ShareThis

Jobs Created by Startup Companies Have Long -Lasting Economic Impact

Contact:
Rossana Weitekamp, 516-792-1462, rossana@weitekamp.com
Barbara Pruitt, 816-932-1288, bpruitt@kauffman.org, Kauffman Foundation

Firms launched during recession show resilience in job creation and durability

(KANSAS CITY, Mo.), August 2, 2010 – Startup companies, the nation's most promising source of new jobs, are critical to reducing the current 9.5 percent unemployment rate. Not only are startups responsible for net new job growth in the U.S. economy, but recent research from the Ewing Marion Kauffman Foundation shows that the majority of the employment they generate remains as new firms age, creating a lasting impact on the economy.

Conventional thinking on employment from startups is that many of the jobs they create evaporate as a high percentage of them fail only a few years later. The new study, "After Inception: How Enduring is Job Creation by Startups?" found, instead, that, while many new firms fail, destroying jobs, others also thrive and create jobs. This growth in employment partially balances out the jobs lost by closing and shrinking firms.

The jobs created when startups are established do not disappear overnight. In fact, they are remarkably durable. When a given group of startups reaches age five, the group's employment level is 80 percent of what it was when it began. In 2000, for example, startups created 3,099,639 jobs. By 2005, the surviving firms (half of those that had started) had total employment of 2,412,410, or about 78 percent of the jobs that existed when these firms were born.

The study bases its findings on an analysis of a Business Dynamics Statistics (BDS) dataset broken out by firm age to determine how total employment in startups changes as those companies age. The BDS, a U.S. government dataset compiled by the U.S. Census Bureau, tracks the annual number of new businesses (startups and new locations) from 1977 to 2005, giving data on firms and their establishments according to firm age for each of the first five years after the birth year and in five-year blocks thereafter.

By 25 years after firms start, only about 20 percent of them still exist, but the employment numbers appear to level off at around 68 percent of their initial values. The fact that establishments have decreased so rapidly yet employment has more or less leveled out means surviving firms continue to grow. Firms fail, but growth, even at these well-established firms, continues, keeping employment from dropping with the number of establishments.

"Even starting a company during a recession adversely affects the new firm for only a limited time," said Robert E. Litan, vice president of Research and Policy at the Kauffman Foundation. "While a recession has a negative effect on a company’s employment in its first few years, a recession does not impose lasting consequences on startups. By age five, these firms’ employment reaches roughly the same level as firms that were not started in recessions. So, firms started during the current recession can expect their employment to catch up with longer-term companies in the years to come."

Exposure to prolonged or repeated recessions, however, does adversely affect job creation. Firms that weather many recession years seem to consistently have lower levels of employment, the study showed, with startups surviving through three recession years having about 10 percent less employment than those surviving through none. This amounts to a difference of about 300,000 jobs, or around 0.2 percent of all jobs in the economy. While the number of jobs lost due to prolonged or repeated recessions appears to be small, these small differences might compound over the years and across groups of companies to create a lasting mark on the economy.

The current recession is the longest in several years; thus, startups established right before or at the beginning of the current recession might have been significantly affected. On the other hand, as the U.S. economy climbs its way out of recession, the cohorts of new firms started now likely will not be affected similarly, because they will have survived through fewer recession years.

Related Topics

Entrepreneurship
  Capital Markets Economics
  The Study of Entrepreneurship
Research and Policy
  The Study of Entrepreneurship

See Also

Business Formation

Learn More

- 

  Read *After Inception: How Enduring is Job Creation by Startups?* (PDF)

Initiatives

- Kauffman Foundation Research Series: Firm Formation and Economic Growth

---

Email Us | Privacy Policy/Terms of Use | Site Map