

ADVANCE & RUTGERS REPORT

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An Analysis of Economic,
Business & Demographic Trends

The Great Uncertainty

by James W. Hughes and Joseph J. Seneca

The United States confronts 2011 afflicted with *Great Uncertainty*, not only because the economy has not yet fully righted itself, but also because of a new uncertain political calculus in Washington. This uncertainty culminates a sequential series of “great” economic changes over the past three years. In 2008, the *Great Recession* unfolded, reaching its full negative economic force as 2009 commenced. But, by the end of the year, the potential of economic Armageddon had passed, and a *Great Stabilization* had been achieved. This led to *Great Expectations* for 2010. However, these expectations faltered by mid-year as the European debt crisis intensified, leading to fears of a *Great Stall*. Fortunately, the stall didn’t materialize, but economic growth remained below levels required to reduce significantly a stubbornly high unemployment rate, leading to America’s current *Great Uncertainty*.



James W. Hughes



Joseph J. Seneca

- The United States gained 1.1 million private-sector jobs in the first 10 months of 2010. This was a dramatic swing from the first 10 months of 2009, when the nation lost 4.7 million private-sector jobs.
- However, the 2010 (December 2009 to October 2010) growth pace of 112,000 private-sector jobs per month is far below that of the past two employment expansions.¹ Extrapolating this slow-growth metric into the future indicates that it would take another 65 months, or until March 2016, to recapture all of the employment losses suffered during 2008 and 2009. This time horizon is both economically and politically unacceptable. *(continued on page 2)*

A Message from Advance Realty



Peter J. Cocozziello

As we look ahead to the New Year, there is still much uncertainty as to whether we will see a significant economic rebound in our near future. While the spotlight has shined most brightly on economic policies geared toward large businesses, the importance of building up our small and mid-sized businesses cannot be overlooked. Such businesses are the lifeblood of our economy and statistically create the most jobs here in New Jersey and throughout the country.

In New Jersey, recent initiatives and programs implemented by the state’s Economic Development Authority (EDA) are looking to address this very critical segment of the business sector. Businesses with less than 100 employees have the most programs to choose from, including loans to cover operating expenses and grants for creating new jobs. These companies also have access to loans up to \$1.25 million that can be used to purchase or renovate a building, or to buy new machinery or equipment. There are also loans of up to \$3 million available to businesses that decide to invest in one of New Jersey’s nine designated

urban areas, which is great news for cities like Newark, Atlantic City, Paterson and Camden.

For start-up companies and entrepreneurs, the EDA offers access to business training to help them run their companies more efficiently. In addition, there are special incentives for larger companies in the manufacturing, technology and life sciences industries, all of which are supremely important in helping to maintain New Jersey’s competitive edge.

Advance Realty applauds Lt. Governor Kim Guadagno and EDA CEO Caren Franzini, as well as the New Jersey Chamber of Commerce, for their leadership in marketing these incentives to the New Jersey business community. As the owner of a business that has operated in New Jersey for more than 30 years, I feel strongly that this dedicated effort to promote collaboration between the public and private sectors is a key factor in our ability to ensure that businesses of all sizes have the resources they need to create new jobs and, ultimately, rebuild our economy.

Peter Cocozziello, Founder and CEO—Advance Realty

James W. Hughes and
Joseph J. Seneca, Editors



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- With demographically determined new entrants into the labor force also occurring during this time, current and future labor market uncertainties will be exacerbated.
- Compounding the uncertainty stemming from the slow rate of employment growth is the nature of the composition of the jobs gained during 2010. Bottom-heavy job growth has characterized the recovery to date.
- Employment increases have been predominantly in below-average-paying industries, with relatively weaker gains in knowledge-based white-collar positions. This reality is consistent with stubbornly high vacancy rates in most of the nation's office markets.
- This raises concerns about whether the production jobs of America's knowledge-based economy will face the same fate as the production jobs of the industrial-based economy of the past.
- With large businesses increasingly expanding in global growth markets, small businesses, variously defined, will have to be the major employment generator in the United States, as has been true in the past. Thus, small business is critical to restarting America's job-creation machine.
- With the likelihood of political gridlock from the new political calculus in Washington, it will be more difficult than ever to formulate effective counter-cyclical fiscal policy. Addressing the pending tax-cut and tax-credit expirations, necessary changes to the statutory limit on federal borrowing (debt ceiling), and whether to extend and expand stimulus initiatives are all critical and unresolved policy issues. Uncertainty is certainly the prevailing order of the day.

1. The immediately preceding economic expansion began November 2001. However, private-sector employment continued to decline for the next 20 months before bottoming out in July 2003. Employment then increased through December 2007, the start of the Great Recession. During that 53-month employment upswing, the nation added 7.34 million private-sector jobs, or 139,000 per month (or, about 24 percent more than the current monthly rate in 2010 through October).

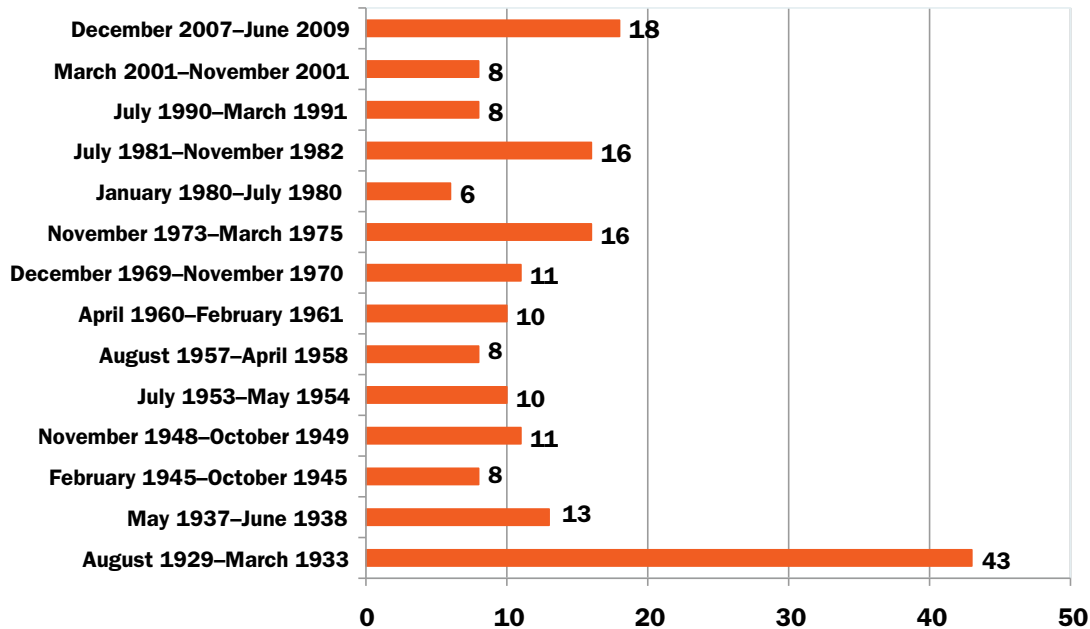
The Great Recession

Final Autopsy

Figure 1 presents information on the length of all the recessions in the United States since 1929 as determined by the National Bureau of Economic Research (NBER). The bottom bar is the infamous Great Depression, which lasted 43 months. The Great Recession—the top bar—officially began in December 2007. On September 20, 2010, NBER's Business Cycle Dating Committee determined that a trough in business activity occurred in the U.S. economy in June 2009, and that this date marked the end of the recession that had started 18 months earlier.² This makes the Great Recession the longest downturn since the Great Depression. Previously, as can be seen in figure 1, the longest postwar recessions were those of 1973-75 and 1981-82, both of which lasted 16 months.

The June 2009 termination date is consistent with the shift from decline to growth in America's real Gross Domestic Product (GDP), the total output of the U.S. economy (figure 2). GDP went from contraction to expansion in the third quarter of 2009 (July, August, and September). In the second quarter of 2009 (April, May, and June), GDP fell by 0.7 percent—the fourth straight quarter of decline. But, then it grew by 1.6 percent in the third quarter—the beginning of what NBER calls the rising phase of the business cycle—and by a much stronger 5.0 percent in the fourth quarter. So, as 2009 came to a close, the nation's total economic output was again on a positive growth trajectory, suggesting that 2010 had the potential of being a breakout economic year. However, the *Great Expectations* of a robust recovery quickly vanished.

2. According to the Dating Committee: "In determining that a trough occurred in June 2009, the committee did not conclude that economic conditions since that month have been favorable or that the economy has returned to operating at normal capacity. Rather, the committee determined only that the recession ended and a recovery began in that month. A recession is a period of falling economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales. The trough marks the end of the declining phase and the start of the rising phase of the business cycle." <http://www.nber.org/cycles/sept2010.html>, Business Cycle Dating Committee, National Bureau of Economic Research, September 20, 2010.

FIGURE 1. Length of Recessions in Months Since 1929

Source: National Bureau of Economic Research.

Great Expectations

Sobering Reality

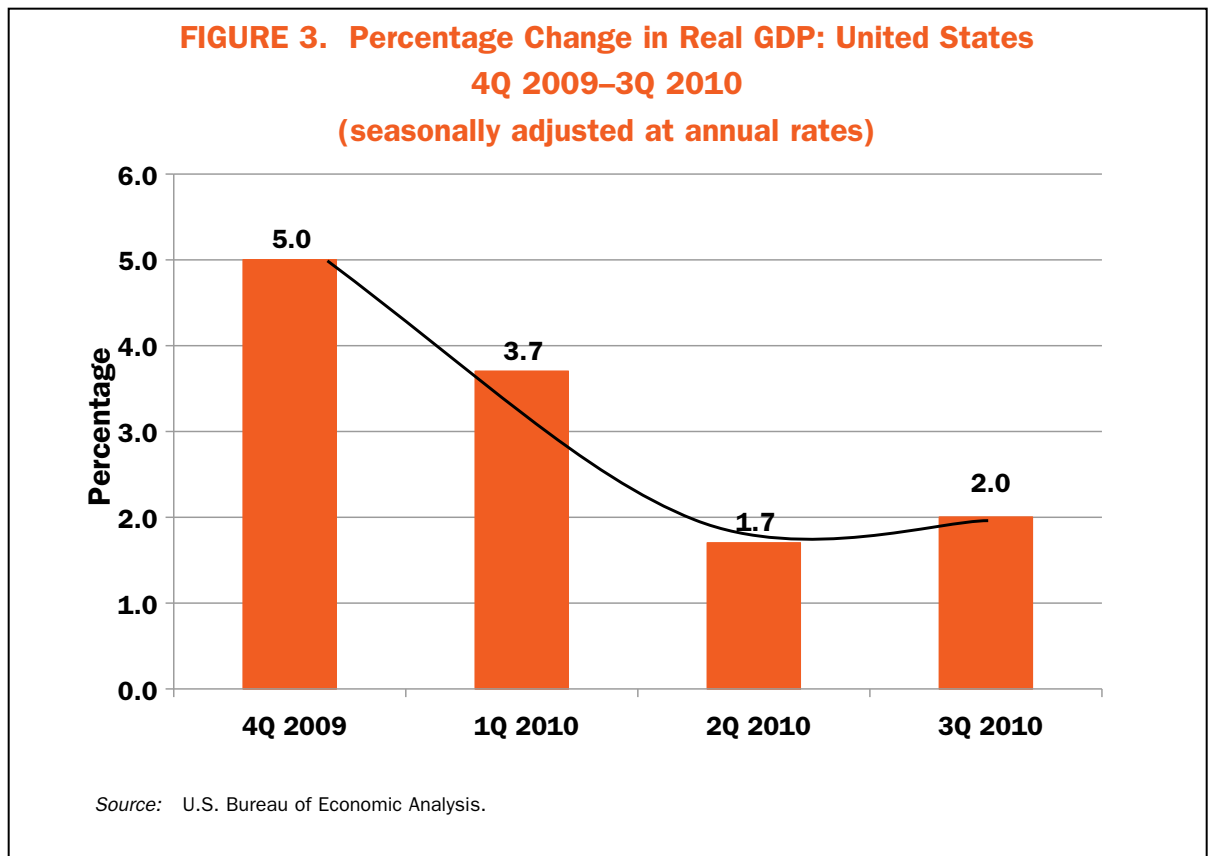
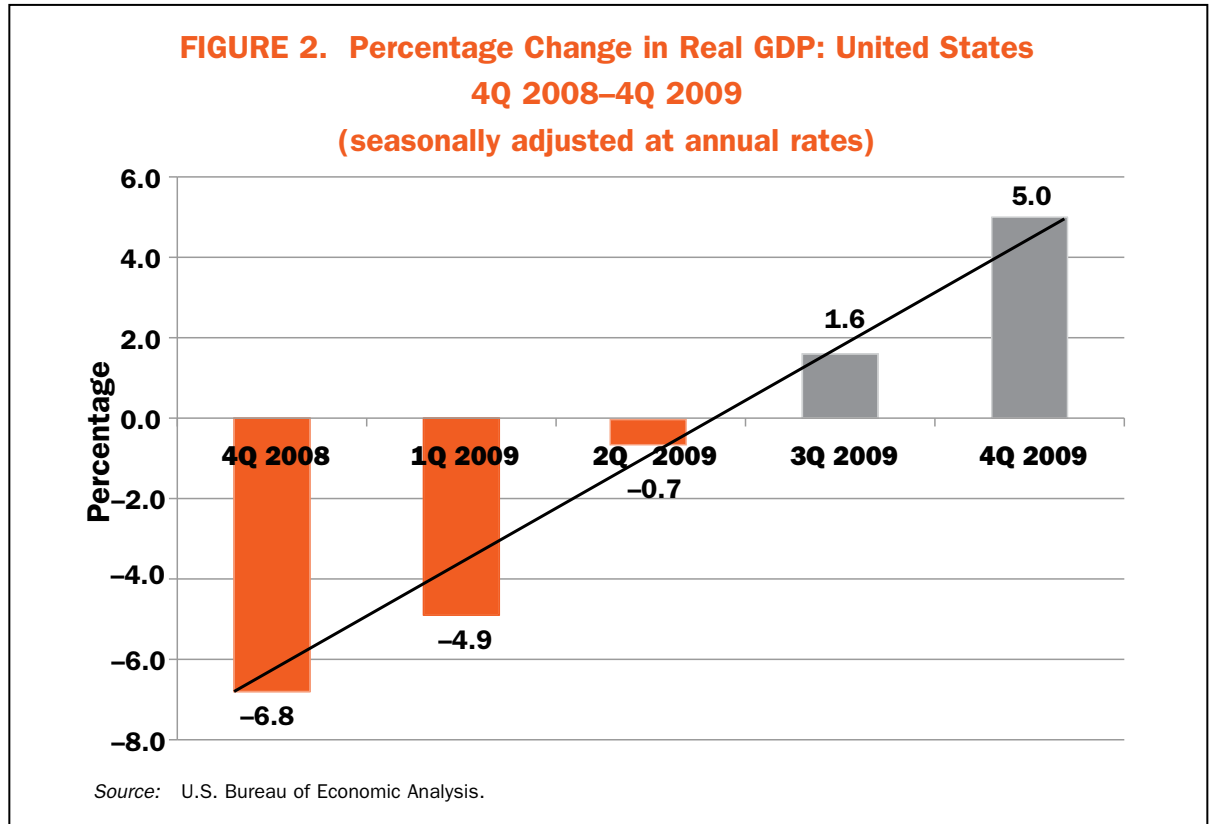
While the first and second quarters of 2010 still had positive real GDP growth, the strong upward trajectory of 2009 faltered. Growth in GDP decelerated from a peak of 5.0 percent in the fourth quarter of 2009 to 3.7 percent in the first quarter of 2010, followed by a further slippage to 1.7 percent in the second quarter (figure 3). While the preliminary estimate of third-quarter GDP (+2.0 percent) may have halted this deceleration, it is clear that growth in economic output—while continuing to be positive—remains significantly constrained.

This conclusion is also supported by employment changes during and after the Great Recession (figure 4). The bars represent the monthly private-sector employment change during the two years following the start of the downturn in December 2007 and the first four months of 2010. The first year that payroll employment statistics were compiled was in 1939. As a sobering indicator of the severity of the Great

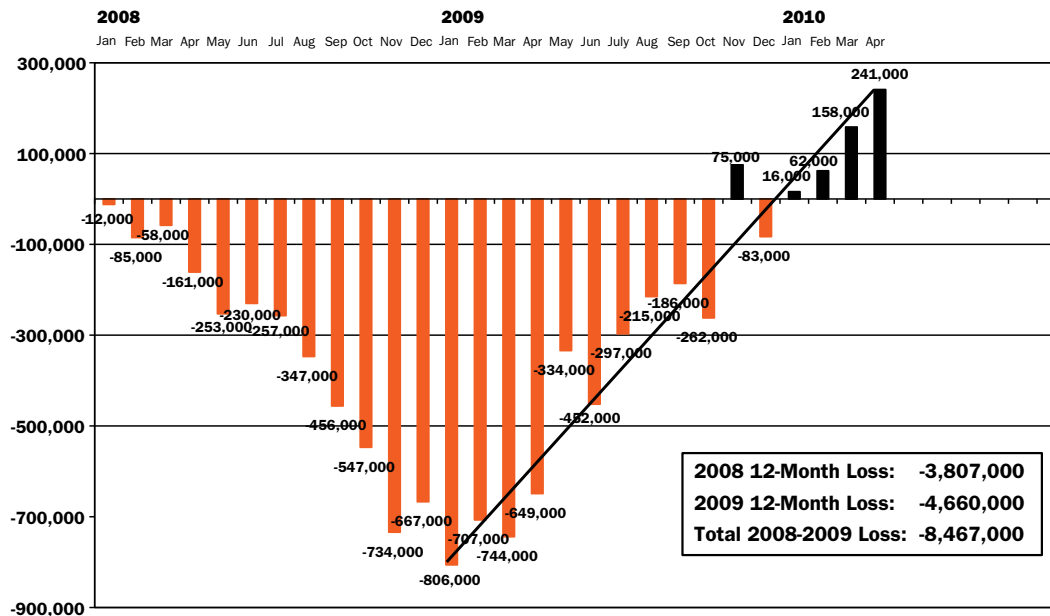
Recession, the two largest annual private-sector job losses of the 72-year period that followed occurred in 2009 and 2008, respectively (see the boxed area in figure 4). Close to 4.7 million jobs were lost in 2009, the current record holder for annual job losses even though the recession ended in June of that year. This annual loss surpassed the 3.8 million jobs lost in 2008, the former annual job-loss record holder. Taken together, the total 2008 and 2009 employment loss approached nearly 8.5 million private-sector jobs.³

The relatively good news was that as the nation's economy plodded through 2009, monthly job losses steadily diminished, from a peak decline of 806,000 private-sector jobs in January to a loss of just 83,000 jobs in December (figure 4). The economy went from terrifying to merely depressing. There was a steady

3. Actually, the two-year loss is probably higher. Each year, the payroll employment estimates produced by the Bureau of Labor Statistics' CES (Current Employment Statistics) program (used in figures 4 and 5) are benchmarked to comprehensive counts of employment for the month of March. The final benchmark revision for March 2010 will be issued on February 4, 2011. The preliminary revision, released in the Employment Situation Summary of October 8, 2010, indicates that there will be a downward adjustment to March 2010 private-sector employment of 371,000 jobs.



**FIGURE 4. U.S. Private-Sector Employment Change
2008–2010**



Source: U.S. Bureau of Labor Statistics.

slowing of the rate of employment decline. And losses nearly disappeared as the year came to an end. The *Great Recession* was supplanted by the *Great Stabilization*. Then a distinct transformation to growth occurred in the first four months of 2010. Extrapolating the straight-line trend in the figure suggested that America was finally off to the economic races.

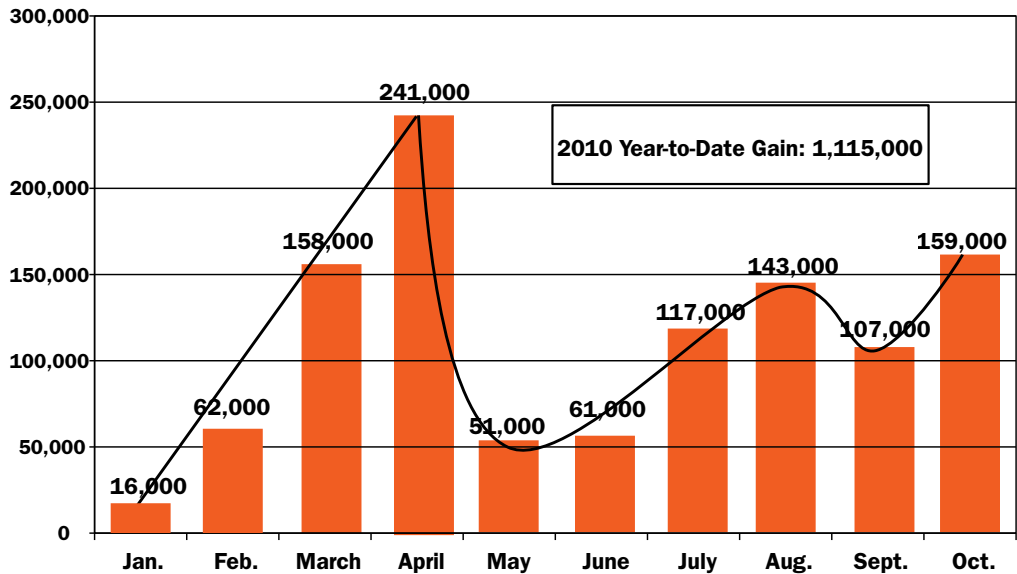
However, the economy, as is often its wont, refused to fully cooperate as the April to October data show (figure 5). *Great Expectations* were diminished. The seven-month line from April 2010 to October 2010 indicates the job-growth trend initially faltering and then fluctuating, a dramatic shift from the steady sharp upward direction of the first four months of the year. The paltry growth of May and June coincided with the European debt crisis, with fears of a *Great Stall* supplanting visions of a *Great Recovery*. Fortunately, the stall was avoided as job growth picked up the next four months (July to October). However, the *Great Uncertainty* persisted as 2010 reached its final quarter. Through all of this, the United States had 10 straight months of private-sector job growth through October, with a total gain of 1.1 million jobs (see the boxed area of figure 5). This increase is far

better than the equivalent first 10 months of 2009, when the nation lost almost 4.7 million private-sector jobs. What a difference a year makes!

Nevertheless, the nation remains in a deep employment hole. In 2008 and 2009, the nation lost nearly 8.5 million private-sector jobs. The 1.1 million job gain through October 2010 still leaves the nation 7.4 million jobs below the pre-recession private-sector employment job peak (December 2007). The average monthly employment gain in 2010 was approximately 112,000 jobs. If this pace is maintained, it would take 65 months from October 2010, or until March 2016, to recapture all of the recessionary job losses. This prospect is both economically and politically unacceptable. Thus, far higher growth is necessary to speed the economic recovery.⁴

4. Actually, the official 16-month economic recovery to date—June 2009 to October 2010—has generated a net gain of only 147,000 private-sector jobs, the result of a loss of 968,000 jobs in the first six months of the recovery (June 2009–December 2009) and a gain of 1,115,000 jobs in the next 10 months of the recovery (December 2009–October 2010). In fact, it was the October 2010 increase of 159,000 jobs that finally put the recovery job totals into positive territory. Thus, during the entire 16-month recovery to date, the average monthly private-sector employment increase was less than 9,200 jobs per month.

**FIGURE 5. U.S. Private-Sector Employment Change
2010 (January–October)**



Source: U.S. Bureau of Labor Statistics.

Bottom-Heavy Job Growth

While the United States added 1.1 million private-sector jobs through the first 10 months of 2010, most of this growth has been in below-average-paying industries. This bottom-heavy employment-growth pattern shows few advances in knowledge-based white-collar positions, a reality consistent with stubbornly high vacancy rates in most of the nation's office markets.

Table 1 presents the net change in employment in the nation during the 10-month period from December 2009 to October 2010 and the average annual pay of each of the industrial sectors. The broadest partition of this employment profile is between the private sector and the public sector. As seen in the second line of the table, the 1.1 million private-sector jobs that the nation added in 2010 (through October) had an average annual pay of \$45,146. The average annual pay of the 241,000 government jobs that were lost, the bottom line of the table, was \$47,548. Thus, the average annual 2009 government pay was \$2,402 (or 5.3 percent) higher than the private sector.

America's private-sector employment is divided into *goods-producing* and *service-providing* industries. The *goods-producing* industries are natural resources and mining, construction, and manufacturing. One very positive development was the gain of 135,000 manufacturing jobs, with an average annual pay of nearly \$55,000. That employment growth reflects the normal pattern of a cyclical recovery—manufacturing rehiring as depleted inventories are rebuilt, along with expanding domestic and export sales. However, employment in the construction sector, usually a post-recession jackrabbit along with manufacturing, still has not rebounded (71,000 jobs were lost through October).

Within *service-providing* activities, there are seven major industries or supersectors: trade, transportation and utilities; information; financial activities; professional and business services; education and health services; leisure and hospitality; and other services. The three boxed sectors in table 1—information, financial activities, and professional and business services—account for the bulk of high-paying, knowledge-

TABLE 1
U.S. Nonfarm Payroll Employment Change
and Average Annual Pay:
December 2009–October 2010

	Employment Change	Average Annual Pay (2009)
Total Nonfarm	874,000	\$45,551
Total Private Sector	1,115,000	45,146
Goods-Producing	143,000	52,489
Natural Resources and Mining	79,000	47,422
Construction	-71,000	49,312
Manufacturing	135,000	54,854
Private Service-Providing	972,000	43,504
Trade, Transportation, and Utilities	190,000	38,182
Information	-33,000	71,189
Financial Activities	-82,000	79,736
Professional and Business Services	307,000	58,323
<i>Professional/Scientific/Technical Services</i>	<i>-2,900</i>	<i>74,738</i>
<i>Management of Companies/Enterprises</i>	<i>16,300</i>	<i>91,405</i>
<i>Admin. Support/Waste Mgmt./Remediation Svc.</i>	<i>294,100</i>	<i>32,578</i>
Education and Health Services	324,000	43,053
Leisure and Hospitality	178,000	18,898
Other Services	88,000	28,810
Government	-241,000	\$47,548

Source: U.S. Bureau of Labor Statistics, *Quarterly Census of Employment and Wages*.

based, office-located jobs in America. Information—which includes publishing, telecommunications, and the Internet—had an average annual pay of \$71,189. However, this supersector lost 33,000 jobs through the first 10 months of 2010. Financial activities, with an average annual pay of almost \$80,000 (\$79,736), experienced a decline of 82,000 jobs. In contrast—and at first glance—professional and business services presented a very different and positive picture: an increase of 307,000 jobs with an average annual pay of \$58,323, more than \$13,000 higher than the average of all private-sector jobs (\$45,146). This suggests that America was adding significant increments of above-average, high-paying professional and business service jobs.

However, drilling down into three key professional and business service subsectors (italicized in table 1)—*professional, scientific, and technical services; management of companies and enterprises; and administrative support, waste management and remediation services*—proves sobering. The largest subsector is *professional, scientific and technical services*, which includes such knowledge-intensive activities as legal services, accounting services, engineering and architectural services, and research and development services. This subsector had a decline of 2,900 jobs with an average annual pay of \$74,738. *Management of companies and enterprises* (synonymous with corporate headquarters employment) had an increase of 16,300 jobs with an average annual pay of \$91,405. However,

this positive gain was dwarfed by 294,100 jobs added in *administrative support, waste management, and remediation services*. Unfortunately, the average annual pay in these jobs was just \$32,578! And it was this increase that accounted for virtually all of the growth (294,100 jobs out of 307,000 jobs, or nearly 96 percent) in the overall professional and business services supersector. So the three (boxed) supersectors that account for the bulk of America's information-age jobs still show little growth of above-average paying jobs in 2010 (to date) and a significant expansion in below average-paying jobs.

The remaining service-providing industries—trade, transportation, and utilities (+190,000 jobs at \$38,182), education and health services (+324,000 jobs at \$43,053), leisure and hospitality (+178,000 jobs at \$18,898), and other services (+88,000 at \$28,810)—were all characterized by below-average pay, particularly the leisure and hospitality and other services subsectors. So, as America halted its employment losses in 2010, the first year of the second decade of the century, it was afflicted with bottom-heavy job growth, and has not yet sustained any strong or consistent momentum in creating above-average-paying white-collar positions. This fact should be of considerable public policy concern following the lost employment decade of the 2000s, when the nation ended the decade with fewer private-sector jobs than when it started.

Why This Anemic and Bottom-Heavy Job Growth?

A myriad of dynamics have converged to create the wave of economic turbulence contributing to the slow recovery:

- Deep financial crises historically have been followed by long, painfully slow recovery periods. Following the credit bubble, the nation was enveloped in 2008-09 by the worst global financial crisis since the Great Depression. The lessons of history suggest that labor markets will be bouncing along an employment bottom for an extended period of time.
- An era of household financial retrenchment is unfolding. The United States had been living the debt-fired dream of consumption without end, fueled by cheap plastic credit and the use of housing as an ATM machine. Excessive consumer appetites for discretionary goods and services prevailed. But, the nation's extraordinary spending binge—which was at the heart of global financial flow imbalances—was not sustainable. Just like financial institutions, households are now being forced to deleverage and recapitalize. Income constraints, job declines, and housing and equity market wealth losses have trumped consumers' desires to live far beyond their means. Higher savings rates now characterize American households, constraining the prospects of a strong consumption rebound.
- Consequently, given the tepid pace of new demand in the United States, the nation's businesses remain focused on cutting costs and adapting to new cost-conscious American consumers, making them reluctant to increase hiring and hence labor costs.
- Given the nation's cautionary consumer market, American corporations are increasingly focusing on global growth markets for sales gains. Consequently, they are directing more and more of their new investment and new personnel to these emerging markets to serve the higher growth in domestic demand in those areas.
- This focus is given further impetus by the improving quality of highly affordable, highly educated labor in global growth markets. This enables research and development activity, as well as production, to be undertaken in the growth markets, leading to less demand for high-end jobs in America.
- In addition, much of the information-processing work of a knowledge-based United States economy can also be shifted abroad with significant cost savings. Just as China has become the global factory floor, India is becoming the world's back office, drawing paper-processing and consumer-management functions from America.

- Thus, the attraction of lower costs leads to a substitution of production abroad for production in the United States.
- U.S. employment growth has also been constrained by uncertainty: about health-care costs and regulations, income tax rates, dividend and capital gains rates, estate taxes, and the sustainability and strength of the economic recovery. All these concerns have made employers reluctant to add jobs. At the same time, American corporations are sitting on record amounts of cash—estimated at a record \$1.8 trillion⁵—that could be used for business expansion, both labor and capital.
- The lending and credit environment remains difficult for small business start-ups, a significant source of job expansion. Also constraining small business is the same tepid growth of consumer and business demand.
- The bursting of the housing bubble has pushed shelter production to all-time lows. Thus, the housing locomotive, a typical post-recession growth force, is sitting on the siding, negatively impacting not only construction employment, but all of the many other sectors of the economy tied to housing.
- Foreclosures continue to add inventory to housing markets, putting further downward pressure on prices and homeowner balance sheets. Weak job markets dampened housing demand, completing a negative cycle. Thus, the question is: “How strong can an economic recovery be without a solidly improving housing sector?”
- Stimulus-spending leakage may have lessened the job-creation effect that was intended. Past stimulus programs mainly benefited domestically produced goods and services, because heretofore foreign penetration of U.S. markets was much smaller. Today, a much greater market

penetration from abroad causes significant consumer- and business-spending leakage to overseas producers.

- Early boosters of economic activity that helped stem employment declines and then spawned modest growth in 2010 have started to wane: Stimulus payouts are about to run their course, and inventory rebuilding is approaching its late stages. At the same time, state and local governments continue to scale back, reducing the net effect of increased federal spending.

The Small Business Imperative

Another policy concern relates to the size of firms that are creating jobs, with larger firms (based on the number of employees) generally having the lowest rates of employment growth during the last economic expansion, and smaller firms having higher rates of growth. However, much of Washington’s crisis-based recession attention necessarily focused on big business—such as large financial institutions and the legacy automobile producers. In contrast, small business received much less policy assistance as the nation’s employment rolls tumbled by nearly 8.5 million jobs. But, as employment growth faltered in the spring and summer of 2010, policy focus began to shift to small business.

There are many definitions of what constitutes a small business. This analysis focuses solely on firm size.⁶ And it is smaller establishments that account for the great bulk of America’s jobs. Table 2 presents private-sector employment by establishment size in the United States in 2009.⁷ Establishments with 1,000 or more jobs account for just 10.1 percent of the nation’s total private-sector employment base. In

5. Board of Governors of the Federal Reserve, *Flow of Funds Accounts of the United States. Flows and Outstandings, Second Quarter 2010*. Table B.100, “Balance Sheet of Households and Nonprofit Organizations.” Washington, DC: Board of Governors of the Federal Reserve System (September 2010).

6. For example, the U.S. Small Business Administration generally defines small business size according to specific industry group (as defined by the North American Industry Classification System), with no more than 500 employees the most common size standard. However, the standard varies between 50 (such as heating oil dealers) and 1,500 (petroleum refineries). Other definitions are tied to sales receipts as well as number of employees.

7. The first quarter of 2009 is the latest available data.

Establishment Size (Number of Employees)	Employment	Distribution	
	Q1 2009	Share	Cumulative Share
All Establishments	107,116,754	100.0	—
< 5	8,040,999	7.5	7.5
5–9	9,053,790	8.5	16.0
10–19	12,369,643	11.5	27.5
20–49	18,640,068	17.4	44.9
50–99	14,314,918	13.4	58.3
100–249	17,303,470	16.2	74.4
250–499	9,742,903	9.1	83.5
500–999	6,815,414	6.4	89.9
1,000+	10,835,549	10.1	100.0

Source: U.S. Bureau of Labor Statistics, *Quarterly Census of Employment and Wages*.

Establishment Size (Number of Employees)	Change: 2004–2008		
	Number	Percentage	Share of Change
All Establishments	6,577,191	6.2	100.0
< 5	627,066	8.4	9.5
5–9	395,955	4.5	6.0
10–19	779,124	6.6	11.8
20–49	1,279,140	7.0	19.4
50–99	1,068,590	7.6	16.2
100–249	1,395,877	8.1	21.2
250–499	626,234	6.4	9.5
500–999	322,478	4.6	4.9
1,000+	82,727	0.7	1.3

Source: U.S. Bureau of Labor Statistics, *Quarterly Census of Employment and Wages*.

contrast, establishments with 19 or fewer employees account for more than a quarter (27.5 percent) of all jobs. This is shown in the far right column (cumulative share). Establishments with 99 or fewer employees account for more than half (58.3 percent) of all jobs, while establishments with 249 or fewer employees account for nearly three-quarters (74.4 percent). Consequently, establishments with more than 249 employees account for just one quarter (25.6 percent) of all the private-sector jobs in America.

This static picture is complemented by the data of table 3, which shows employment change during a significant portion of the last expansion (measured from the first quarter of 2004 and first quarter of 2008) and then during the first half of the recession that followed (measured from the first quarter of 2008 to the first quarter of 2009; table 4). Of the nearly 6.6 million private-sector jobs added to the United States employment base in the 2004-08 period, 46.7 percent were in establishments with 49 or fewer employees, 62.9 percent were in establishments with 99 or fewer employees, and

84.1 percent were in establishments with 249 or fewer employees. Establishments with more than 249 employees accounted for just 15.7 percent of job growth. Moreover, the largest employers, establishments with 1,000 or more employees, had a growth share of only 0.7 percent—just 82,727 jobs out of a total private-sector employment gain of 6,577,191 jobs.

Another way of looking at the relatively small contribution of larger establishments to job growth is to compare the share of 2009 total employment to the share of growth during the preceding economic expansion. In 2009, establishments with 500 or more employees accounted for 16.5 percent of total private-sector employment (table 2). However, during the preceding expansion (2004-08), they accounted for 6.2 percent of growth (table 3). In 2009, establishments with 1,000 or more employees accounted for 10.1 percent of all private-sector jobs (table 2). In contrast, they accounted for just 1.3 percent of private-sector in employment growth between 2004 and 2008 (table 3).

During the 2008-09 period of economic decline, larger firms experienced greater proportional employment losses. Establishments with 250 or more jobs—which had 25.6 percent of all private-sector jobs in 2009 (table 2)—accounted for 34.8 percent of the nation's job losses in the 2008-09 period (table 4). Establishments with 49 or fewer jobs—which had 44.9 percent of all jobs in 2009 (table 2)—accounted for just 23.6 percent of 2008-09 losses (table 4). Interestingly, the largest (in absolute change, in share of change, and in rate of change) 2008-09 job losses were in firms that had 100-249 employees (table 4). In the preceding expansion period (2004-08), they had the largest absolute change and the largest share of growth (table 3).

The conventional wisdom has long held that small businesses are responsible for most of the job creation in the country. U.S. Census data have consistently provided evidence of this relation for some time, and the aggregate simple size classification data presented in this report again affirm this conclusion. However, recently developed new and more detailed data by the Census provide a more nuanced examination of the basic relation between firm size and job creation. In particular, the Business Dynamics Statistics of the U.S. Census Bureau provides a richer profile of firms that includes the dynamics of business start-ups (the time path of the birth, development, or death of new businesses). Researchers have analyzed this new data and conclude that the relationship between firm size and job creation (and destruction) is closely related to the age of firms and the survival of new businesses.⁸ Thus, while small, new firms create disproportionate numbers of jobs, their low survival rate also yields, in time, large numbers of jobs destroyed. On balance, after accounting for survival, start-up businesses, once they have successfully passed the “up or out” stage of development, are responsible for a significant

8. See John C. Haltiwanger, Ron S. Jarmin, and Javier Miranda, “Who Creates Jobs? Small vs. Large vs. Young,” National Bureau of Economic Research, Working Paper No. 16300 (August 2010).

TABLE 4
U.S. Private-Sector Employment by Establishment Size: Q1 2008–Q1 2009

Establishment Size (Number of Employees)	Change: 2008–2009		
	Number	Percentage	Share of Change
All Establishments	-5,124,587	-4.6	100.0
< 5	-35,144	-0.4	0.7
5–9	-171,327	-1.9	3.3
10–19	-222,544	-1.8	4.3
20–49	-783,291	-4.0	15.3
50–99	-766,991	-5.1	15.0
100–249	-1,363,748	-7.3	26.6
250–499	-677,076	-6.5	13.2
500–999	-500,574	-6.8	9.8
1,000+	-603,892	-5.3	11.8

Source: U.S. Bureau of Labor Statistics, *Quarterly Census of Employment and Wages*.

amount of net job growth (job creation minus job destruction). This careful examination of new data leads to important policy implications for improving job growth: Economic development policies should focus on creating conditions that increase the number of business start-ups as well as policies that improve conditions for their survival over time.

A Great Certainty: Challenging Years Ahead

The United States faces two critical economic challenges: an economic recovery period that promises to extend many years into the future, and unprecedented and intensifying global economic competition. If a consensus cannot be reached on addressing these challenges, the *Great Uncertainty* may be replaced by the *Great Malaise*. One certainty is that business as usual is not a viable option going forward. ■

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Peter J. Coccoziello, President and CEO
Advance Realty

James W. Hughes, Dean
Edward J. Bloustein School of Planning and Public Policy

Joseph J. Seneca, University Professor
Rutgers, The State University of New Jersey

ADVANCE & RUTGERS REPORT

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Advance Realty
1430 U.S. Highway 206, Suite 100
Bedminster, NJ 07921
908.719.3000
www.advancerealtygroup.com

Edward J. Bloustein School of Planning and Public Policy
Rutgers, The State University of New Jersey
33 Livingston Avenue
New Brunswick, New Jersey 08901-1981
www.policy.rutgers.edu