

Jobs Created from Business Startups in the United States

Newly released data from the U.S. Census Bureau—the Business Dynamics Statistics¹—allow unprecedented tracking of business dynamics for U.S. firms and establishments. This is one of several BDS briefings to be released highlighting key features of this new data.

One novel feature of the BDS is that business startups (new firms) can be tracked on a comprehensive basis for U.S. private, non-agricultural businesses. The fraction of employment accounted for by U.S. private-sector business startups over the 1980-2005 period is about 3 percent per year. This measure is interpretable as the employment-weighted business startup rate for the United States. While this is a small fraction of overall employment, all of this employment from startups reflects new jobs. As such, 3 percent is large compared to the average annual net employment growth of the U.S. private sector for the same period (about 1.8 percent). This pattern implies that, excluding the jobs from new firms, the U.S. net employment growth rate is negative on average. This simple comparison highlights the importance of business startups to job creation in the United States.

The adjacent chart shows the fraction of jobs due to business startups for all firms and for selected firm-size classes: micro firms, and midsize to large firms. For micro firms (firms with one to four employees), the percent of jobs in any given year accounted for by business startups is very large—about 20 percent on average. For substantially larger firms (firms with 250 to 499 employees), the percent of jobs in any given year accounted for by business startups is considerably smaller—about 1.3 percent of employment in this firm-size class.² This is still substantial relative to net employment growth for the size class.

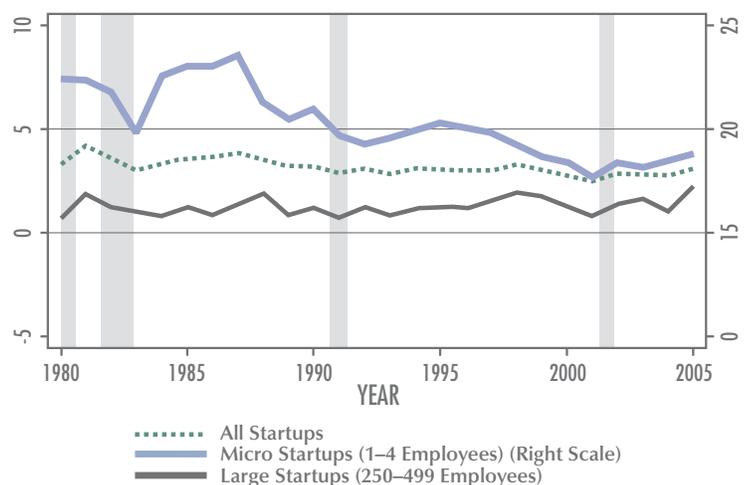
This chart also shows that business startups tend to be mildly procyclical. That is, in most business cycle downturns (shown in shaded areas), business startups decline slightly (2001 is an exception). However, it is striking that business startups remain robust even in the most severe recession over the sample period (in the early 1980s). The procyclicality is more apparent for micro-firm business startups. The robustness of

business startups to cyclical contractions is of clear interest given the current downturn. It remains to be seen whether the current downturn may have a more adverse impact on business startups than in past recessions.

The overall business startup rate does not exhibit much of a trend, but Figure 1 shows a declining trend in the business startup rate for micro firms. While understanding the latter requires detailed analysis (for which the BDS is well suited), this may reflect compositional changes in sectors such as retail trade, where there is ample evidence of substantial shifts away from small, single-establishment firms to large, national firms.

This briefing highlights only one dimension of the Census Bureau's new Business Dynamics Statistics. The Business Dynamics Statistics includes measures of business startups, establishment openings and closings, and establishment expansions and contractions in terms of both the number of establishments and the number of jobs. The BDS data provide these new statistics on an annual basis for 1977-2005, with classifications for the total U.S. private sector by broad industrial sector, firm size, firm age, and state. Further information about the BDS can be found at http://www.ces.census.gov/index.php/bds/bds_home.

Percent of Jobs Accounted for by New Firms
(All and Selected Size Classes)



1. The BDS was developed at the Census Bureau's Center for Economic Studies with support from the Census Bureau and the Ewing Marion Kauffman Foundation.

2. Large firms account for a relatively large share of overall employment, so we caution the reader that a 1.3 percent contribution of startups in the largest size class can account for a considerable share of employment of all startups.