Abstract

Substantial debate focuses on the question of whether small business creates economic growth. This paper presents new evidence on the role of entrepreneurs in city growth using the natural experiment that occurs when cities have different concentrations of small establishments in an industry that experiences a national growth shock: which city benefits more? Using highly detailed and comprehensive data from the Census' Longitudinal Business Database (LBD) 1982-2012, the paper shows that the smallest establishments generate the most growth and proceeds to unpack the mechanisms through which these effects may operate. Evidence suggests that small establishments may facilitate growth from entry and that they complement both information technology (IT) investments and knowledge spillovers from R&D in creating growth. Finally, the presence of entrepreneurs -- rather than the ready availability of human capital -- drives the effect.