

Small and Big Business Contributions to Employment Growth**Introduction**

Over the past decade, the number of employed persons in Australia has grown by 12 per cent, slightly ahead of the growth in population of 10 per cent. This Research Note examines the question of whether most of this growth in employment can be attributed to the small business sector or to the big business sector. It also shows how the effect of enterprises moving between sectors can influence this analysis.

Definitions

The ABS definition of small business is private enterprises with less than 20 employees. The two exceptions to this are manufacturing and agriculture. In manufacturing, because of the large scale of its operations, a small business is defined as one with less than 100 employees¹. In agriculture, because of the volatility of employment, a small business is defined as one with an estimated Value of Agricultural Operations between \$22 500 and \$400 000.

All businesses that are not small business enterprises as defined above are referred to in this Research Note as big business enterprises (actually a combination of medium size and big businesses).

The Problem of Inter-Sector Transfers

Firm size is not static and as such there are always some enterprises changing their status from small to big business and vice versa. This effect is particularly noticeable during times of recession when small business employment is boosted by large businesses that downsize to small business status. This means that small business employment will not fall as much as it otherwise would and could even increase. Conversely, during periods of economic growth, big business employment is boosted by small businesses that grow to big business status. When this happens, then not just the growth in employment but total employment of the small business enterprise is counted as an increase in big business

employment. Small business employment is therefore biased upwards during times of recession, and biased downwards during an economic expansion. The opposite is the case for big business.

Employment growth in a particular sector therefore does not mean that all its growth originated in that sector. This needs to be borne in mind when analysing employment growth by business size.

Employment by Business Size

While employment overall grew by 12 per cent in Australia during the 1990s, employment in the small business sector grew by 20 per cent, private big business employment grew by 19 per cent and public sector employment fell by 15 per cent. The fall in public sector employment contrasts markedly with the other sectors and is attributed to the large number of privatisations that occurred in the 1990s (Commonwealth Bank, QANTAS, etc.), the outsourcing of functions previously performed by the public sector (Commonwealth Employment Service to Job Network) and general cutbacks in public sector employment. While there was little difference between the small and big business sectors in terms of their growth rates over the whole of the 1990s, quite a different picture emerges when the 1990s are looked at as two distinct periods.

The first period to consider is from March 1990 to March 1993. This includes the last recession and is a time when employment generally was in decline. While private big business employment fell by 12 per cent over this period, small business employment grew by 5 per cent. The ability of small business employment numbers to increase at a time when the labour market generally was contracting may reflect the versatility of small business operators to adapt to changed circumstances. More likely, however, is the fact that small business employment numbers were boosted by large businesses downsizing to small business status.

The second period, from March 1993 to the present, corresponds with the turnaround in employment after the recession. Total employment grew by 16 per cent over this period. Small business employment grew by 14 per cent, much slower than big business employment which grew by 35 per cent over the period. The effect on big business employment of small businesses upgrading to big business status could well be significant in this case.

Conclusion

Employment growth cannot be analysed in terms of the sector from which it originated but can be analysed in terms of its destination. Thus it can be said that in the early part of the 1990s the only employment growth that occurred is that which ended up in the small business sector. By contrast, most employment growth in the latter part of the 1990s ended up in the big business sector.

Endnote

1. The decline in the number of large scale manufacturing establishments brings into question whether this special treatment of manufacturing is still justified.

Tony Kryger
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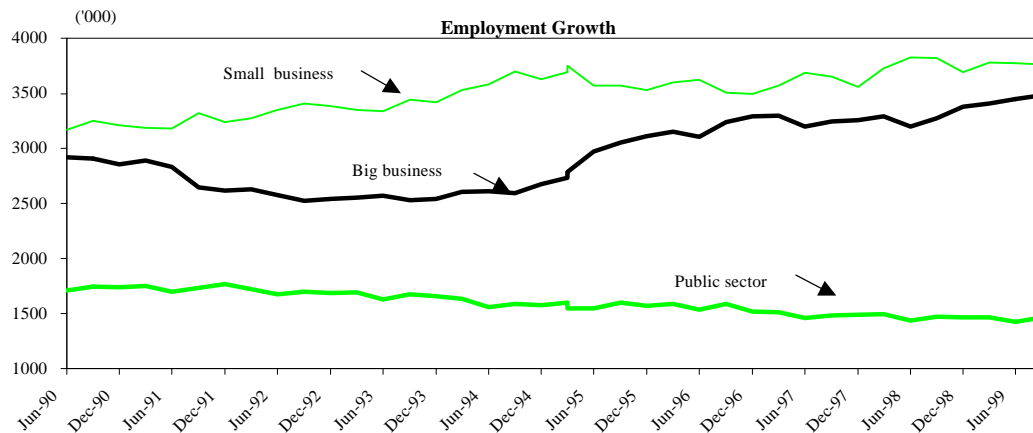
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EMPLOYMENT BY BUSINESS SIZE AND SECTOR

Original series

	Private sector						Public sector	Total
	Small business			Big business	Total	Public sector		
	Non-employees (a)	Employees(b)	Total					
				-'000-				
Mar-90	1151.2	2020.0	3171.2	2922.0	6093.2	1709.8	7803.0	
Jun-90	1168.6	2083.6	3252.2	2910.2	6162.4	1746.1	7908.5	
Sep-90	1241.3	1968.4	3209.7	2856.8	6066.5	1741.5	7808.0	
Dec-90	1180.0	2010.1	3190.1	2888.7	6078.8	1748.1	7826.9	
Mar-91	1183.3	1997.3	3180.6	2829.6	6010.2	1698.5	7708.7	
Jun-91	1184.0	2139.0	3323.0	2649.3	5972.3	1731.4	7703.7	
Sep-91	1195.0	2044.5	3239.5	2621.5	5861.0	1768.3	7629.3	
Dec-91	1238.3	2039.2	3277.5	2629.6	5907.1	1722.7	7629.8	
Mar-92	1229.1	2120.7	3349.8	2574.7	5924.5	1676.6	7601.1	
Jun-92	1207.2	2201.0	3408.2	2526.5	5934.7	1698.0	7632.7	
Sep-92	1272.0	2116.5	3388.5	2544.2	5932.7	1684.8	7617.5	
Dec-92	1201.3	2148.5	3349.8	2552.6	5902.4	1695.0	7597.4	
Mar-93	1257.6	2080.6	3338.2	2570.6	5908.8	1630.5	7539.3	
Jun-93	1220.8	2223.1	3443.9	2530.9	5974.8	1675.1	7649.9	
Sep-93	1291.1	2131.0	3422.1	2540.8	5962.9	1658.0	7620.9	
Dec-93	1262.4	2269.6	3532.0	2603.1	6135.1	1633.8	7768.9	
Mar-94	1235.1	2346.7	3581.8	2610.1	6191.9	1560.1	7752.0	
Jun-94	1231.7	2465.4	3697.1	2593.7	6290.8	1588.3	7879.1	
Sep-94	1299.8	2331.0	3630.8	2676.9	6307.7	1578.0	7885.7	
Dec-94	1237.0	2458.3	3695.3	2732.1	6427.4	1597.7	8025.1	
Mar-95	1225.8	2529.7	3755.5	2788.6	6544.1	1545.9	8090.0	
Mar-95	1225.8	2345.9	3571.7	2972.4	6544.1	1545.9	8090.0	
Jun-95	1259.8	2309.9	3569.7	3056.2	6625.9	1603.0	8228.9	
Sep-95	1307.8	2223.4	3531.2	3114.9	6646.1	1572.6	8218.7	
Dec-95	1274.2	2324.7	3598.9	3151.0	6749.9	1585.2	8335.1	
Mar-96	1294.1	2327.1	3621.2	3109.8	6731.0	1537.3	8268.3	
Jun-96	1275.9	2231.5	3507.4	3241.9	6749.3	1585.3	8334.6	
Sep-96	1234.9	2264.3	3499.2	3294.0	6793.2	1517.1	8310.3	
Dec-96	1235.9	2337.4	3573.3	3295.4	6868.7	1514.9	8383.6	
Mar-97	1227.3	2458.6	3685.9	3197.9	6883.8	1457.8	8341.6	
Jun-97	1242.5	2410.3	3652.8	3246.4	6899.2	1484.1	8383.3	
Sep-97	1335.9	2223.8	3559.7	3256.3	6816.0	1490.6	8306.6	
Dec-97	1287.9	2441.4	3729.3	3291.3	7020.6	1494.1	8514.7	
Mar-98	1261.5	2566.8	3828.3	3195.7	7024.0	1433.7	8457.7	
Jun-98	1240.1	2580.4	3820.5	3272.7	7093.2	1473.4	8566.6	
Sep-98	1230.7	2462.3	3693.0	3379.4	7072.4	1464.8	8537.2	
Dec-98	1278.1	2501.1	3779.2	3408.0	7187.2	1463.8	8651.0	
Mar-99	1221.9	2550.3	3772.2	3448.8	7221.0	1427.7	8648.7	
Jun-99	1221.6	2543.0	3764.6	3487.4	7252.0	1464.5	8716.5	
Sep-99	1351.5	2455.3	3806.8	3465.9	7272.7	1458.9	8731.6	
				% Increase				
Mar 90 - Mar 93	9.2	3.0	5.3	-12.0	-3.0	-4.6	-3.4	
Mar 93 - Sep 99	7.5	18.0	14.0	34.8	23.1	-10.5	15.8	
Mar 90 - Sep 99	17.4	21.6	20.0	18.6	19.4	-14.7	11.9	



(a) Employers, self employed persons and unpaid family helpers.

(a) Officially defined as private enterprises with less than 20 employees except: manufacturing, in which a small business is defined as one with less than 100 employees; and agriculture in which a small business is defined as one with an Estimated Value of Agricultural Operations between \$22 500 and \$400 000.

Source: Derived from *Employed Wage and Salary Earners* (ABS 6248.0) and *The Labour Force* (ABS 6203.0)