

SMALL BUSINESS RESEARCH SUMMARY

Does a Rising Tide of Small Business Jobs Lift All Boats?

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Purpose

Employment growth was strong during the 1990s; the U.S. economy added 9.4 million jobs between 1992 and 1996 alone. But questions persist about how different skill-level segments of the work force benefit from a buoyant economy. This study uses household and business data series to assess how changes in the size-distribution of establishment and job flows affected the employment opportunities and earnings level of workers in different age, education, and gender strata.

Overall Findings

Matching population information to a microdatabase of firms confirmed some previous findings on job turnover. Small firm employment is more susceptible to business cycles fluctuations than large firm employment is, and small firms have a higher rate of business turnover. Also as expected, business births and employment expansion had positive employment effects for sectors of the work force that often struggle economically.

Overall, the study illustrated the difficulties in obtaining significant results from matching fairly unrelated data sources. The researchers also conducted evaluations at the business location level, but the results cannot be generalized for small businesses, since individual business locations categorized as “small” are often auxiliary locations of large firms.

Highlights

The empirical results that the researchers obtained in this study largely corroborate those presented in the vast literature on employer-size earnings differentials and job flows.

- The researchers found that the recession at the beginning of the decade had more pronounced, negative effects on the employment change of small businesses, but their employment increases during the recovery were generally higher than larger businesses'. And job reallocation rates—employment changes associated with establishment openings and closures—were found to decline with firm employment size. Net employment flows in manufacturing were negative between 1990 to 1992 and modestly positive in most subsequent years. By contrast, the service sector added jobs in each year within the scope of this study and the retail sector added jobs in all but one year. However, employment in these latter two sectors was more volatile over time than employment in the manufacturing sector.

- The paper presents several time (annual) plots of average real hourly and weekly earnings by firm employment size (as self-reported by individuals in the Current Population Survey data) for each of the age, education, and gender strata of worker. Not surprisingly, the plots generally reveal that, regardless of year and worker strata, workers' hourly and weekly earnings tended to rise with firm size, although the firm-size earnings differentials were less pronounced among young, less educated, “low-skill” workers.

Also, there was a tendency for weekly and hourly earnings to dip to varying degrees in the early to mid-1990s. The results are not surprising, since larger firms are thought to pay a premium to hire sought-after workers.

Another set of probit regression equations of individuals' propensity to be employed in any given year (between 1991 and 1997) was estimated using matched data from the CPS and the Business Information Tracking Series (BITS), with job flow measures uniquely available from the BITS as regressors. Among other things, the statistically significant estimates from these equations indicate that, other things being equal:

- Job growth from establishment births in a county had a positive effect on the propensity for young men with lower education levels and older women with lower education levels to be employed.
- Job growth from county-level establishment employment expansions had a positive effect on the propensity for older men with less education and younger women with less education to be employed.

Scope and Methodology

Data used to support the empirical analyses presented in this study include the BITS and County Business Patterns (CBP)—two business data series produced by the U.S. Bureau of the Census, and in the case of BITS, funded by and jointly developed by the SBA's Office of Advocacy. Both BITS and CBP use the business location as a unit of analysis, however BITS has linkages among locations that comprise an entire firm allowing firm size analysis. CBP, on the other hand, contains no information as to the size of firm for establishments.

The study also draws upon the Census Bureau's household-based March Income Supplements of the Current Population Survey over the 1990–1998 time period to obtain information on individual characteristics of workers and potential workers. Apart from the central working hypothesis the researchers set out to evaluate, the study was also intended to further demonstrate the analytical capabilities of the BITS, especially when it is augmented with data from other sources.

Much of the study is comprised of descriptive trend analyses using all three data series in a wide variety of ways. The descriptive part of the study relies heavily upon time plots for exposition purposes. The balance of the study is devoted to several

multivariate regression analyses using ordinary least square (OLS) and probit techniques for various worker categories.

Ordering Information

The complete report is available online at www.sba.gov/advo/research. Copies are also available from:

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