

The Jobs for the Economic Recovery Will Come From Small Business!

by
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As President Obama stated in his address to Congress and the nation on February 24, 2009: "The state of our economy is a concern that rises above all others, and rightly so. . . The impact of this recession is real, and it is everywhere." He went on to outline his agenda for economic recovery: "It is an agenda that begins with jobs."

The common belief among most Americans is that "Corporate America" is the key to creating jobs. Consequently, it has long been a common assumption that small business does not contribute a large share to the employment outlook of the United States of America. It is a fact, however, that in the last fifteen years, "Corporate America" has NOT contributed one net job to the employment picture of this country. As radical as this sounds, the following data from the Edward Lowe Foundation supports this fact.

Economic Data

The Edward Lowe Foundation's (ELF) mission is: "To champion the entrepreneurial spirit by providing information, research and educational experiences that support entrepreneurship and the free enterprise system." They have created a website (www.youreconomy.org) that serves up valuable statistical data on jobs and employment in the USA. The data in YourEconomy.org is derived from the National Establishment Time Series (NETS) database, which is built from Dun & Bradstreet data and quality checked and corrected by Walls & Associates.

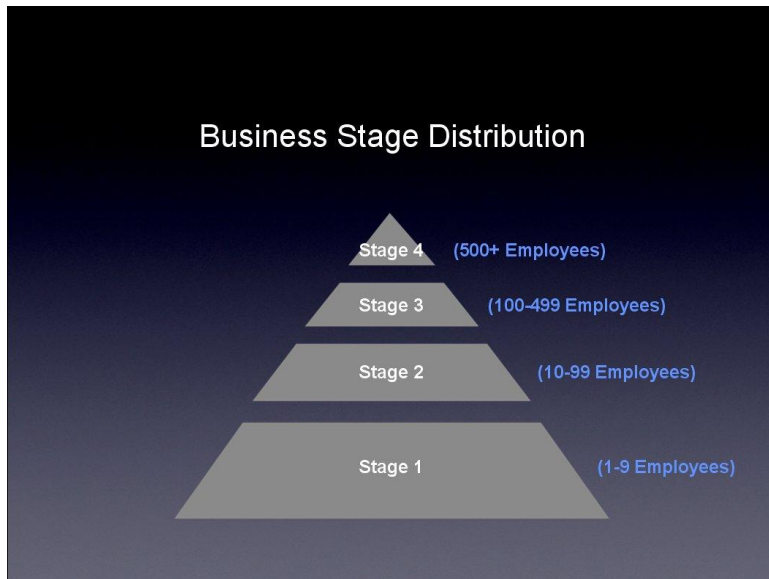
ELF categorized all business establishments into four stages:

Stage 1 is comprised of establishments with 1 to 9 employees.

Stage 2 is comprised of establishments with 10 to 99 employees.

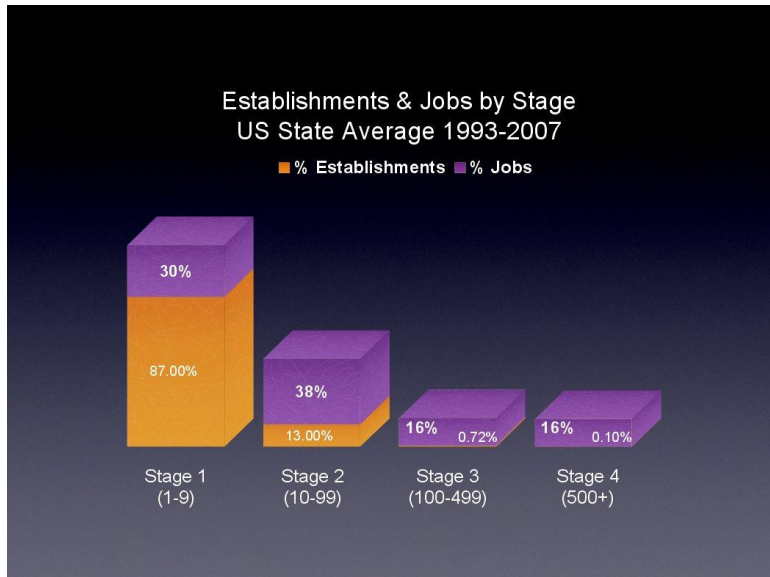
Stage 3 is comprised of establishments with 100 to 499 employees.

Stage 4 is comprised of establishments with 500+ employees.



Not surprisingly, the distribution of business establishments is inversely proportional to the number of employees. In other words there are more small businesses than there are large businesses. Interestingly, the distribution of jobs does not follow the same pattern.

Stage 1 companies account for 30% of the job market. Stage 2 companies account for the largest portion of jobs: 38%, while stage 3 and 4 companies each account for 16% of the job market.



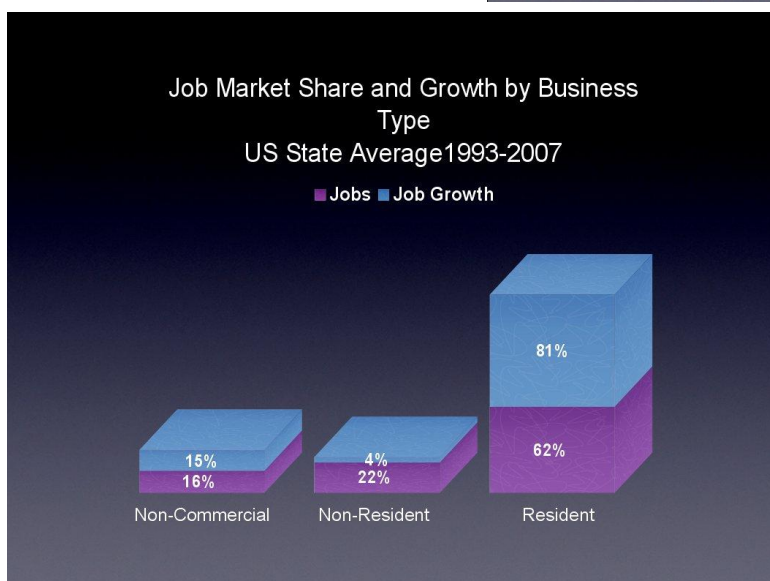
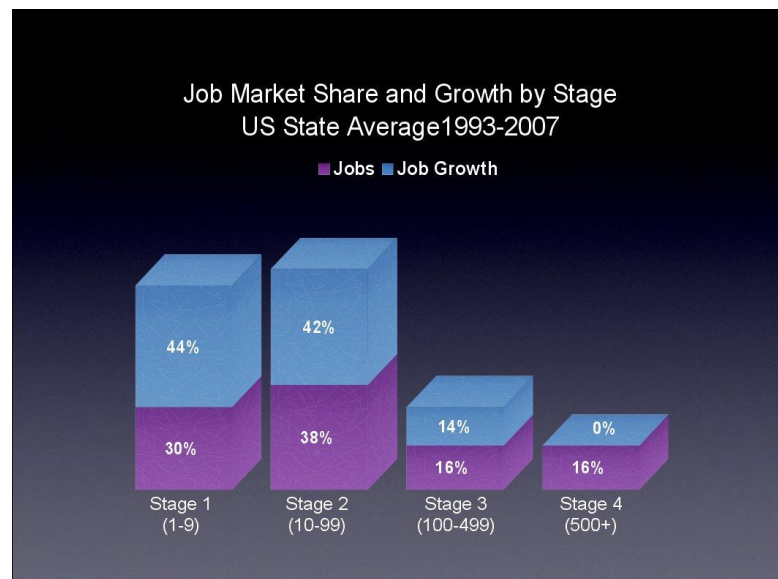
If we take the last fifteen years (from 1997 to 2007) as a sample, we see that the greatest impact to job market growth comes from Stage 1 & 2 establishments. They account for 86% of the growth, while stage 3 companies only account for 14%. Stage 4 business account for 0% growth. That's right, within the small business categories (stage 1 & 2 companies), the stage 2 companies have the largest impact per establishment. That is, only 13% of the establishments (stage 2) are delivering 42% of the growth.

Comparatively, 87% of the establishments (stage 1) are delivering 44% of the growth.

An establishment's origin is also important to understanding where the jobs come from. Businesses are categorized into three types: non-commercial, non-resident, & resident.

Non-Commercial

represents government organizations, educational institutions, and non-profit organizations.



Non-Resident

establishments are businesses that are headquartered in a different state, (e.g. Starbucks, Washington Mutual, and Home Depot.)

Resident

establishments are stand-alone businesses in the area and businesses with headquarters in the same state.

The fifteen-year US average of job creation from the three categories

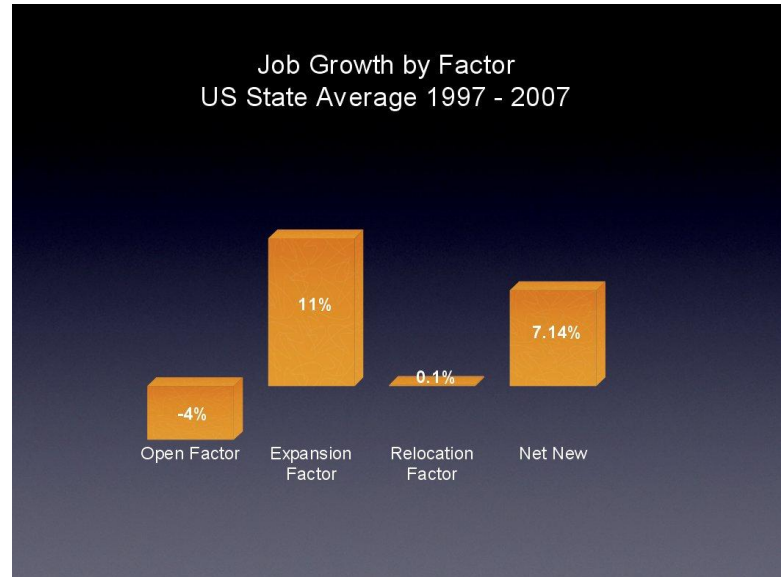
of businesses shows that resident establishments have the greatest impact on the job market. They account for the largest number of jobs (62%) and for 81% of the job growth.

Additionally, there are three activity here are three factors that influence job growth:

Open Factor ó The open factor represents jobs created from newly opened businesses minus jobs lost due to businesses closing.

Expansion Factor ó The expansion factor represents jobs created by expanding businesses minus jobs lost from contracting businesses.

Relocation Factor ó The relocation factor represents jobs created from businesses moving in minus jobs lost from businesses moving out. Business relocation has a relative low impact on job creation compared to expansion.



Contribution to the Economy

Aside from job creation, Small business is a big contributor to the nation's economy, generating 50 percent of the private, non-farm gross domestic product (GDP) according to a study by the Office of Advocacy of the U.S. Small Business Administration. The study covers the period of 1998 - 2004 and confirms the findings of earlier research.

“Small business plays a big role in our economy,” said Dr. Chad Moutray, Chief Economist for the Office of Advocacy. “This study confirms just how important small business is to our economic growth and prosperity. It makes clear that economic policy needs to take into account the needs of small businesses, because those businesses drive our economy.” (www.sba.gov/advo/press/07-12.html). Per the Bureau of Economic Analysis, the GDP for 2008 was \$14.365 trillion dollars. This means that the small business contribution to the economy exceeded \$7.183 trillion last year.

The Bottom Line

The economy needs to be fixed. It can be fixed with job creation. Everyone thinks big companies create the most jobs but in fact that's *NOT TRUE*, so the solution is to support small business with better policy.

One effective program that focuses on stage 2, resident, expanding companies (the biggest contributor to jobs and job growth) is an innovative entrepreneurial approach to economic

development known as *Economic Gardening*. This approach was founded twenty years ago by Chris Gibbons, the Economic Development Director for the city of Littleton Colorado, and focuses on stage 2, resident, expanding companies within the city limits of Littleton. These companies are provided a suite of business services at no charge. Since beginning this program, the city has not courted a single large business with promises of cheap land and big tax breaks, and yet they have more than *doubled employment* since 1990 adding 15,244 jobs. They have also *nearly tripled their sales tax base* from \$6.8 to 19.6 million. Since its inception, economic gardening has spread throughout the US and worldwide with active programs in Europe, Japan and Australia.

To get the jobs that are needed for the economic recovery, local, state, and federal governments need to fund and support more economic development programs like Economic Gardening that will actually produce job growth.

About the author: Wayne Kocina, a seasoned industry veteran with nineteen years of experience in Geographic Information Systems (GIS) founded GeoWize in January of 2003. Wayne has provided GIS services and consulted for such companies as Target, Big O Tires, Smiling Moose Deli, US West, Qwest, Unisys (France), Telebras (Brazil) & Telebras - CpQD, Idea Integration, The City of Littleton, and many others. His mission is to give the "little guy" the "big guy" competitive advantage.