Community Economic Development

Rethinking How We View Economic Growth and Development in Wisconsin

While the Great Recession was devastating to many states, Wisconsin faired reasonably well. Naturally, Wisconsin lost jobs and witnessed the unemployment rate peak at 9.2% in December 2009 (the U.S. peak was 10.0% in October 2009), but more importantly the state has struggled in the years after the end of the Great Recession. Job and income growth has been painfully slow. From an economic growth and development policy perspective this slow recovery begs the question what are the sources of growth for Wisconsin. Traditionally we address this question by exploring employment and income data across different industries such as manufacturing, tourism and health care. An alternative way to think about answering this question is to look at the nature of businesses in Wisconsin and rephrase the question a little differently: is growth coming from larger or smaller businesses, older or newer businesses regardless of the industry?

The answers to these questions can have significant impacts on economic growth and development policies and strategies at both the state and community level. If growth is flowing from older established large businesses then policies and strategies move in one direction. If, alternative, growth is flowing from newer small businesses then policy and strategies must flow in another direction. To gain insights into the questions we explore the Wisconsin data from the U.S. Census Bureau's Business Dynamic Statistics, the Nonemployer Statistics, and County Business Patterns. Some of the key findings of this analysis are:

- In 2013, just 29% of all businesses in Wisconsin had payroll or wage/salary employees. The remaining 71% are nonemployers, sole proprietorships or partnerships with no payroll employees.
- Since 2000 the number of nonemployer businesses has increased by 25% while at the same time the number of businesses with payroll employees slightly declined.
- While the vast majority of businesses in Wisconsin are of the nonemployer type, with a higher concentration in more rural parts of Wisconsin, the state ranks 41st nationally and has a smaller share of these small business than our neighboring states.
- For Wisconsin in 2012, 91% of job creation came from business with less than 500 employees (the U.S. Department of Commerce's Small Business Administration defines a "small business" as having less than 500 employees). This compares to about 86% for the U.S. and is higher than any of our neighboring states.

- Businesses with less than 100 employees accounted for 78% of job creation in 2012 which is consistent with patterns over the previous ten years. Firms with less than 10 employees accounted for 28% of job creation.

- Firms that were five years or younger accounted for 46.5% of all job creation in 2012, which is slightly lower than the average over the prior ten years. Only 18% of job creation came from business that were older than 25 years.

- New start-up businesses accounted for slightly more than one in four (26.9%) new jobs created in 2012, which is at a slower job creation rate over the prior ten years.

- Wisconsin ranked 47th in the nation in 2012 in terms of the share of jobs created from new business start-ups.

- Looking over the 1998 to 2007 period (businesses started in 2007 would turn five in 2012, the most recent year of data available) 62.4% of new business start-ups in Wisconsin survived through their third year and 51.6% survived through their fifth year. This survival rate is better than the U.S. average and most of Wisconsin's neighbors save for Iowa (which has nearly identical survival rates).

- Comparing job creation along with job destruction (firms closing or laying off workers) the number of jobs lost has almost completely counter-balanced the number of jobs created for all business categories except for new business start-ups. In 2012 nearly all of the net new job creation has come from new start-ups.

Economic growth and development policy goals should be multifaceted including questions about economic opportunities, the quality of those opportunities and the sustainability of those opportunities. Increasingly one of the more important economic opportunities is recognizing that an increasing number of people are pursuing small business start-ups. Policies focused purely on wage-and-salary jobs ignore an important trend over the last 10 years in the economy.

Recent research shows that the long-standing policy focus on small businesses is somewhat misplaced. In fact, the evidence suggests that business age, not size, is key to understanding job creation. Young firms, particularly start-ups, generate a disproportionately large share of new jobs. It is true that young businesses are generally small and survival rates low, but it is new business formation that is more closely tied to job creation.

Should economic development policies and strategies at the state and local level ignore older and larger firms? No, they can and do play an important role. But increasingly, the role of new smaller start-ups is becoming more important in creating economic opportunities. It would be tactical if economic development efforts better reflected this growing importance of small business start-ups.

Locally grown business start-ups, most of which tend to be small, are a vital source of job creation. Our economic growth and development policies and limited resources must be recrafted to reflect that important business dynamic.

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