William Baumol Receives Advocacy Award for Contributions to Entrepreneurship Research

William Baumol, the distinguished economist and pioneer in entrepreneurship studies, received the Office of Advocacy Special Small Business Research Award in January. The award was presented at the annual meeting of the American Economic Association (AEA) in recognition of a lifetime of research into entrepreneurship issues.

“William Baumol is a giant in the world of entrepreneurship studies,” said Ying Lowrey, senior economist for the Office of Advocacy. “For over four decades, Professor Baumol’s research and insights have added to our knowledge of the role of entrepreneurship in innovation and economic growth.”

Baumol’s previous honors and awards include 10 honorary degrees; presidency of the American Economic Association, the Association of Environmental and Resource Economists, the Eastern Economic Association, and the Atlantic Economic Society; and membership in the National Academy of Sciences. He is professor of economics at New York University, and professor emeritus and senior research economist at Princeton University, as well as the author of numerous books and over 500 articles published in professional journals.

In celebration of Baumol’s achievements and insights, Advocacy sponsored three academic seminars on entrepreneurship, innovation, and growth at the AEA annual meeting. These sessions featured Baumol as well as other distinguished entrepreneurship scholars from Stanford, Columbia, MIT, the Ewing Marion Kauffman Foundation, the University of Chicago, Harvard, New York University, the Office of Advocacy, the World Bank, and other renowned institutions.

The sessions featured the latest research into entrepreneurship and covered a variety of topics in presentations and discussions. The sessions highlighted the importance of the academic study of entrepreneurship and its contribution to the economy and society. The session contents are online at [www.aeaweb.org/annual_mtg_papers/2006papers.html](http://www.aeaweb.org/annual_mtg_papers/2006papers.html)

One subject of Baumol’s research is the history of innovation. The most recent edition of the Office of Advocacy’s annual publication, the Small Business Economy, features a new article by him on small businesses’ role in innovation. The complete article, “Small Firms: Why Market-Driven Innovation Can’t Get Along Without Them,” is online at [www.sba.gov/advo/research/sb_econ2005.pdf](http://www.sba.gov/advo/research/sb_econ2005.pdf) (Chapter 8).
On November 29, George Mason University’s Journal of Law, Economics, and Policy hosted a panel on federal regulation and its impact on the economy and small businesses. The journal is dedicated to enhancing the dialogue on issues that can be analyzed within the framework of law and economics.

Susan Dudley, head of the Regulatory Studies Program at the Mercatus Center, moderated the discussion. The panelists were John Graham, administrator of the White House Office of Regulatory Affairs (OIRA); Sally Katzen, former OIRA administrator under President Bill Clinton; Barry Pineles, counsel for the House Small Business Committee and a former Office of Advocacy employee; and James Gattuso, a research fellow in regulatory policy at the Heritage Foundation.

The panel’s lively debate touched on such topics as the cost of a regulation and how to calculate it, whether the federal government should make a significant effort to review old regulations, and the proper role of Congress in overseeing the promulgation of regulations. Graham stated that his office, OIRA, is neither for nor against federal regulation; rather its goal is to help agencies issue “smart regulations” that achieve a balance between a rule’s costs and benefits.

Katzen challenged the accuracy of the assertion that federal regulations cost the American economy over $1.1 trillion a year, or $10,000 per household. In her view, this measurement may be distorted because it includes the cost of the paperwork burden imposed by the IRS and it fails to take into account the benefits the public may derive from regulations.

Pineles focused on the disparate impact of regulatory compliance on small and large businesses. Small businesses usually lack the cost savings derived from economies of scale and have smaller operating budgets over which to spread the cost of compliance. Gattuso argued that it was appropriate to look at the cost of regulation in isolation because this cost is an essential part of any formula intended to determine its benefit. He also asserted that the federal government should only intervene in the marketplace in the event of a market failure.

Despite their diverging positions, all four panelists acknowledged the value of OIRA and the need for critical review of regulations before they become final.

Kristina Husar was the first Mercatus Fellow for Regulatory Studies. The fellowship is sponsored by the Mercatus Center at George Mason University and the Office of Advocacy.
Congress created the Office of Advocacy in 1976 to be an independent voice for small business within the federal government. In that role, Advocacy has become an active participant in the regulatory process, submitting comments to federal agencies on a host of proposed rules that will significantly affect small businesses. However, effective advocacy requires your help.

How can small businesses be effective partners in the rulemaking process? By knowing how the regulatory process works, understanding the substance of proposed rules, and effectively communicating their views to government regulators.

Federal regulations impose a disproportionately harsh burden on small business. A recent study sponsored by Advocacy estimated the cost of federal regulations at over $1.1 trillion annually. Small businesses paid 45 percent more per employee in regulatory costs than large firms did.

Congress understood that the burden of federal regulations falls disproportionately on small businesses, so it passed the Regulatory Flexibility Act (RFA) and the Small Business Regulatory Enforcement Fairness Act (SBREFA) to give small business a voice in the rulemaking process. These laws require federal agencies to consider less burdensome alternatives when proposed rules are expected to have a significant economic impact on a substantial number of small entities. Further, when the Environmental Protection Agency (EPA) or the Occupational Safety and Health Administration (OSHA) plans to propose a rule, SBREFA requires the agency to convene a Small Business Advocacy Review Panel and obtain input from affected small entities before issuing the proposal. The small entity representatives review the draft regulation and offer recommendations to make it less costly and burdensome.

The RFA and SBREFA are the legal foundation to make small businesses’ views count in the rulemaking process. But there are other important steps as well:

- **Identify upcoming rules.** Advocacy’s Regulatory Alerts webpage identifies important ongoing rulemakings. Visit this page often to learn about the latest proposals. (See box, this page.)
- **File public comments.** Write to the agency and explain how proposed rules will affect your business. Be sure to clearly state your qualifications to comment and use concrete examples (i.e., why the proposal will affect you). Avoid emotional appeals or personal attacks. Please send copies of the comments to Advocacy so we can benefit from your insights.
- **Provide supporting evidence.** It is especially important to provide agencies with sound data and scientific information. In fact, new federal guidelines prohibit agencies from using or relying on poor quality or erroneous information.
- **Utilize the RFA and SBREFA.** Be sure to review the agencies’ small business analysis in the proposed rule. This analysis is required by the RFA. Further, when EPA or OSHA plans to issue a rule, you may be able to represent small business on the review panel.

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**The Regulatory Alerts Webpage**

Federal agencies publish thousands of proposed rules each year, stretching to tens of thousands of pages in the *Federal Register*. Advocacy’s Regulatory Alerts webpage highlights the rules that are likely to be of concern to small businesses and provides information necessary to comment on them. This webpage is updated frequently, so visit it often—[www.sba.gov/advo/laws/law_regalerts.html](http://www.sba.gov/advo/laws/law_regalerts.html).
New from Advocacy

RFA Symposium Proceedings
The proceedings of Advocacy’s symposium commemorating the 25th anniversary of the Regulatory Flexibility Act were published in January. The September event brought together policymakers, researchers, and trade association representatives to examine the law’s history, its successes, and its future challenges. The complete contents are available at www.sba.gov/advo. To receive a print copy, contact Dawn Crockett at dawn.crockett@sba.gov or (202) 619-2310.

Catalog of Advocacy’s 2005 Research
The Office of Economic Research’s Research Publications 2005 is now available on Advocacy’s website, www.sba.gov/advo/research/pub.html. The catalog lists dozens of small business publications produced by Advocacy staff or contractors during 2005. The topics include:
- banking and finance,
- general small business,
- innovation and technology,
- international issues and small business,
- labor and employment benefits,
- legal issues and litigation,
- owner demographics,
- regional economic development,
- regulation, and
- taxation.
All of the publications mentioned in the catalog are available at www.sba.gov/advo/research.

Tax News

IRS Lets Micro Businesses File Employee Withholding on Annual Basis
Are you a micro business owner? If so, the Department of the Treasury and the Internal Revenue Service have a New Year’s gift for you. Effective January 1, 2006, taxpayers with $1,000 or less in annual employment tax liability are eligible to file new Form 944 (Employer’s Annual Federal Tax Return). This change relieves micro businesses from having to file employment taxes quarterly (via Form 941, Employer’s Quarterly Federal Tax Return). Additionally, taxpayers who file Form 944 and whose tax liability does not exceed $2,500 will be able to make a single payment with their annual return. To learn more, see the instructions for Form 944; these will be available at www.irs.gov in early February. You may also contact Assistant Chief Counsel Candace Ewell at candace.ewell@sba.gov.