growth in sectors heavily populated by small businesses. Consider, for example, the services and manufacturing sectors. From the mid-1980s to today, services had a 5-percent higher share of private sector output, while manufacturing had a 5-percent lower share.

• Considering that government represented 11 percent of the GDP in 1997, small firms represent about 45 percent of total GDP.

Scope and Methodology

U.S. GDP is the market value of the goods and services produced by labor and property located in the United States. When GDP is allocated according to the contribution each private industry sector and the government makes to its production, it is called gross product originating or GPO. This research takes each component of private nonfarm GPO and estimates the proportions produced by small and large businesses.

The Bureau of Economic Analysis (BEA) publishes information on GDP by major industry and value-added component. Researchers have calculated small-firm (fewer than 500 employees) and large-firm shares for each value-added component in each industry for the years 1992-1999 (1998 and 1999 are preliminary estimates). Those shares are then applied to the BEA data to separate each component into a large- and small-business share. Once all the components are divided, they can be added up to determine how much of gross product originated in small business in each industry. All the small business components can then be added to determine how much of private nonfarm GDP was produced by small businesses and how much by large businesses.

Producing business-size shares for each value-added component in each industry, however, requires additional data sources. The data with which to produce the firm-size shares comes primarily from the quinquennial economic censuses, most recently collected by the Census Bureau in 1997, and annual data from the Statistics of Income (SOI) program of the Internal Revenue Service.

Comments from Advocacy

"It is interesting to note that as firms start, grow, merge, split, contract, and exit over time, the share of output in the economy produced by small firms remains stable. So while individual firms change size classes over time, in the aggregate, the role of small businesses in the economy remains steady and important," said Susan Walthall, chief counsel for Advocacy.

Ordering Information

The full text of this report and summaries of other studies performed under contract to the U.S. Small Business Administration's Office of Advocacy are available on the Internet at *www.sba.gov/advo/research.*

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