

An International Comparison of Small Business Employment

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Executive Summary

An important part of our national identity is built around the idea that – thanks to low taxes, limited regulation, unfettered labor markets, and a national spirit of entrepreneurship – the United States offers an environment for small business that is unmatched anywhere else in the world.

The international economic data, however, tell a different story about the state of U.S. small business. By every measure of small-business employment, the United States has among the world's *smallest* small-business sectors (as a proportion of total national employment).

One interpretation of the data presented here is that self-employment and small-business employment may be a less important indicator of entrepreneurship than we have long thought. Another reading of the data, however, is that the United States has something to learn from the experience of other advanced economies, which appear to have had much better luck promoting and sustaining small-business employment.

One plausible explanation for the consistently higher shares of self-employment and small-business employment in the rest of the world's rich economies is that all have some form of universal access to health care. The high cost to self-employed workers and small businesses of the private, employer-based health care system in place in the United States may act as a significant deterrent to small start-up companies, an experience not shared by entrepreneurs in countries with universal access to health care.

We use the most recently available, internationally comparable data from the Organization for Economic Cooperation and Development (OECD) to measure the share of employment in small businesses in 22 rich democracies. The OECD data demonstrate that:

- The United States has the second lowest share of self-employed workers (7.2 percent) – only Luxembourg has a lower share (6.1 percent). France (9.0 percent), Sweden (10.6 percent), Germany (12.0 percent) the United Kingdom (13.8 percent), Italy (26.4 percent) and 14 other rich countries all have higher proportions of self-employment.
- The United States has among the lowest shares of employment in small businesses in manufacturing. Only 11.1 percent of the U.S. manufacturing workforce is in enterprises with fewer than 20 employees. Eighteen other rich countries have a higher share of manufacturing employment in enterprises of this size, including Germany (13.0 percent), Sweden (14.4 percent), France (18.0 percent), the United Kingdom (18.1 percent), and Italy (30.9 percent). Only Ireland (9.6 percent) and Luxembourg (8.5 percent) have a lower share of manufacturing employment in enterprises with fewer than 20 employees. (Raising the cutoff for a small business to fewer than 500 employees does not significantly alter the relative position of the United States.)
- U.S. small businesses have a much lower share of employment than the comparison economies do in the two high-tech fields for which the OECD publishes data: computer-related services and research and development.

- The United States has the second lowest share of computer-related service employment in firms with fewer than 100 employees (32.0 percent). Only Spain had a lower share (27.0 percent), while 13 countries with available data had a higher proportion of employment in this sector in small businesses including France (44.7 percent), Germany (48.7 percent), Sweden (49.4 percent), the United Kingdom (67.5 percent), and Italy (73.2 percent).
- Similarly, the United States has the third lowest share of research and development related employment in firms with fewer than 100 employees (25.3 percent). Only the United Kingdom (22.5 percent) and the Netherlands (20.3 percent) had a lower share, while 9 countries with available data had a higher proportion of employment in this sector in small businesses including France (33.1 percent), Sweden (34.4 percent), Germany (35.0 percent), and Italy (74.8 percent).

Introduction

We proudly call ourselves the party of small business because small businesses are where national prosperity begins. Small businesses such as Main Street retailers, entrepreneurs, independent contractors, and direct sellers create most of the country's new jobs and have been the primary means of economic advancement by women and minorities.¹

—2008 Republican Party Platform

We honor the entrepreneurs and small business owners who are the engine of our economy. Their ingenuity and hard work are critical to our Nation's prosperity... Small businesses will lead the way to prosperity, particularly in today's challenging economic environment... Our Nation's success depends on America's small businesses and entrepreneurs.²

—President Barack Obama, May 15, 2009

We have a long tradition in the United States of seeing small business as the driving force behind our national prosperity. An important part of our national identity is built around the idea that — thanks to low taxes, limited regulation, unfettered labor markets, and a national spirit of entrepreneurship — the United States offers an environment for small business that is unmatched anywhere else in the world.

The international economic data, however, tell a different story about the state of U.S. small business. By every measure of small business employment, the United States has among the world's *smallest* small-business sectors (as a proportion of total national employment). The lower taxes, less stringent regulations, and freer labor markets in the United States, it appears, have not yielded greater small-business employment here than elsewhere.

In this report, we review internationally comparable data on the size of the small business sector in 22 rich countries.³ Across the full set of countries, for every measure we examine — including self-employment rates and the share of total employment in small enterprises — we find that the United States consistently has the lowest or among the lowest proportions of employment in small businesses.

1 See: <http://www.gop.com/2008Platform/Economy.htm>.

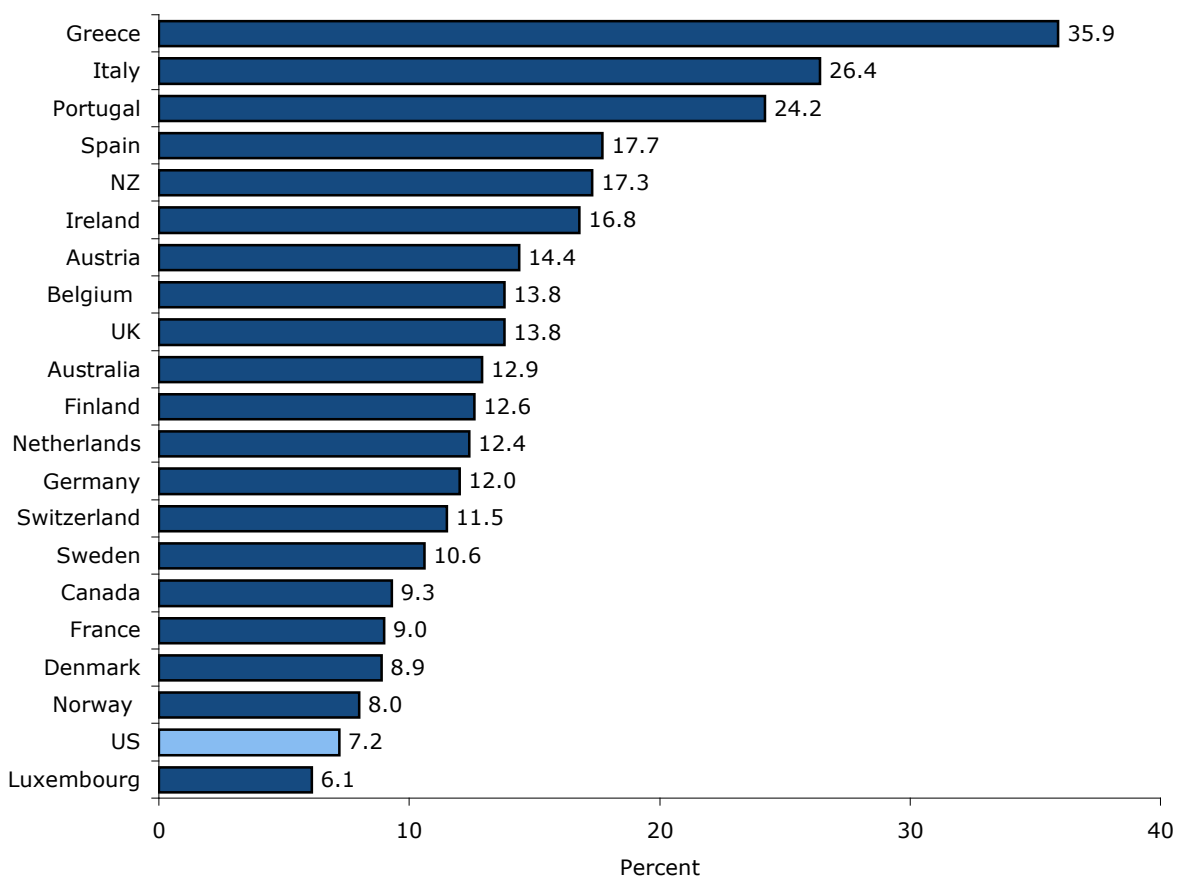
2 Office of the Press Secretary, The White House, "Small Business Week, 2009," May 15, 2009.

3 Where data allow, we look at employment in 21 countries that make up what is usually referred to as the "major OECD" countries; where data are available, we also include Luxembourg, which is generally not included in the group of "major OECD" countries, but is a member of the core "European Union 15" countries. The full sample consists of: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, and United States. All countries are democracies with high per-capita incomes and members hip in the Paris-based Organization for Economic Cooperation and Development (OECD).

Self-employment

Our first measure of the size of the national small-business sector is the share of each country's workforce that is self-employed. **Figure 1** shows self-employment rates for the total civilian workforce in 2007, taken from internationally comparable data compiled and published by the Organization for Economic Cooperation and Development (OECD).⁴ Of the 21 countries in the figure (data for Japan are missing), only Luxembourg (6.1 percent) has a lower share of self-employed workers than the United States (7.2 percent). The 19 remaining countries for which the OECD has comparable data all have a higher share of self-employed workers.

FIGURE 1
Self-employment Rate, Total Civilian Employment, 2007



Source: Authors' analysis of OECD data.

The self-employment rates in Figure 1 are particularly high in Greece (35.9 percent), Italy (26.4), Portugal (24.2), and several other countries where agriculture is still an important part of national employment. The conclusion that the United States has among the lowest rates of self-employment in the major OECD economies, however, is not sensitive to the inclusion or exclusion of the

⁴ OECD, 2009 OECD Country Statistical Profiles, <http://stats.oecd.org/index.aspx?r=899636>, accessed June 29, 2009.

agricultural sector. In **Table 1**, for example, we present data from the OECD on self-employment rates excluding agriculture. The most recent data available are for 2000, and cover only 17 of the 21 countries in Figure 1, but the results are similar. Even after controlling for self-employment in agriculture, the United States still has the second-lowest share of self-employment in the major OECD economies. Norway has a lower share, but the remaining 16 countries all have higher non-agricultural self-employment rates than the United States.

TABLE 1
Self-employment Rate, Non-agricultural Employment, Circa 2000

Country	Percent
Greece	28.6
Italy	25.1
Spain	19.3
Portugal	16.4
New Zealand	15.9
Canada	15.6
Australia	15.6
Belgium	13.9
United Kingdom	12.7
Ireland	12.6
Netherlands	11.3
Germany	11.3
Finland	10.9
Austria	9.5
France	8.6
United States	7.5
Norway	6.7

Notes: OECD, *Data on Informal Employment and Self-Employment*, 2009; <http://www.oecd.org/dataoecd/4/49/42863997.pdf>. Data refer to 2000 or closest available year.

Small Enterprises

Our second set of measures is the share of employment in small enterprises⁵ in key national industries. The data we use are the most recent published by the OECD and cover manufacturing, computing-related services, research and development, and three lower-tech service industries. (These are all of the sectors covered in the published OECD data, with the exception of hotels and restaurants, for which the OECD has no data for the United States.) Depending on data availability for each industry, we look at enterprises at different size cutoffs and for different years between 2001 and 2006. Enterprise-size class sizes can differ across countries, over time, and across industry

⁵ We use the term “enterprise” to refer collectively to two distinct concepts: “firms” and “establishments.” The OECD uses the term “enterprise” in the way we use the term “firm.” The OECD, however, also sometimes uses “enterprise” to refer collectively to “enterprises” and “establishments.” See text below for further discussion.

groups. As a result, the data we present below do not always use the same cutoff for small businesses. We choose enterprise-size classes based on the data available in each case. For manufacturing, for example, we show data that defines a small enterprise as fewer than 20 employees and, separately, as fewer than 500 employees. For the rest of the industry groups, we use a consistent cutoff of 100 employees. None of our results would be qualitatively different if we used different employee-size cutoffs. In all cases, we use the most recent data available.

The published OECD data combine national sources that use two different definitions of an “enterprise”: one definition is based on “firms”; the other, based on “establishments.” The firm-based definition determines an enterprise’s size based on the number of employees working for the entity that *owns* the particular workplace. The establishment-based definition focuses exclusively on the number of workers employed at a particular workplace, regardless of whether the workplace is owned by a larger entity.

A concrete example – a restaurant with 19 employees, say – helps to illustrate the difference between the two definitions. Under the firm-based definition, if the restaurant is owned by an individual entrepreneur, then it would count as a small business; but, if the restaurant is owned by a large corporation, then it would count as a large business. Under the establishment-based definition, however, the restaurant would be considered a small business, regardless of who owned it.

In the OECD enterprise data that we present below, numbers for the United States (and Australia and Japan) refer to establishments, while the data for the rest of the countries refer to firms.⁶ The use of the establishment-based definition for the United States has the effect of *overstating* the share of national employment in smaller enterprises, relative to the data for countries using the firm-based definition. For example, a small fast-food restaurant in the United States would always count as a “small enterprise,” even when it is owned by a large multinational corporation, while the same small fast-food restaurant in countries using a firm-based definition would only be classified as a small enterprise if it were not owned by a larger firm. In short, if the U.S. data were put on the same basis as the rest of the countries that use firm-based definitions, the share of small businesses in the United States would be even smaller than what appears in the figures below.⁷

Manufacturing

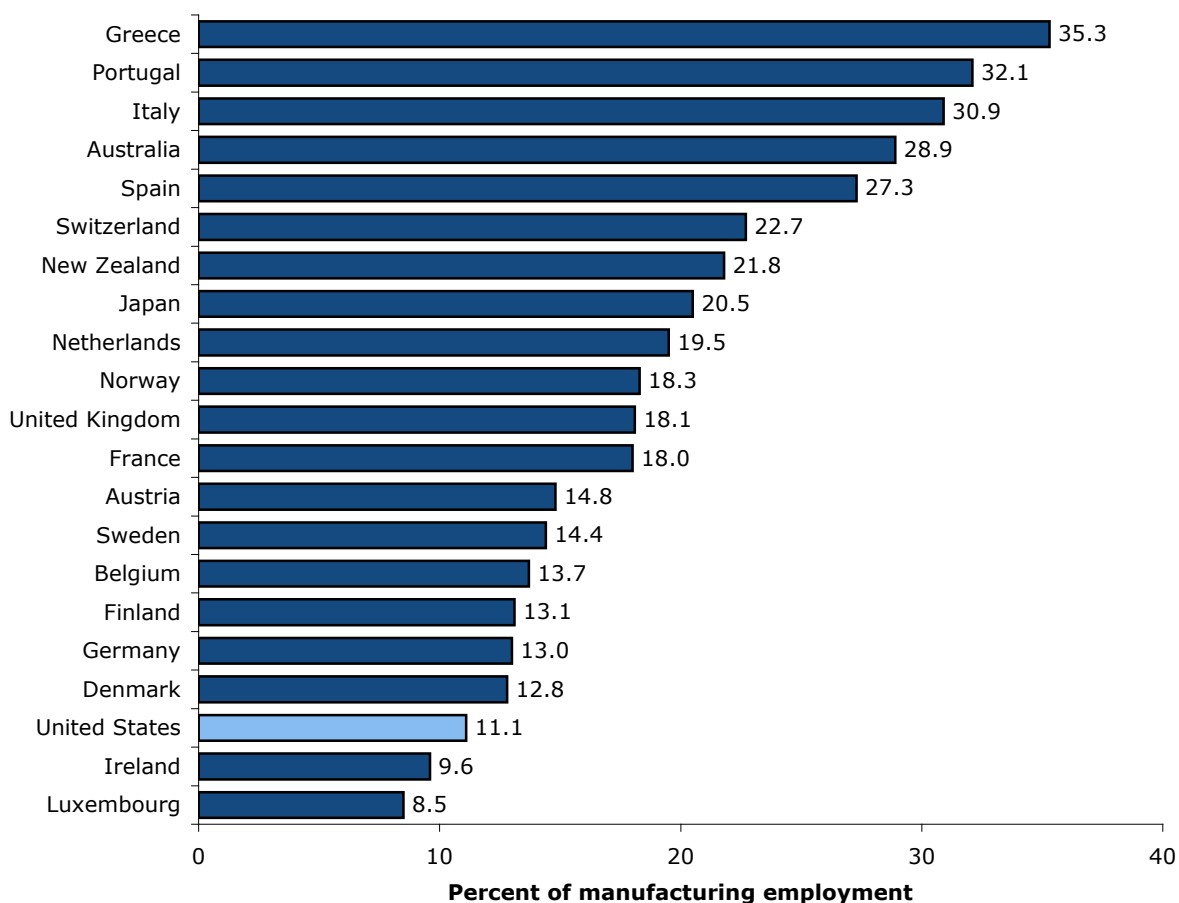
The OECD has published breakdowns of manufacturing employment by enterprise size for most of the major OECD countries in the 2000s. For 2006, **Figure 2** shows the national share of total

⁶ As noted in the preceding footnote, the OECD uses the term “enterprise” in the way that we use the term “firm.” The OECD (2008) writes, for example: “An enterprise is a legal entity possessing the right to conduct business on its own, for example to enter into contracts, own property, incur liabilities for debts and establish bank accounts. It may consist of one or more local units or establishments corresponding to production units situated in a geographically separate place and in which one or more persons work for the enterprise to which they belong.” (p. 10)

⁷ The OECD is generally not concerned about these comparability issues. According to the OECD (2008): “This may create some lack of comparability but, because most enterprises [“firms,” in our terminology] are also establishments, this is not expected to be significant. An area in which considerable differences can and do arise, however, is the coverage of data on enterprises/establishments. In many countries, this information is based on business registers, economic censuses or surveys that may have a size-class cut-off. Indeed, all countries have thresholds of one sort or another, depending, often, on the tax legislation and permissible business burdens in place across countries. For Ireland, only enterprises with three or more persons engaged are covered, while the data for Japan and Korea do not include establishments with fewer than four and five persons engaged, respectively....” (p. 10)

manufacturing employment that is in enterprises with fewer than 20 employees.⁸ According to the OECD data, the United States (11.1 percent) has among the lowest shares of manufacturing employment in small enterprises. Of the 21 major OECD countries in Figure 2, only Ireland (9.6 percent) and Luxembourg (8.5 percent) have lower shares of manufacturing employment in small enterprises. The rest of the economies in the figure all have higher or substantially higher shares of manufacturing employment in small enterprises, including Germany (13.0 percent), Sweden (14.4 percent), France (18.0 percent), the United Kingdom (18.1 percent), Spain (27.3 percent), and Italy (30.9 percent).

FIGURE 2
Manufacturing, Employment in Enterprises with fewer than 20 Employees, 2006



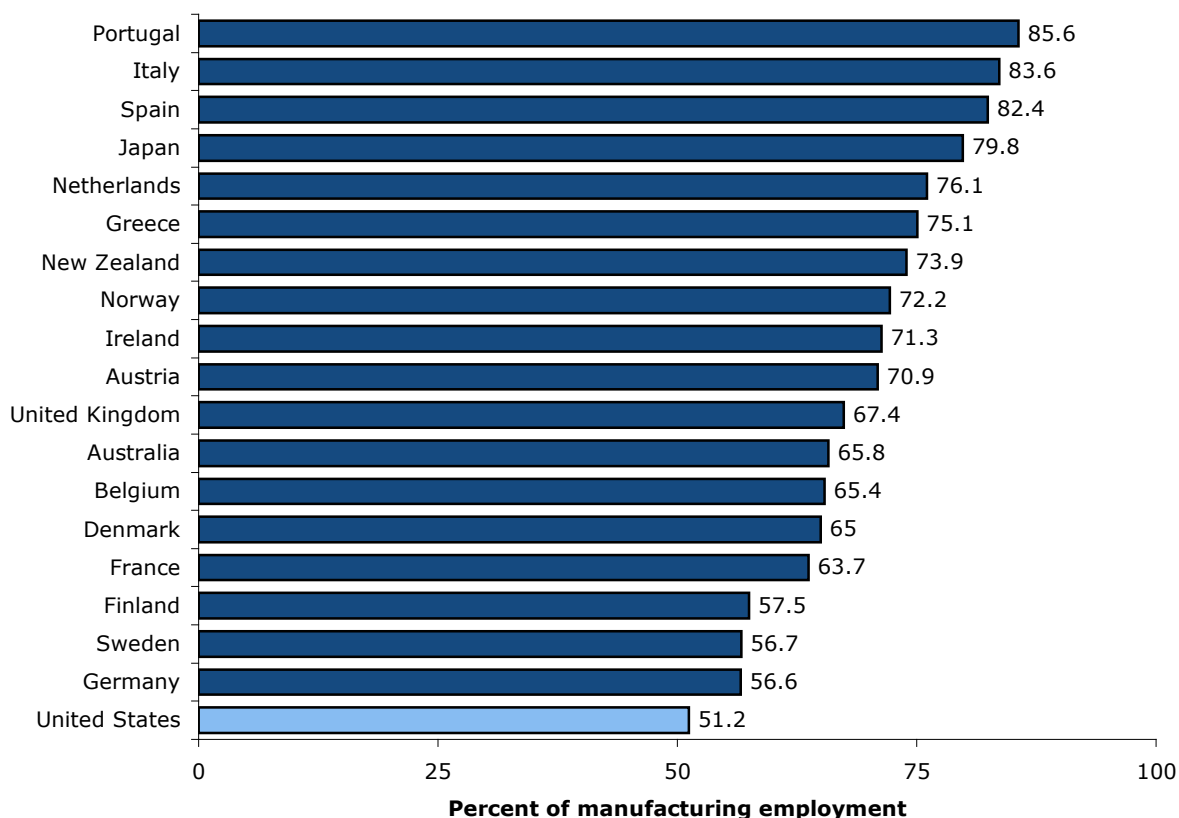
Source: Authors' analysis of OECD data.

Figure 3 shows the results for manufacturing after setting the cutoff for a small enterprise much higher – at enterprises with fewer than 500 employees. For this size cutoff, the most recent data available are for 2001, and no data are available for Luxembourg and Switzerland (which do appear in Figure 2). Using this broader definition of a small business, the United States has the lowest share

⁸ The data for Austria, Japan, and the United Kingdom refer to 2005; data for Switzerland to 2001. See OECD, 2009 OECD Country Statistical Profiles, <http://stats.oecd.org/Index.aspx?DatasetCode=CSP2009>, accessed, June 29, 2009.

of employment in small enterprises (51.2 percent) among the 19 countries for which the OECD has internationally comparable data.

FIGURE 3
Manufacturing, Employment in Enterprises with fewer than 500 Employees, 2001



Source: Authors' analysis of OECD data.

High-tech Services

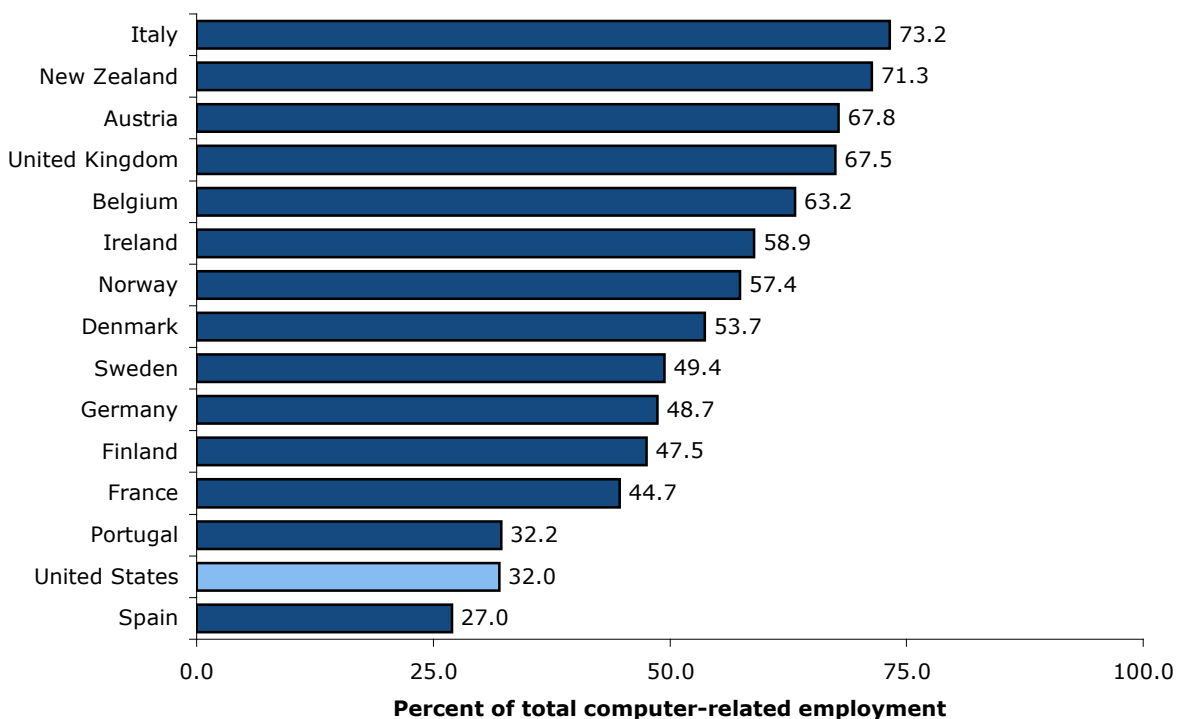
Computer-related Services

The United States also trails almost all comparable world economies when it comes to the share of small businesses in computer-related services (including hardware consultancy; software publishing, consultancy and supply; data processing; database activities and online distribution of electronic content; maintenance and repair of office, accounting and computing machinery; and other computer-related activities). **Figure 4** displays the national share of total computer-related employment in 2001 in enterprises with fewer than 100 employees.⁹ Of the 14 countries for which we have data, only Spain (27.0 percent) has a lower proportion of small-business employment in computer-related services than the United States (32.0 percent) does. France (44.7 percent), Germany (48.7 percent), Sweden (49.4 percent), the United Kingdom (67.5 percent), Italy (73.2

⁹ Data refer to ISIC classification K72 (Revision 3.1); see OECD (2005) Table A18.

percent) and the rest of the countries in the sample all have proportionately greater small-business employment in computer-related services than the United States.

FIGURE 4
Computer-related Services, Employment in Enterprises with fewer than 100 employees, 2001



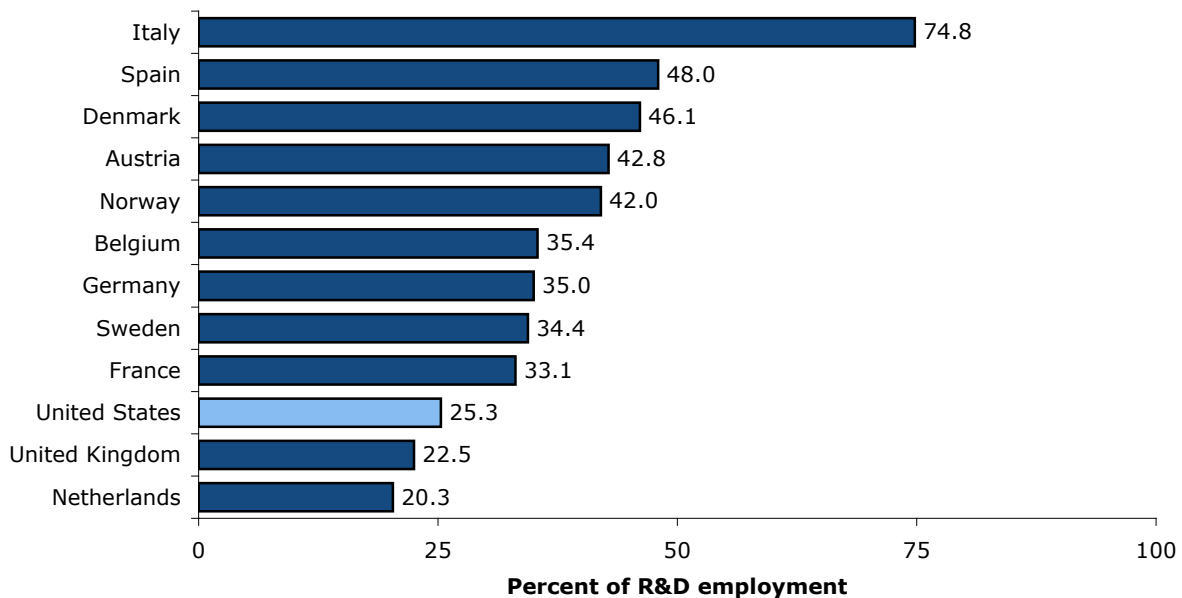
Source: Authors' analysis of OECD data.

Research & Development

The U.S. small business sector is also far less developed than other comparable world economies when it comes to research and development. **Figure 5** presents the small-business share of employment in enterprises focused on research and development (defined as basic and applied research in natural sciences, engineering, social sciences, and humanities).¹⁰ At just over one fourth (25.3 percent) of total employment in research and development activities (including biotech), the U.S. small business sector in 2001 was proportionately larger than the small business R&D sector in the Netherlands (20.3 percent) and the United Kingdom (22.5 percent), but well behind the small-business presence in the other nine countries for which the OECD has data, including France (33.1 percent), Sweden (34.4 percent), Germany (35.0 percent), Spain (48.0 percent) and Italy (74.8 percent).

¹⁰ The data for 2001 refer to ISIC classification K73 (Revision 3.1). See United Nations Statistics Division for a detailed description of these and other categories: <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=17&Lg=1>. See OECD (2005), Table A20 for the distribution of employment by enterprise size in research and development.

FIGURE 5
Research and Development, Employment in Enterprises with fewer than 100 employees, 2001



Source: Authors' analysis of OECD data.

Lower-tech Services

The United States also lags behind comparable rich economies when it comes to creating and sustaining small-business employment in lower-tech services. The OECD publishes data for three broad lower-tech services: “restaurants, bars, and canteens”; “real estate activities”; and “renting of machinery and equipment etc.” Among the 16 countries with data for 2001 (the most recent year available), the United States had the lowest proportion of small businesses in all three categories.¹¹

¹¹ The specific industry categories (ISIC classification, Revision 3.1) are: H552 for “Restaurants, bars, and canteens”; K70 for “real-estate activities”; and K71 for “renting of machinery and equipment etc.” Data for France refers to 2000; for Belgium, to 2002. See OECD (2005), Tables A12, A14, and A16.

Conclusion

Despite our national self-image as a nation of small businesses and entrepreneurs, the United States small-business sector is proportionately not as large an employer as the small-business sectors in the rest of the world's rich economies. One interpretation of these data is that self-employment and small-business employment may be a less important indicator of entrepreneurship than we have long thought. Another reading of the data, however, is that the United States has something to learn from the experience of other advanced economies, which appear to have had much better luck promoting and sustaining small-business employment.

One plausible explanation for the consistently higher shares of self-employment and small-business employment in the rest of the world's rich economies is that all have some form of universal access to health care. The high cost to self-employed workers and small businesses of the private, employer-based health-care system in place in the United States may act as a significant deterrent to small start-up companies,¹² an experience not shared by entrepreneurs in countries with universal access to health care.

12 For evidence that the lack of access to health insurance may act as a significant deterrent to self-employment, see, for example: Wellington (2001) and Fairlie, Kapur, and Gates (2008).

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