

Measuring regional entrepreneurial activity

Despite the importance of small business to regional economic development, no widely accepted measures of entrepreneurship by region currently exist. A recent study in the Federal Reserve Bank of Kansas City's *Economic Review* introduces new measures for gauging both the breadth (quantity) and depth (quality) of entrepreneurial activity.

For the purposes of this study, the authors define entrepreneurs as those who own their own business and make the important decisions about it. They further distinguish between what they call "lifestyle" entrepreneurs and "high-value" entrepreneurs. Lifestyle entrepreneurs tend to open a business to fulfill a lifelong dream or to follow a particular lifestyle; they contribute to a region's entrepreneurial breadth by increasing the number of firms. High-value entrepreneurs, by contrast, contribute more to a region's economic depth. These "serial entrepreneurs" enhance growth by focusing on the creation of wealth, income, and jobs, and by "identifying and exploiting assets in their region."

The study seeks to measure entrepreneurial activity in terms of both breadth and depth. As the authors explain, "Entrepreneurial breadth reflects the size and variety of small businesses in a region that create the foundations for economic growth." Entrepreneurial depth, on the other hand, "reveals the value these foundations add to the local economy and offers insight into whether a region's entrepreneurs are reaching the frontiers of the marketplace." The authors measure entrepreneurial *breadth* as the number of self-employed persons in a county divided by total employment in that county. Entrepreneurial *depth* is measured in two ways: average proprietor income and revenue capture. Revenue capture is calculated using the ratio of income to total sales of the firm's

products and services. Analysts can use the depth measures to gauge the level of value being added to a region by its entrepreneurial activity.

The study finds widespread differences in entrepreneurial activity across regions and between rural and urban areas. In general, it finds greater entrepreneurial breadth in rural areas and greater entrepreneurial depth in urban areas. Smaller populations in rural areas result in "smaller firms serving fewer customers" and thus a higher owner-to-worker ratio, which means greater entrepreneurial breadth. Urban areas, with their larger and more diverse populations, tend to produce entrepreneurs with greater levels of income and revenue capture. The authors conclude their study by looking at some of the policy implications of their findings, suggesting that education, quality of life, in-migration, and infrastructure are the four factors most relevant to entrepreneurial development.

Turnover and unemployment

"For many years," writes Robert E. Hall in NBER Working Paper 11678, *Job Loss, Job Finding, and Unemployment in the U.S. Economy Over the Past Fifty Years*, "students of the labor market believed that recessions—periods of sharply rising unemployment—were the result of higher separation rates from jobs as well as lower job-finding rates." Hall goes on to cast some doubt on this received wisdom using data from the Bureau of Labor Statistics Job Openings and Labor Turnover Statistics (JOLTS) program. Specifically, the JOLTS data show that the separations rate did not rise much, if at all, during the 2001 recession. Thus, says Hall, it is the hiring decision and the course of job finding that labor market analysts should put more attention on to understand unemployment cycles. (The JOLTS data only cover the most recent recession; Hall uses regression analysis to support the more general statement.)

Defining a "job-finding" rate that would be useful in understanding cyclical variations in employment, admits Hall, is challenging—especially when it comes to defining the denominator. The conceptual definition is challenging enough: "A job-finding rate is the ratio of the flow from another activity into employment, divided by the number of people seeking to find jobs."

The problems come when one tries to attach specific numbers to the possibilities: the vast majority of those in the "unemployed" category are in both the numerator and denominator; only a small part of the employed would be looking for another job—they have strong comparative advantages in what they are doing now. Similarly, many people who are out of the labor force are in that status for cogent reasons and are truly not going to be looking for work.

Hall's strategy for developing a denominator for his job-finding rate is to omit the small number of employed jobseekers from the numerator—and thus not include the number employed in the denominator—and to use a definition of unemployed that includes discouraged workers and marginally-attached workers who are not currently in the labor force. His numerator is the total number of separations plus the growth in employment. The job-finding rate that falls from this calculation, according to Hall, "reached high levels in the tight labor markets of the early 1950s, the late 1960s, and the late 1990s of over 40 percent per month. It plunged below 20 percent in the more severe recessions."

Hall's conclusions include naming the job-finding rate as the "key variable" in understanding not just cyclical fluctuations in unemployment, but lower frequency movements as well. In addition, Hall admits that research is still needed to understand the forces that drive cyclical and secular fluctuations in job finding, but is convinced that "the labor market is the place to look for an understanding of the depth and persistence of recessions." □