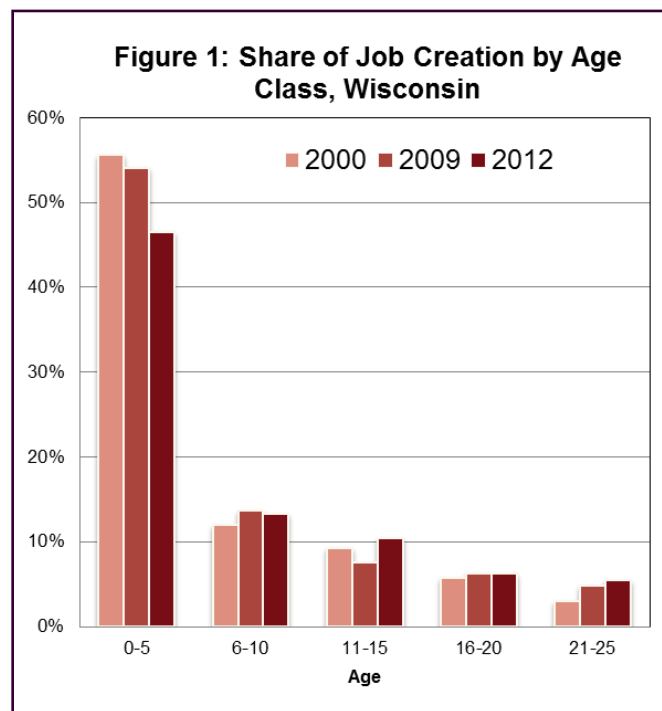


Wisconsin Job Creation: Small or New Businesses?

The importance of small businesses in Wisconsin job growth has been widely discussed in the popular press, the business community and documented in a series of University of Wisconsin studies. For the most recent year that we have comprehensive data (2012) firms with less than 50 employees accounted for 64 percent of new job creation. We also know that the creation of new business through entrepreneurship is an important element of small business development. These could be Schumpeterian innovative businesses with strong growth potential or Julien entrepreneurs who see a business opportunity such as a coffee shop or barber shop and have no interest or intention of growing beyond a modest size. We have fewer insights on job creation coming from new small businesses compared with that from existing small businesses. This question has significant policy implications as the answer helps direct limited economic growth and development resources to their most effective use. For example, should growth strategies be aimed at helping start new small businesses or help grow established businesses? Using the US Census Business Dynamic Statistics we track businesses within Wisconsin to gain insights into this question.

In Wisconsin, businesses that were age five or younger accounted for 46.5% of all job creation (Figure 1). This is slightly lower than the 2000 rate which was 55.6%. Firms that were age eleven to 25 accounted for about 22% of new job creation in 2012. This



simple descriptive analysis suggests that those interested in promoting new job creation should be looking toward smaller and younger businesses. If we refine the categories used in Figure 1 by breaking out the firms that are five years old and younger we can see a clearer picture. New business start-ups, the youngest possible business, accounted for 26.9% of new job creation in 2012, which is lower than either 2009 (31.9%) or 2000 (32.9%) (Figure 2). Businesses that are established, but still in their relative infancy (1 to 5 years old) accounted for about 19% of job creation, again in 2012. The policy implications are clear: limited resources should be focused on new

small business startups.

How does Wisconsin compare to the other US states in terms of new job creation from the birth or start-up of new businesses? Put another way, exactly how entrepreneurial is Wisconsin? The national average in 2012 is 37.1% of job creation comes from new businesses which is significantly higher than Wisconsin (26.9%) and most of our immediately neighboring states: Illinois (29.6%), Iowa (28.6%), Michigan (28.0%), and Minnesota (25.7%) (Figure 3). Nationally Wisconsin ranks 47th in terms of new business start-ups in 2012.

If most job creation comes from new small businesses and Wisconsin tends to lag behind most of the nation in new business start-ups two natural questions follow: (1) why is this the case and (2) what are the long- and short-term implications for the economic health of Wisconsin? Is it the case that too many of our limited economic growth and development resources are misallocated to less productive strategies such as attempting to recruit larger established firms? Clearly, this simple descriptive analysis cannot answer these fundamental questions.

Figure 2: Share of Job Creation by Young (Age 0-5) Establishments Wisconsin

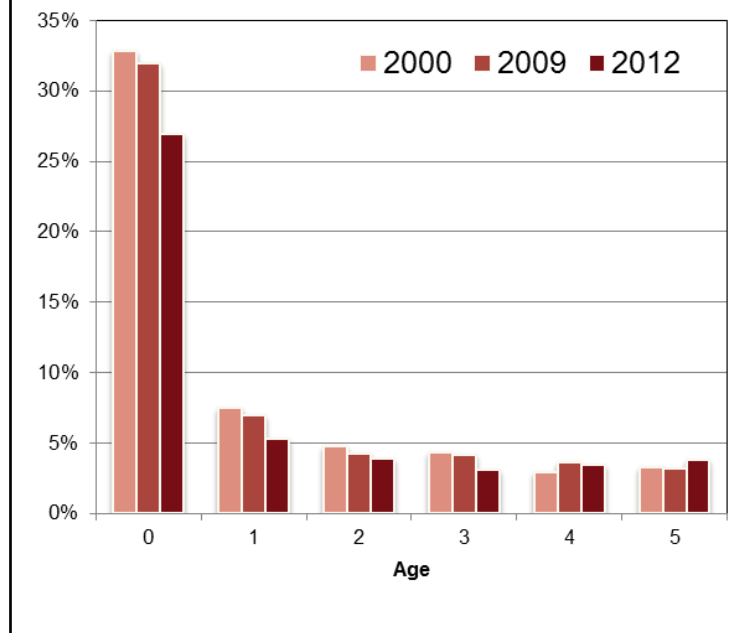
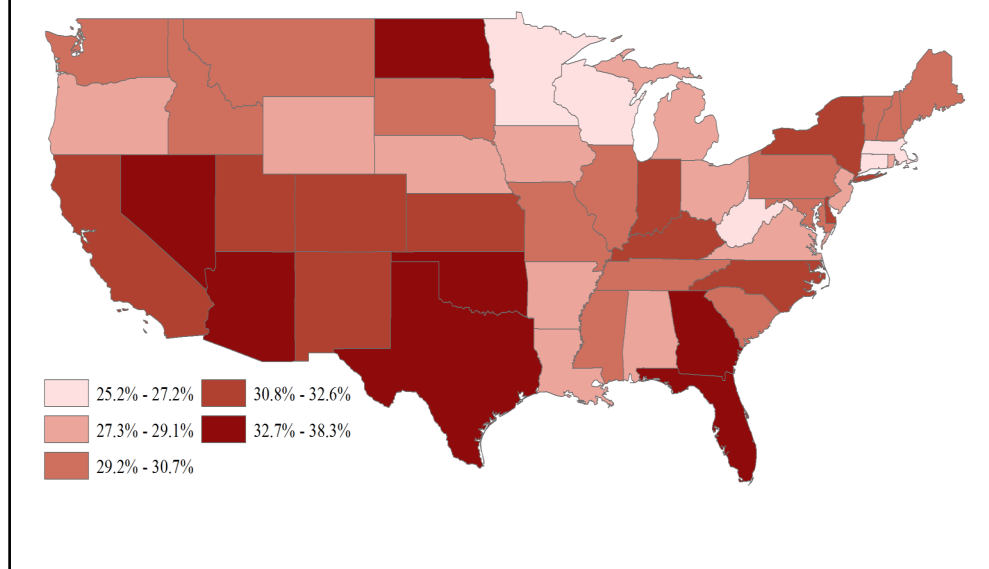


Figure 3: Share of Job Creation from Establishment Births, 2012



Job creation, job lost and job growth, what are the differences. Businesses create jobs when they open or expand, but they also lose jobs when they close or scale back. The net of job creation and loss is net job gain or job growth. When the media talks about monthly job growth, they are talking about net job gain (or loss).