Office of Advocacy
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The Small Business Advocate

Advocacy: the voice of small business in government

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Small Business Creates America's Jobs

Small business continued to create America's new jobs in 2004, according to the latest data. The updated *U.S. Small Business Profile* released by the Office of Advocacy in October shows that small businesses added 1.9 million net new jobs during the latest year studied.

"Small businesses are America's job-creating dynamo," said Chad Moutray, chief economist for the Office of Advocacy. "Clearly policymakers need to consider their impact on small business when they are making policy decisions."

Profiles of all 50 states, the District of Columbia, and the U.S. territories are available. Updated data and statistics on America's small businesses are available at **www.sba.gov/advo/research/profiles.**

The updated U.S. profile also shows that:

- In 2006, the nation had an estimated 26.8 million small businesses, of which 6.1 million were employer firms.
- Small businesses employed 50.9 percent of the nation's nonfarm private workforce in 2004.
- America had 1.1 million Asian-owned firms, 1.2 million Black-owned firms, 1.6 million Hispanic-owned firms, 201,400 Native American-owned firms, and 28,900 Native Hawaiian and Pacific Islander-owned firms in 2002 (latest data). (Note: these data cannot be totaled, as business owners chose multiple ethnic and racial categories.)
- Women-owned firms totaled 6.5 million and generated $940.8 billion in revenues in 2002 (latest data).

For more information on *Small Business Profiles for the States and Territories*, contact Victoria Williams at (202) 205-6191 or **victoria.williams@sba.gov.** Profiles for the past five years are available at **www.sba.gov/advo/research/profiles.**

For a snapshot of U.S. small business, please turn to page 2.

Sixty representatives from small business associations, government, and academia helped kick off Advocacy's r3 initiative on October 16. **See page 4.**

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Small Business Profiles

A Snapshot of Small Business Job Creation, Firms, and Employment

Net New Jobs Produced by Small Business in the United States, 2003-2004 (Thousands of Non-farm Jobs)

	Size of Firm (In Number of Employees)			All Firms
	1–19	1–499	500+	
Jobs Created at:				
New Establishments	1,895.3	3,563.5	2,686.2	6,249.7
Expanding Establishments	3,353.4	6,798.6	4,903.5	11,702.2
Jobs Lost at:				
Downsized Establishments	-2,001.1	-5,314.8	-5,065.6	-10,380.4
Closed Establishments	-1,623.0	-3,157.3	-2,738.3	-5,895.6
Net Change in Jobs	**1,624.6**	**1,890.1**	**-214.2**	**1,675.9**

Note: Components may not sum to totals because of rounding.
Source: U.S. Small Business Administration, Office of Advocacy, *Small Business Profiles for the States and Territories published in 2007.*

The Small Business Advocate

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U.S. Firms and Employment by Industry and Firm Size, 2004–2005 (Non-farm, Thousands)

Industry	Non-Employer Firms (2005)	Employer Firms (2004)			Employment (2004)		
		All Firms	1–99 Employees	1–499 Employees	All Firms	1–99 Employees	1–499 Employees
Total	**20,392.1**	**5,885.8**	**5,782.2**	**5,868.7**	**115,074.9**	**41,839.7**	**58,597.5**
Agriculture, forestry, fishing, and hunting	231.0	24.9	24.6	24.8	*	*	*
Mining	99.7	18.6	17.8	18.3	470.3	145.7	211.1
Utilities	15.3	6.7	6.2	6.5	634.7	59.6	107.5
Construction	2,530.9	751.1	743.6	750.1	6,647.6	4,651.7	5,745.6
Manufacturing	297.5	293.5	275.3	289.4	13,822.0	3,581.6	6,080.5
Wholesale trade	381.1	337.6	326.9	334.7	5,907.1	2,643.6	3,637.3
Retail trade	1,881.1	735.0	723.7	732.7	15,351.4	5,144.4	6,471.7
Transportation and warehousing	962.4	164.8	159.2	162.7	4,098.9	1,092.1	1,571.0
Information	291.0	75.3	72.2	74.1	3,472.4	579.5	908.9
Finance and insurance	741.9	252.0	246.2	250.3	6,481.3	1,403.2	2,107.8
Real estate, and rental and leasing	2,441.6	282.8	279.2	281.6	2,086.1	1,142.7	1,442.1
Professional, scientific, and technical svc.	2,853.6	734.9	725.5	732.0	7,570.0	3,630.0	4,660.5
Management of companies and enterprises	n.a.	26.6	11.6	19.8	2,824.8	87.7	342.6
Admin., support, waste mgt. and remed. svc.	1,416.7	310.3	298.7	306.9	8,708.1	2,092.6	3,582.9
Educational services	454.3	71.2	67.0	70.1	2,893.4	781.6	1,329.7
Health care and social assistance	1,669.0	588.2	569.2	584.5	15,814.8	4,747.3	7,665.7
Arts, entertainment, and recreation	972.5	111.3	108.2	110.7	1,889.0	855.8	1,279.2
Accommodation and food services	279.4	453.4	442.8	451.7	10,749.8	4,978.8	6,567.7
Other services	2,872.9	671.4	665.5	670.0	5,416.2	4,035.5	4,672.5
Unclassified	n.a.	41.2	41.2	41.2	*	*	*

n.a. Not available. *Data suppressed to protect the confidentiality of individual firms.
Source: U.S. Small Business Administration, Office of Advocacy, *Small Business Profiles for the States and Territories published in 2007.*

Message from the Chief Counsel

TRI and the Public's Right To Know

by Thomas M. Sullivan, Chief Counsel for Advocacy

For more than three decades, Americans and the environment have benefited from the public right-to-know provisions set forth by the Emergency Planning and Community Right to Know Act of 1986 (EPCRA). EPCRA established the Toxic Release Inventory (TRI), which requires companies to make a yearly report to the Environmental Protection Agency (EPA) of their handling, management, recycling, disposal, and allowable emissions and discharges of listed chemicals. In the years since EPCRA's passage, American businesses have taken unprecedented action to reduce the amount of toxic chemicals used in their plants. Many observers credit the public TRI reporting as the impetus behind these pollution reduction efforts.

Five years after EPCRA was enacted, the Office of Advocacy petitioned the EPA to develop streamlined reporting requirements for small volume chemical users. Small businesses have consistently voiced their concerns to Advocacy that the TRI program imposes substantial paperwork burdens with little corresponding environmental benefit, especially for thousands of small businesses that have zero emissions or discharges of hazardous chemicals to the environment.

These businesses must devote scarce time and resources to complete lengthy, complex Form R reports each year, despite the fact that they have zero discharges. This chemical handling data is separate from reports required for spills and accidents and the Form R takes over a year to be incorporated into the TRI database. Advocacy believes that these small businesses should be rewarded for superior environmental stewardship rather than be penalized by having to complete the long form.

Advocacy joins EPA in opposition to this legislation which would prevent the agency from moving forward on essential reforms to the TRI program long advocated by small businesses.

As an illustration of the impact of TRI on small business, consider the case of manufacturers and environmental engineers who work with small companies in Southeast Michigan. These companies use aluminum alloys to build automatic transmissions and other car parts that must be heavily machined. Aluminum alloys allow car makers to produce lighter, more fuel-efficient vehicles. The alloys contain some lead, which improves machinability. Without lead, the alloys would be gummy, and could not be machined smoothly. The machining process generates scrap metal, which is recycled. Because the scrap metal contains lead, Form R reports have been required each year, despite the fact that no lead is ever released to the environment.

In December 2006, EPA issued the TRI Burden Reduction rule that would allow companies like these to use a short form. Under the new rule, businesses that do not emit or discharge highly hazardous chemicals can use the short form (TRI Form A). Although they do not go as far as some small businesses would prefer, Advocacy supports the EPA reforms. The final rule strikes an appropriate balance by allowing meaningful burden relief while at the same time continuing to provide valuable information to the public.

Under the TRI Burden Reduction rule, top environmental performers within industry will benefit by being able to use the short Form A. To qualify to use Form A, firms must minimize their use of all chemicals and sharply curtail their use of PBT chemicals (persistent bioaccumulative toxins). Most importantly, to be eligible to use Form A, firms may not emit or discharge any PBT chemicals into the environment.

Paperwork reduction is essential because as Advocacy research has shown, small businesses are disproportionately affected by federal regulations. For the smallest firms, the annual regulatory burden in 2004 was $7,647 per employee—nearly 1.5 times greater than the $5,282 burden for their largest counterparts. For environmental rules, the difference is even more dramatic: small firms spend four and a half times more per employee for environmental compliance than large businesses do. This competitive disadvantage weighs heavily against small businesses.

Congress is considering legislation (H.R. 1055 and S. 595) which would revoke the reforms the EPA put in place December 2006. Advocacy joins EPA in opposition to this legislation which would prevent the agency from moving forward on essential reforms to the TRI program long advocated by small businesses.

To view the chief counsel's testimony on this topic, visit **www.sba.gov/advo/laws/test07_1004.html.**

Advocacy Roundtable Launches r3 Initiative

The Office of Advocacy formally launched the Regulatory Review and Reform (r3) initiative on October 16 with a public roundtable. About 60 people were in attendance, including representatives from small business trade associations, government, and academia.

Advocacy's r3 initiative is a new effort to help reduce the $1.1 trillion yearly cost to Americans of complying with all federal regulations. The r3 initiative does this by working with federal agencies and small business owners to review and reform existing rules that may be outdated or ineffective.

Chief Counsel for Advocacy Thomas M. Sullivan kicked off the roundtable by providing an overview of the r3 program. Sullivan emphasized Advocacy's call for public nominations of current federal rules in need of review and revision by agencies. Although the deadline to submit nominations to Advocacy is December 31, Sullivan urged roundtable participants to submit nominations earlier. This will ensure adequate time to consider rules for possible inclusion in Advocacy's Top Ten Review/Reform Nominations. Advocacy's inaugural Top Ten list will be announced in February 2008. For the criteria for rule reform nominations, as well as other information about the r3 program, visit **www.sba.gov/advo/r3.**

regulatory review & reform initiative

www.sba.gov/advo/r3

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Assistant Chief Counsel Keith Holman, Advocacy's r3 project leader, discussed the other major component of the r3 program, Advocacy's effort to help agencies comply with Section 610 of the Regulatory Flexibility Act. Section 610 requires agencies to review the impact that their existing regulations have on small entities within 10 years of the date the rule takes effect. A recent Government Accountability Office (GAO) report found that agency compliance with Section 610 often suffers from a lack of clear standards, insufficient public participation and comment, and inadequate communication of the results of stakeholders. The GAO report is available at **www.gao.gov/new.items/d07791.pdf.** In response to this report, Advocacy developed a Best Practices document to guide agencies in complying with Section 610. The best practices document can be found at **www.sba.gov/advo/r3.**

GAO found that federal agencies conduct some 1,300 reviews of existing rules each year, but only a few qualify as Section 610 reviews. Advocacy wants to help agencies get credit when they review their current rules and to encourage agencies to consider whether their rules could be improved to reduce unnecessary impacts on small entities.

For more information on the r3 initiative, contact Assistant Chief Counsel Keith Holman at (202) 205-6936 or **keith.holman@sba.gov.**

National Research Council Finds SBIR Program Supports Small Business and Stimulates Innovation

The Small Business Innovation Development Act of 1982 established the Small Business Innovation Research (SBIR) program to strengthen the role of innovative small business concerns in federally funded research and development. Under SBIR, 11 federal agencies are required to reserve 2.5 percent of their R&D research budget for the program. These agencies are the Departments of Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, and Transportation; and the Environmental Protection Agency, National Aeronautics and Space Administration, and the National Science Foundation.

The Small Business Administration is the statutory coordinating agency for SBIR. It directs the 11 agencies' implementation of SBIR, reviews their progress, and reports annually to Congress on its operation. SBA is not involved in the agencies' SBIR contract awards.

SBIR is a three-phase program. The startup phase (Phase I) consists of contract awards of up to $100,000 to support exploration of the technical merit or feasibility of an idea or technology. Phase I winners may receive Phase II awards of up to $750,000 to expand their results. During this time, the developer performs R&D work and evaluates the idea's commercialization potential. In Phase III, the innovation moves from the laboratory to the marketplace, but no SBIR funds support this phase. The small business must find funding in the private sector or through another federal agency program.

Between 1992 and 2005, more than 14,880 firms received at least one Phase II award. A total of $17.9 billion has been awarded to innovative small firms since 1982. In 2005, participating agencies received 30,183 proposals and made 6,171 awards amounting to $1.87 billion. The top five agency participants are the Department of Defense ($943 million), NASA ($103 million), Health and Human Services ($562 million), Department of Energy ($104 million), and the National Science Foundation ($79 million).

The American public benefits from new products and services developed by companies through SBIR. For example, broadband acoustic doppler current profiler (ADCP) products—ocean research instruments—are widely used by the Defense Department to measure physical properties of the ocean in regions of interest to the U.S. Navy. The advanced magnetometers used in handheld electronic compasses have now found a new application as a consumer product, the Wayfinder electronic automobile compass.

When SBIR was reauthorized in 2000, Congress mandated that the National Academy of Sciences' National Research Council study the program. The council was directed to examine two questions: First, whether the agency's SBIR programs meet Congress's four objectives:

- To stimulate technological innovation;
- To increase private sector commercialization of innovations;
- To use small business to meet federal research and development needs; and
- To foster and encourage participation by minority and disadvantaged persons in technological innovation.

And second, can the management of agency SBIR programs be made more effective?

The National Research Council's study was published in July 2007. Among other things, the report found SBIR to be sound in concept and effective in practice, though it also recommended a number of areas for program improvement. It concluded that SBIR should be reauthorized by Congress when its current authorization expires in 2008.

For More Information

The National Research Council's report, *An Assessment of the Small Business Innovation Research Program at the National Science Foundation*, can be accessed at **http://books.nap.edu/catalog.php?record_id=11929.**

General program information is online at **www.sba.gov/aboutsba/sbaprograms/sbir/index.html.**

Numerous SBIR accomplishments are listed on these agency websites:

- Department of Defense, **www.dodsbir.net/SuccessStories/default.htm,**
- National Aeronautics and Space Administration, **http://sbir.nasa.gov/SBIR/successes/techcon.html,** and
- Health and Human Services (National Institutes of Health), **http://grants1.nih.gov/grants/funding/sbir_successes/sbir_successes.htm.**

New Reports Probe Income and Wealth of Veteran Business Owners and Small Business Dynamics

The Office of Advocacy released two new research reports last month.

Income and Wealth of Veteran Business Owners, 1989–2004, examines the fortunes of households headed by veteran small business owners. Three major developments over the past two decades determined the levels and changes in the income and wealth of veteran households and veteran business-owning households in the United States in comparison with the overall population:

• The number of veteran households declined from 1989 to 2004 (from 28.6 millions households in 1989 to 25.3 million households in 2004),

• The age composition of the head of the veteran households grew much older by 2004, and

• The percentage of small business owners in the population of veteran households declined (from 13.6 percent in 1989 to 12.2 percent in 2004).

These three trends partly explained the findings that the likelihood of being high income has declined for veteran small business owners by nearly 24 percent while the likelihood of being high wealth increased by nearly 22 percent.

The regression analysis, which controlled for such variables as age, suggested that veteran households generally had lower income than non-veteran households, veteran small business households had higher wealth than veteran non-business households, and veteran small business households had lower wealth than non-veteran small business households. Most importantly, there were no substantial changes in the differences in income and wealth between veteran and non-veteran households, veteran small business and veteran non-business households, and veteran business and non-veteran business households from 1989 to 2004. The report was written by George Haynes of the University of Montana and is available on Advocacy's website at **www.sba.gov/advo/research/rs310tot.pdf.**

A second working paper released in October examines small business dynamics. *Small Business Growth: Searching for Stylized Facts* was written by Brian Headd of the Office of Advocacy and Bruce Kirchhoff of the New Jersey Institute of Technology. The authors presented the results of their analysis to the U.S. Census Bureau's Center for Economic Studies as part of its fall seminar series.

"The life-cycle of firms has not been well understood," explained Headd. "This working paper adds to our understanding by showing that most firms tend not to grow after start-up, that growing firms tend to be a constant percentage of all firms, and that, over time, fast-growing firms tend to slow their growth and become like other firms."

The authors analyzed data from special tabulations of the U.S. Census Bureau's Statistics of U.S. Businesses (SUSB) database. The SUSB data provided information on how firms started, grew, merged, declined, survived, and closed from 1992 to 2002. Among other things, the authors' analysis determined that:

• Growing single establishment small firms are generally a constant percentage of industries and the economy;

• Over time, the percent of growing firms tends to be greater than that of decliners;

• Fast growing firms tend to grow in spurts, then revert to average growth;

• No significant relationship exists between fast growing industries and the number of fast growing firms within those industries; and

• Industries with many growing firms also tend to have many decliners.

A complete copy of this working paper is available on Advocacy's website, **www.sba.gov/advo/research/rs311tot.pdf.**

Advocacy Welcomes Two New Colleagues

The Office of Advocacy welcomed two new staff members in October.

Christiane (Chris) N. Monica joins Advocacy as director of regional affairs. She formerly served as advisor to the chief acquisition officer of the General Services Administration (GSA). Her responsibilities there included reviewing and coordinating comments on procurement-related legislation and regulations, as well as preparing testimony on GSA's contracting with small businesses. Previously, as a private consultant, she worked with members of Congress in their districts, developing new training products and advising congressional staff on the regulatory process. She brings many years of Capitol Hill experience to her position, having served as a caseworker and director of constituent relations for three members of Congress. In her new position, she will direct the work of the Office of Advocacy's regional advocates, who in turn reach out to small businesses and policymakers in state and local governments in the SBA's 10 regions. She can be reached at (202) 205-6749 or **christiane.monica@sba.gov**.

Director of Regional Affairs Christiane N. Monica.

Advocacy's new assistant chief counsel for tax policy is Dillon J. Taylor, who formerly served as attorney for the Procedure and Administration Division in the Office of Chief Counsel, Internal Revenue Service (IRS). In that capacity, he drafted guidance for Treasury regulations, as well as legal briefs, trial memoranda, and motions submitted at trials, argued procedural motions before the U.S. Tax Court, and carried out other research responsibilities. Taylor has also served in the Division of Clearing and Intermediary Oversight of the Commodity Futures Trading Commission (CFTC) and clerked for the U.S. Tax Court. He was admitted to the Virginia State Bar and the U.S. Tax Court after earning his law degree at George Mason University School of Law. He can be reached at (202) 401-9787 or **dillon.taylor@sba.gov**.

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