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I Z A
World of Labor
Evidence-based policy making

Firm age and job creation in the US

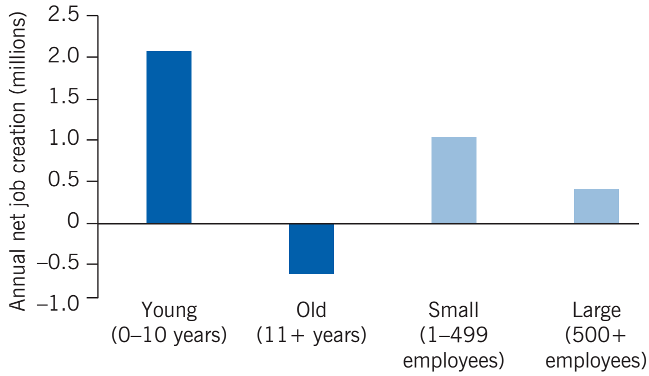
New businesses are essential to keep unemployment low, but start-ups need loans in order to create jobs

Keywords: entrepreneurship, employment, start-up, firm age, firm size, firm growth

ELEVATOR PITCH

Entrepreneurship is essential for a healthy labor market. Recent evidence shows that young businesses (at most ten years old) have, on average, accounted for all of US employment growth over the past few decades. New businesses are especially important for youth employment. However, these businesses tend to borrow a lot, and the credit constraints they face limit their ability to create jobs. Historically, much of the discussion regarding the economic importance of entrepreneurship has focused on small businesses. Empirical evidence increasingly suggests that, among small businesses, those that are young create the most jobs.

Average annual net job creation in the US



Note: Average over the years 1988–2018. Net job creation is job creation minus job destruction.

Source: Author's own calculations of Business Dynamics Statistics microdata. US Census Bureau. "Business Dynamics Statistics (BDS)" (2021) [1].

KEY FINDINGS

Pros

- Young businesses, on average, account for all recent US employment growth.
- Start-ups are especially important for the employment of younger workers.
- Non-employed workers are more likely to find a job at a young business.
- A continuous supply of new jobs from start-ups is critical to keeping the unemployment rate low.
- An increasing number of labor market statistics by firm age allows tracking of the contribution of start-ups to job creation and employment growth.

Cons

- Young businesses provide their employees with less job security because of their relatively high exit rates, as well as their high rates of job turnover and churn.
- Young businesses hire relatively few older workers.
- Entrepreneurs rely on their own financial resources to start businesses; such businesses are often inefficiently small because of credit constraints.
- There is a lack of data on entrepreneurs and their businesses in the years before they hire their first employee.
- It is difficult to know how interventions may affect the number of new employer businesses.

AUTHOR'S MAIN MESSAGE

Small firms are often characterized as the engines of job creation. Yet empirical evidence increasingly shows that firm age is more important than firm size as a determinant of employment growth. New businesses drive job growth, and are especially important for the employment of younger workers. However, young firms have high demand for credit and borrow relatively more than older businesses. A well-functioning start-up economy is thus necessary to achieve a healthy labor market. In order to achieve this, it is essential that entrepreneurs have access to the credit that they need to start and grow their businesses.