The University of Nottingham

Leverhulme Centre for Research on Globalisation and Economic Policy

Research paper media briefing

Job Creation, Job Destruction and the Role of Small Firms:

Firm-Level Evidence for the UK

by Alex Hijzen, Richard Upward and Peter Wright

The first comprehensive research into the scale of job creation and job destruction across UK private sector firms.

Some of the main findings in detail:

Headline figure:

One in seven private sector jobs is destroyed in the UK each year but even more are created.

The research shows 51,000 private sector jobs are destroyed each week (equivalent to 2.65m a year) but another 53,000 are created (equivalent to 2.76m a year). Report co-author, Dr Peter Wright, an Associate Professor at GEP said: "People might be surprised at the results. It doesn't mean all these workers have been fired – when a firm shrinks it may do so by not replacing workers who leave voluntarily – but it shows how dynamic the UK employment market is. And the figure may be much higher. Our analysis only shows changes in the level of total employment within firms; this does not necessarily reflect the full underlying story where for example, within an individual firm, jobs may be lost through perhaps outsourcing of call centre functions to India, but then more jobs created through the recruitment of new sales staff, or IT personnel.

Services v Manufacturing

The service sector accounts for 80% of job turnover, creating about 44,000 jobs a week and destroying around 40,000. "This is largely because the sector is bigger," concludes Dr Wright. "But the service sector is also more dynamic than manufacturing. Despite being an expanding sector, job destruction rates are, perhaps surprisingly, slightly higher on average in services, showing that a sector which is growing does not necessarily have low rates of job destruction."

The job creation rate for the service sector is 16.4% (in other words, just over 4 in every 25 jobs currently in the service sector were not there last year) and **the destruction rate is 14.8%** (so around one in 7 workers employed in service industry jobs this year is likely to be seeking work elsewhere next year).

Key Findings:

- One in seven private sector jobs is destroyed in the UK each year but even more are created
- 51,000 jobs destroyed each week – 53,000 new jobs created
- Small firms account for up to 70% of jobs created but 60% of jobs destroyed
- The service sector accounts for 80% of job turnover
- Manufacturing is in decline but not moribund
- London and the South East have highest job creation and destruction rates

Manufacturing is in decline – more jobs are lost than are created each year, but the sector is not moribund. **In manufacturing the job creation rate averages 11% per year, while job destruction is 13.5%.**

Dr Wright says: "This result may surprise many people. You might expect that few firms would be creating jobs in a declining sector, and that the story is simply one of jobs being lost as firms close down. This is not the case."

Size matters

Small firms (under 100 staff) employ a substantial proportion of the workforce – between 43% and 53% of all workers and account for up to 70% of jobs created, but also account for 60% of jobs destroyed.

More than a third of new jobs come from start up firms. Half of jobs destroyed come from firms closing down.

Dr Wright said the data showing how important small firms are to the economy is likely to reignite a longstanding debate between economists and other academics.

He said: "There has always been a big debate about whether small entrepreneurial firms or large firms are most important in terms of job creation. If you talk to most economists they would probably say that big firms are the key to understanding how the economy works, but within business schools there has always been a bias towards small firms and the outcome of this debate does have importance in terms of public policy.

"It is clear from this research that small firms employ a significant proportion of the workforce and account for most new jobs, but their failure rates are much higher. This means that Government support to small firms is inherently risky, but these entrepreneurial businesses do have more of a role to play than many economists have previously recognised. And if the Government could identify why so many of these firms fail it could have a significant impact on net job creation."

Regional data

Manufacturing industries declined fastest in the North West, Yorkshire and Northern Ireland.

London and the South East have the highest gross job creation and destruction rates – so you are more likely to lose your job in London than elsewhere, but should have an easier time finding a new one.

Where the jobs are

The fastest growing service industries include Computer and Related (hardware and software consultancy, data processing, IT maintenance etc.), Real Estate (buying, selling, letting and real estate development etc), Other Business Activities (legal, accounting, market research, architectural and engineering consultancies), Hotels and Restaurants (includes bars, canteens and catering), and Retail Trade.

The biggest manufacturing employers are Chemicals, Machinery, Metal Products, Rubber and Plastics, and Food, all of which, apart from the last, have experienced significant employment falls.

Information source:

The research is based on firm-level data from the Inter-Departmental Business Register (IDBR) from 1997-2005. This is a live register of all businesses in the UK, held by the Office for National Statistics since 1994, using inputs from Customs and Excise (VAT registered businesses) and the Inland Revenue (PAYE registered businesses) which covers an estimated 99% of business activity in the UK.

Conclusion

Dr Peter Wright said: "It is not necessarily a bad thing for the economy that we have so much movement in the employment market but it does mean that there are likely to be many people changing jobs involuntarily, which may involve considerable adjustment costs. And it has important implications in terms of training provision as many workers are likely to need to regularly change or update their skills if they are to stay employed and maintain income levels in such a dynamic market."

GEP – the Globalisation and Economic Policy Centre – is the major centre in Europe studying the impacts of globalisation and economic policy, and one of the biggest of its kind in the world. The centre has an impressive international reputation; its academics have advised the Treasury, the OECD, The World Bank and WTO.

GEP is keen to promote its research work and is committed to communicating its expertise through the media and to assisting journalists whenever able.

GEP is based at the University of Nottingham, and is substantially funded by grants from The Leverhulme Trust.

Website: www.gep.org.uk

GEP Academics:

Dr Peter Wright

Associate Professor and Reader in Labour Economics

Peter Wright focuses on the impact of globalisation on the labour market. Other recent and current work: how globalisation can strengthen the hand of unions in wage disputes; whether outsourcing jobs abroad leads to job losses and less job security in the UK and the effect mergers and foreign acquisitions have on wages.

Dr Richard Upward

Associate Professor in Economics

Richard Upward is interested in broad issues like why people earn what they earn and how labour markets work. Other recent and current work for GEP includes how quickly workers find jobs after the closure of a big plant and what impact this has on their wages; also how employers recruit staff, and how employees find jobs.

Dr Alex Hijzen

OECD and GEP Research Fellow

Alex Hijzen is also interested in the impact of international trade on labour markets. Other current research interests relate to outsourcing and wage inequality and also the impact of foreign direct investment or mergers and acquisitions (for instance, in terms of productivity).

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