



policy briefs

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OFFICE OF RESEARCH

MICROENTERPRISES GIVE CALIFORNIA'S ECONOMY A BOOST

Microenterprises—businesses with fewer than five employees as well as sole proprietorships with no employees—have made impressive gains since 2000: the net job creation of these “micro” businesses in California is six times the total of net jobs created by the state's larger businesses.

While much has been written about the contributions of “small” businesses (firms employing fewer than 500), “micro” businesses are still an unraveling mystery. They exist across all industry sectors, especially industries requiring small start-up capital—jobs such as caregiving, software design, and technical consulting—and generally provide a service or product directly to the public or another company.

Some microenterprises develop simply because one wants to start his or her own business or work as an independent contractor, and some come about less as a matter of choice and more because of a faltering labor market. Yet little is known about how microenterprises will impact the state's economy for the long term. The data coming in, however, is notable.



Micro Businesses Continue to Grow

Since 2000, the number of microenterprises in California has grown by 24 percent, resulting in net job growth that has surpassed the job growth rate of the state's larger businesses.

What We Now Know

- > From 2000 to 2005, the number of microenterprise establishments in California grew by 24 percent: from 2,766,688 in 2000 to 3,437,807 in 2005.
- > The number of jobs provided by microenterprises in the state increased by 23 percent: from 2,987,089 in 2000 to 3,667,683 in 2005.
- > Sole proprietorships (without employees) in California increased by 24 percent (from 2,103,178 in 2000 to 2,609,258 in 2005) and jobs in businesses with

fewer than five employees grew by 20 percent (from 883,911 in 2000 to 1,058,425 in 2005).

- > Microenterprises in California's rural counties represent a larger share of the workforce (23.5%) than in the state's urban counties (18.7%).
- > The boost in tax revenue generated by microenterprise activity is significant; for example, federal taxes from sole proprietorships (without employees) increased by 34 percent—from \$106.6 billion to \$142.4 billion—from 2000 to 2005.
- > California's microenterprises are expanding primarily in the following industries: service (such as housekeeping and child/adult caregiving jobs); construction; transportation and warehousing; and arts, entertainment, and recreation.

Considerations for the Future

The changing nature of the way people are working raises important questions for state policymakers. Will microenterprises have access to adequate and affordable health insurance? How will these businesses grapple with savings and retirement accounts and workplace safety-net programs, such as unemployment insurance and workers' compensation? Should state government provide technical assistance to microenterprises to help them comply with state and federal tax reporting requirements and benefit from tax incentive programs? What role, if any, should state government have in helping with the development and preservation of microenterprises, particularly in rural areas with limited employment opportunities? How can California's educational institutions better prepare today's students for tomorrow's workplace? And given the state's current economic climate, will microenterprises continue to stimulate California's economy?

Written by Rona L. Sherriff. The California Senate Office of Research is a nonpartisan office charged with serving the research needs of the California State Senate and assisting Senate members and committees with the development of effective public policy. It was established by the Senate Rules Committee in 1969. For more information and copies of this report, please visit www.sen.ca.gov/sor or call (916) 651-1500.

Sources: Association for Enterprise Opportunity; California Employment Development Department, Labor Market Information Division; U.S. Census Bureau.