

# **A White Paper on The Role of Small Businesses in the U.S. and Texas Economy**

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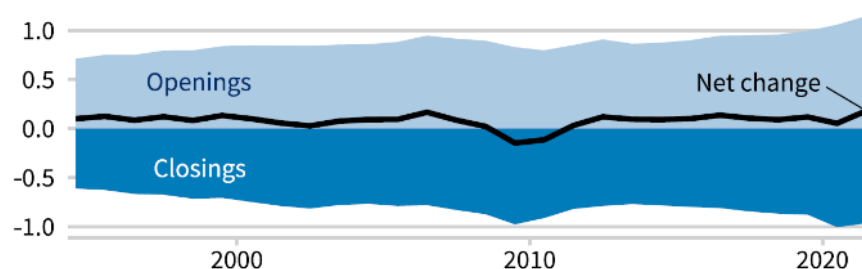
This white paper addresses the role of small businesses in the United States of America (U.S.) and Texas economies. The study collects relevant federal and state data related to small businesses. The objectives of this research are to (1) understand the importance of small businesses on the economic growth of the U.S. and Texas; (2) identify the added value and share of small businesses per industry; and (3) challenges small businesses are encountering.

**Keywords:** Small businesses, U.S. economy, Texas economy, industries of economy.

## Small businesses in the US

Small businesses play an important role in the economy of the U.S. According to the U.S. Small Business Administration (SBA), small businesses create millions of new jobs and significantly contribute to the U.S. Gross Domestic Product (GDP). Small businesses that grow into medium and large-size companies also boost the economy through synergies created by their growth. According to U.S. Census Bureau Statistics of U.S. Businesses, in 2021 there were more than 33.2 million small businesses in the U.S. which employed 61.7 million employees.

**Figure 1. Number of small businesses in the U.S. (in millions)**

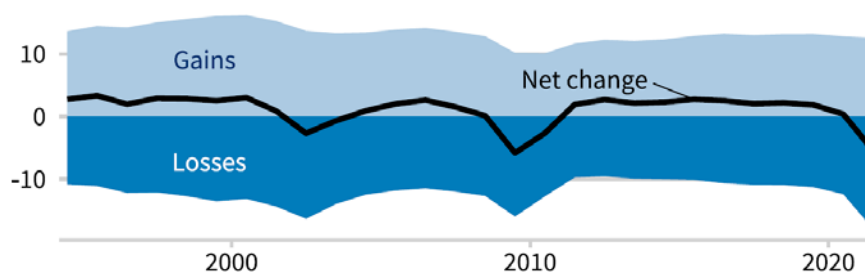


Source: U.S. SBA Office of Advocacy, U.S. Small Business Profile 2022

Figure 1 shows between March 2020 and March 2021 a net increase of 166,542 in the number of small businesses. "Opening and expanding US establishments [all businesses] added 12.5

million jobs while closing and contracting [all businesses] lost 18.0 million, for a net decrease of 5.5 million jobs. [Figure 2 shows] Small businesses gained 8.7 million jobs and lost 11.7 million, for a net decrease of 3.0 million jobs." (U.S. SBA, 2022)

**Figure 2. Number of jobs in the U.S. created by small businesses (in millions)**



Source: U.S. SBA Office of Advocacy, U.S. Small Business Profile 2022

Small businesses to a great extent are vulnerable to multiple macroeconomic and industry-specific risks. States provide favorable business climates to attract small businesses. The

breakdown of the U.S. small businesses by industry, size, and payroll is presented in Tables 1 and 2.

**Table 1. U.S. small businesses count by size and industry**

Industry	No employees	1–19 employees	20–499 employees	All small businesses
Professional, Scientific, and Technical Services	3,772,571	770,708	51,473	4,594,752
Other Services (except Public Administration)	2,851,688	656,723	45,887	3,554,298
Construction	2,753,720	668,863	60,494	3,483,077
Real Estate and Rental and Leasing	2,942,243	313,387	13,134	3,268,764
Transportation and Warehousing	2,856,417	174,386	20,538	3,051,341
Administrative, Support, and Waste Management	2,595,841	311,741	39,171	2,946,753
Retail Trade	2,100,019	578,829	55,456	2,734,304
Health Care and Social Assistance	2,062,908	569,629	91,229	2,723,766
Arts, Entertainment, and Recreation	1,563,262	119,700	17,238	1,700,200
Accommodation and Food Services	497,339	423,347	127,881	1,048,567
Finance and Insurance	755,320	220,761	15,770	991,851
Educational Services	894,698	76,161	19,614	990,473
Wholesale Trade	391,670	243,976	40,191	675,837
Manufacturing	354,198	181,091	58,560	593,849
Information	363,625	71,486	10,242	445,353
Agriculture, Forestry, Fishing and Hunting	255,354	20,670	1,366	277,390
Mining, Quarrying, and Oil and Gas Extraction	78,854	15,132	3,136	97,122
Utilities	14,279	4,676	1,221	20,176
Management of Companies and Enterprises	*	4,786	13,450	18,236
Industries not classified	*	11,370	36	11,406
Total	27,104,006	5,431,541	650,003	33,185,550

Source: U.S. Small Business Administration Office of Advocacy, U.S. Small Business Profile 2022

**Table 2. U.S. small business employment and payroll by industry**

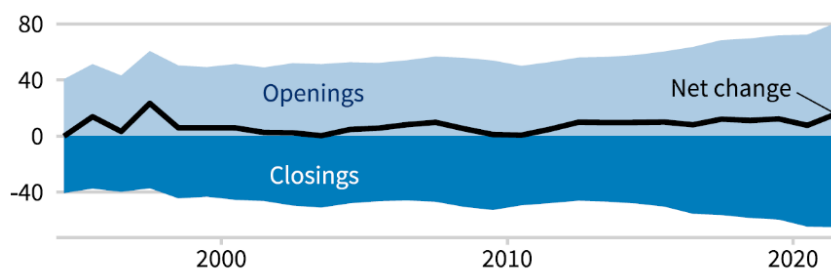
Industry	Employers		Employees		Payroll (\$1,000s)	
	Small	%	Small	%	Small	%
Professional, Scientific, and Technical Services	822,181	99.6	5,339,687	57.5	422,868,156	50.0
Construction	729,357	99.8	5,694,355	80.8	346,600,283	75.8
Other Services (except Public Administration)	702,610	99.8	4,750,090	84.5	157,428,291	79.9
Health Care and Social Assistance	660,858	99.3	9,153,169	43.9	392,262,811	36.0
Retail Trade	634,285	99.6	5,439,291	34.7	192,888,667	41.0
Accommodation and Food Services	551,228	99.6	8,789,153	60.6	176,789,199	57.9
Administrative, Support, and Waste Management	350,912	98.8	3,804,585	30.1	157,119,369	28.5
Real Estate and Rental and Leasing	326,521	99.6	1,499,044	66.9	81,473,426	62.4
Wholesale Trade	284,167	98.9	3,362,014	54.4	215,956,100	46.5
Manufacturing	239,651	98.3	5,093,618	42.1	263,138,281	35.5
Finance and Insurance	236,531	99.3	1,889,886	28.8	167,971,590	24.0
Transportation and Warehousing	194,924	98.8	1,771,748	32.8	82,440,647	29.1
Arts, Entertainment, and Recreation	136,938	99.4	1,488,720	59.4	56,512,032	60.0
Educational Services	95,775	98.6	1,719,209	45.1	60,823,249	38.7
Information	81,728	98.5	979,093	27.4	80,439,311	20.0
Agriculture, Forestry, Fishing and Hunting	22,036	99.6	137,357	83.5	6,283,680	82.6
Mining, Quarrying, and Oil and Gas Extraction	18,268	98.1	276,837	44.2	23,049,007	38.8
Management of Companies and Enterprises	18,236	69.9	379,728	10.8	31,614,507	7.8
Industries not classified	11,406	100.0	14,738	100.0	466,900	100.0
Utilities	5,897	96.7	111,586	17.4	9,269,079	12.9
Total	6,081,544	99.7	61,693,908	46.4	2,925,394,585	39.4

Source: U.S. Small Business Administration Office of Advocacy, U.S. Small Business Profile 2022

## Small businesses in Texas

According to U.S. Census Bureau Statistics of U.S. Businesses, in 2021 there were more than 3.1 million small businesses in the Texas which employed 4.9 million employees. Decreasing the unemployment rate and growing the state gross product, among others, are direct impacts small businesses have on the Texas economy. In turn, Texas provides a “business-friendly environment” for small businesses through its favorable business regulations, low cost, and tax structure. This environment was recognized by (1) the Small Business and Entrepreneurship Council in ranking Texas high in its business environment and (2) entrepreneurs who choose Texas as best suited for start-ups.

**Figure 3. Number of small businesses in Texas (in thousands)**

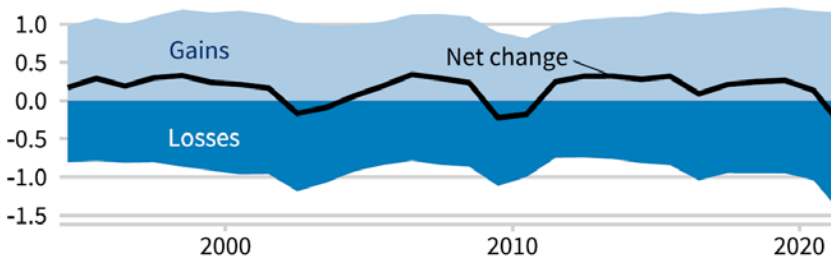


Source: U.S. SBA Office of Advocacy, TX Small Business Profile 2022

Figure 3 shows between March 2020 and March 2021 a net increase of 15,812 in the number of small businesses.

“Opening and expanding US establishments [all businesses] added 1.2 million jobs while closing and contracting [all businesses] lost 1.5 million, for a net decrease of 334,627 jobs. [Figure 4 shows] Small businesses gained 798,857 jobs and lost 943,549, for a net decrease of 144,692 jobs.” (U.S. SBA, 2022)

**Figure 4. Number of jobs in Texas created by small businesses (in millions)**



Source: U.S. SBA Office of Advocacy, Texas Small Business Profile 2022

The breakdown of Texas small businesses by industry, size, and demographics is presented in Tables 3 and 4.

**Table 3. Texas small businesses count by size and industry**

Industry	No employees	1-19 employees	20-499 employees	All small businesses
Construction	350,258	40,875	5,468	396,601
Professional, Scientific, and Technical Services	324,221	60,416	4,728	389,365
Other Services (except Public Administration)	296,065	44,320	4,209	344,594
Administrative, Support, and Waste Management	305,943	20,236	3,620	329,799
Transportation and Warehousing	286,881	13,830	2,142	302,853
Retail Trade	208,902	41,435	3,951	254,288
Real Estate and Rental and Leasing	225,410	22,512	1,291	249,213
Health Care and Social Assistance	177,202	47,204	7,682	232,088
Arts, Entertainment, and Recreation	112,681	6,162	1,043	119,886
Finance and Insurance	83,386	18,556	1,586	103,528
Accommodation and Food Services	61,491	30,624	10,512	102,627
Educational Services	73,286	5,506	1,256	80,048
Wholesale Trade	34,813	19,752	3,964	58,529
Manufacturing	36,363	12,381	4,337	53,081
Mining, Quarrying, and Oil and Gas Extraction	27,952	4,854	1,186	33,992
Information	28,092	4,278	803	33,173
Agriculture, Forestry, Fishing and Hunting	23,218	992	63	24,273
Utilities	1,890	767	156	2,813
Management of Companies and Enterprises	*	413	1,111	1,524
Industries not classified	*	858	2	860
Total	2,658,054	395,559	56,680	3,110,293

Source: U.S. SBA Office of Advocacy, Texas Small Business Profile 2022

**Table 4. Texas small business employment and payroll by industry**

Industry	Employers		Employees		Payroll (\$1,000s)	
	Small	%	Small	%	Small	%
Professional, Scientific, and Technical Services	65,144	98.6	424,196	56.0	32,532,397	48.2
Health Care and Social Assistance	54,886	99.0	735,913	46.4	29,283,465	38.3
Other Services (except Public Administration)	48,529	99.4	379,828	81.0	11,758,377	73.2
Construction	46,343	99.2	496,818	67.0	29,502,484	62.2
Retail Trade	45,386	98.6	383,143	29.0	14,131,674	35.7
Accommodation and Food Services	41,136	98.8	708,631	55.9	13,237,188	55.2
Administrative, Support, and Waste Management	23,856	96.5	336,770	32.1	14,477,095	32.1
Real Estate and Rental and Leasing	23,803	98.7	126,839	59.8	7,113,175	55.1
Wholesale Trade	23,716	95.8	271,396	50.5	17,763,441	44.1
Finance and Insurance	20,142	97.1	156,764	28.0	12,311,450	24.8
Manufacturing	16,718	94.3	336,787	40.9	17,340,971	32.3
Transportation and Warehousing	15,972	96.0	160,047	30.5	8,302,983	27.5
Arts, Entertainment, and Recreation	7,205	98.7	89,879	55.6	3,169,092	61.8
Educational Services	6,762	98.1	107,696	51.9	3,512,952	41.7
Mining, Quarrying, and Oil and Gas Extraction	6,040	97.1	102,315	44.6	9,582,224	38.7
Information	5,081	93.0	63,722	23.8	4,590,303	19.7
Management of Companies and Enterprises	1,524	59.2	33,894	10.4	3,148,978	7.8
Agriculture, Forestry, Fishing and Hunting	1,055	99.3	5,874	84.5	260,803	87.1
Utilities	923	93.6	15,251	27.8	1,270,287	21.5
Industries not classified	860	100.0	1,149	100.0	39,916	100.0
Total	452,239	98.6	4,936,912	44.5	233,329,255	38.2

Source: U.S. SBA Office of Advocacy, Texas Small Business Profile 2022

Since Texas does not have a corporate or personal state income tax, not only does that “tax-friendly” environment attract small businesses to relocate or start-up in Texas. The lack of a corporate tax provides small businesses with additional funds to reinvest in their businesses, and workers from high-tax states are attracted to relocate to Texas because it is a “no state income tax.” As a result, small businesses are provided with a pool of talent in staffing their operations and can offer highly competitive compensation to retain and attract highly qualified talent.

Texas has been ranked multiple times by Forbes magazine as one of the most favorable states for small businesses. Other factors that impact on favorable business climate are a growing working population, regulatory and licensing simplicity, and networking and training opportunities. Small businesses represent the vast majority of all businesses in Texas and employ 44.5% of the state's workforce (U. S. Bureau of Labor Statistics, 2021). Texas’s domestic product is the second largest in the nation, equivalent to about 2.052 trillion (St. Louis FED, 2022). In 2018 the economic growth of Texas outpaced the U.S. by growing 3.2%.

A study focused on small businesses highlights the impact these businesses have on the Texas economy. It estimated the economic impact of small businesses on gross output is \$844 billion. Among those small businesses, the following industries had a significant share: construction \$68.8 billion, professional and technical services \$68.1 billion, retail \$62.4 billion, health care and social services \$53.6 billion. These small businesses generated \$14.97 billion and \$13.866 billion in federal and state tax revenue respectively (Thomas Tunstall, 2016).

The oil and gas industry dominates the Southeast Texas economy and creates business opportunities. The industry supports dining, hospitality, real estate, and healthcare sectors. Entrepreneurs need relatively less capital to start small businesses in Southeast Texas because the cities in this region are more affordable than the faster-growing metropolitan areas of Texas. Due to the expansion of oil and gas large firms in Southeast Texas, this region has potential and space for economic growth.

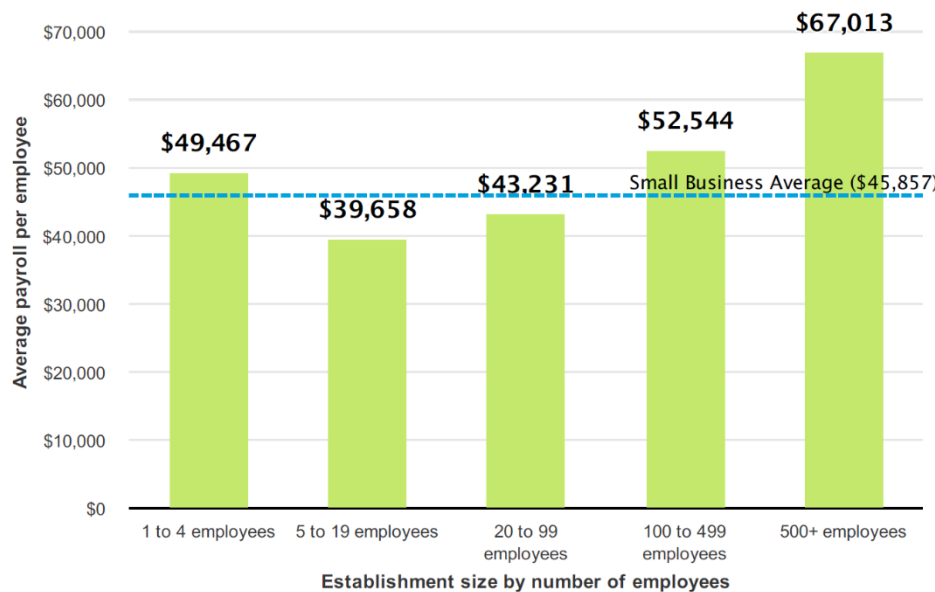
The workforce in small businesses is generally less experienced and provides opportunities for workers to learn. In contrast, medium and large-size businesses are often more selective in employing workers and require more experience and education in their workforce.

### **Challenges of small businesses**

Some of the challenges for small businesses are the expansion of large companies, labor force decline, difficulty in accessing capital, continuous economic disruptions due to natural disasters, the pandemic, and other extraordinary events. These challenges are interconnected and impact one another. An example of the extraordinary situation is Texas is the second large economy in the U.S. and continues to maintain a higher growth rate than many other states. The economic growth led Texas to maintain a low unemployment rate than the U.S. for years. Some will consider this as an indication of a

strong economy and it is, however, growth at the same time creates issues for small businesses in attracting talent. Another Southeast Texas issue is the migration of talent from the region and its inability to attract talent to the region.

**Figure 5. The small and large business employees' average payroll**

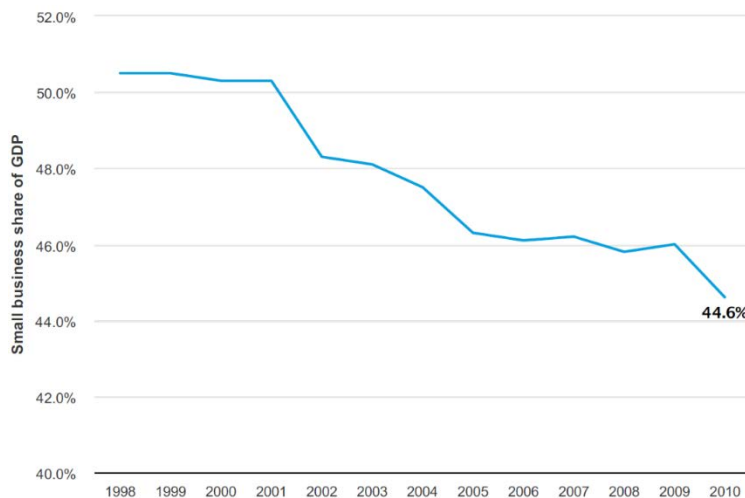


JPMorgan Chase Institute's research of small businesses in the U.S. highlights challenges of small businesses. For example, Figure 2 illustrates the competitive disadvantage compensation has on small businesses.

Source: JPMorgan Chase Institute, Small business data asset

"The average small business employee earned \$45,857 in 2015. In general, the larger the business, the higher the average employee pay. The smallest businesses (those with 1-4 employees) are an exception." (JPMorgan Chase Institute, Small business data asset, accessed October 2022)

**Figure 6. U.S. small business share of GDP**



Significant consequences can be observed in Figure 6.

"Small businesses accounted for 45 percent of GDP in 2010, down from 50 percent in the late 1990s." (JPMorgan Chase Institute, Small business data asset, accessed October 2022)

Source: JPMorgan Chase Institute, Small business data asset

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