Mitchell's Musings 10-10-11: Does Size Matter?

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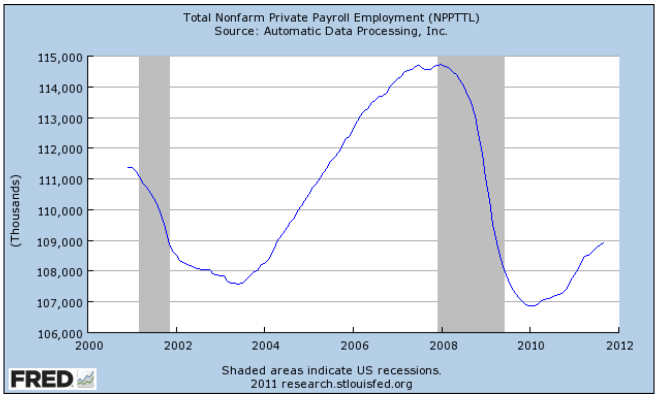
The graph below will be familiar to anyone who has followed recent labor-market developments. It shows the big drop in private-sector jobs during the Great Recession. And it shows only a partial recovery which lags the official end of the downturn and which suggests – if its current pace continues – that it will be years before employment climbs back to its previous peak, let alone catches up with natural labor force growth.

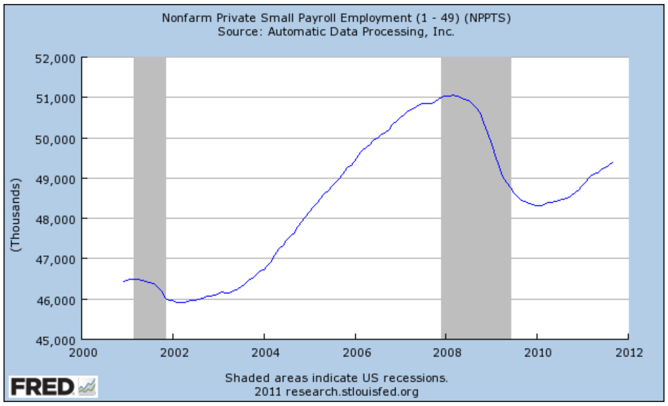


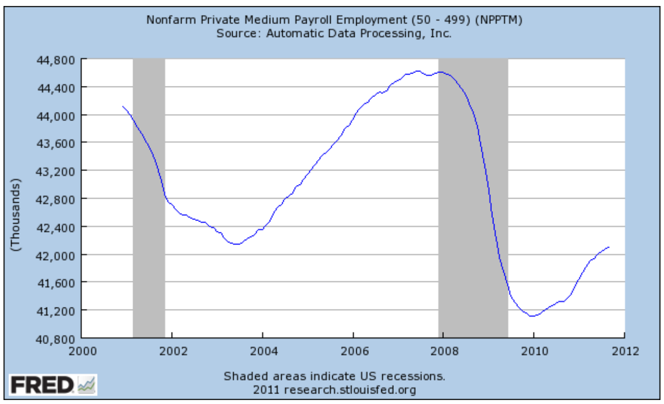
Note, however, that the chart above – while familiar looking – does not come from the usual U.S. Bureau of Labor Statistics (BLS) establishment survey but rather from a private firm – Automatic Data Processing - that handles payroll data for employers. The firm reweights the data from its client to approximate national employment patterns. Its adjusted estimates generally track the ups and downs of BLS data.[1]

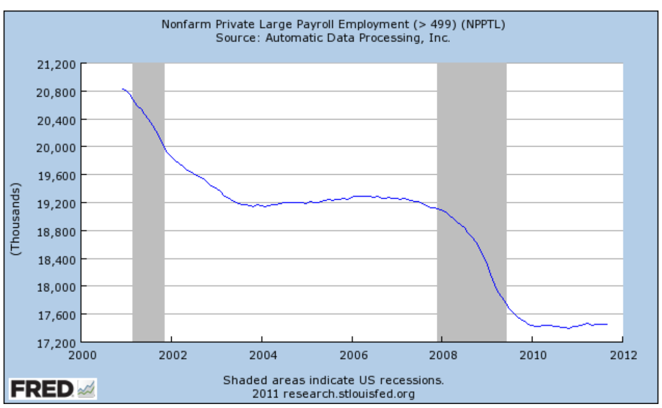
One element of the alternative data source is its ability to break out small payrolls (1-49 employees) – as shown on the chart below – from medium sized payrolls (50-499 employees) and from large payrolls (500+ employees).[2] Charts featuring those breakouts by employment size are shown on the next page.

[1] I obtained the chart above and others below from FRED, a database maintained by the Federal Reserve Bank of St. Louis <http://research.stlouisfed.org/fred2/>. Information about the reports from Automatic Data Processing is at http://www.adpemploymentreport.com/ The two series differ at the peak of the employment cycle by about one million jobs (BLS is lower).

[2] A payroll size and a firm size may not be the same thing. A payroll's employment coverage can't be larger than the size of the firm. But it could be smaller if, say, just a subsidiary of a larger firm had its payroll processed by Automatic Data Processing. In the text, we use payroll size as a proxy for "enterprise" size and avoid the word "firm" in the text.

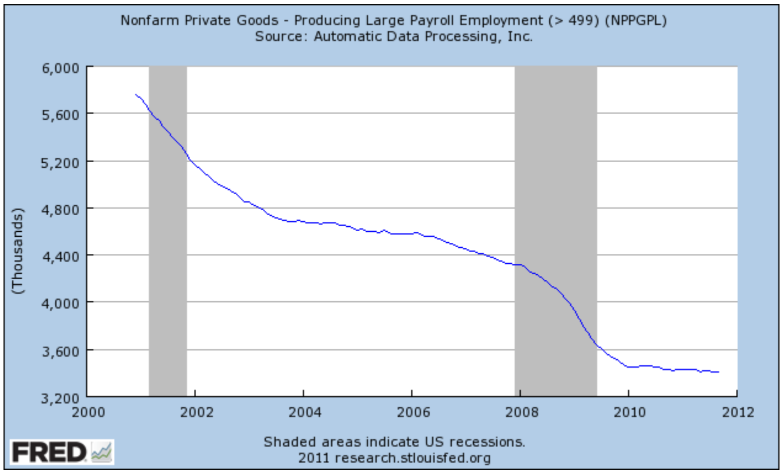




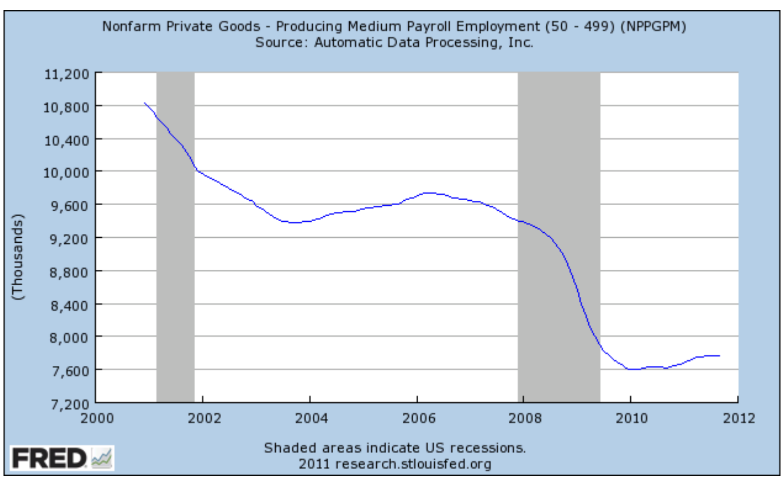


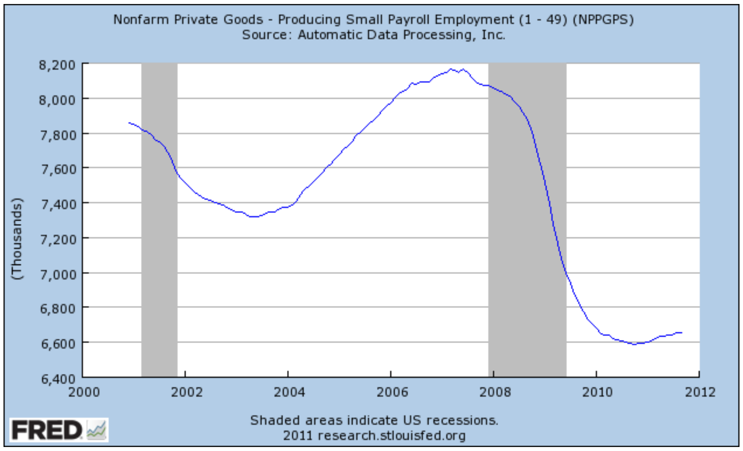
Note that there is employment growth in the post-Great Recession period *except* among the largest enterprises. From that observation comes two questions. One is whether the large enterprise deviation is simply an industry-mix result. That is, we tend to view manufacturing as dominated by large enterprises. So if manufacturing is having particular problems in the recovery from the Great Recession, perhaps that explains the seeming large-medium-small deviation. A second question is whether there are consequences of the deviation of large enterprises, *regardless* of whether that deviation can be explained by industry mix. It is really the latter question I want to pose. But let's look at the former first.

The chart below indicates that in the "goods" sector (the sector that includes manufacturing), it is certainly true that big enterprises are in trouble and don't show signs of recovery. Indeed, their troubles began well before the Great Recession, although they were certainly exacerbated by it.

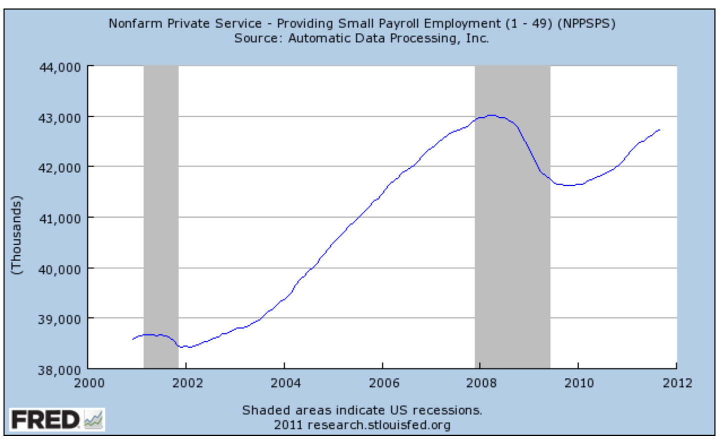


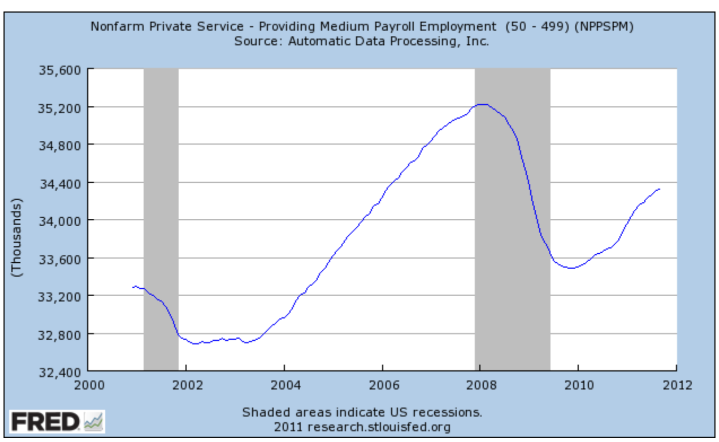
In fact, the goods sector – including manufacturing – contains a mix of large, medium, and small enterprises. How have the medium and small enterprises done within that sector? As the charts below and on the next page, indicate, the non-large enterprises did better than the large ones in the pre-Great Recession period, but have stagnated since. So there is something to the idea that sectoral mix explains some of the large-medium-small differences at the all-industry level in the post-Great Recession era. Large enterprises in the goods sector tend to drag down the all-sector results for large enterprises.

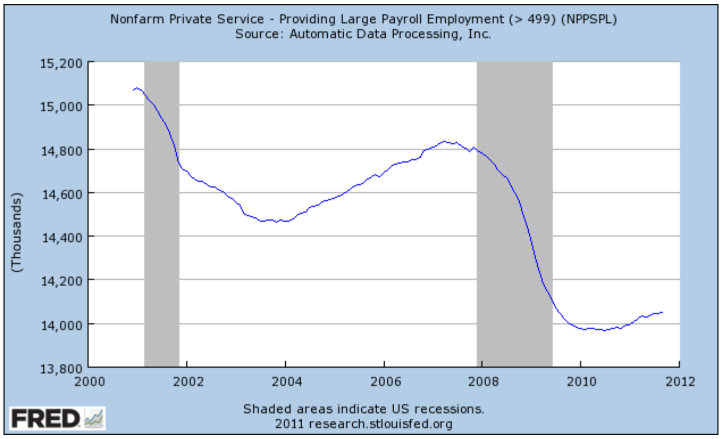




Outside the goods sector, however, we see the earlier pattern of smaller enterprises doing better in the recovery than larger, as the three charts below and on the next page illustrate. The smallest service enterprises, in fact, are actually nearing their pre-Great Recession peak. Medium-sized service enterprises are about half way back to their peak. But the largest enterprises show little recovery. In short, size matters. And size seems to have a role in the degree of job recovery, *apart* from any sectoral-mix effects.







That observation brings us to the second question of whether there are consequences – sectoral mix or not – of the differential pace of job recovery by enterprise size. That question can't be answered by the data we have presented. But it is well known that larger enterprises on average tend to pay more than smaller ones and to offer more generous employee benefit packages. Larger enterprises tend also to have more formalized human resource practices (evaluation, reward, training, etc.) and to have internal organizations that look after those practices. So it is possible that while small is beautiful (or at least less ugly) in terms of post-Great Recession job growth, smaller enterprises may also be producing a lower quality of jobs than existed before. In short, there is a research project for academics suggested by the charts we have presented.

There is also an interesting institutional question for the news media. Because larger enterprises are more formalized, they are more likely to have executives in the human resource field who belong to professional organizations and are therefore more dominant in the conversation and perception of what is going on in that field. What happens in big enterprises is more likely to receive media attention; such enterprises are easier to identify and query than smaller ones. So for those in the news media, the question is: Are you missing something?