

Center for Community and Economic Development



Where Do Most Jobs Come From?

An article in the Wisconsin Indicator series

“Our real objective is not just jobs but productive jobs.”

— [Milton Friedman, Free to Choose: A Personal Statement](#)

According to youreconomy.org, businesses moving to Wisconsin brought 4,515 new jobs to the state annually between 2000 and 2012. During that same period, existing Wisconsin businesses that expanded added twenty-one times as many jobs (an average of 96,920 jobs annually). Startups added eighteen times as many jobs (an average of 82,849 jobs annually). Over the past twelve years, fewer than three percent of new jobs came from businesses moving to the state, yet traditionally, many communities have made attracting new businesses their primary economic development strategy. If this remains true in your community, it is worth noting that since the year 2000 over ninety-seven percent of new jobs have been created by entrepreneurs starting new businesses and by the expansion of existing community businesses.

Wisconsin: Total Net Jobs Created From 2000 to 2012	
Sole-Proprietorship	45,310
Stage 1 (2-9 employees)	168,258
Stage 2 (10-99)	21,252
Stage 3 (100-499)	17,104
Stage 4 (500+)	-139,402

In 2012, Wisconsin was home to 398,726 establishments employing 3,464,781 workers. These establishments ranged in size from sole-proprietorships to large companies employing more than five hundred workers. As of 2012, Wisconsin was home to 551 of these large companies employing 612,018 workers. While these Stage Four companies account for only two-tenths of one percent of the state’s establishments, they provide twenty percent of the state’s employment.

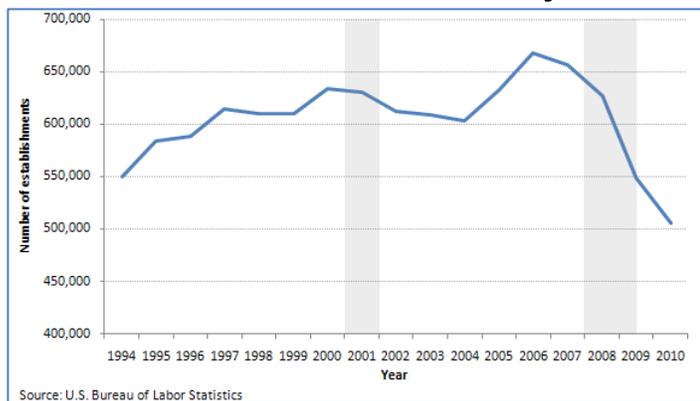
The trends, however, show a challenging picture for large companies. Over the past twelve years, Wisconsin’s largest companies have lost over 139,000 jobs. Looking more closely at the data, Wisconsin’s top three categories of establishments by size either lost jobs or suffered anemic job growth. Eighty-five percent of Wisconsin’s 251,924 new jobs were created by companies with less than ten employees. What percentage of a community’s economic development efforts (and dollars!) is devoted to the fifteen percent and how much towards the eighty-five percent of the businesses creating jobs?

Detroit, Michigan provides an example of the social and economic devastation that can follow when an overreliance on the largest companies is not successful. Since its heyday in the 1960s, Detroit has lost over half of its population and, according to the [U.S. Department of Labor](#) Bureau of Labor Statistics, has the highest unemployment rate (23.1%) among the country’s fifty largest cities. In 2013, Detroit filed the largest municipal bankruptcy case in U.S. history.

Wisconsin families and communities have experienced similar social and economic disruption when a large employer closed down. On June 26th 1992, the Eau Claire Uniroyal-Goodrich plant shut down and 1,300 people lost their jobs. In Kenosha in the early 1980s, twenty percent of Kenosha’s workforce was employed by auto manufacturer AMC. Today, not a single one of those six thousand jobs remains. In Sauk County, Badger Ordnance at its height employed as many as 7,500 workers producing ammunition for the army. Al Anderson, former UW-Extension Community and Economic Development Educator in Sauk County, remembers Badger Ordnance bussing in workers from surrounding counties. Badger Ordnance closed its doors three times: in the 1940’s (after World War II), the 1950’s (after the Korean War), and the 1970’s (after the Vietnam War). Sauk County’s reliance on this single major employer reverberated strongly throughout the rest of the local economy. How did these communities respond to these business closings and job losses? In Sauk County, the deleterious effects of the closings led to the creation of Wisconsin’s first community-run Economic Development Corporation. In Kenosha and Sauk Counties, shuttered facilities were ultimately

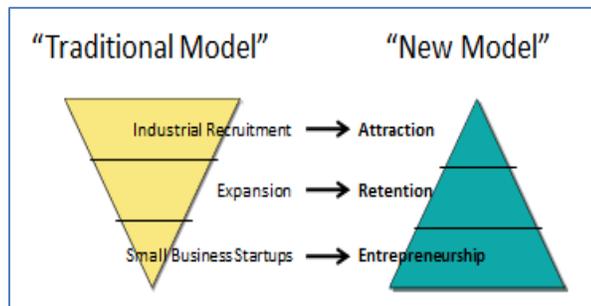
demolished, whereas in Eau Claire, the facility was redeveloped. Today the Uniroyal factory, now known as Banbury Place, is in private hands and is home to 142 small businesses employing over five hundred people. Many other local businesses incubated in this facility and graduated to other locations as they grew.

Number of establishments less than 1 year old



While Wisconsin's smaller companies are creating the majority of new jobs, research by Loveridge & Nizalov also indicates that it is the youngest companies (those less than five years old) that are the true job creators. Data from the Bureau of Labor Statistics shows that Wisconsin's relatively slow recovery from the Great Recession may well be linked to the drop-off in the creation of new establishments since 2007. As many new businesses are self-financed by entrepreneurs mobilizing their home equity and personal savings, the drop-off is likely a consequence of families suffering an average forty percent loss to their net worth between 2007 and 2010.

What lessons can we learn from our experiences and these trends? Successful economic development strategies do not focus on only large or small businesses. A balanced approach is required. Loveridge and Nizalov found that a mix of business sizes is healthiest for communities and that many small and young businesses are able to flourish because they serve the needs of larger businesses in their communities. Today's strategy for growth needs to consider a new allocation of economic development resources that is the flipside of the traditional model. Supporting entrepreneurs and startups should form the base of the strategy followed by supporting the expansion of current businesses.



Finally, both startups and established businesses can benefit from the world's growing middle class by emphasizing export opportunities. Today, 742,800 jobs in Wisconsin depend on international trade, a number that has doubled since 1992. From 2004 to 2008, Wisconsin's trade-related employment grew six times faster than total employment. Wisconsin's Economic Development Corporation (WEDC) has made the expansion of international trade a key part of the state's development strategy. WEDC has a global network of trade representatives and provides funding and training to help Wisconsin businesses access new markets.

Sources

- Personal discussion with Jack Kaiser, owner of Banbury Place
- <http://www.youreconomy.org>
- [U.S. Department of Labor](http://www.dol.gov) Bureau of Labor Statistics
- An Empirical Assessment of the Optimal Size Distribution of Local Firms, by Scott Loveridge and Denys Nizalov
- http://cced.ces.uwex.edu/files/2013/08/TMI_Section4_entrepreneurs.pdf
- http://businessroundtable.org/uploads/studies-reports/downloads/Trade_Creates_Jobs_for_Wisconsin.pdf
- <http://inwisconsin.com/inside-wedc/how-we-operate/international-strategy/>

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