Small Businesses Impact Our Economy

Every week I write about “small businesses” and recently several readers have asked me again to give an “update” on what I am including in the term “small business” and how much of an impact they are to our economy. I will rely on the Small Business Administration’s information for this article and specifically their office of Small Business Advocacy for these data. I encourage interested readers to go to their site for more details.

To begin this update, I will start with the first question, what is a small business? The Office of Advocacy defines a small business as an independent business having fewer than 500 employees. (The definition of "small business" used in government programs and contracting varies by industry; see www.sba.gov/size.)

How important are small businesses to the U.S. economy? Small businesses:

- Represent 99.7 percent of all employer firms.
- Employ half of all private sector employees.
- Pay 44 percent of total U.S. private payroll.
- Generated 65 percent of net new jobs over the past 17 years.
- Create more than half of the nonfarm private GDP.
- Hire 43 percent of high tech workers (scientists, engineers, computer programmers, and others).
- Are 52 percent home-based and 2 percent franchises.
- Made up 97.5 percent of all identified exporters and produced 31 percent of export value in FY 2008.
- Produce 13 times more patents per employee than large patenting firms.

How many small businesses are there? In 2009, there were 27.5 million businesses in the United States, according to Office of Advocacy estimates. The latest available Census data show that there were 6.0 million firms with employees in 2007 and 21.4 million without employees in 2008. Small firms with fewer than 500 employees represent 99.9 percent of the total (employers and non employers), as the most recent data show there were about 18,311 large businesses in 2007.

What is small firms’ share of employment? Small businesses employ about half of U.S. workers. Of 120.6 million nonfarm private sector workers in 2007, small firms employed 59.9 million and large firms employed 60.7 million. About half of small firm employment is in second-stage companies (10-99 employees), and half is in firms that are 15 years or older. Small firms’ share of employment in rural areas is slightly higher that in urban areas; their share of part-time workers (22 percent) is similar to
large firms’ share (19 percent). Small firms’ employment share remains steady since some small firms grow into large firms over time.

**What share of net new jobs do small businesses create?** Small firms accounted for 65 percent (or 9.8 million) of the 15 million net new jobs created between 1993 and 2009. Much of the job growth is from fast-growing high-impact firms, which represents about 5-6 percent of all firms and are on average 25 years old.

Next week I will share some information on how many small businesses open and close each year and how they are financed.

If you need help with your small business, contact SCORE, mentors to America’s Small businesses. They provide free, confidential counseling as well as informational seminars.

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