How Important Are Small Businesses in the Tenth District?

By Jason Henderson

Small businesses were widely recognized in the 1980s as the driving force behind economic growth. One benchmark study estimated that small firms accounted for 80 percent of all new jobs in the nation in the late 1970s.[1] Analysts predicted that small businesses would continue to provide most new jobs as the economy became more service-oriented and therefore dominated by firms that tended to be smaller in scale.

The desire to promote small businesses as an engine of job growth was partly responsible for efforts in the mid-1980s to overhaul the tax system and deregulate business. Since then, election campaigns and congressional debates have continued to place small businesses and job growth together in the public eye.

Today, improved access to additional data allows a comprehensive look at the importance of small businesses in the Tenth District economy. Small firms continue to be the primary source of total jobs in the district, accounting for 60 percent of all jobs in 1994. But not all sectors of the district economy favor small firms. For instance, small firms in 1994 accounted for less than a third of all manufacturing jobs in the district. Therefore, in their efforts to promote job growth policymakers should not overlook the contribution that large firms can make in some key sectors.

How important are small firms in the Tenth District?

Small firms are even more important job providers in the Tenth District than in the nation. In 1994 small firms accounted for roughly 60 percent of jobs in the district, compared with roughly 55 percent at the national level (Chart 1). Small firms are defined as establishments with less than 100 employees. County Business Patterns data allow for the identification of small firms. This data, released earlier this year, provided aggregated state level employment by establishment size and industry to 1994, the most recent year of available data.

In the Tenth District, small firms were the largest job providers in 1994. Small firms provided at least 60 percent of all jobs in all district states except in Nebraska and Missouri, where they accounted for 58 and 54 percent, respectively. In Wyoming, small firms provided 75 percent of jobs in 1994, the largest share among district states.

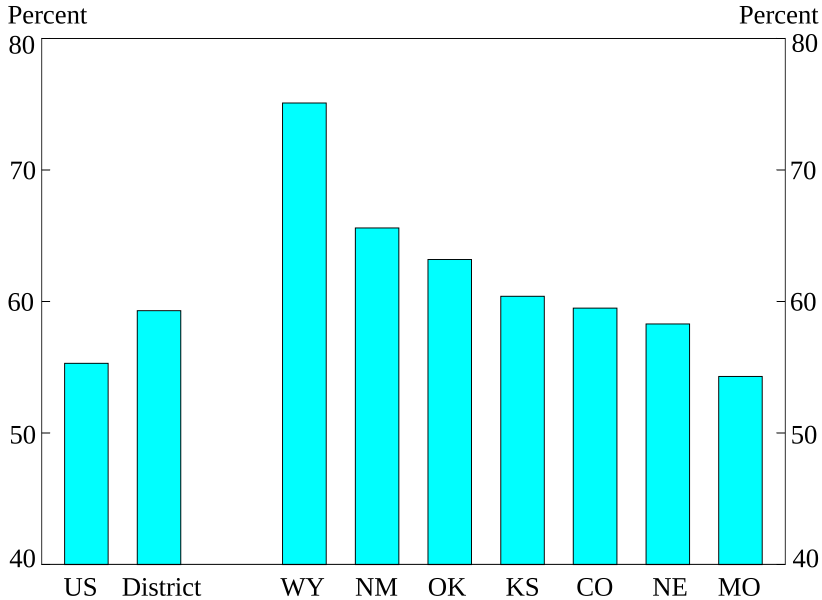
Although small firms are the largest job providers in the Tenth District, their importance varies among industries. This article focuses on manufacturing, retail trade, and service industries because they account for 72 percent of all private sector jobs. In manufacturing, small firms provided a small but expanding share of jobs in 1994 as corporate downsizing continued to sweep through the manufacturing sector. In retail trade, small retailers remained the overwhelming source of jobs, although general merchandise stores, such as Wal-Mart, expanded throughout the district. In the service sector, small firms provided a majority of service sector jobs despite expansions of large business and health service firms across district states.

How important are small firms in manufacturing?

Small firms are a small but growing source of manufacturing jobs in the Tenth District. In 1994, small manufacturers accounted for just 30 percent of all manufacturing jobs, up slightly from previous

[1] Birch, D.L. 1981. “Who Creates Jobs?” *The Public Interest*, Fall, pp. 3-14.

Chart 1
Small Firms' Share of Jobs, 1994



years (Table 1). The slight increase is due to strong job growth associated with corporate downsizing in the manufacturing sector. Corporations downsized in the 1980s to concentrate on core competencies by outsourcing production and some services, in part to avoid high wages associated with unions. Outsourced production led to stronger job growth and an advancing share of manufacturing employment among small firms.

In most district states, small firms did not account for a large portion of manufacturing jobs in 1994, but in the mountain states small firms were more important. In Wyoming, small firms accounted for 63.3 percent of all manufacturing jobs in 1994. In New Mexico, small firms accounted for 40.7 percent of all jobs, down slightly from previous years as large high technology firms expanded into the state. In Colorado, small manufacturers accounted for about a third of all jobs, with job gains concentrated among high tech companies and printing and publishing firms. In Oklahoma, small firms accounted for about a third of manufacturing jobs with gains in small, durable manufacturing firms. In Nebraska, small firms provided only about a quarter of manufacturing jobs as expansions in the food processing industry were concentrated among large manufacturers. Small firms in Kansas and Missouri also provided only about a quarter of manufacturing jobs.

How important are small firms in retail trade?

Despite expansions by general merchandise stores, small retailers continue to be the overwhelming provider of retail trade jobs. Small firms provided 77.9 percent of all jobs in the retail trade sector in 1994. Small firms accounted for slightly lower shares of employment than in previous years, however, as larger stores such as Walmart outpaced small retailers in terms of job growth. The larger stores exploited cost advantages arising from bulk purchasing, highly developed inventory management techniques, and the concept of "one stop shopping" to post gains in the retail market.

Table 1

Small Firms' Share of Jobs, 1994

Industry	District	Colorado	Kansas	Missouri	Nebraska	New Mexico	Oklahoma	Wyoming
Total	59.3	59.5	60.4	54.3	58.3	65.6	63.2	75.1
Manufacturing	29.9	34.7	26.6	26.8	26.2	40.7	34.1	63.3
Retail Trade	77.9	75.4	77.6	75.8	77.6	80.6	82.0	91.1
Service	54.7	54.1	59.9	50.3	52.4	56.2	58.8	67.1
Construction	82.5	79.7	83.9	80.2	87.3	80.0	88.2	91.7
Wholesale Trade	77.5*	75.6	80.2	74.5	77.9	87.3*	78.3	91.7
Transportation, Communications, and Public Utilities	47.0	37.7	54.5	43.3	59.1	52.2	51.6	68.7
Finance, Insurance, and Real Estate	64.3	65.0	68.2	57.2	54.5	75.5	75.4	88.8

* Data is estimated due to disclosure problems in New Mexico for establishments with 50-99 employees.

Source: County Business Patterns 1994

In all district states, small retailers accounted for more than 75 percent of all jobs in 1994. In Wyoming, small retailers accounted for 91.1 percent of retail jobs, the largest share among district states. The lowest share in the district belonged to Colorado, where small firms provided 75.4 percent of retail trade jobs.

How important are small firms in service?

Small firms were the largest provider of service sector jobs in 1994. However, recent expansions of large business and health service firms have slowly been eroding small firms' share. Small firms accounted for 54.7 percent of all service jobs in the district in 1994, down modestly from previous years due to expansions in business service firms and health service consolidations. Small firms accounted for 45.9 percent of business service jobs in 1994, but only 36.4 percent of health service jobs.

In all district states, small firms provided over half of all service jobs in 1994, despite strong gains among large business and health service providers. In Wyoming, small firms accounted for 67.1 percent of service sector jobs in 1994, notwithstanding the impressive job gains among large health service firms. In Kansas and Oklahoma, small firms' share of service jobs fell to 60 percent in 1994 as job gains were concentrated in large business service firms. In Nebraska, New Mexico, and Colorado, large job gains in computer service firms and large health service firm lowered small firms' share of jobs to roughly 55 percent in 1994. The lowest share of jobs provided by small firms belonged to Missouri, where small firms accounted for just over half of service sector jobs.

How important are small firms in other industries?

While manufacturing, retail trade, and service industries accounted for about three-fourths of all private sector jobs in 1994, small firms also played important roles in other district industries. In construction; wholesale trade; and finance, insurance, and real estate small firms were the largest job providers. In construction, small firms accounted for 82 percent of jobs. In wholesale trade, small firms provided over three fourths of all jobs. In finance, insurance, and real estate, small firms provided nearly two thirds of all jobs. In transportation, communications, and public utilities, small firms accounted for nearly half of all jobs.

Conclusion

While small firms were the largest employers in the Tenth District in 1994, they were not the dominant employer in every sector. Small firms have capitalized on corporate downsizing to gain a larger share of manufacturing jobs, but small firms still accounted for less than a third of jobs in that sector. Small firms are the overwhelming provider of retail trade jobs despite general merchandise store expansions. And, small firms are the largest provider of service sector jobs although job gains were recorded by large business and health service providers.

The assumption born in the early 1980s that economic growth is driven by small business development is misleading in some cases. Moreover, large firms are providing larger shares of jobs in retail trade and service, industries where small firms have dominated in the past. Therefore, it is important to recognize that economic development policies focusing solely on small business development may ignore the important role large firms can play in key economic sectors.

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