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Macro Roundup Article

Headline: Does Income Inequality Affect Small Firms?

Article Link: https://libertystreeteconomics.newyorkfed.org/2023/10/does-income-inequality-affect-small-firms/

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Tweet: The increase in income inequality is associated with a decline in the employment share of small firms. @NewYorkFed

Summary: In 1980, the average income share of earners in the top 10% was around 30%. However, by 2015, it had surpassed 45%. The employment share of small firms has also declined, with a decrease of approximately 5pp over the same period. We use variation across states to show a correlation between these two developments, with states having the greatest increase in the upper-income share also tending to be those with the biggest job creation declines in small firms compared to large firms. One explanation for this correlation is that the increase in the income share of the highest income earners reduced deposits in small and medium-sized banks from what they otherwise would have been. In doing so, this shift in income reduced the available credit for small firms, putting them at a disadvantage relative to large firms. A 10pp increase in the top 10% income share results in a decline of 1.6pp in the net job creation rate of small firms compared to large firms.

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