

Understanding the Kansas Business Sectors: Past and Present

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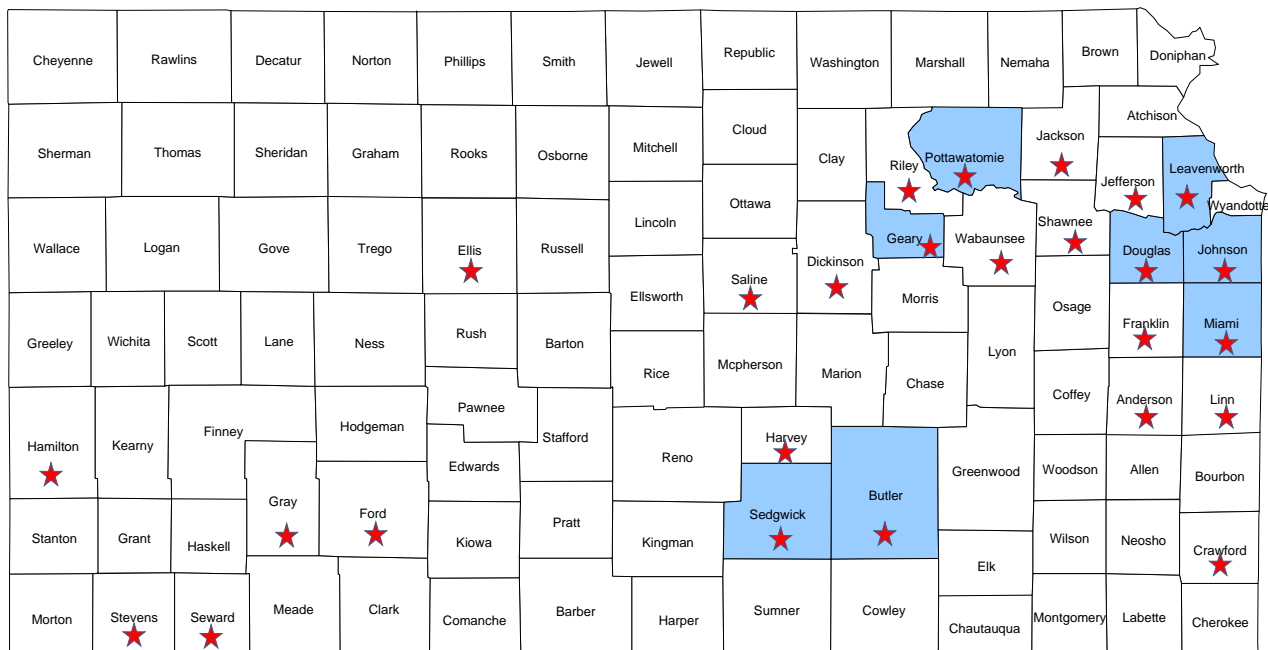
Discussion with Members of the Senate Standing Committee on Commerce

February 11, 2015

Context of Discussion

- This packet of material presents information to help guide an educational discussion related to certain features of the Kansas economy—specifically, the economic contribution to jobs, income, and tax revenue related to the different industry sectors operating in Kansas.
- This discussion material responds to requests and expressions of interest related to discussions during the January 22, 2015 meeting of the Committee.

Kansas Counties that Increased their Share of State Population in each period: 1950-2010, 1990-2010, 2000-2010

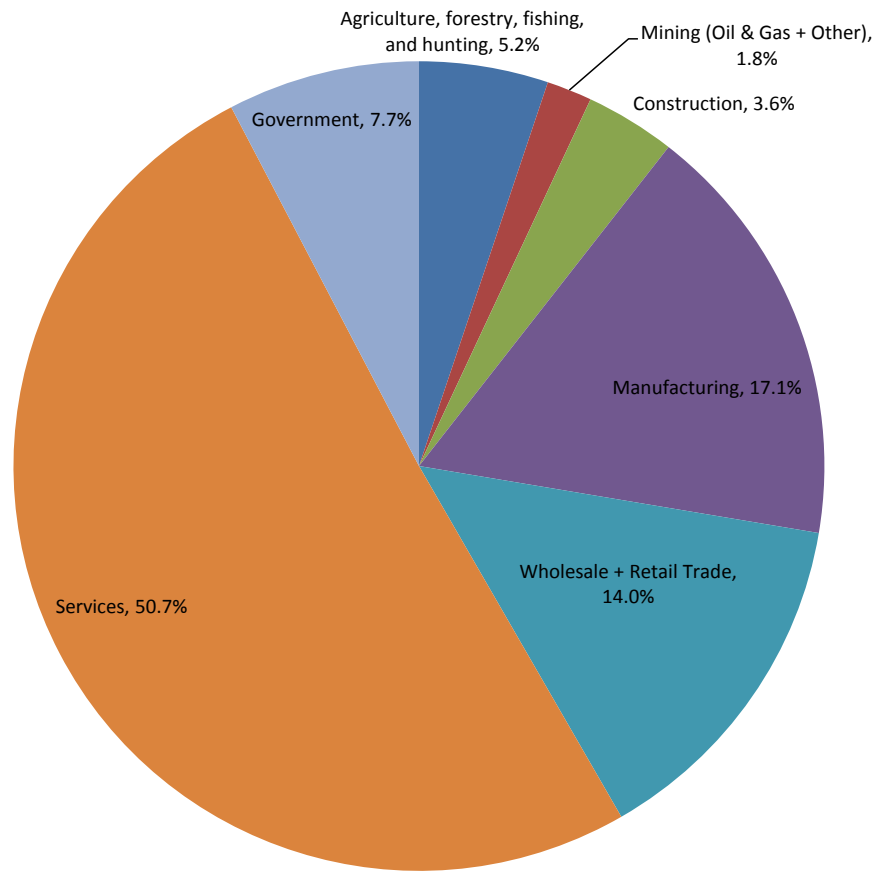


★ = Counties that had positive population growth: 1990-2010 & 2000-2010

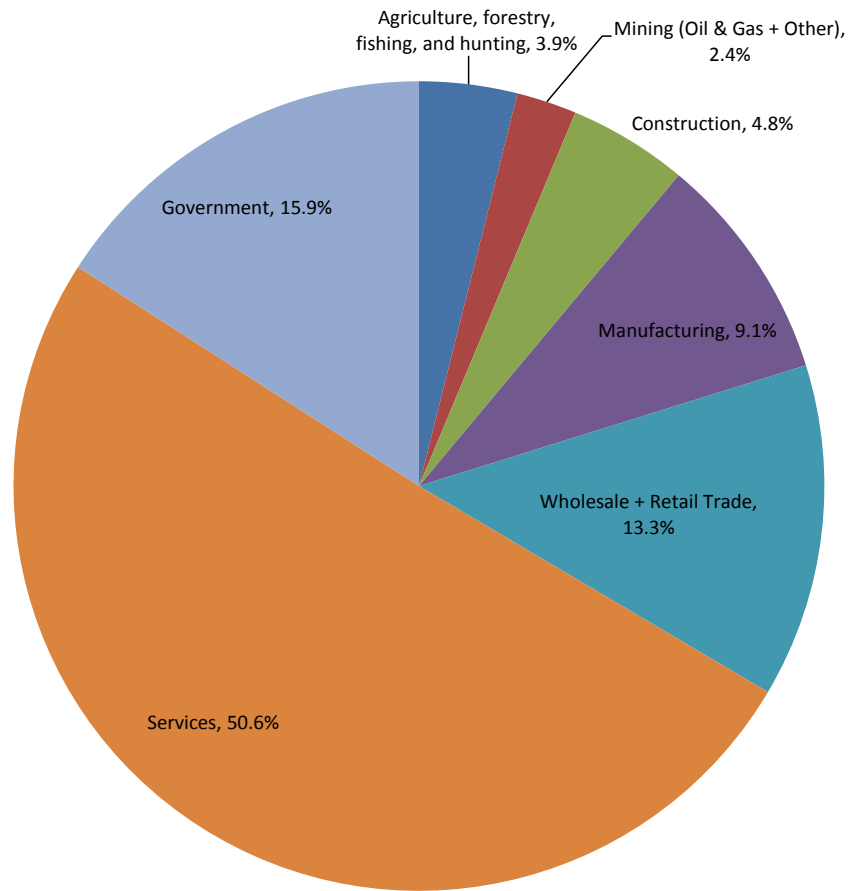
Key
□ Lost population share
■ Gained population share

* The viewpoints expressed by Art Hall are his alone, based on his research and independent judgment; they should in no way be interpreted as representing the viewpoints of the University of Kansas (or any sub-unit thereof) or the Kansas Board of Regents.

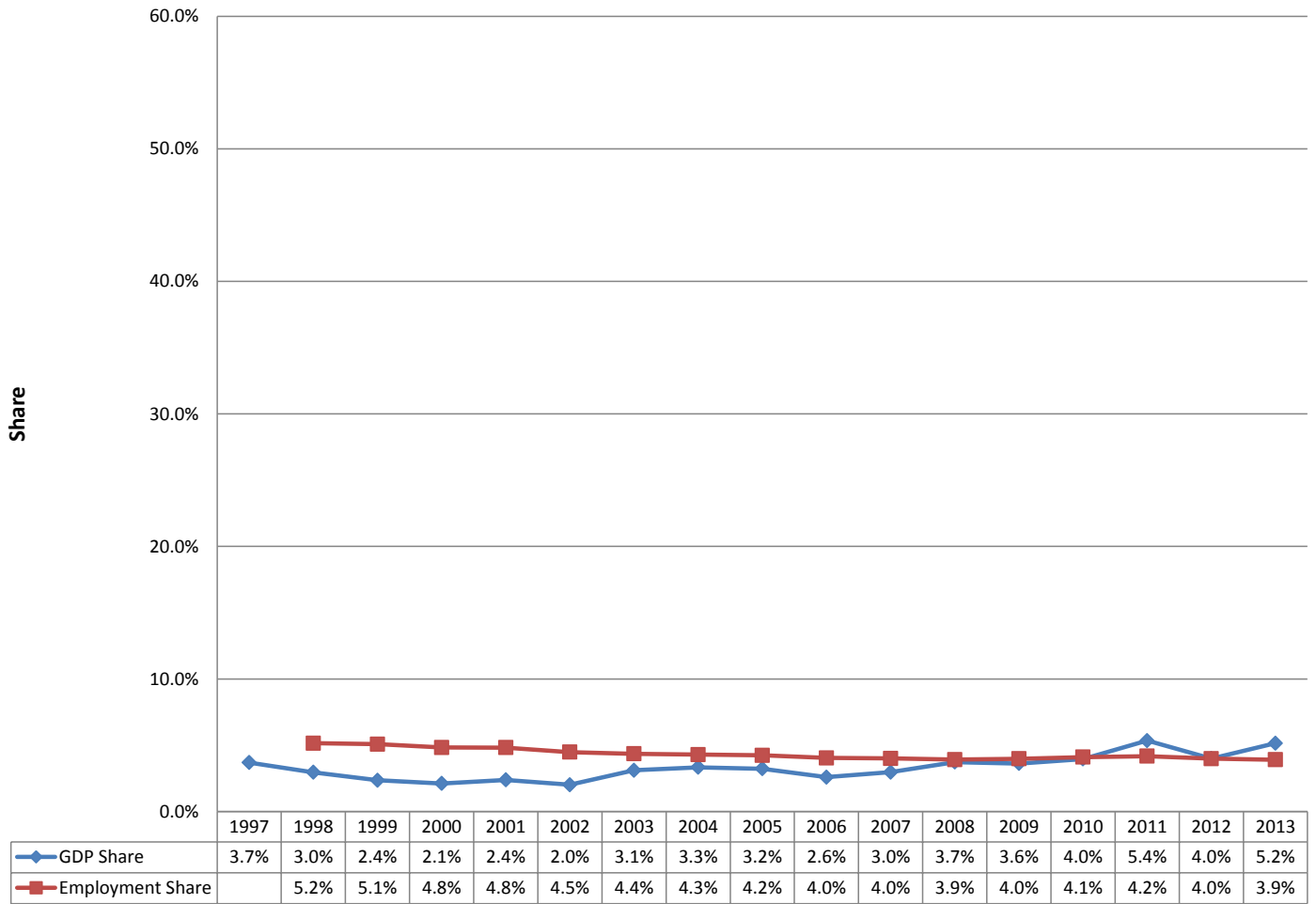
2013 Shares of Kansas GDP



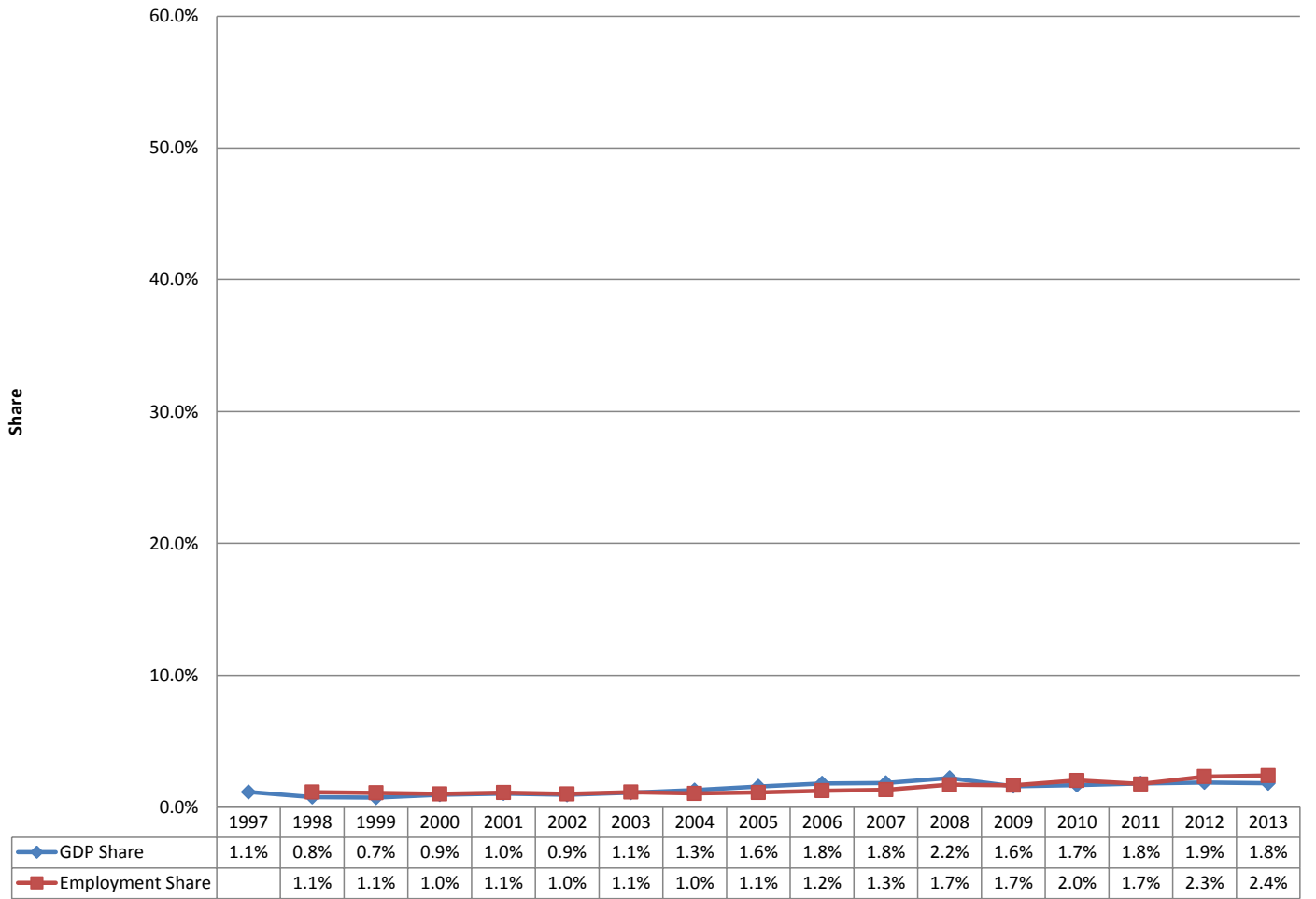
2013 Shares of Kansas Employment



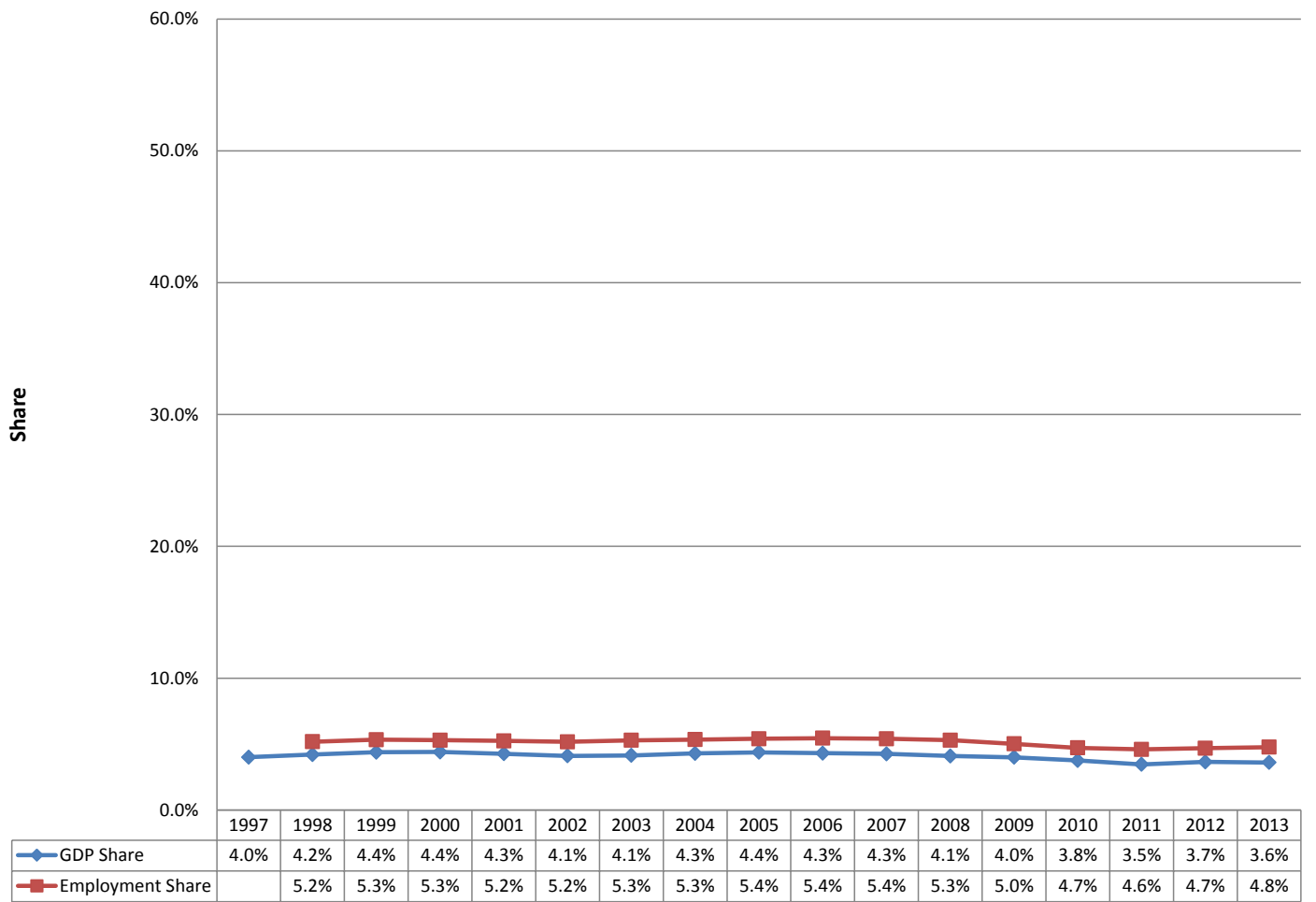
Agriculture, forestry, fishing, and hunting



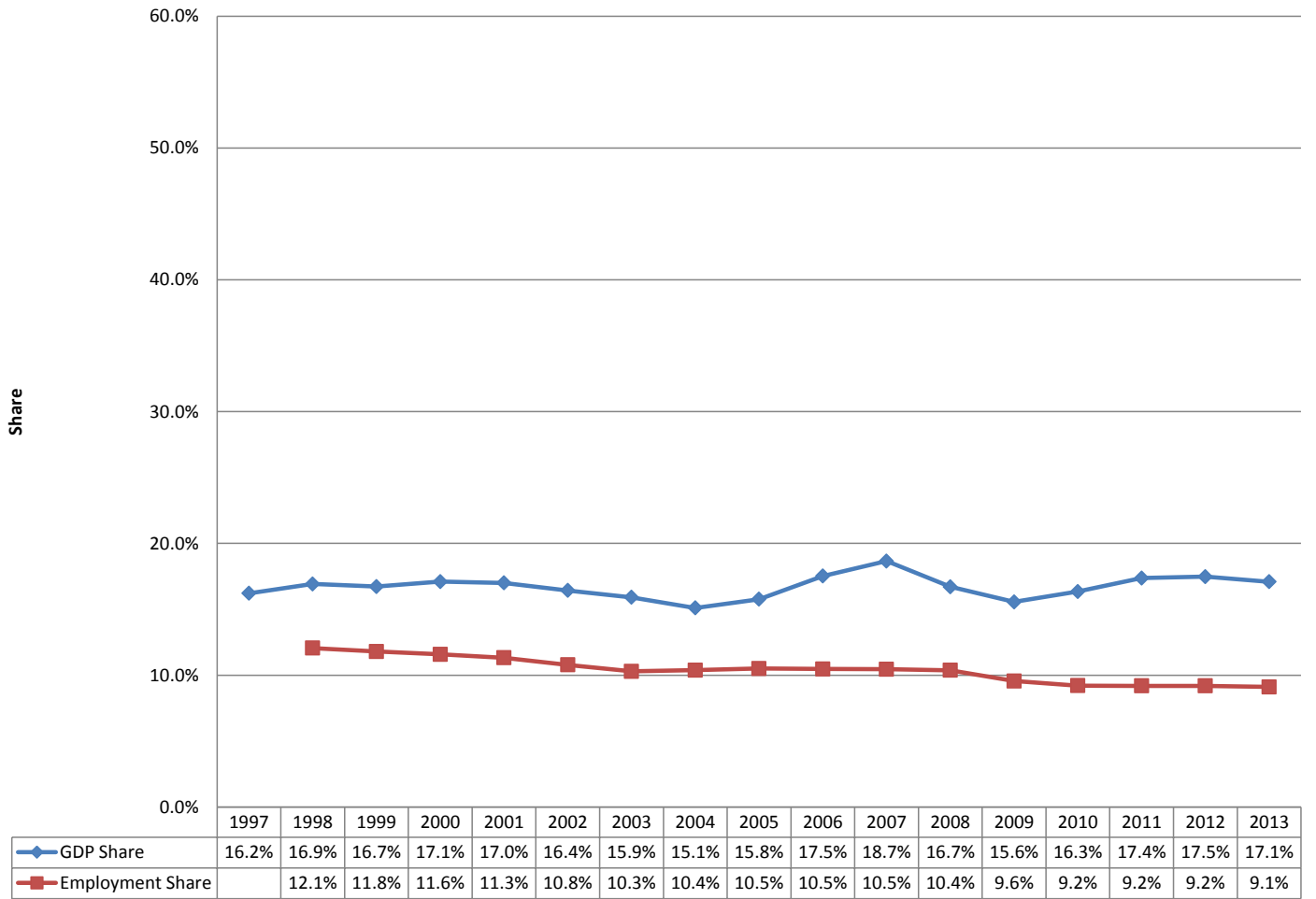
Mining (Oil & Gas + Other)



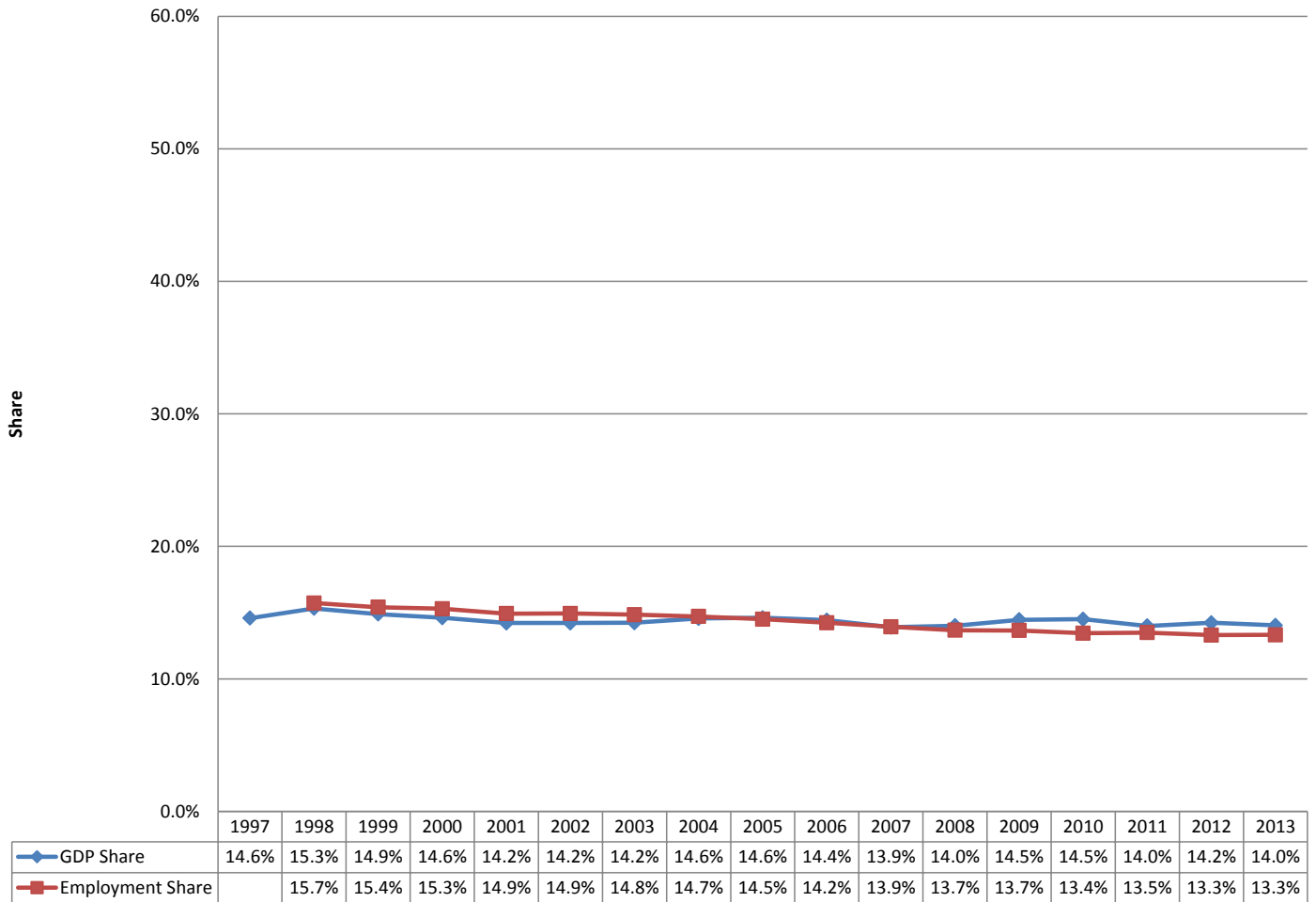
Construction

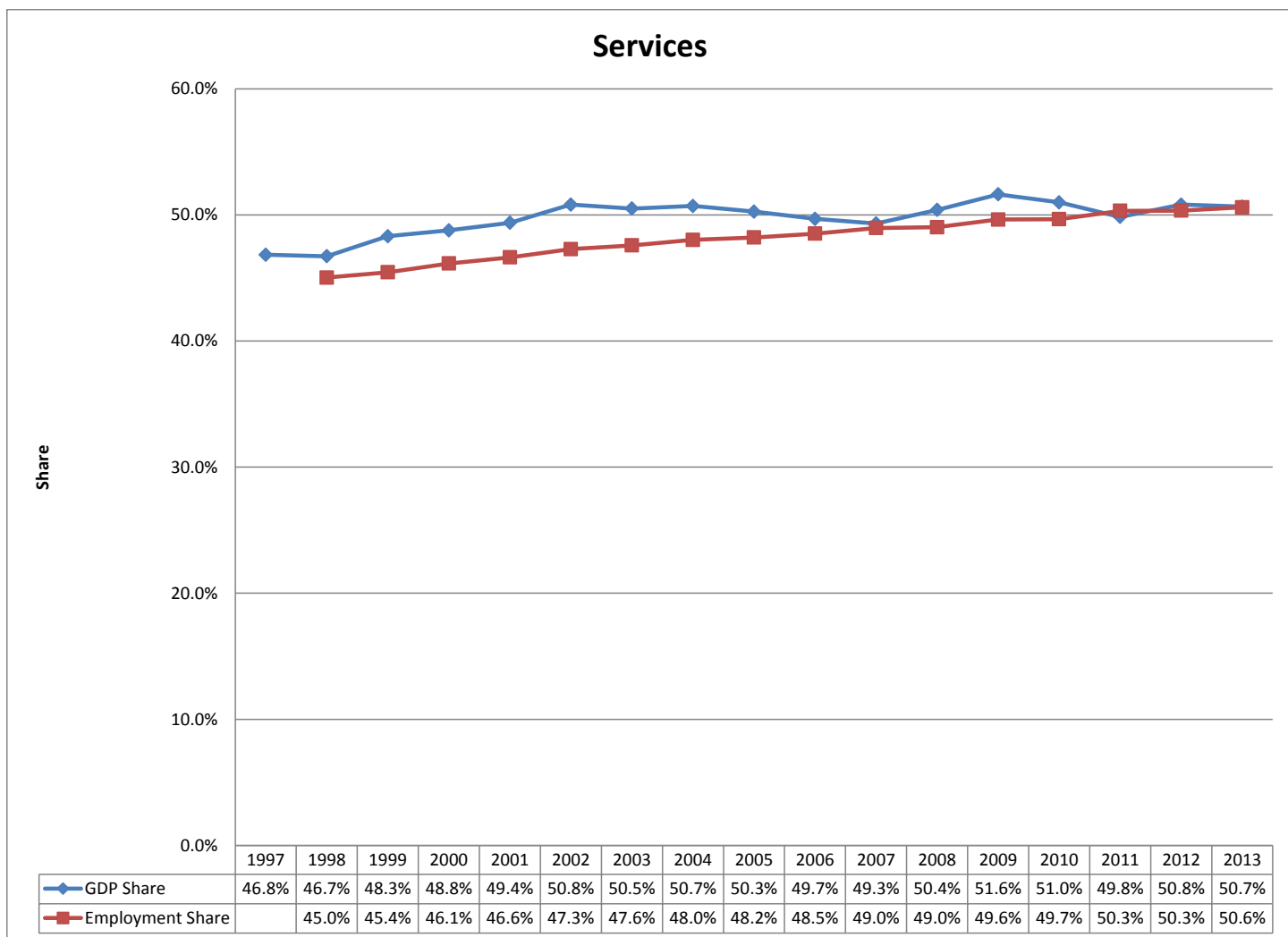


Manufacturing



Wholesale + Retail Trade

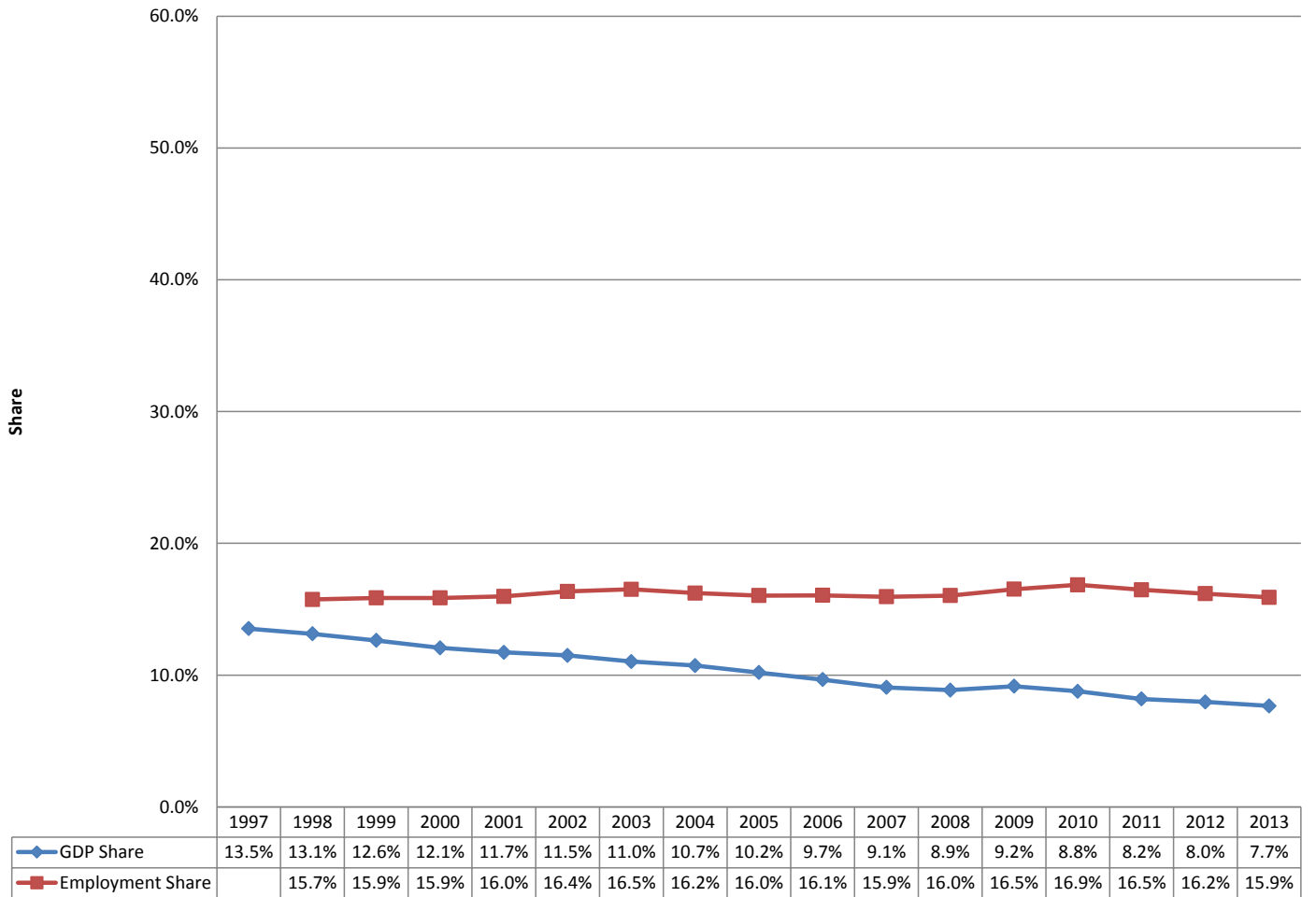




“Services” includes these separate industry sectors:

- Finance, insurance, real estate, rental, and leasing
- Professional and business services
- Educational services, health care, and social assistance
- Arts, entertainment, recreation, accommodation, and food services
- Other services, except government
- Transportation and warehousing
- Utilities
- Information

Government (including Military)



Tax Contribution of Industry Sectors

- Taxation represents a claim the government makes on the value of either current or future production. The only way to pay a tax is to divert current income or draw down current savings. Current income is a claim on the value of current production. Savings is a claim on the value of future production.
- Business don't pay taxes, people do. True, businesses make tax payments, but individuals ultimately bear the burden of business taxation—often in unintended or unpredictable ways. A “business” is merely a legal construct that represents a community of people pursuing coordinated goals—investors, workers, customers.

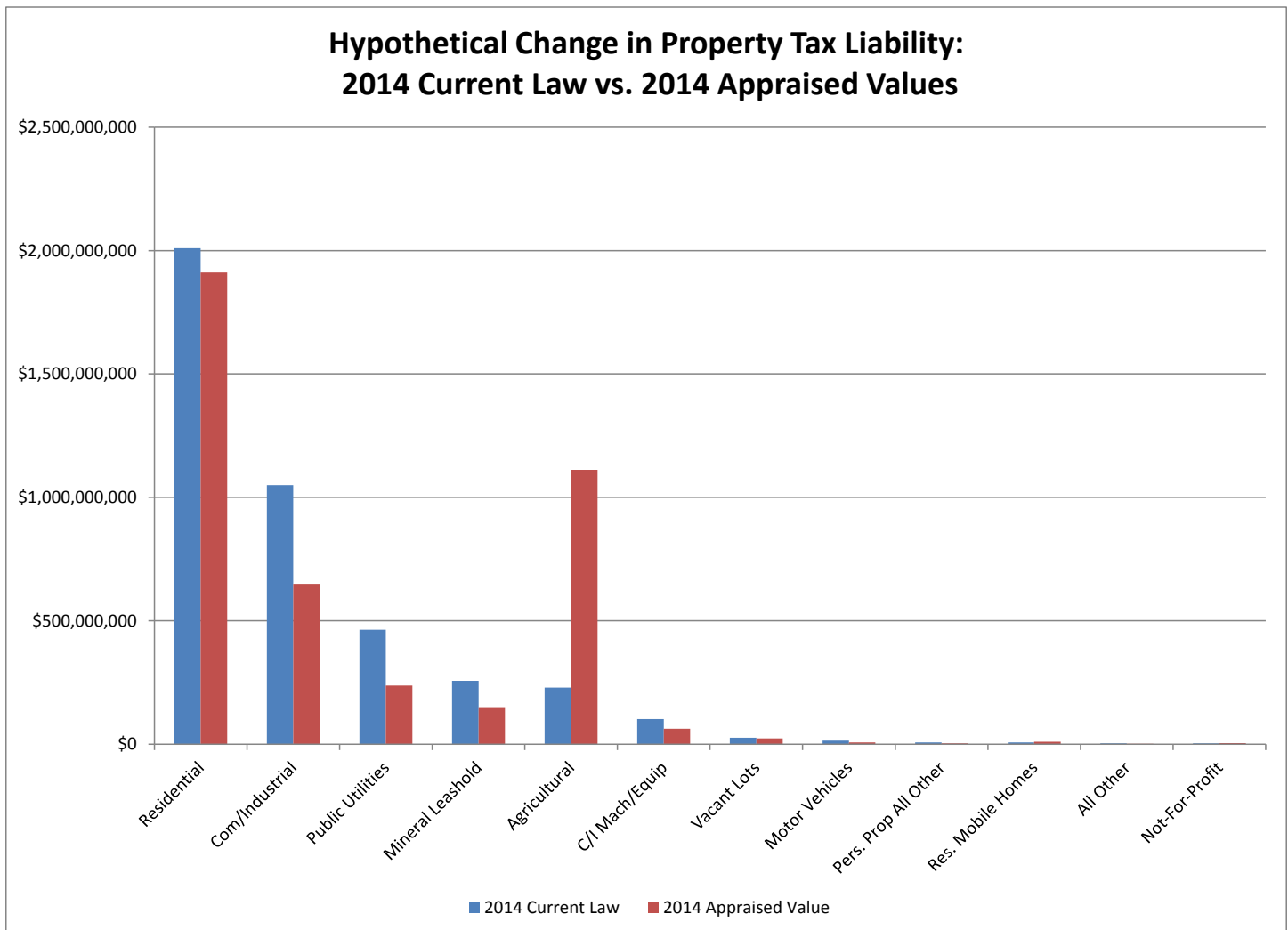
Industry Sector	Average Distribution of Employee Compensation (2002-2012)	Average Distribution of Business Gross Profit (2002-2012)
Agriculture, forestry, fishing, and hunting	0.8%	8%
Mining (Oil & Gas + Other)	0.8%	2%
Construction	4.7%	3%
Manufacturing	16.4%	18%
Wholesale + Retail Trade	12.1%	11%
Services	44.1%	57%
Government	21.1%	N/A
Source: U.S. Bureau of Economic Analysis		

- Members of the Commerce Committee requested an analysis of the contribution to state and local taxes paid by industry sector—as well as policies that reduced the tax burden on specific industry sectors. In principle, such an allocation is possible. However, data constraints make the endeavor tricky. Any attempt at estimates for an industry allocation would create highly questionable—and misleading—results.
- The following table records FY 2013 tax collections and 2013 “tax expenditures” as reported by the Kansas Legislative Research Department and the Kansas Department of Revenue, respectively.

	State + Local FY 2013 Collections (Millions)	State-level 2013 “Tax Expenditure” (Millions)	Comments
Property Tax	\$4,229	\$33	Income tax credit for personal property tax.
Individual Income Tax	2,957	519	
Corporate Income Tax	403	71	
Sales & Use Tax	3,829	1,661	Excludes \$4 billion of “conceptual exemptions” in Tax Expenditure Report, because these exemptions, mostly on intermediate goods in production, represent sound tax policy.
Total	11,418	2,283	

- The following chart responds to a Committee Member’s request to understand how state and local property tax burdens would change if the Kansas property tax system relied upon appraised values as the tax base rather than the classification system embodied in the Kansas Constitution.

The calculations rely on appraised values received from the Division of Property Valuation in the Kansas Department of Revenue. The calculations also use a statewide average millage rate necessary to collect the same amount of total revenue, assuming—consistent with 2014 data—that the rural millage rate would remain at a level equal to 90.5 percent of the urban millage rate.



An Analysis of Kansas “Gazelles”

What is a “Gazelle”?

There is no established definition. David Birch, an MIT researcher, whose work in the 1980’s raised academic and popular awareness of the economic importance of small businesses, coined the term.

Definition of 'Gazelle Company' on Investopedia.com (inspired by Birch’s definition):

“A high-growth company that is increasing its revenues by at least 20% annually for four years or more, starting from a revenue base of at least \$1 million. This growth pace means that the company has effectively doubled its revenues over a four-year period. As gazelle companies are characterized by their rapid growth pace, rather than their absolute size, they can range in size from small companies to very large enterprises.”

<http://www.investopedia.com/terms/g/gazellecompany.asp>

Abstract from:

“Gazelles as Job Creators – A Survey and Interpretation of the Evidence”

By Mangus Henrekson and Dan Johansson (in *Small Business Economics*, February 6, 2009)

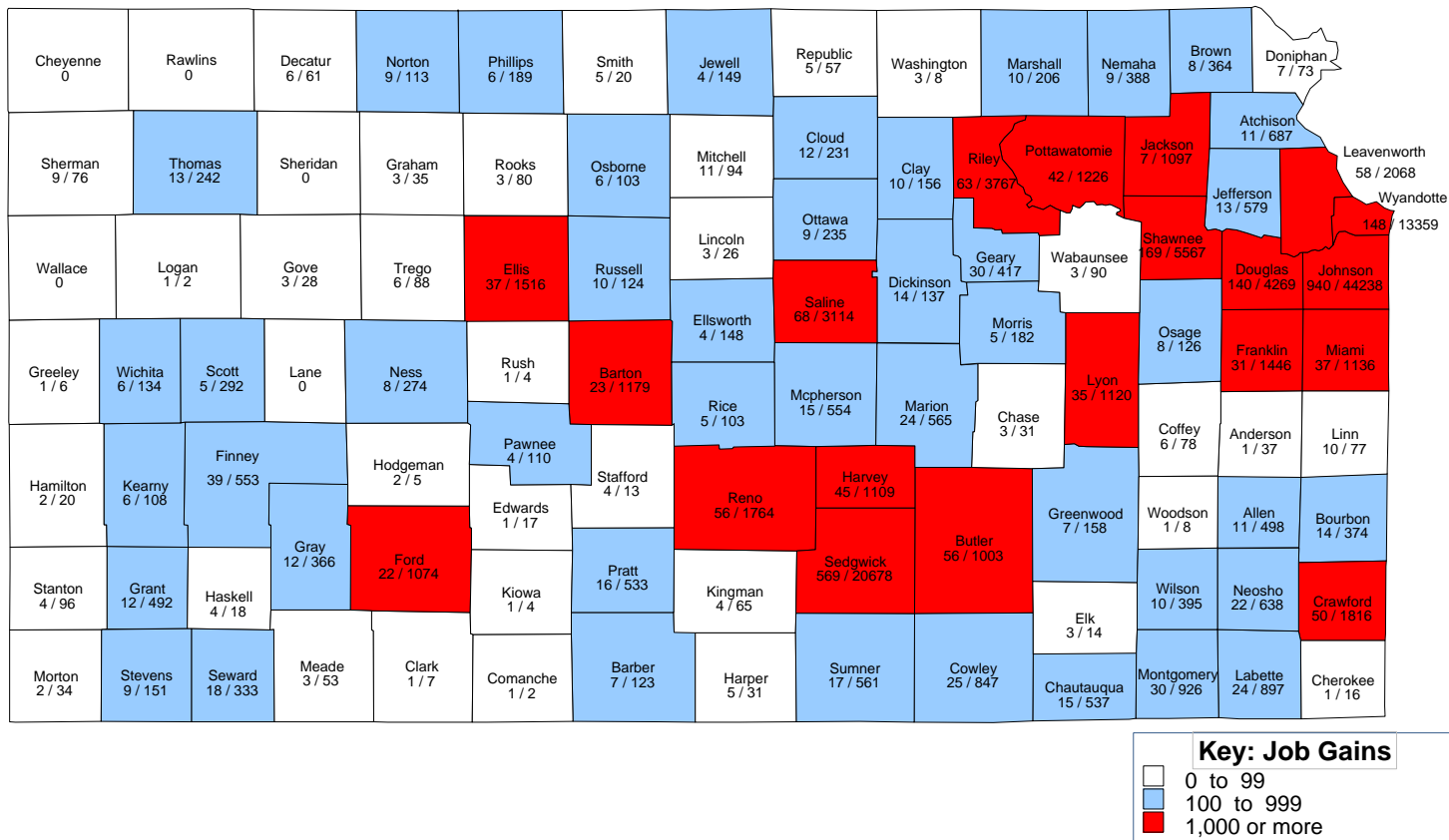
It is often claimed that small and young firms account for a disproportionately large share of net employment growth. We conduct a meta analysis of the empirical evidence regarding whether net employment growth rather is generated by a few rapidly growing firms – so-called Gazelles – that are not necessarily small and young. Gazelles are found to be outstanding job creators. They create all or a large share of new net jobs. On average, Gazelles are younger and smaller than other firms, but it is young age more than small size that is associated with rapid growth. Gazelles also seem to be overrepresented in services.

Definition of Gazelles used for this discussion:

- The definition is based on job creation not revenue creation. The research relies on the National Establishment Time-Series Database, which has reliable employment data but not reliable sales data.
- A business had to have recorded an average annual increase in job creation over its lifetime (in the NETS database) of at least 15 percent per year.
- A business must have been in business in 2012, the last year of the NETS database used for this research.
- A business must have been in business for more than five years, so businesses established after 2006 did not qualify. (Statistically, about 50 percent of businesses fail within five years.)

Tracking Kansas "Gazelles": 1990-2012

(Number of Gazelles / Job Gains from Gazelles)



Results of Research on Kansas Gazelles:

- Over the 22, year period encompassed by the NETS database, and using the above definitions: 3,277 business establishments created 129,218 net new jobs.
- According to the Census Bureau, Kansas had 68,488 business establishments in 2012, so the 3,277 gazelles represent 4.8 percent of Kansas business establishments.
- The gazelles' share of private sector Kansas job creation depends on which government agency's job data one chooses to use. BEA includes sole proprietors. BLS and Census focus on hired employees.

	U.S. Bureau of Economic Analysis	U.S. Bureau of Labor Statistics	U.S. Census Bureau
Private Sector Employment Gain 1990 to 2012	315,506	221,100	252,124
Gazelles' Share of Employment Gain	41%	58%	51%

- The map above records the count of gazelles and their net new job creation by county.
- Some caveats to consider with regard to employment gain in Kansas:

	Establishment Count	Employment Gain	Avg. 2012 Employment per Establishment	Avg. Annual Emp. Growth per Establishment
Standalone	2,511	60,249	24	26.7%
Headquarters	175	27,753	159	23.8%
Branch	591	41,216	70	28.6%

- Distribution of gazelles by industry sector:

Industry Sector	Establishment Count	Employment Gain	Emp. Share
Agriculture, forestry, fishing, and hunting	42	556	0.4%
Mining (Oil & Gas + Other)	21	664	0.5%
Construction	340	10,151	7.9%
Manufacturing	213	12,610	9.8%
Wholesale + Retail Trade	473	18,699	14.5%
Services	2,188	86,538	67.0%