

The Small Business Economy: A Report to the President

U.S. Small Business Administration, Office of Advocacy, 2005, [278] pages

Purpose and Scope

The Office of Advocacy's authorizing legislation, Public Law 96-302, requires the Office of Advocacy to "examine the role of small business in the American economy and the contribution which small business can make in improving competition, encouraging economic and social mobility for all citizens, restraining inflation, spurring production, expanding employment opportunities, increasing productivity, promoting exports, stimulating innovation and entrepreneurship, and providing an avenue through which new and untested products and services can be brought to the marketplace." As part of this requirement, the Office of Advocacy has conducted research on the small business economy for the past 30 years and has published an annual small business economic report since 1982.

Highlights

This edition of *The Small Business Economy* documents small business's role in the economy of 2004 and includes chapters focusing on minority- and veteran-owned businesses, taxation, procurement, financing, regulation, and innovation.

The Small Business Economy

In Chapter 1 of the 2005 edition of *The Small Business Economy*, the Office of Advocacy reviews the economic environment for small businesses in the year 2004:

- The economic recovery continued in 2004, and real gross domestic product increased at an annual rate of 3.75 percent over the course of the year. The economy added 1.3 million net new nonfarm private jobs.
- New employer firms and the number of self-employed increased.

Financial Markets

Chapter 2 examines the financial markets for small business in 2004:

- Growth continued in the financial markets in 2004, as the economy continued to expand and the core inflation rate remained moderate.
- The overall initial public offering market was very active, with new 2004 issues valued at more than double the average levels of 2002-2003.

Procurement

Chapter 3 finds that small businesses benefited not only from federal acquisition of goods and services from small firms in 2004, but also from changes that helped clarify the federal procurement environment for small businesses:

- New subcontracting regulations provided better guidance to large businesses subcontracting with small businesses.
- Small business stakeholders were invited to participate in the process of redesigning small business size standards.
- New regulations were issued governing the counting of procurement awards to small firms acquired by large firms.
- The fourth generation of the Federal Procurement Data System was introduced.

Minority and Veteran Entrepreneurship

The subjects of Chapters 4 and 5 are new research on minority and veteran entrepreneurship. The research on minority-owned businesses examines the literature on racial differences in business outcomes.

- Business ownership rates among women, which track somewhat differently from those of men by ethnicity or race, show that self-employment for African-American women and Latinas increased steadily over the 1979-2003 period. Self-employment rates for Asian-American women remained roughly constant.

- A residential survey conducted during the summer of 2003 revealed that a significant 22.1 percent of veterans in the household population were either purchasing or starting a new business or considering doing so.

Tax Complexity and Uncertainty

In Chapter 6, Advocacy economists support the argument that tax policies that promote ease of compliance while reducing uncertainty are more conducive to economic growth. They also contend that a well understood and predictable environment in which simple, stable rules are the norm is optimal for small business success.

The Regulatory Flexibility Act

Chapter 7 summarizes recent Regulatory Flexibility Act developments in the law's 25th anniversary year of working to improve the regulatory environment for small businesses. The Office of Advocacy continued to work with states to enact and implement similar state legislation for the benefit of small businesses and other small entities struggling to keep up with the cumulative burden of regulation at all levels of government.

The Role of Small Firms in Innovation

In Chapter 8, renowned economist William Baumol explores the reasons for the basic division of labor between the entrepreneurial search for radical innovations performed by small firms, and the development and marketing of those innovations by larger firms.

This report was peer-reviewed consistent with Advocacy's data quality guidelines. More information on this process can be obtained by contacting the director of economic research at advocacy@sba.gov or (202) 205-6533.

Ordering Information

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

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