

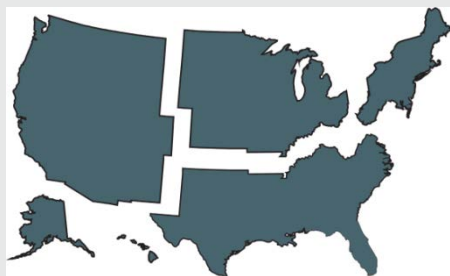
# Entrepreneurs and Their Communities

## *The Case for Supporting Entrepreneurs in a Jobless Recovery*

Stephan Goetz, Ph.D.

September 8, 2011

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# The Case for Supporting Entrepreneurs in a Jobless Recovery

Stephan J. Goetz, Ph.D.  
Director and Professor



Source: Business Week

A Science-Based Outreach Publication of  
The Northeast Regional Center for Rural Development  
<http://nercrd.psu.edu> September 2011.

# Outline

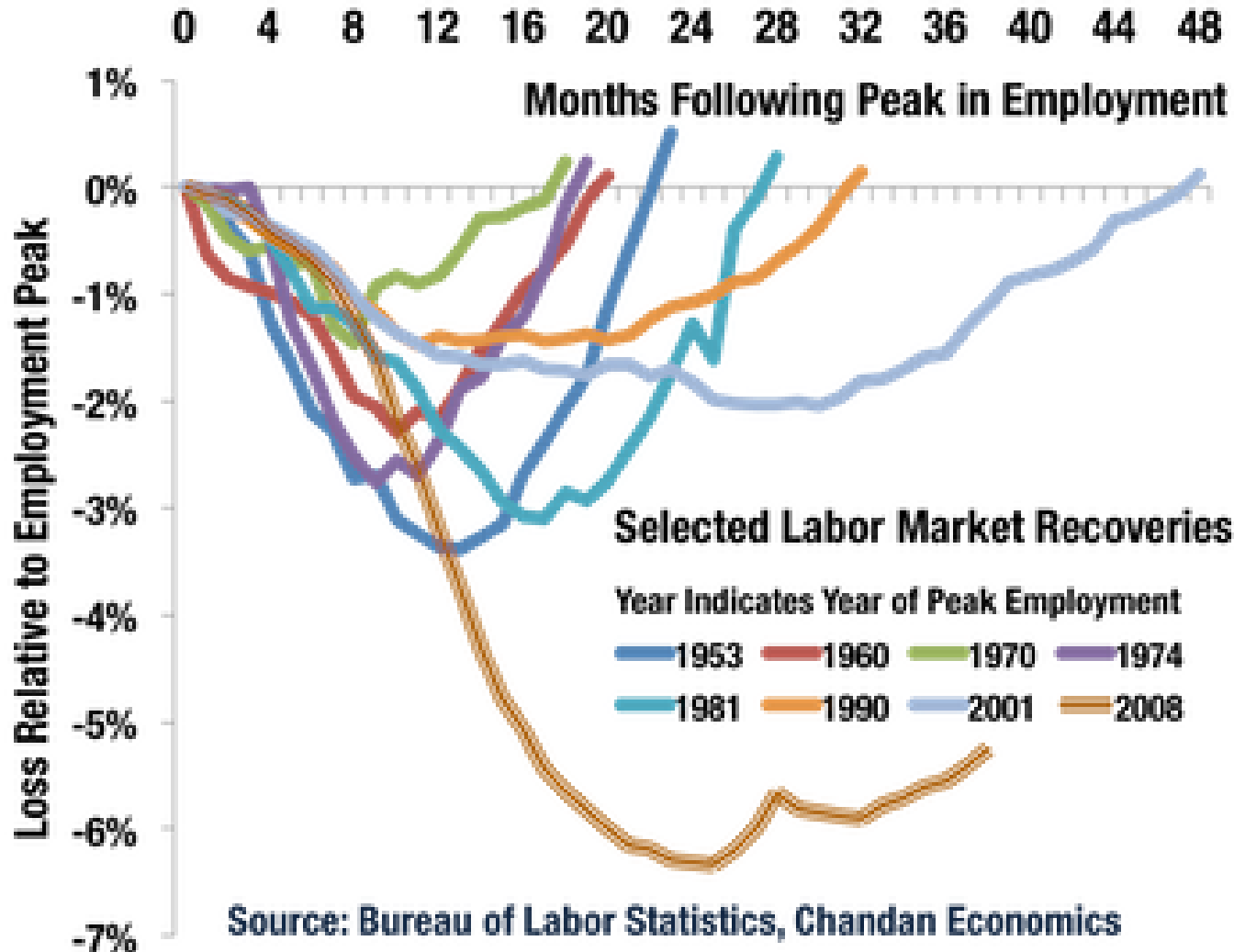
1. The Jobless Problem
2. Entrepreneurship or Self-Employment as a Bright Spot?
3. A Conceptual Framework for Understanding the Impact of Entrepreneurs
4. Empirical Evidence about the Impact (based on the peer-reviewed literature)
5. Summary and Conclusion

# The Jobless Problem (1)

- With each recent national recession, recovery in terms of job numbers has taken longer
- There currently are 4.5 job seekers for each vacant position
  - The number is down from its recent high, but in part that reflects withdrawal from the labor force

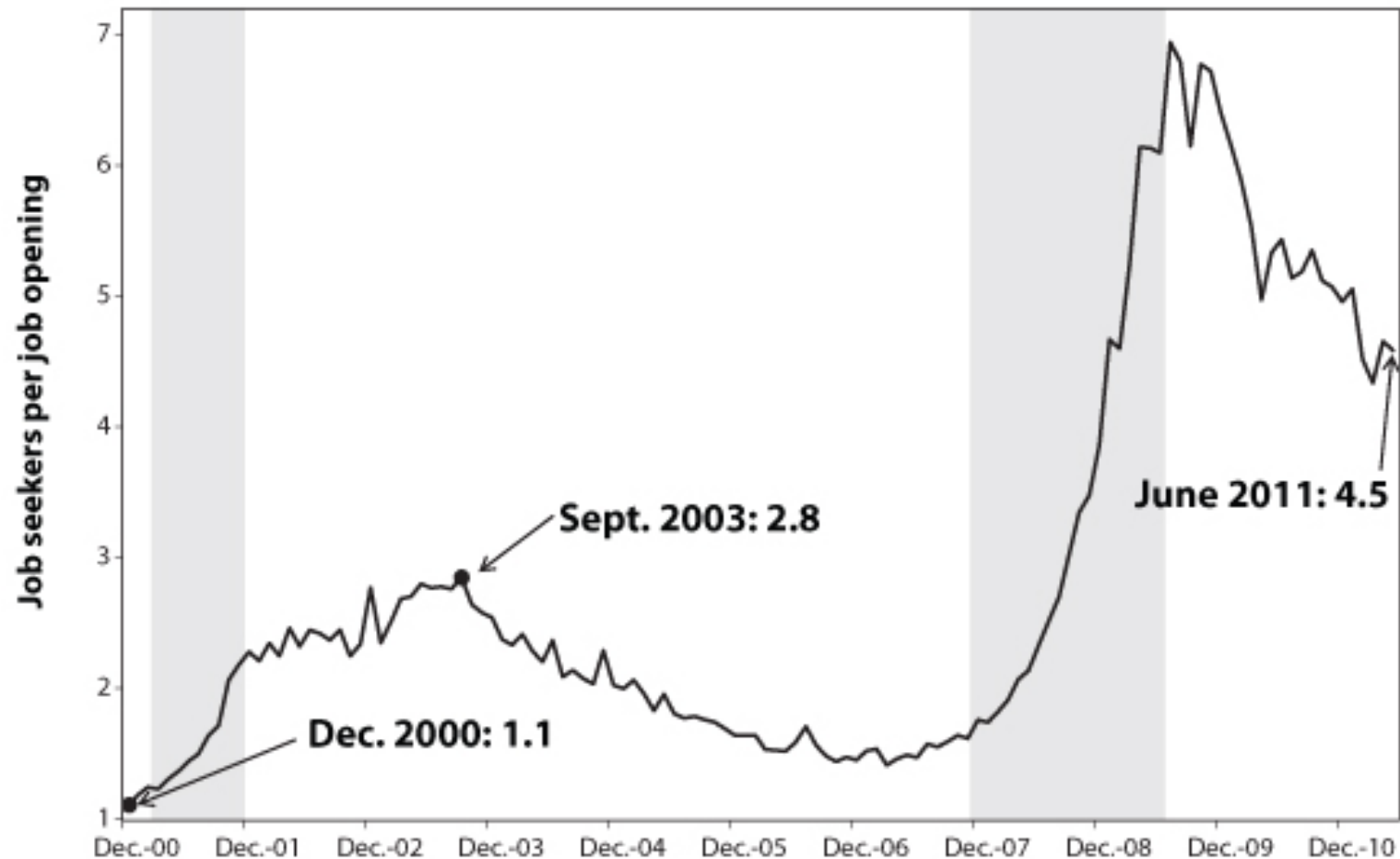


**Figure 1: Jobless Recoveries are Becoming more Severe, and Longer**



Source: Bureau of Labor Statistics, Chandan Economics

## Fig. 2: Ratio of job seekers to job openings

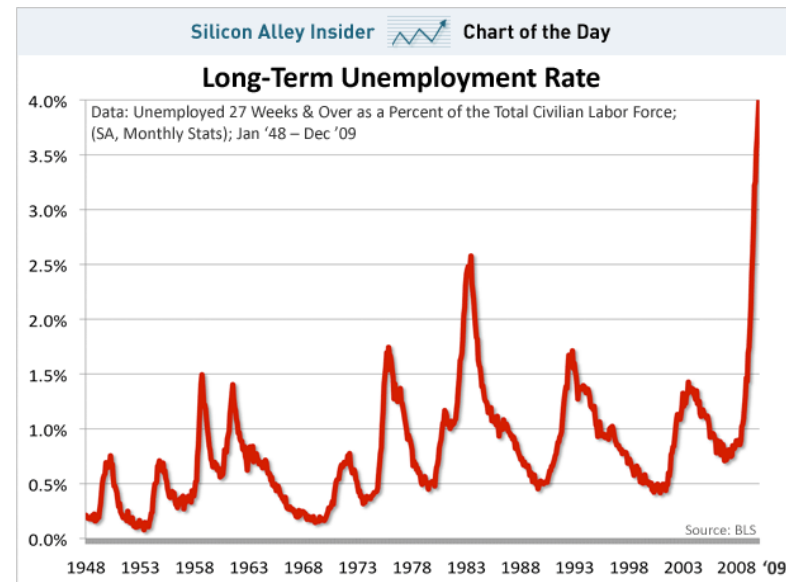


**Note:** Shaded areas denote recessions.

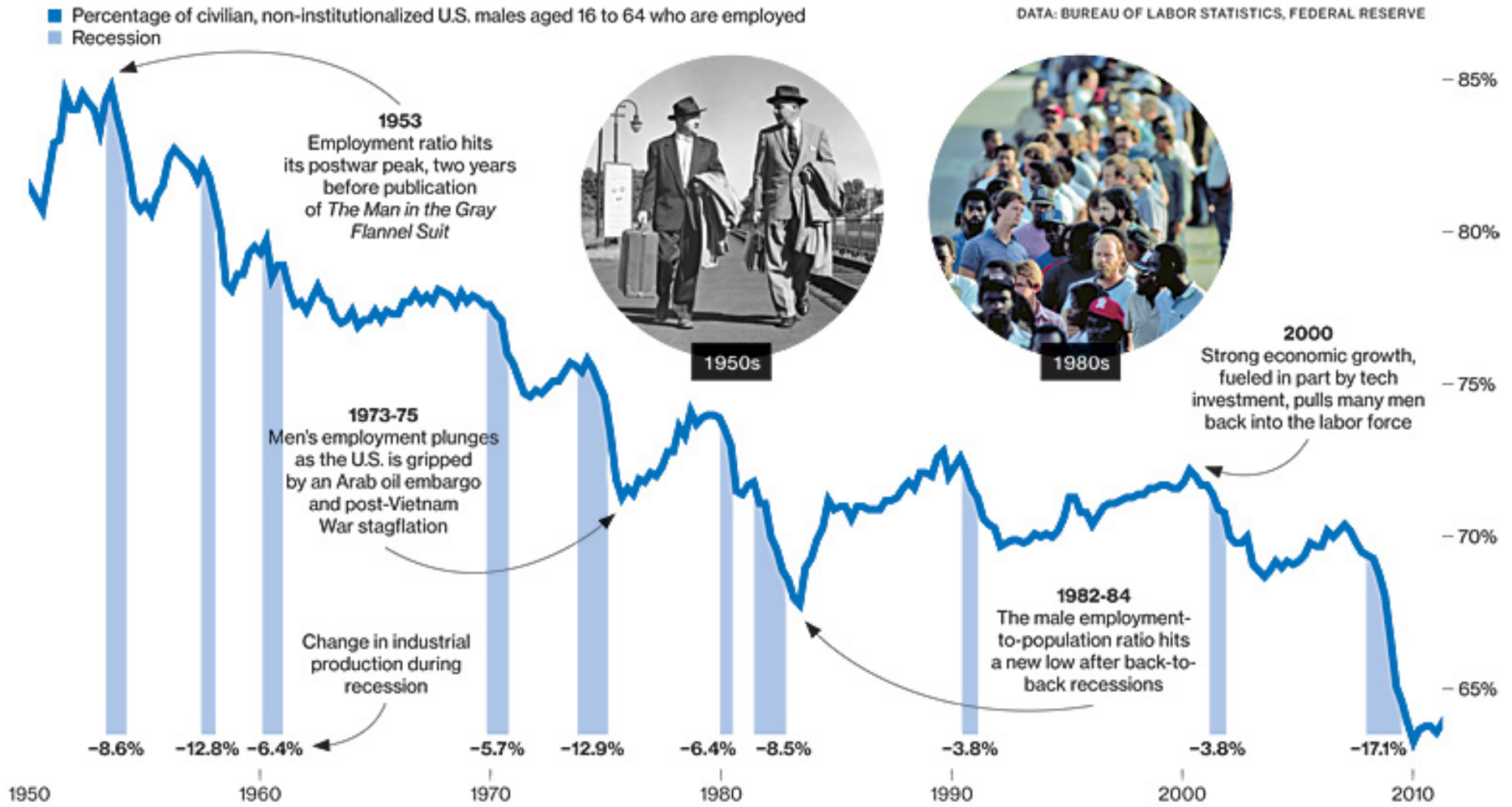
**Source:** Author's analysis of data from the Job Openings and Labor Turnover Survey and the Current Population Survey.

# The Jobless Problem (2)

- The male labor force participation rate, especially, continues its long downward slide
- Disenfranchisement of the long-term unemployed (and loss of skills)
- The declining trend for youth is especially troubling



# Figure 3: Male Labor Force Participation Rate, U.S., 1950-2010

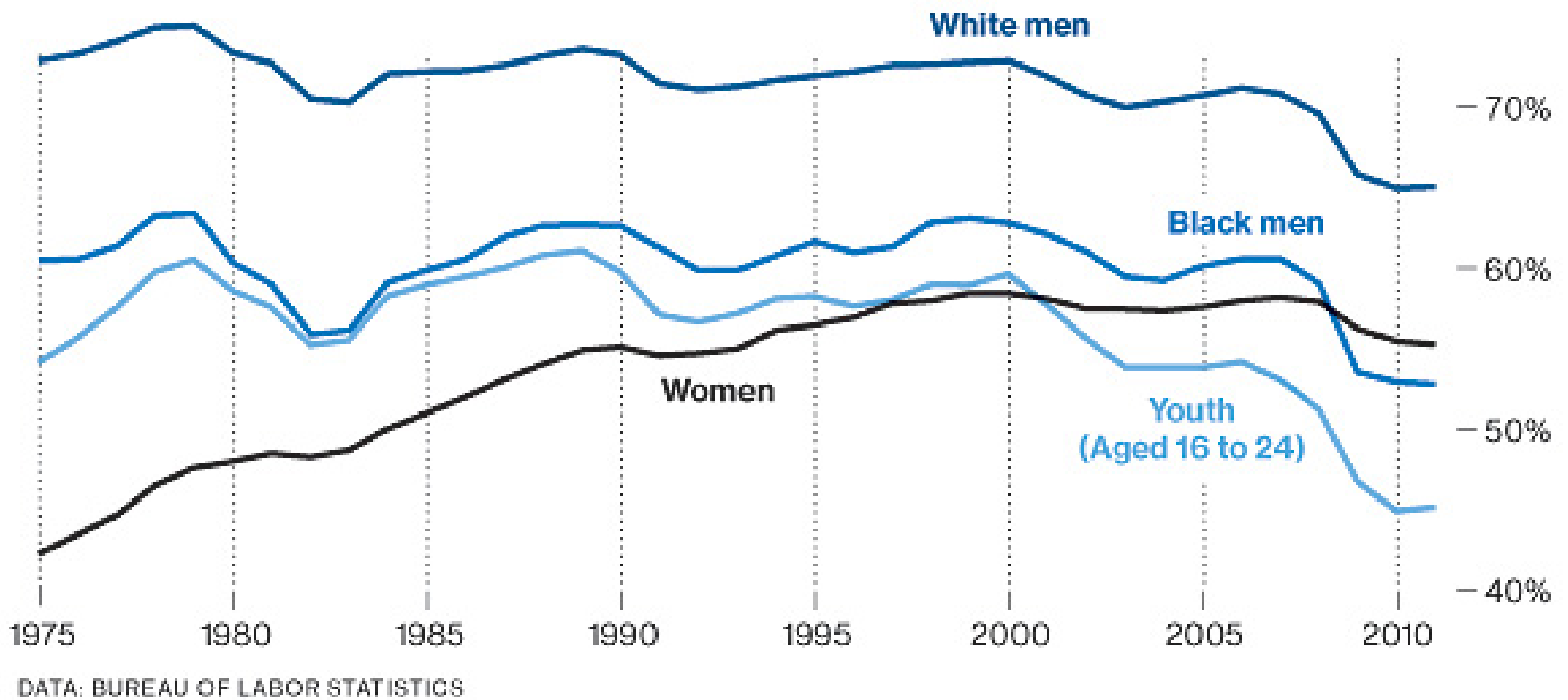


**Fig. 4:**

**Decades of Progress and Regress**

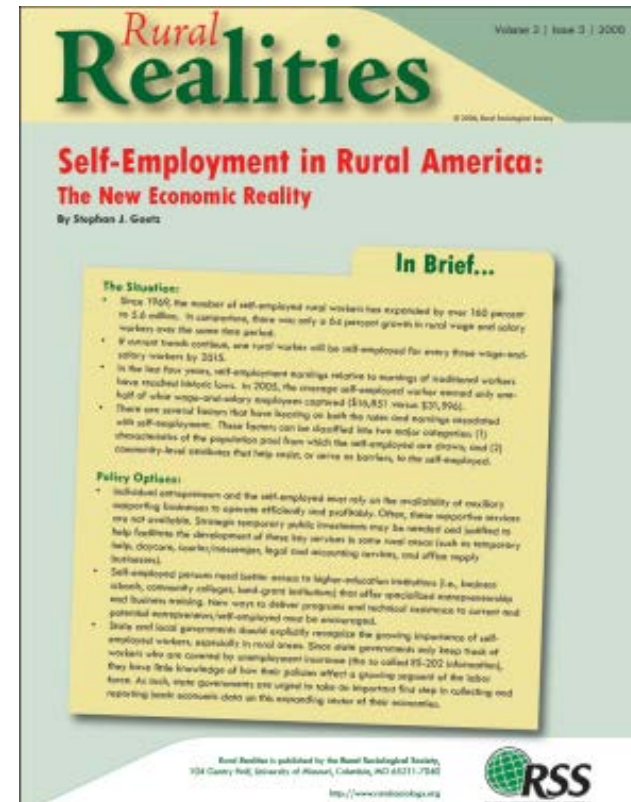
Women are working more than they were decades ago, white and black men less. The youth employment-to-population ratio has tumbled.

■ Percentage of population that is employed



# Entrepreneurship or Self-Employment as a Bright Spot? (1)

- Self-employment has surged in the last decade (of jobless recovery)
  - Predicted that one in three rural workers will be self-employed by 2015 [Goetz, *Rural Realities*, 2(3)2008: 13pp]
  - BLS now forecasts a 40% share by 2019



# Fig. 5a: Self-Employment, Wage-and-Salary Employment, 1969-2009

Data Source: Bureau of Economic Analysis/REIS

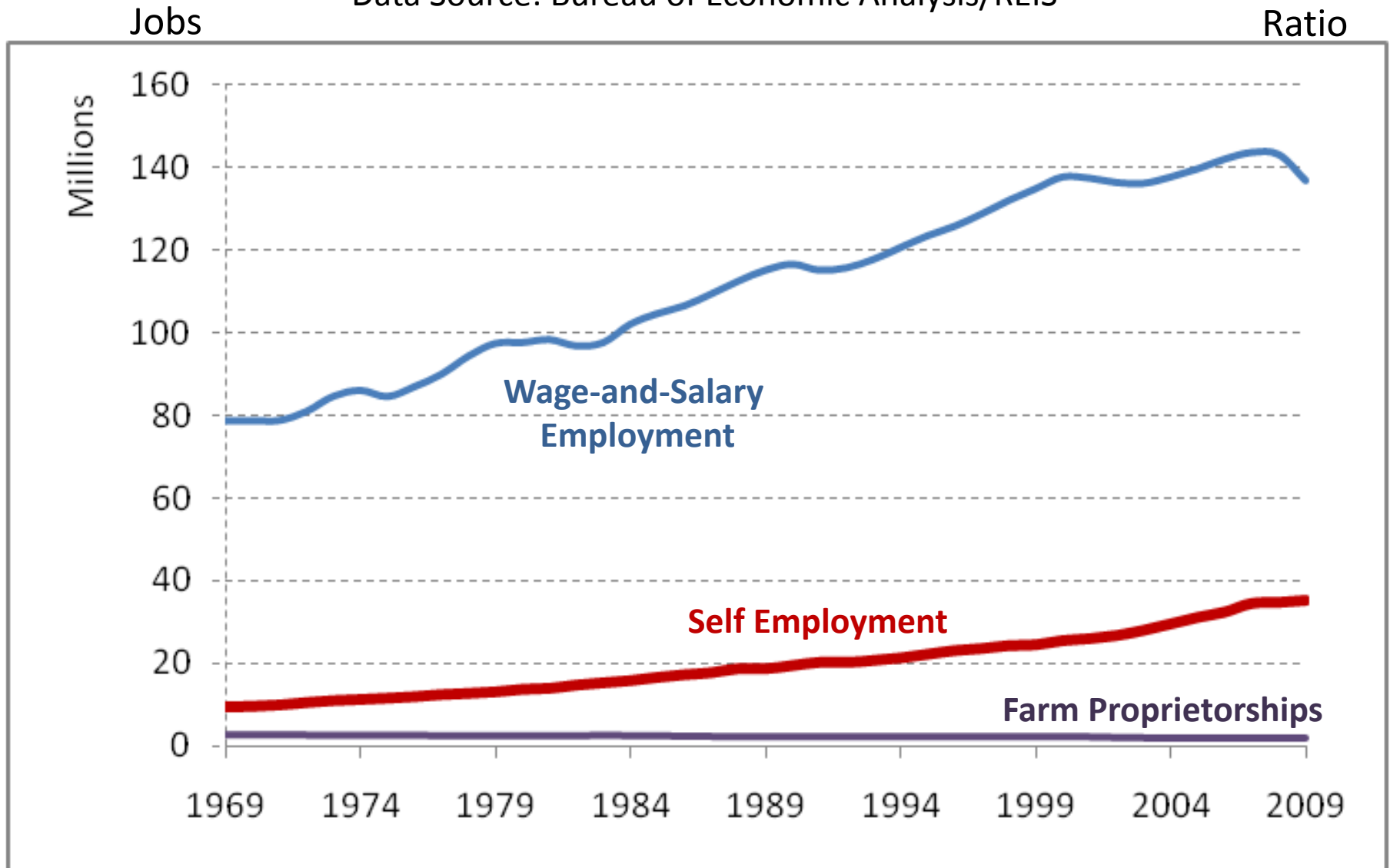


Fig. 5b: Self-Employment, Wage-and-Salary Employment, and Ratio, 1969-2009

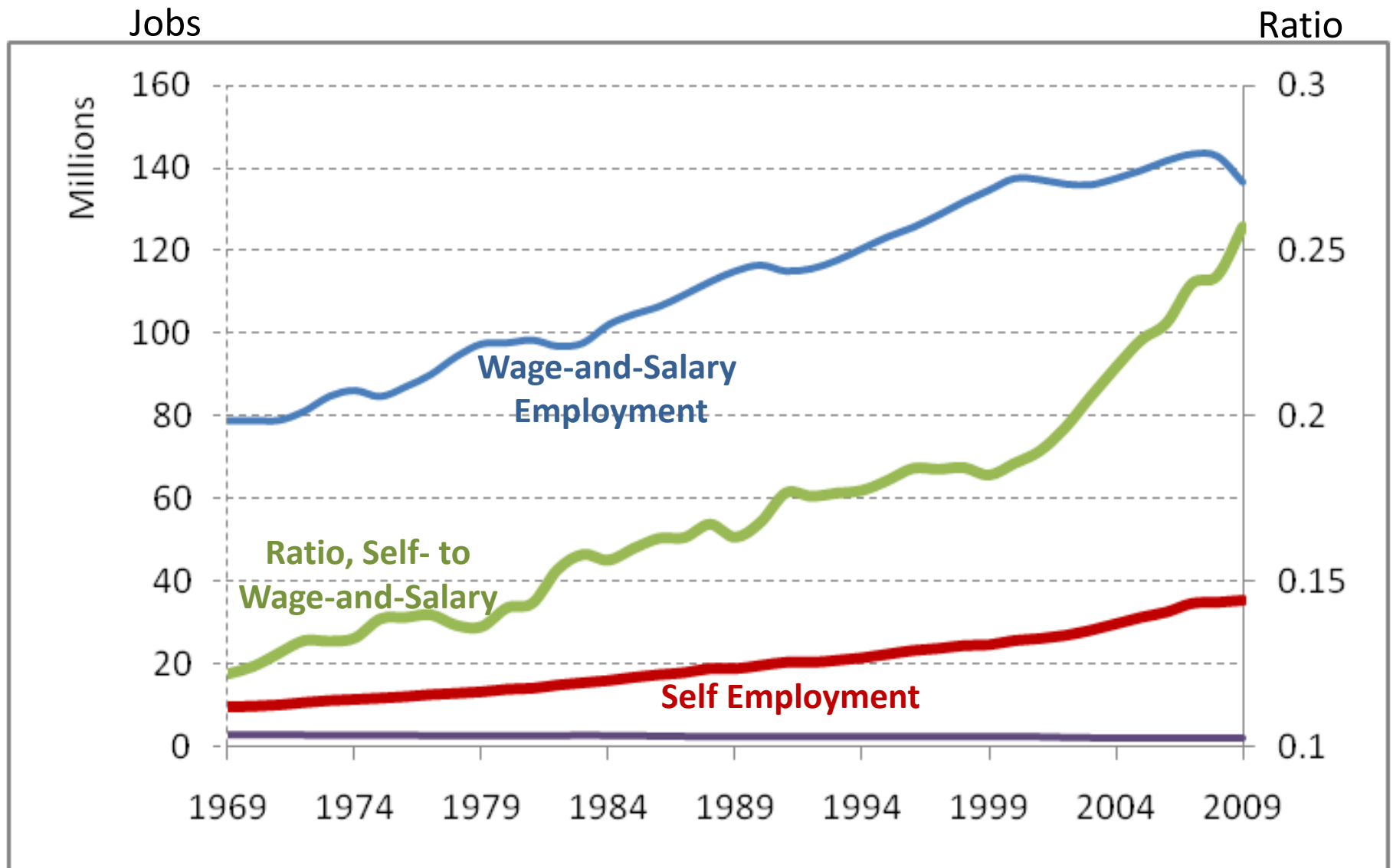


Fig. 5: Self-Employment, Wage-and-Salary Employment, and Ratio, 1969-2009

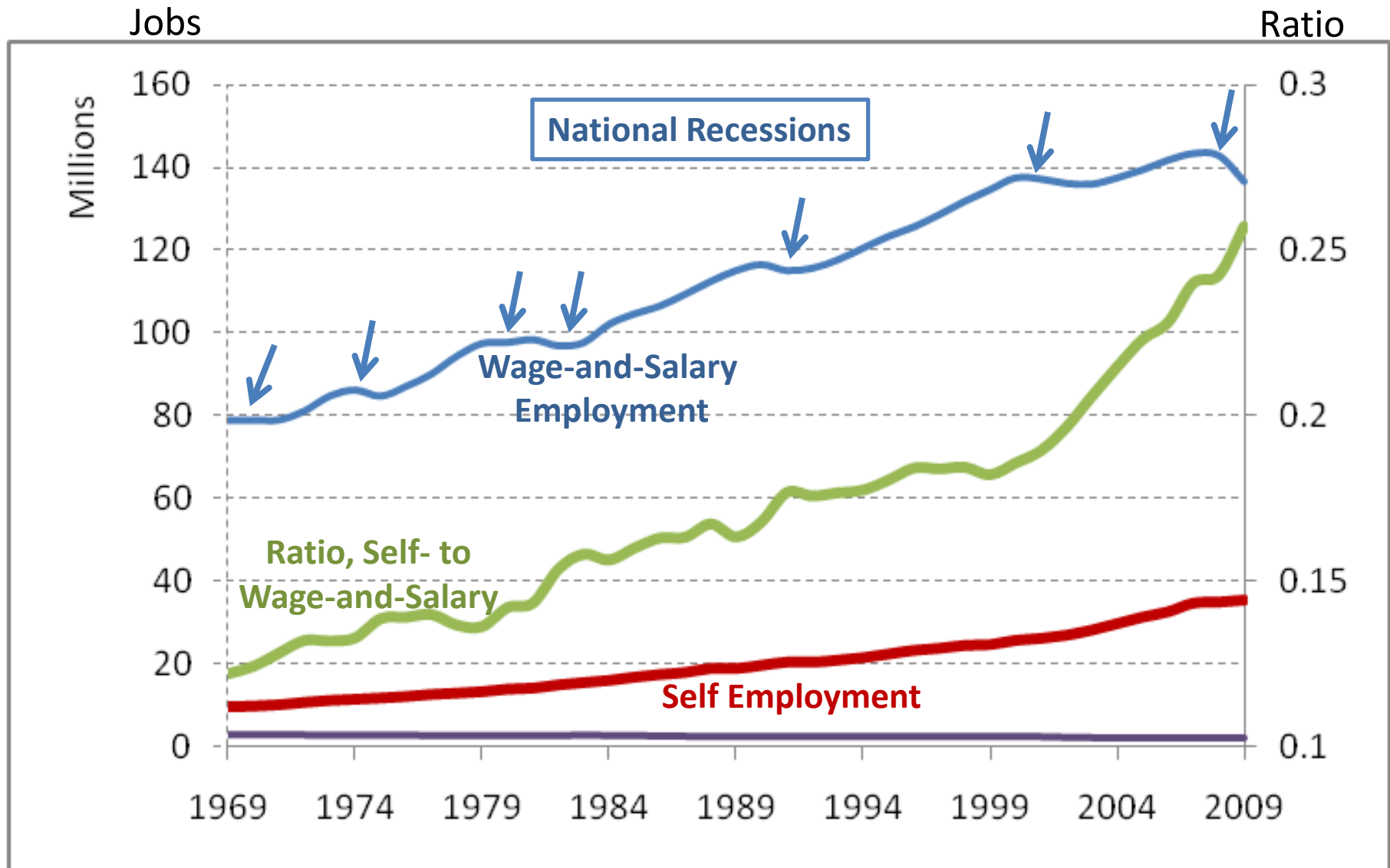
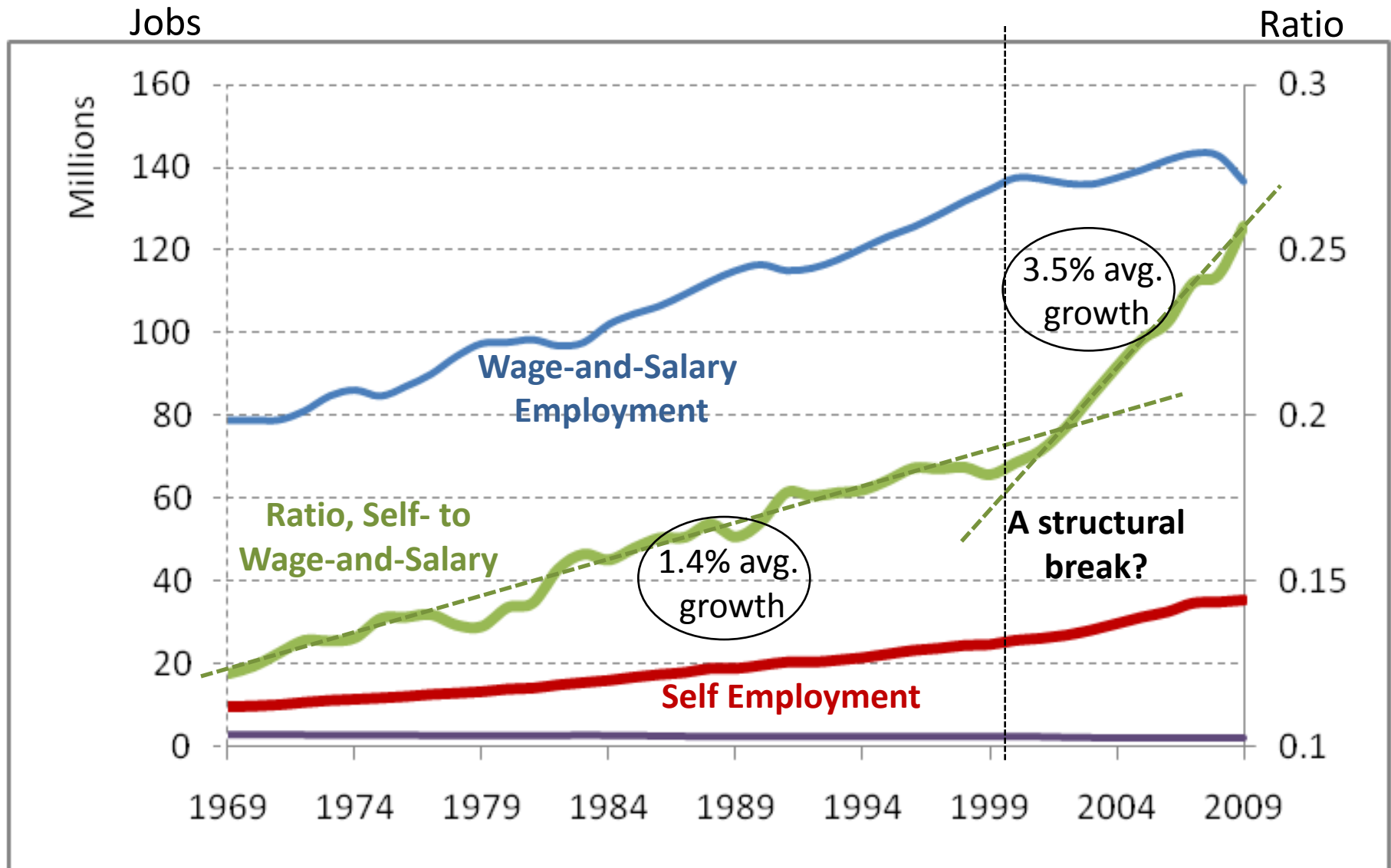


Fig. 5: Self-Employment, Wage-and-Salary Employment, and Ratio, 1969-2009



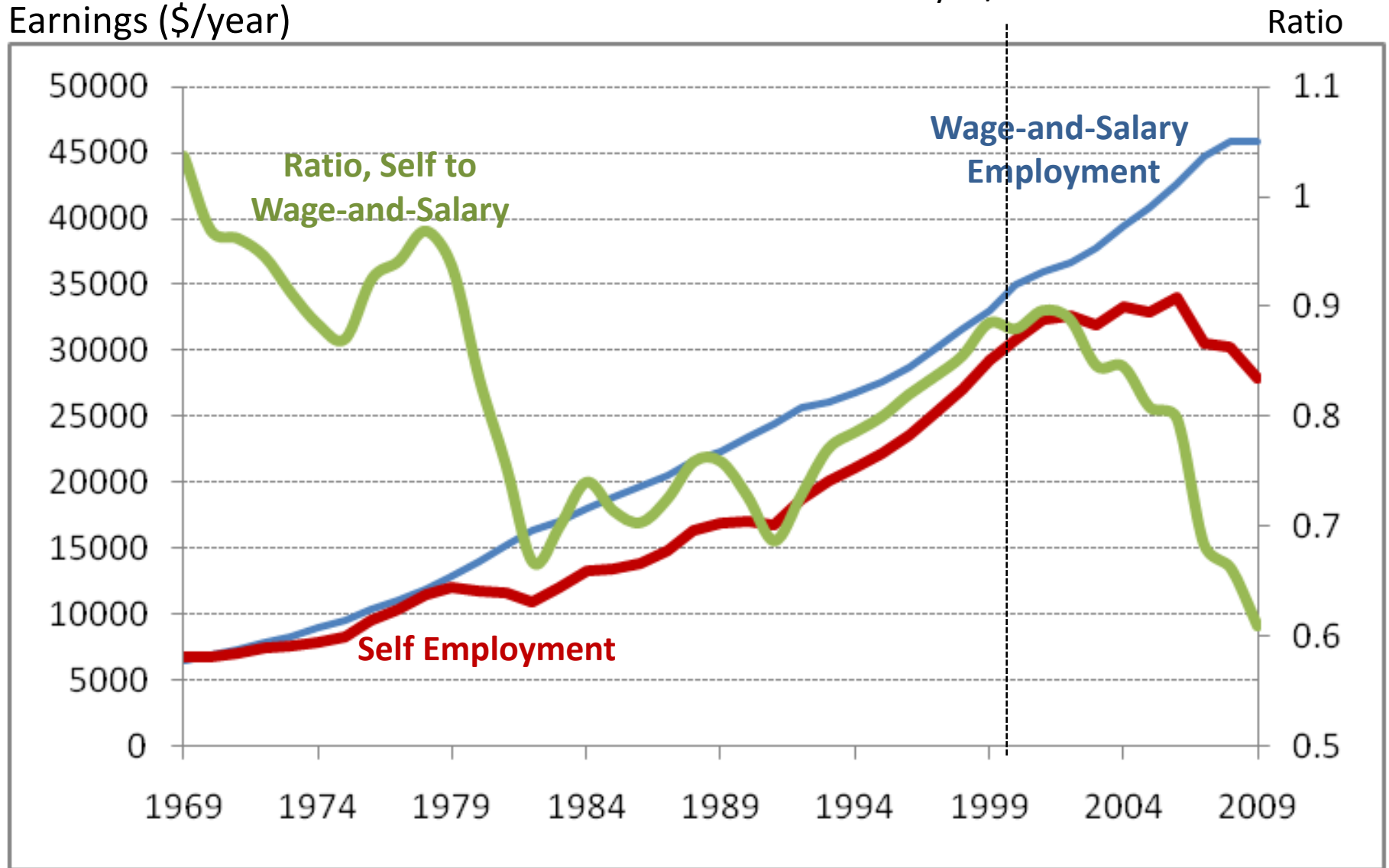
# Entrepreneurship or Self-Employment as a Bright Spot? (2)

- Yet the self-employed are neglected by State Labor Departments
  - Not captured in the ES 202 series
  - Disincentives
    - Unemployment compensation eligibility
    - Health insurance coverage; deductibility
    - Pay both employer and employee share of Soc. Sec., Medicare
- *Business Week* Aug. 8-14, 2011: “To Boost the Economy, Help the Self-Employed” (p.54)
- And, returns to self-employment have recently collapsed compared to wage-&-salary employment



# Fig. 6: Relative Returns to Self-Employment Plunged after the 1980s and 2000 Recessions

Data Source: Bureau of Economic Analysis/REIS



# Self-Employment Earnings

Data Source: Bureau of Economic Analysis/REIS

- Earnings average of approx. \$28,000 in 2009 masks tremendous variation across counties
- Highest-earners (2009 – all are down from 2008):
  - New York, NY: \$109,497 (vs. \$158,081 in 1999)
  - Richmond, VA: \$107,051
  - Harris, TX: \$91,724
- Lowest-earners:
  - Blaine, NE: \$4,364
  - Twiggs, GA: \$4,119
  - Perry, MS: \$3,531



# Economic Impacts of Self-Employment

- Given the recent decline in average earnings, can the self-employed have a significant effect on overall local economic well-being?
- If new firms are more labor-efficient, overall employment could actually decline (but incomes should rise)
- Rigorous research on local economic impacts of entrepreneurship has been limited

# Economic Impacts of Self-Employment

- Glaeser et al. (p.6) suggest two reasons why research on impact has been negligible:
  - Anecdotal evidence seems to suffice (e.g., Bill Gates, Mary Kay, Sam Walton, Henry Ford)
  - Difficulty of isolating independent causes
    - E.g., city or regional growth



Glaeser, E.L., S.S. Rosenthal and W.C. Strange (2010), "Urban Economics and Entrepreneurship," *Journal of Urban Economics*, 60: 1-14.

# Economic Impacts of Self-Employment

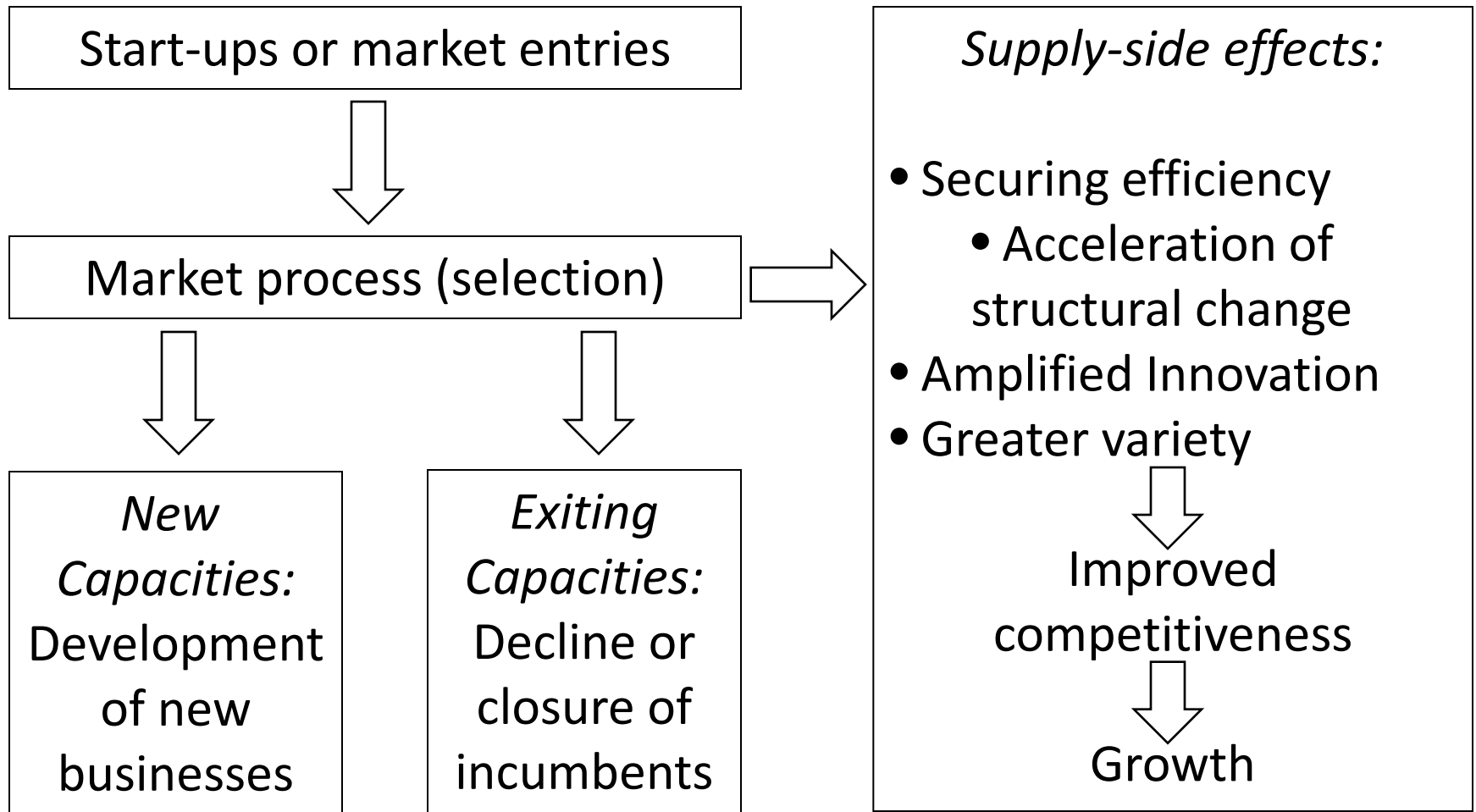
- “The important question is raised of to what extent new business formation can be regarded as a result of previous growth, and to what extent is it a source of growth independent of the prevailing development trend?”
  - Dejardin and Fritsch (2011: 378)
- Irony? Most work to date has been conducted in Europe: see special issues of *Small Business Economics* in 2008 and 2011

Fritsch, M. 2008, “How does new business formation affect regional development? Introduction to the special issue,” *Small Business Economics*, 30:1-14.

Dejardin, M. and M. Fritsch 2011, “Entrepreneurial Dynamics and Regional Growth, : *Small Business Economics*, 36:377-382.

# A Conceptual Framework

(Fritsch, 2008; fig. 1, p. 3)



Fritsch, M. 2008, "How does new business formation affect regional development? Introduction to the special issue," *Small Business Economics*, 30:1-14.

# Summary of European Work



- In general, a positive effect of regional start-up activity, on *employment* growth
- But the effect varies across space, and over time, and by industry sector
- Effects usually occur within a time lag of up to 10 years
- Research questions remain, including effects on variables other than employment only

# Independent Effects of U.S. Self-Employment or Entrepreneurship

- Consider effect of self-employed on:
  - Wage-and-salary employment (by sector)
  - Per capita income; Poverty rates; Population
  - Also consider effect of *local* firm ownership, as well as big stores (e.g., chains, big-boxes)
- Note that self-employment/proprietorships are used interchangeably
- Estimation strategy: effect of baseline (initial) self-employment on *subsequent* econ. growth

$\Delta \text{Econ. Cond.}_{(t+n)} = f(\text{Self-Employment}_t, \text{other factors}_t); n=\text{time delay}$

# Effect of (lagged) growth in self-employment rate on jobs growth

- Different points on business cycle, county data:
  - 1985-89; 1990-94; 1995-99; 2000-04
- Raising the rate of growth of self-employed per total workforce from 2.3% to 3.3%, would have expanded job growth by 50%

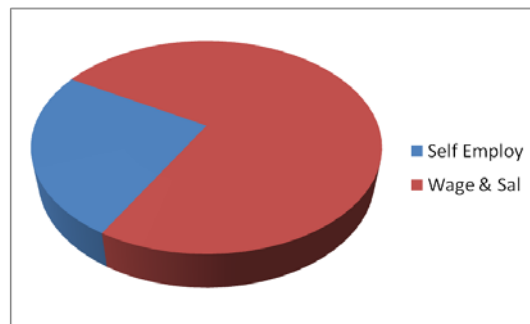
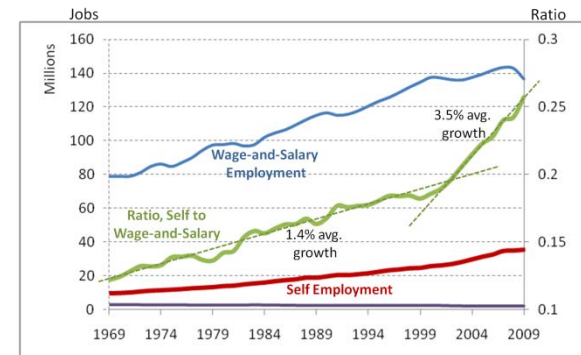


Fig. 5: Self-Employment, Wage-and-Salary Employment, and Ratio, 1969-2009



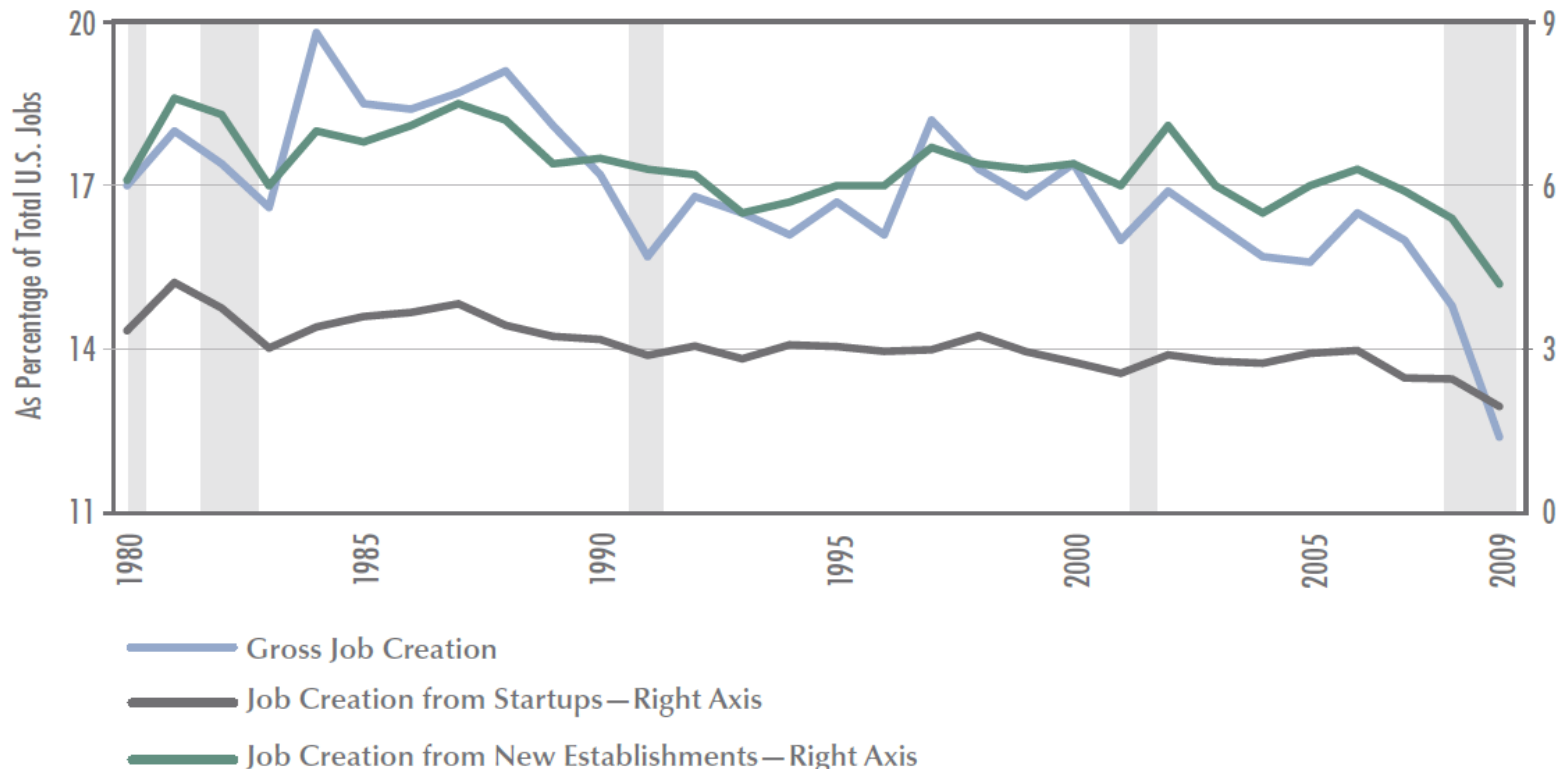
– Effect is weaker during contractions (1/4)

Shrestha, S.S., S.J. Goetz, and A. Rupasingha (2007), "Proprietorship Formations and US Job Growth," *Review of Regional Studies*. 27(2): 146-168.

Job creation and job destruction tend to move in opposite directions during expansions and contractions.

Figure 2

Job Creation and Business Startup Rates, U.S. Private Sector



Haltiwanger, J., R. Jarmin and J. Miranda (2011), “BDS Briefing: Historically Large Decline in Job Creation from Startup and Existing Firms in the 2008-2009 Recession,” Kauffman Fdn., 4 pp.

6. In Figure 2, the job creation from startups is the job creation from new firms. The job creation from new establishments in Figure 2 is from new firms and new establishments of existing firms. So, the former is a subset of the latter. Both are subsets of overall job creation. Between 2006 and 2009, job creation from all new establishments and from startups declined by 2.47 million jobs and 1.22 million jobs, respectively. The implied decline in job creation from new establishments of existing firms is 1.25 million jobs. Overall job creation declined by 4.88 million jobs.

# Effect of Microenterprises on Growth

Deller & McConnon (2009)

- Panel of 48 lower U.S. States, 1977-97
- Micro-enterprises: 1-4 workers; share of all firms
- Effect on popln., employment, income growth
- Strong statistical effect overall:
  - Increased per capita income, employment growth
  - Reduced population growth
- BUT: only services production increases income and employment, not population
- Goods-producing firms □ lower population, employment growth; no effect on income growth

Deller, S. and J.C. McConnon (2009), "Microenterprises and economic growth: a panel study of the US states 1977-1997," *Applied Economics Letters*, 16, 1307-12.

# Kauffman Entrepreneurship Index (KEI) and overall employment growth

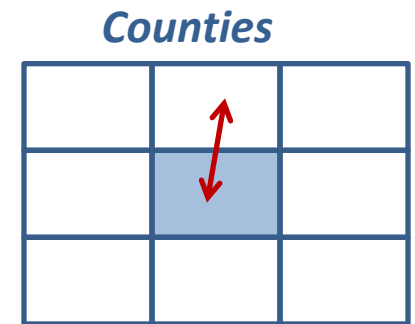
- State-level study of the effect of KEI (2000) on employment growth, 2000-2007
- KEI: % of individuals starting a new business in the last month; March CPS; avg. = 0.298%
- In this period, employment grew by 6.63%
- If the KEI had been 0.1 points higher, at the mean (0.398 vs. 0.298), the rate of job growth would have been 7.80% instead



Goetz, S. J., M.D. Partridge, D. S. Rickman and S. Majumdar (2011), "Sharing the Gains of Local Economic Growth: Race to the Top vs. Race to the Bottom Economic Development." *Environment and Planning C: Government and Policy*. 29(3): 428-456

# Effect over decade of 1970s, 1980s and 1990s of self-employment rates

- Using a fixed effects, “Spatial Durbin Model”
- Direct & indirect effects on:
  - Wage and salary jobs
  - Per capita income; poverty rates
- Statistically significant effects, in expected directions, for all cases except metro/poverty
- However, for metro/poverty case, the *indirect* effect is negative: 0.298 perc. pts. per 1 st.dev.

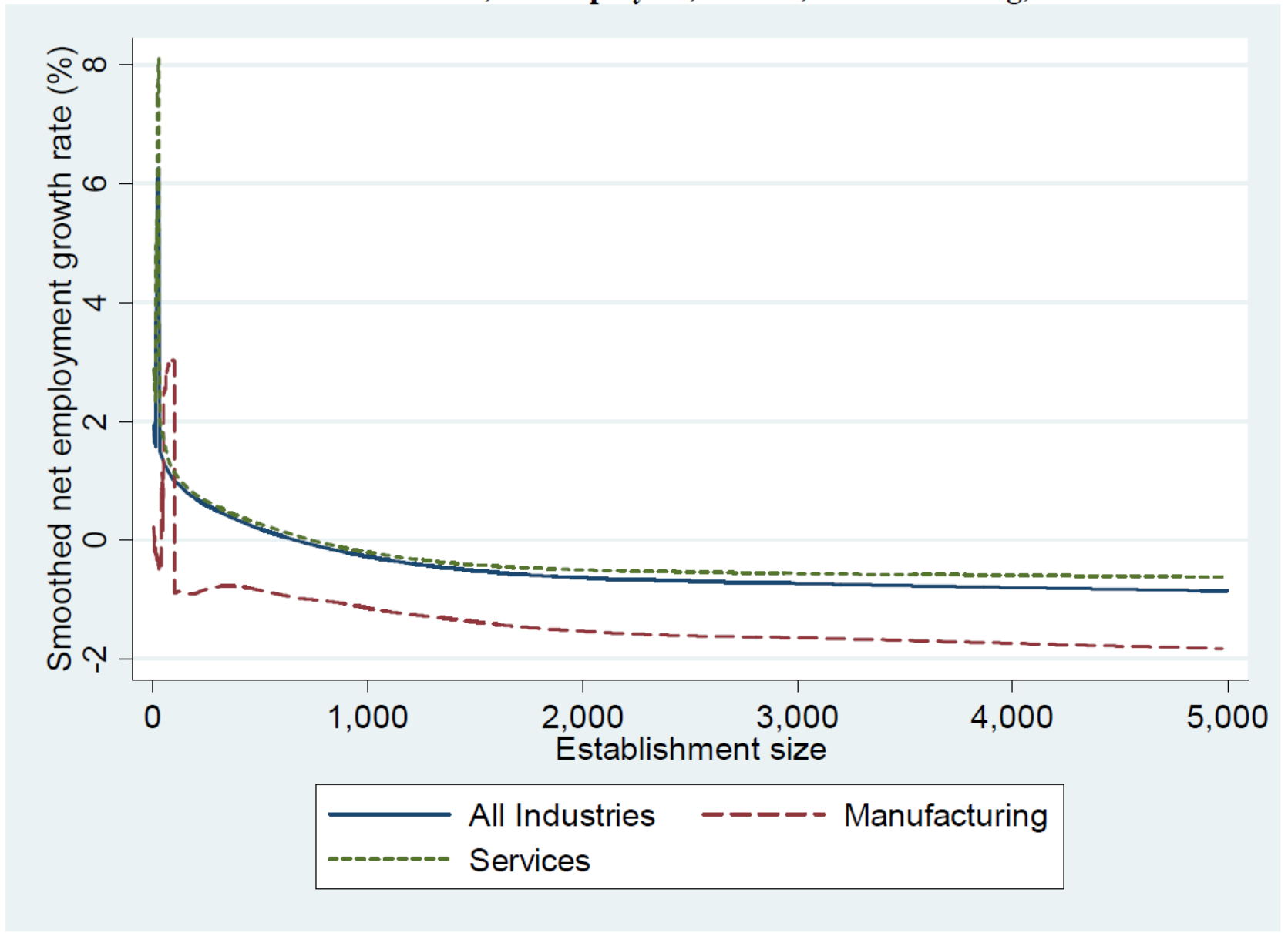


# Do Smaller Businesses Create More New Employment?

- Reinvestigate the work of Birch (1987)
  - National Establishment Time Series (NETS)
  - For 1992-2004; 14.7 mn. Establishments
  - Consider gross job creation, destruction, & net
- “Small businesses *do* create more jobs” (p. 22)
  - The more recent data suggest that “a negative relationship between establishment size and job creation holds for both the manufacturing and services sectors.”

Neumark, D., B. Wall and J. Zhang, (2011), “Do Small Businesses Create More Jobs? New Evidence for the United States from the National Establishment Time Series,” *Review of Economics and Statistics* 93(1): 16–29.

**Figure 2: Net job creation rate vs. establishment size (10% bandwidth), establishments between 5 and 5,000 employees, overall, manufacturing, and services**



Source: Neumark et al. (<http://ftp.iza.org/dp3888.pdf>)

# Effect of Small, Locally-Owned Firms

- Effect on per capita income growth; counties
- Differentiated by firm size, ownership
  - Average number of firms per 1,000 population:

	Employees per firm			
<i>Ownership</i>	1-9	10-99	100-499	500+
Local	43.30	4.63	0.20	0.02
Not-Local	1.50	0.87	0.16	0.02

- Small, locally-owned firms raise per capita income by \$285; large, not locally-owned firms *depress* income by \$1,646 and \$4,649

Fleming, D. and S.J. Goetz (2011), "Does Local Firm Ownership Matter?" *Economic Development Quarterly*. 25(3), August: 277-81.

# Summary and Conclusion

## And, What are the Alternatives?

- Kauffman Foundation: promoting \$ 1bn firms\*
- \$ 527mn loan guarantees to maker of solar power arrays as part of the 2009 stimulus; ~1,000 employees laid off (*NYT* Sept 1, 2011)

The logo for SOLYNDRA, featuring the word "SOLYNDRA" in blue capital letters with a registered trademark symbol. To the left of the "O" is a stylized sun icon with three yellow rays.



- **Vs. investing in the self-employed:**

*Strong, consistent empirical evidence of positive impacts on multiple economic indicators*

\*Litan, R.E. (2010) *Inventive Billion Dollar Firms: A Faster Way to Grow*, Kauffman Fdn, 11pp.

# New Resource

- Forthcoming book by Richard Greenwald, *the Death of 9-5*, Bloomsbury (publ. next year)

# Contact: Stephan Goetz

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<http://nercrd.psu.edu>



# Thank You!

- Mark your calendars for the upcoming webinars of this season – 2<sup>nd</sup> Thursday, 2:00pm (ET)
- **October 13<sup>th</sup>:** *“Disaster Planning for Your Business”*
- Evaluation @
- <http://is-nri.com/take?i=168834&h=khC21Bsm5Cnhc4wdvZZa9g>