JOB CHURNING

The number of new start-ups and business failures, combined, as a share of all establishments in each state.

Why Is This Important? Steady growth in employment masks the constant churning of job creation and destruction, as less innovative and efficient companies downsize or go out of business and more innovative and efficient companies grow and take their place. A total of almost 650,000 jobs were added to the U.S. economy between 1997 and 1998, but that was after start-up firms had created 6.3 million jobs and failing firms eliminated 5.6 million jobs (jobs were also created and lost from expanding and contracting firms). This churning has accelerated as the number of new start-ups and existing business failures per year has grown. While such turbulence increases the economic risk faced by workers, companies, and even regions, it is also a major driver of economic innovation and growth.

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The Rankings: Some fast-growing states (like Arizona, Florida, Nevada, and Utah) have seen a great deal of churning. In part, this is because fast-growing economies produce more start-ups, especially in local-serving industries (such as restaurants, dry cleaners, or accountants). But a high churn rate also reflects a dynamism that leads to the death of old, outmoded firms and the creation of innovative new companies that sell outside the state. States with slower overall growth rates, but with dynamic business sectors, such as California and Maryland, also see high rates of churn.

The top five		Business start-ups and failures as a percentage of total establishments
1	Nevada	25.0%
2	Florida	23.7%
3	Arizona	22.7%
4	Utah	22.5%
5	Georgia	22.4%
	U.S. average	**19.8%**

Source: U.S. Census, 1997-1998 data.