (Percentages)**

| | 1980 | 1990 | 1999 |
|---|---|---|---|
| Total | .51 | .51 | .52 |
| Services | .77 | .71 | .68 |
| Mining and Manufacturing | .24 | .25 | .27 |
| Wholesale and Retail Trade | .72 | .64 | .65 |

Note: Includes figures from previous report.

## Highlights

• The share of private, nonfarm GDP produced by small businesses fell slightly between 1992 and 1997, from 51 percent of the total to 50 percent. This share has been relatively stable for the past two decades, varying between 52 percent in the late 1970s and 49 percent in 1982.

• Very preliminary estimates for 1998 and 1999 indicate a possible increase in the small business share to 52 percent.

• Small businesses' increasing share is influenced by a unique factor: a shift in the economy towards

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growth in sectors heavily populated by small businesses. Consider, for example, the services and manufacturing sectors. From the mid-1980s to today, services had a 5-percent higher share of private sector output, while manufacturing had a 5-percent lower share.

• Considering that government represented 11 percent of the GDP in 1997, small firms represent about 45 percent of total GDP.

## Scope and Methodology

U.S. GDP is the market value of the goods and services produced by labor and property located in the United States. When GDP is allocated according to the contribution each private industry sector and the government makes to its production, it is called gross product originating or GPO. This research takes each component of private nonfarm GPO and estimates the proportions produced by small and large businesses.

The Bureau of Economic Analysis (BEA) publishes information on GDP by major industry and value-added component. Researchers have calculated small-firm (fewer than 500 employees) and large-firm shares for each value-added component in each industry for the years 1992-1999 (1998 and 1999 are preliminary estimates). Those shares are then applied to the BEA data to separate each component into a large- and small-business share. Once all the components are divided, they can be added up to determine how much of gross product originated in small business in each industry. All the small business components can then be added to determine how much of private nonfarm GDP was produced by small businesses and how much by large businesses.

Producing business-size shares for each value-added component in each industry, however, requires additional data sources. The data with which to produce the firm-size shares comes primarily from the quinquennial economic censuses, most recently collected by the Census Bureau in 1997, and annual data from the Statistics of Income (SOI) program of the Internal Revenue Service.

## Comments from Advocacy

"It is interesting to note that as firms start, grow, merge, split, contract, and exit over time, the share of output in the economy produced by small firms remains stable. So while individual firms change size classes over time, in the aggregate, the role of small businesses in the economy remains steady and important," said Susan Walthall, chief counsel for Advocacy.

## Ordering Information

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