Fiscal Research Center

policybrief

October 2011, Number 237

IMPACT OF SMALL BUSINESS ON THE GEORGIA ECONOMY

Introduction

Small business growth is often touted as the driving force of the economy. Many economists and politicians alike believe encouraging small business ventures is essential to creating a strong and stable economy.

In 2009, 90 percent of all private businesses in Georgia had 25 or fewer employees, and 98 percent had 100 or fewer employees.[1] Because of Georgia's reliance on small businesses, it is important to understand how this part of our economy varies by region and industry within the state, both in terms of employment and wages.

The purpose of this brief is to illustrate the impact of small business on the Georgia economy in terms of establishment size, total employment, and total payroll by industry and location across the state. The information presented in this brief provides a snapshot of the contribution of small businesses relative to other businesses in the Georgia economy. Furthermore, by observing trends in small business employment and wages over time, readers gain insight as to the effect of the recent economic downturn on establishments and employment.

Data

This brief utilizes data from the Bureau of Labor Statistics Quarterly Census of Employment and Wages (QCEW, formerly referred to as ES-202) data from 1999 to 2009. This data includes information from every establishment operating in the state with employees who are covered by the Unemployment Insurance program or Unemployment Compensation for Federal Employees program.[2] This refers to (1) private establishments with 1 or more employees working 20 or more calendar weeks or if the total quarterly gross payroll is $1,500 or more, (2) agricultural businesses with 10 or more employees working 20 or more calendar weeks or if the total quarterly cash remuneration is $20,000 or more, (3) domestic service businesses held at private homes, clubs, or fraternities or sororities if the total quarterly cash remuneration is $1,000 or more, and (4) 501(c)(3) nonprofit organizations with 4 or more employees working 20 or more calendar weeks.[3] Information on wages includes all remuneration for personal services rendered by the employee in the quarter in which the payment was made but does not include employer contributions to employee retirement plans. In addition, wages given to unauthorized workers are not included in the documented wages paid by the employer.

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Although the data comprehensively represent those who are eligible for the program, it does not include self-employed individuals, sole proprietors, partners, domestic workers getting paid less than $50, unpaid workers, agents with wages based only on commission, railroad workers, members of the Armed Forces, elected officials or members of a legislative body or the judiciary, learning-based workers and trainees, newspaper carriers under 18 years old, inmates at prisons or correctional facilities, or temporarily laid-off workers. As self-employed and proprietary businesses are a growing area of small business growth, the calculated analysis may not represent the full extent of the impact of small businesses.

Methodology

Because over 98 percent of all establishments in 2009 in Georgia have 100 or fewer employees, this analysis defines small businesses as establishments with fewer than 25 employees in order to examine more closely the differences between sizes of establishments. The analysis is limited to establishments in the private sector.[4] There were a number of establishments with unknown or unreported industry or county codes. These observations were excluded from the county and industry analyses.[5]

The data contains information for businesses applying for unemployment insurance during the years of 1999, 2005 and 2009. For many reasons, 2009 may not be an appropriate comparison year for 1999 or 2005, but because it is the most recent year of data available in the dataset, it is included in the analysis. Like most states across the country, Georgia endured two recessions over this time period (2002-2003 and 2007-2009) which has disturbed the general trend of economic development and may have affected some businesses more than others and in different ways.

Analysis

Figure 1 shows total employment in Georgia in 1999, 2005, and 2009 broken down by size of business establishment. Several key points are apparent from this data. First, on a combined basis, small establishments employ as many workers as larger establishments and more than those defined as large employers. Second, small establishments account for a larger share of employment in 2009 (32 percent) than they did in 1999 (29 percent) as shown in Figure 2. Third, firms in all establishment sizes lost employment in 2009, but the greatest losses were in the large establishment sector.

This overall distribution of employment is also seen in terms of the number of establishments by size. In this case, though, the distribution is extremely skewed with small establishments making up 88 percent of all establishments in 1999 and 90 percent in 2009.

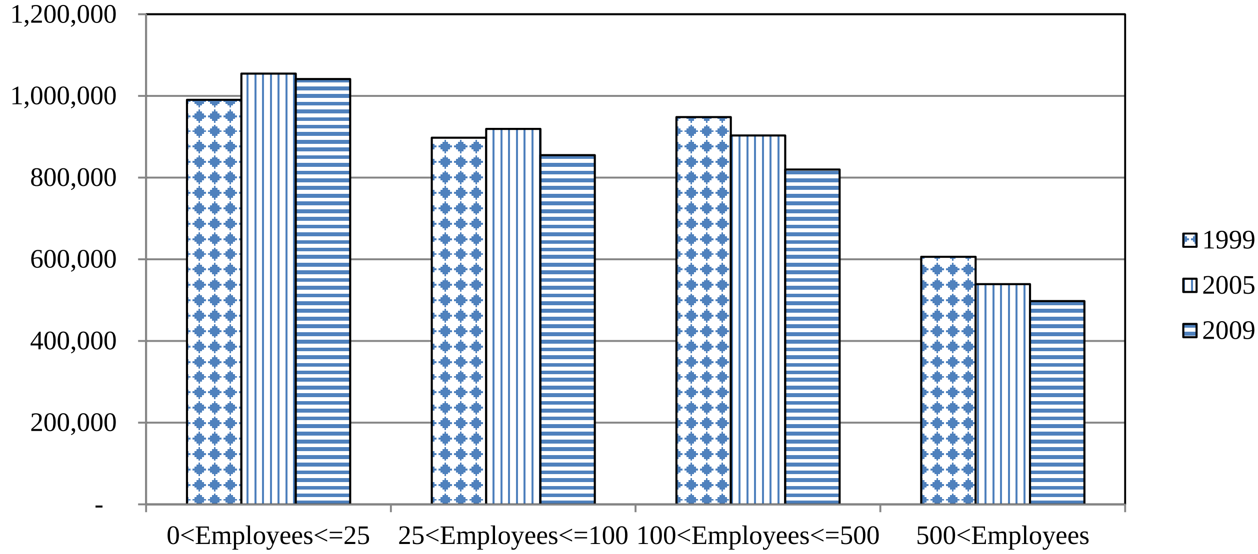
As shown in Figure 3, inflation adjusted average wages are distributed in a bimodal pattern, with the smallest and the largest establishments providing the highest average wages during these three years. Overall, there has been a trend toward higher wages between 1999 and 2005 across all establishment sizes but as expected given the economic conditions of 2009, this trend was not continued in 2009. Average wages for the two medium size establishment groups rose only slightly while average wages for the largest and smallest firm sizes declined.

Figure 4 shows the percent to which small establishments provide employment opportunities across the 12 transportation planning regions.[6] Of the 12 regions, the Atlanta Regional Commission (ARC) region has the lowest level of employment associated with small establishments at about 24 percent. On the other hand, there are three regions for which small establishments comprise about 40 percent of employment in 2009. These are the Heart of Georgia region, the Southwest GA region, and the Southern GA region. Furthermore, for all regions in the state, the share of employment associated with small establishments increased over the 1999-2009 period.

Some industries are more dominated by small establishments than others, as illustrated in Figure 5. For instance, Real Estate and Rental and Leasing or Other Services (except public administration) have well over 50 percent of employment associated with small establishments. On the other hand, small establishments account for only about 10 percent or less of employment in the utilities, manufacturing, company management and educational services industries. Over time for most industries there is a general trend toward greater dependence on small establishments. The clear exceptions are in agriculture and other services where the share of employment associated with small establishments has fallen over the 1999-2009 period.

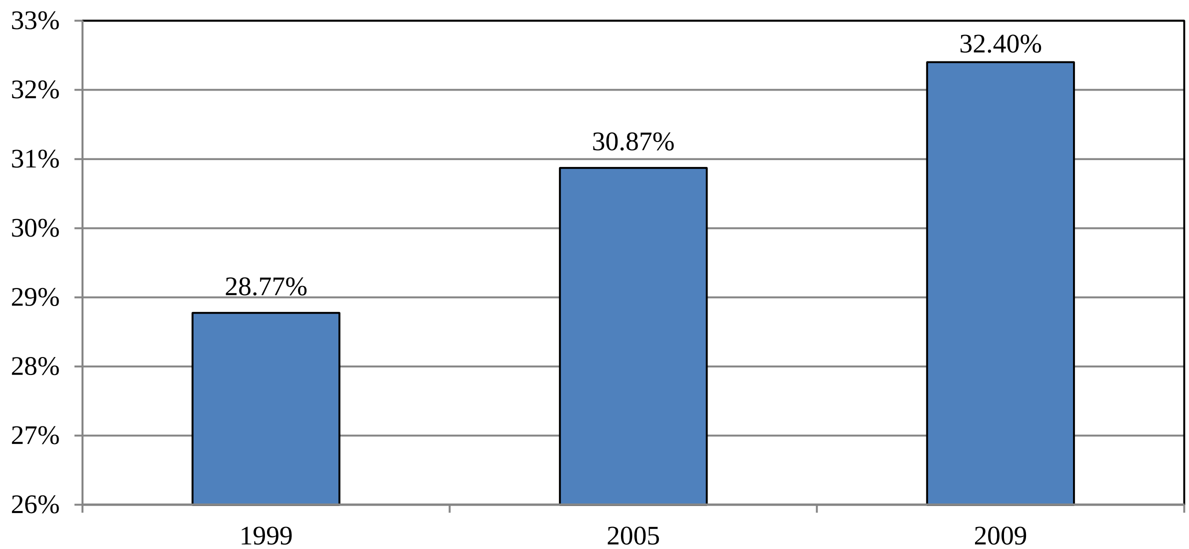
So far the analysis has assumed that establishment size remains constant over time. That, of course, is not true. To determine the effect of time on establishment size, establishments existing in 1999 are categorized by their employment size in 1999 and 2009. The results are shown in Table 1 which shows that 96 percent of small establishments in 1999 were still classified as small establishments in 2009. Perhaps just as interesting are the results for the other size categories. Given an establishment's size in 1999, it is more likely that the establishment fell in terms of employment instead of grew. For instance, a larger percent of establishments in the second and third size categories in 1999 experienced a decline in employment and a reduction in the size classification in 2009 than experienced an increase in their size

FIGURE 1. GEORGIA PRIVATE SECTOR EMPLOYMENT BY ESTABLISHMENT SIZE FOR 1999, 2005, AND 2009



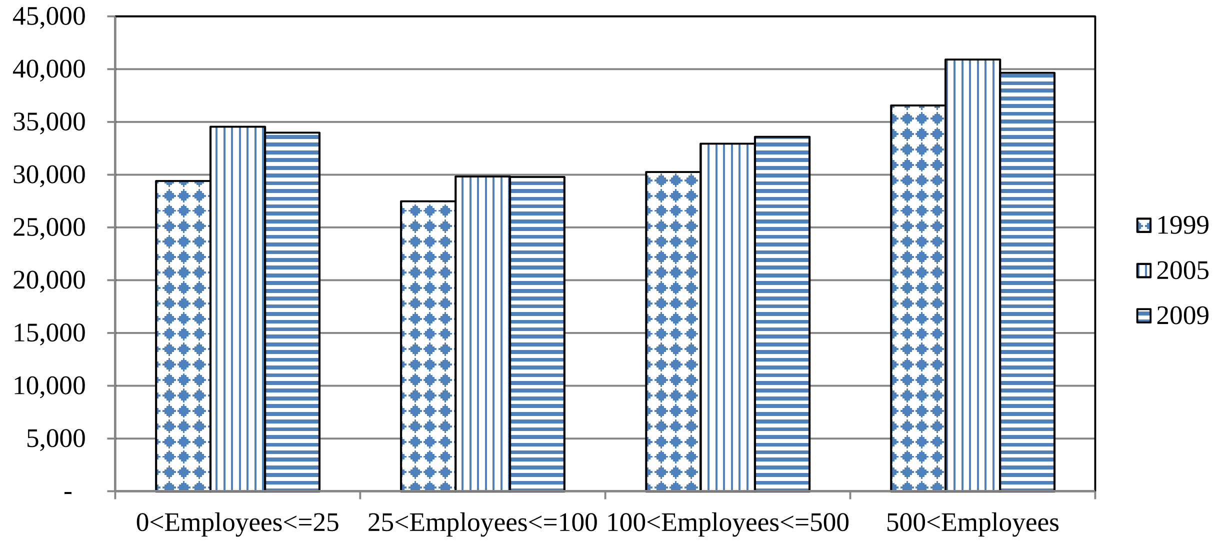
Source: Georgia Department of Labor unemployment insurance quarterly files, as compiled and computed by the Fiscal Research Center.

FIGURE 2. GEORGIA PRIVATE SECTOR EMPLOYMENT IN SMALL ESTABLISHMENTS AS A PERCENT OF TOTAL EMPLOYMENT



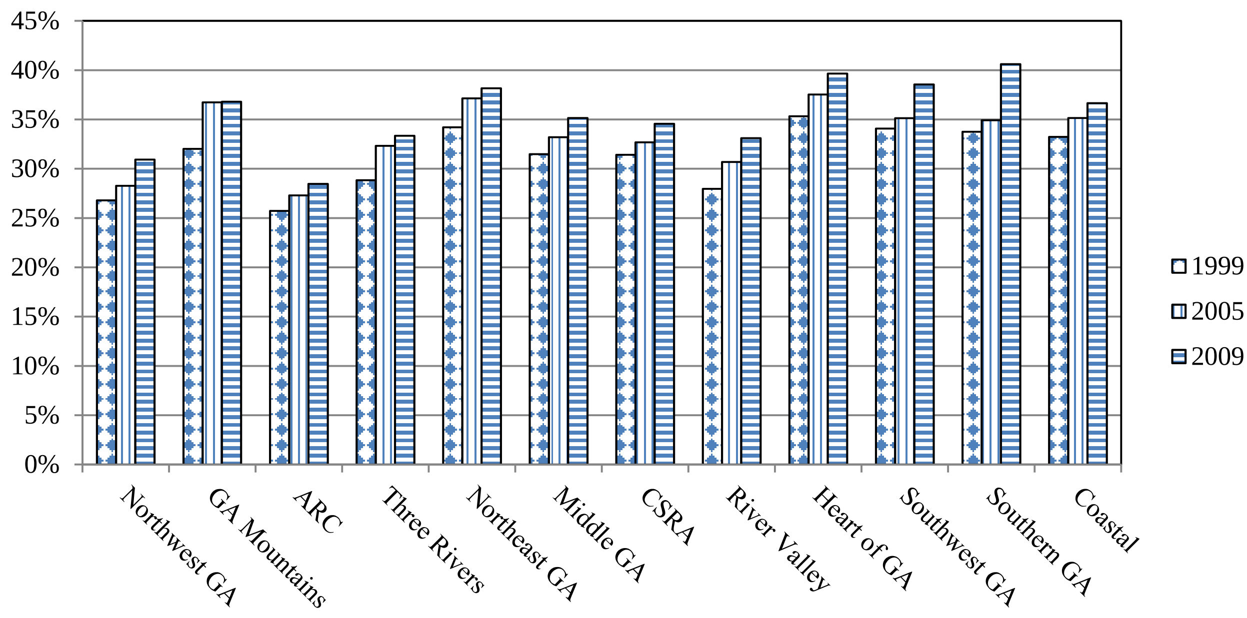
Source: Georgia Department of Labor unemployment insurance quarterly files, as compiled and computed by the Fiscal Research Center.

FIGURE 3. GEORGIA PRIVATE SECTOR INFLATION ADJUSTED AVERAGE WAGES BY ESTABLISHMENT SIZE IN 1999, 2005, AND 2009



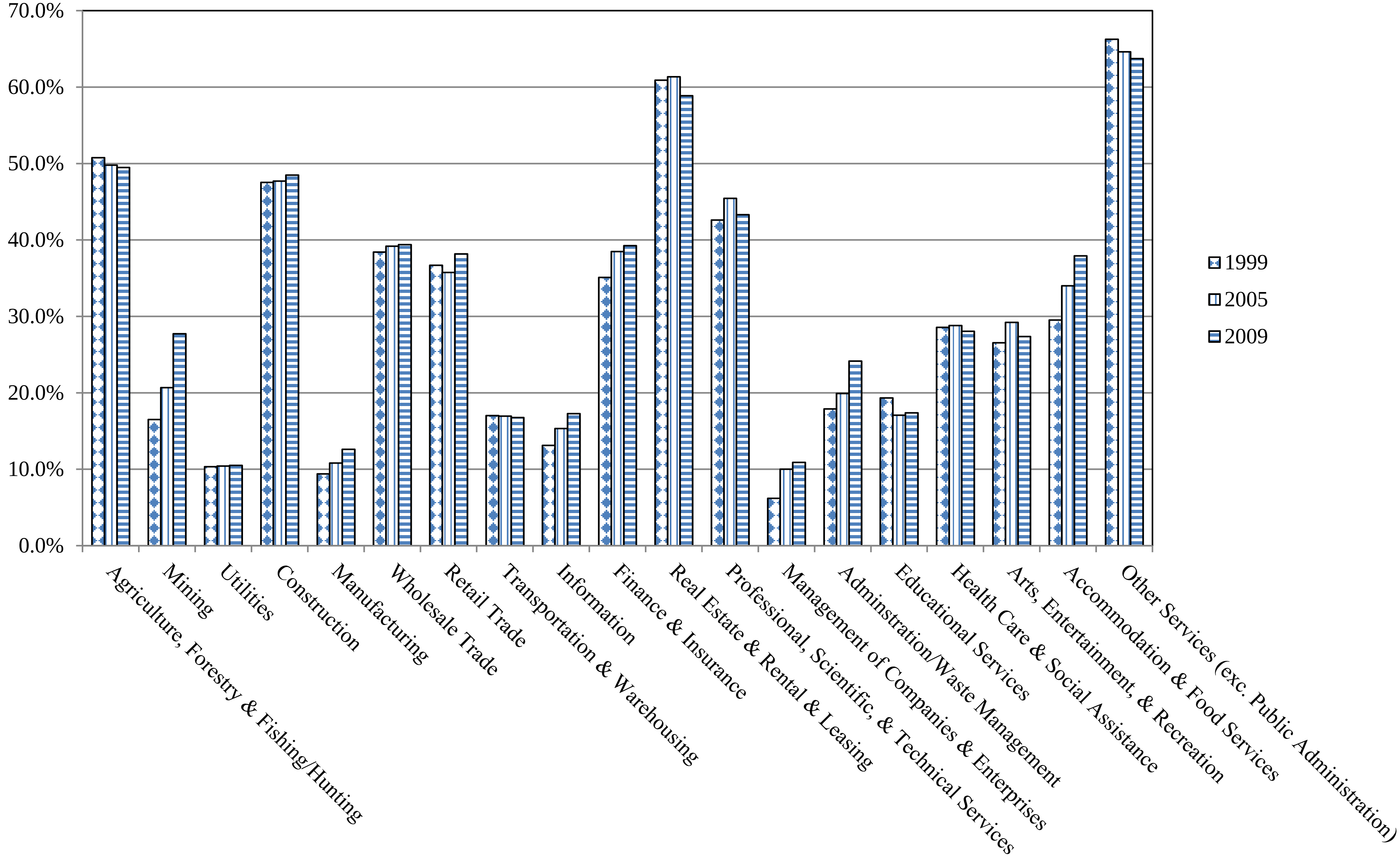
Source: Georgia Department of Labor unemployment insurance quarterly files, as compiled and computed by the Fiscal Research Center.

FIGURE 4. GEORGIA PRIVATE SECTOR EMPLOYMENT IN SMALL ESTABLISHMENTS AS A PERCENT OF TOTAL BY REGION FOR 1999, 2005, 2009



Source: Georgia Department of Labor unemployment insurance quarterly files, as compiled and computed by the Fiscal Research Center.

FIGURE 5. GEORGIA PRIVATE SECTOR EMPLOYMENT IN SMALL ESTABLISHMENTS AS A PERCENT OF TOTAL BY INDUSTRY FOR 1999, 2005, 2009



Source: Georgia Department of Labor unemployment insurance quarterly files, as compiled and computed by the Fiscal Research Center.

TABLE 1. DISTRIBUTION OF ESTABLISHMENT SIZE IN 2009 BASED ON ESTABLISHMENT SIZE IN 1999, GEORGIA ESTABLISHMENTS

Size in 2009/Size in 1999	Employment <=25	25<Employment <=100	100<Employment <=500	Employment >500
Employment <= 25	96%	4%	0%	0%
25<Employment<=100	35%	59%	6%	0%
100<Employment<=500	8%	28%	62%	3%
Employment>500	7%	2%	32%	58%

Source: Georgia Department of Labor unemployment insurance quarterly files, as compiled and computed by the Fiscal Research Center.

TABLE 2. PERCENT OF TOTAL JOB GAINS BY SIZE OF ESTABLISHMENT, U.S. ESTABLISHMENTS

	Employment <20	20<Employment <100	100<Employment <500	Employment >500
Quarter 4 1999	36.6%	23.6%	16.3%	23.4%
Quarter 4, 2005	39.9%	22.8%	14.6%	22.6%
Quarter 4, 2009	40.7%	22.1%	14.6%	22.6%

Source: Bureau of Labor Statistics, Business Employment Dynamics, extracted September 19, 2011 and calculated by the Fiscal Research Center. Total job gains exclude unclassified sector employment. Including unclassified sector employment in the calculation alters the value of the percentages for each size category but not the relative distribution of employment between size categories or over time.

classification. This general pattern held when comparing changes in size between 1999 and 2005 so that the 2009 result cannot be fully attributed to the downturn in the economy.

Table 2 shows an additional aspect of small business that is of interest to policy makers, that of job creation. The information shown in Table 2 reflects job gains at the national level organized by size of establishment.[7] Job gains are defined as employment created from opening an establishment or from expanding an existing establishment. While the data in Table 2 is not specific to Georgia firms, it is expected that Georgia establishments follow the same national pattern. This pattern indicates a growing reliance on smaller establishments for job gains and a reduction in the job gains from larger size firms.

Conclusion

Using establishment data from the Georgia Department of Labor and the Bureau of Labor Statistics, this brief illustrates the impact of small business on the Georgia economy, showing that about a third of all jobs in Georgia are associated with small businesses and that this share has been increasing over time. The data also reveal that wages associated with small businesses are not as high as the extremely large employers but are higher on average than the medium sized establishments. Additionally, the analysis underscores the need to consider the implications of economic development incentives on a regional and industry basis. As shown in Figure 4 and Figure 5, the dependence on small business varies by region within the state and even more so by industry. To this end, policy makers need to be cognizant of the impact of economic development incentives on small business and how those impacts can vary across industries and counties.

Notes

1. Computed by the Fiscal Research Center using data from the Georgia Department of Labor.

2. This data was obtained from the Georgia Department of Labor. Additional data cleaning was performed by the Fiscal Research Center. For these reasons, the underlying data may differ slightly from published totals from the Georgia Department of Labor.

3. Information on covered employment and wages was taken from the "Unemployment Insurance: The Employer's Handbook",published by the Georgia Department of Labor. Available electronically at www.dol.state.ga.us.

4. The definition of private sector used in this analysis conforms to the definition used by the Bureau of Labor Statistics and generally excludes government organizations, public enterprises, and public education.

5. The observations with missing industry and location data comprised between 8 and 10 percent of the number of establishments and about 3 percent of total employment in any one year.

6. **Region 1** (Northwest Georgia) counties: Bartow, Catoosa, Chattooga, Dade, Fannin, Floyd, Gilmer, Gordon, Haralson, Murray, Paulding, Pickens, Polk, Walker, Whitfield. **Region 2** (Georgia Mountains) counties: Banks, Dawson, Forsyth, Franklin, Habersham, Hall, Hart, Lumpkin, Rabun, Stephens, Towns, Union, White. **Region 3** (Atlanta Regional Commission) counties: Cherokee, Clayton, Cobb, DeKalb, Douglas, Fayette, Fulton, Gwinnett, Henry, Rockdale. **Region 4** (Three Rivers) counties: Butts, Carroll, Coweta, Heard, Lamar, Meriwether, Pike, Spalding, Troup, Upson. **Region 5** (Northeast Georgia) counties: Athens-Clarke, Barrow, Elbert, Greene, Jackson, Jasper, Madison, Morgan, Newton, Oconee, Oglethorpe, Walton. **Region 6** (Middle Georgia) counties: Baldwin, Bibb, Crawford, Houston, Jones, Monroe, Peach, Pulaski, Putnam, Twiggs, Wilkinson. **Region 7** (Central Savannah River Area(CSRA)) counties: Augusta-Richmond, Burke, Columbia, Glascock, Hancock, Jefferson, Jenkins, Lincoln, McDuffie, Screven, Taliaferro, Warren, Washington, Wilkes. **Region 8** (River Valley) counties: Chattahoochee, Clay, Columbus-Muscogee, Crisp, Dooly, Harris, Macon, Marion, Quitman, Randolph, Schley, Stewart, Sumter, Talbot, Taylor, Webster. **Region 9** (Heart of Georgia Altamaha) counties: Appling, Bleckley, Candler, Dodge, Emanuel, Evans, Jeff Davis, Johnson, Laurens, Montgomery, Tattnall, Telfair, Treutlen, Toombs, Wayne, Wheeler, Wilcox. **Region 10** (Southwest Georgia) counties: Baker, Calhoun, Colquitt, Decatur, Dougherty, Early, Grady, Lee, Miller, Mitchell, Seminole, Terrell, Thomas, Worth. **Region 11** (Southern Georgia) counties: Atkinson, Bacon, Ben Hill, Berrien, Brantley, Brooks, Charlton, Clinch, Coffee, Cook, Echols, Irwin, Lanier, Lowndes, Pierce, Tift, Turner, Ware. **Region 12** (Coastal Regional Commission) counties: Bryan, Bulloch, Camden, Chatham, Effingham, Glynn, Liberty, Long, McIntosh.

7. The data in Table 2 is for the U.S.. This data is not available at the state level by establishment size.

ABOUT THE AUTHORS

Julia Namgoong is a student at the University of California, Berkeley. Julia has a Major in Economics and a Minor in Public

Policy and will be graduating in December of 2011. During the summer of 2011, Julia returned to her home state of Georgia and participated in the AYSPS Research Experiences for Undergraduates (REU) Program. She had the opportunity to work with Dr. Laura Wheeler and Dr. Jim Marton for the duration of the internship program. Julia plans on pursuing a career in economic consulting and hopes to one day receive a Masters in Public Policy or a Ph.D in Economics.

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ABOUT FRC

The Fiscal Research Center provides nonpartisan research, technical assistance, and education in the evaluation and design the state and local fiscal and economic policy, including both tax and expenditure issues. The Center's mission is to promote development of sound public policy and public understanding of issues of concern to state and local governments.

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Impact of Small Business on the Georgia Economy

Publisher(s): Fiscal Research Center of the Andrew Young School of Policy Studies

Author(s): Julia Namgoong; Laura Wheeler

Date Published: 2011-10-12

Subject(s): Community and Economic Development