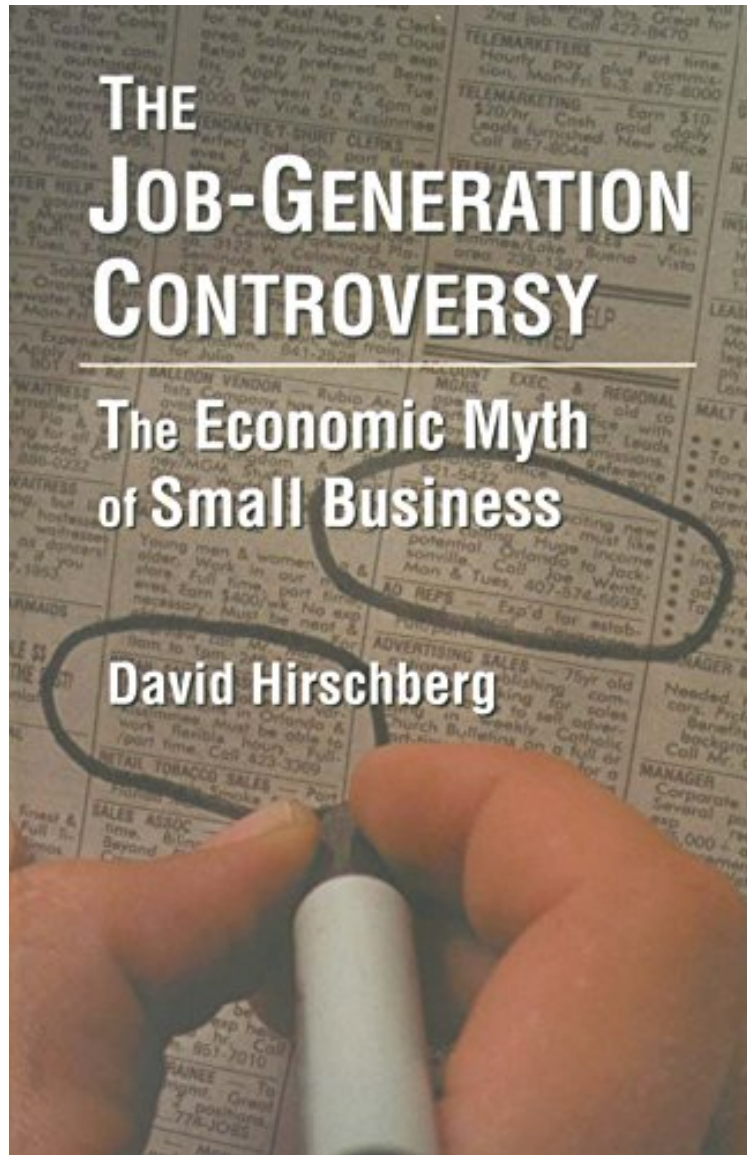


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# The Job-Generation Controversy: The Economic Myth of Small Business: The Economic Myth of Small Business

David Hirschberg

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1 of 2 people found the following review helpful. Blowing The Whistle By David Hirschberg Book Review-Author's Comments January 11, 2000 A September 1994 SBA's Office of Advocacy publication, "The Small Business Advocate," headlined as its lead story on page 1, "Small Business Job Generation: from Revolutionary Idea to Proven Fact," argues that "Small business is now widely regarded as the principal generator of net new employment in the United States." The article goes on to declare, "Small businesses create a vastly disproportionate share of the new jobs in the United States." This Office of Advocacy claim that is based on data for the 1989-91 period is misleading and just not true. My book explores and explodes this myth. For the period when this claim was made, the Census Bureau data show that all businesses (all sizes) created 679,000 jobs. Small businesses lost or destroyed 192,000 jobs. Large businesses added 802,000 workers. Businesses that were large and became small, and businesses that were small and became large added 69,000. Therefore, the claim cannot legitimately be made that small businesses create all the jobs, when it's obvious that small businesses were destroying jobs. SBA's Office of Advocacy is perpetrating a political hoax on the American people. Because of our need to work and the psychological benefits that a job provides, the small business job creation argument is emotionally powerful. However, the largest firms, not the smallest, are creating jobs. SBA's Office of Advocacy has been touting the fallacious 1989-91 data figures for years. How does SBA's Office of Advocacy perpetrate its job-generation hoax? It cleverly applies the regression fallacy by counting its winners and ignoring its losers. Take a more careful look at the data for boundary crossovers. Previously, I noted that businesses that were large and became small, and businesses that were small and became large added 69,000. However, SBA's Office of Advocacy takes the 192,000 job loss by small firms that remained small and adds 749,000 from the column of firms that were small and became large. For large firms that became small, SBA's Office of Advocacy attributes the 680,000 jobs as losses to large firms. Note:  $749,000 - 680,000 = 69,000$ . According to Milton Friedman (Journal of Economic Literature, Dec. 1992), and a host of academics, this is fallacious. Also, most college text books warn against the regression fallacy, but SBA's Office of Advocacy deliberately misleads the public by claiming the crossovers are small which they are on net, but it then misuses the gross flow statistics to complete the small business job creation hoax. Using the Friedman methodology (he suggests that a firm's size classification should be determined by its end period size status) I can report that small businesses lost 872,000 jobs, while large businesses generated 1,551,000 jobs. This finding does not square with SBA's Office of Advocacy claims for the 1989-91 period. More important, perhaps, is the argument that we should cut or eliminate the capital gains tax, because it will help small businesses, "they create all the jobs." Or we should not raise the minimum wage because it will hurt small businesses, "they create all the jobs." And finally, Americans should not have mandated health insurance, it will hurt small businesses, "they create all the jobs." Currently, a million and a half workers lose their health insurance benefits every year during these boom times. Virtually all those losing their benefits are working in small businesses. Our democratic political system requires accurate data. This job-generation debate involves the integrity of the Federal statistical system, and affects the well-being of millions of Americans.

This book exposes how the Small Business Administration (SBA) and the National Federation of Independent Business (NFIB), using erroneous data, have developed and perpetuated the belief that "small business creates all the new jobs". It shows further that, since the early 1990s, this belief has become a mantra for allowing the SBA and NFIB to lobby effectively for preferential treatment such as low-interest loans and exemption from mandated employee benefits and worker safety regulations.

From the Back Cover The Job-Generation Controversy shows precisely how anyone -- economists, policymakers, and the general public -- can fall victim to statistical fallacy and improperly manipulated data. Sometimes, as this book highlights, the consequences can be serious for millions of Americans. For more than twenty years, the Small Business Administration (SBA) and the National Federation of Independent Business (NFIB), using erroneous data, have developed and perpetuated the belief that "Small business creates all the new jobs". Since the early 1990s, this belief has become a mantra allowing the SBA and NFIB to lobby effectively, under the law, for preferential treatment such as low-interest loans and exemption from mandated employee benefits and worker safety regulations. However, as this book shows, while small businesses have created some new jobs, big businesses, those with more than 500 employees, remain the primary source of job generation in the United States.