

New Report Reveals Dynamics of Inner City Economies

Small businesses are the drivers of inner city economies and job growth, according to a new study by the Office of Advocacy. The report documents the dynamics of America's inner city economies, which are more robust than is generally understood.

State of the Inner City Economies: Small Businesses in the Inner City reports that small businesses are the greatest source of net new employment in inner cities. They comprise more than 99 percent of inner city business establishments, and they generate 80 percent of the total employment in these areas. In all, America's inner city small businesses employ about 9 million people, or 8 percent of the U.S. private workforce.

"This report demonstrates that local entrepreneurs are not only the backbone of inner city economies—they are their strongest source of new jobs," said Steve Adams, Advocacy's advocate for the Northeast region and past director of the Center for Urban Entrepreneurship at the Pioneer Institute. "Policymakers should take note of these findings showing that supporting new and established entrepreneurs in inner cities should take priority in their urban development strategies."

The study is the result of a larger project undertaken by the Initiative for a Competitive Inner City and partially funded by the Office of

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Janice Brown started her company, Youth on the Move, to provide after-school transportation in Springfield, Massachusetts. Since 2000, when she founded the company, it has grown from a home-based business to an employer business with 17 employees. Small businesses like Brown's are the prime source of new jobs in America's inner cities. (See story on page 3.)

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Chief Economist Discusses St. Louis Federal Reserve Paper

On October 18, the Office of Advocacy's Chief Economist Chad Moutray participated in a discussion at the Federal Reserve Bank of St. Louis. Moutray served on a panel with Howard J. Wall, assistant vice president and regional economics advisor for the St. Louis Fed, and Bryan Bezold, chief economist at the St. Louis Regional Chamber and Growth Association. They examined the paper, *Passive Policies for Entrepreneurs*, by Thomas A. Garrett and Wall.

The paper differentiates between two distinct approaches to achieving new small business development: active and passive policies. Active policies include tax breaks, subsidies, or other incentives to entice particular businesses to locate in a certain area. Passive prescriptions promote a general climate of favorable business conditions through reductions in taxes, regulations, or other means. The study finds that passive policies are more effective at promoting entrepreneurship at the state level.

In his remarks, Moutray cited a recent Advocacy study that shows that business conditions matter: Aparna Mathur's *A Spatial Model of the Impact of State Bankruptcy Exemptions on Entrepreneurship*. The Advocacy study went a step further, as well, showing that business conditions in neighbor-

ing states were also important in determining entrepreneurial growth. Moreover, Moutray added, states continue to consider regulatory flexibility statutes and executive orders that mirror Advocacy's model legislation as a means of promoting economic development within their state. Progress on this initiative is a sign that many state leaders believe that a positive business climate can make a difference on business development.

With that said, studies of this nature are difficult. Describing why businesses in certain states grow more than in others is not easy to measure. An excellent business environment might be one explanation, but there are also others, some of which cannot be measured. This came up in the discussion of the study. For instance, some of the states that have seen the greatest increase in new firms are also the ones that have seen large increases in population over the past few years. One audience member noted that certain areas of the country have a "climate for entrepreneurship" while others seem less hospitable. Moutray noted that some of the states that do well in creating new small businesses have high levels of university spin-offs and technology transfer, while at the same time they may not be perceived as having pro-business

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climates. Bezold echoed that these regions also have high levels of venture capital. Clearly, there can be other factors at play.

Finally, while the paper's authors suggest that passive policies may work better, not all active policies are bad ones. One audience member discussed the importance, for instance, that business incubators play in regional economies. Bezold noted the role that his economic development organization, the St. Louis Regional Chamber, plays in promoting new local firms, both large and small. (This function is echoed by similar institutions

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Correction

The cost of workplace regulation was misstated in the table on page 5 of the October issue of *The Small Business Advocate* (print edition). The figures in the table on page 1 are correct. The correct figures show that the cost per employee of federal workplace regulations is \$920 for firms with fewer than 20 employees and \$841 for firms with 500 or more employees. The version of the newsletter on Advocacy's website contains the correct figures (www.sba.gov/advo/oct05newsletter.pdf).

Message from the Region I Advocate

Inner City Entrepreneurs Mean Business

by Steve Adams, Region I Advocate

Janice Brown, a working single mother in Springfield, Massachusetts, could not find a safe and affordable way to get her children to after-school activities. Realizing many parents faced this same dilemma, Brown acquired a minivan, got licensed, and started her company, Youth on the Move. Since 2000, when she founded the company, it has grown from a home-based business to an employer business with 17 employees.

Brown is a minority small business owner creating jobs and income in Springfield—among the commonwealth’s poorest urban communities—and she is not alone. A new study by the Initiative for a Competitive Inner City reveals that small businesses play a dominant role in America’s distressed urban areas, mirroring the pattern throughout the U.S. economy (see page 1). The study, funded by the Office of Advocacy, found that America’s distressed urban areas are home to over 814,000 small businesses employing almost 9 million people and that these businesses are the largest source of new employment in America’s inner cities.

Not all inner city businesses are owned by minority or low-income

“America’s distressed urban areas are home to over 814,000 small businesses employing almost 9 million people.”

entrepreneurs, but many that are have become important drivers of local economies. Despite stiff barriers—social, cultural, and economic—inner city residents are succeeding, in growing numbers, in building successful businesses.

According to the Census Bureau’s 2002 Survey of Business Owners, between 1997 and 2002 the number of African American-owned businesses in America grew by 45 percent while Hispanic-owned businesses grew by 31 percent. This compares to 8 percent growth in white-owned businesses. Another study, this one out of Babson College, estimated that 16 percent of African Americans and 15 percent of Hispanic Americans were engaged in entrepreneurial activities in 2003, well above the 10 percent national average. They include tens of thousands of early-stage ventures and many more

established businesses owned by minority entrepreneurs.

In an effort to produce more inner city success stories, President Bush announced a collaboration of the SBA and other federal agencies with the National Urban League, the Business Roundtable, and the Kaufmann Foundation of Kansas City to form the Urban Entrepreneur Partnership (UEP). Together they are creating state-of-the-art support centers to help minority and low-income entrepreneurs start and grow their businesses. The first center opened recently in Kansas City and more are slated to sprout up around the country.

Entrepreneurship has long been the engine that drives America’s economy. It can do the same for our inner cities. Bolstering the success rate of low-income and minority entrepreneurs will extend economic opportunity to more citizens, help revitalize distressed communities, and strengthen our economy well beyond inner cities.

Steve Adams is the regional advocate for Region I, which consists of the states of Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont.

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across the country). Moutray concluded by noting the Best Practice awards given to four states by the Office of Advocacy earlier this year. These states have successful policies that promote innovation and new firm formation through technology transfer and other tools. These initiatives are helping provide those regions with new economic engines for future growth.

For More Information

Passive Policies for Entrepreneurs, by Thomas A. Garrett and Howard Wall, can be found online at www.stlouisfed.org/community.

A Spatial Model of the Impact of State Bankruptcy Exemptions on Entrepreneurship, by Aparna Mathur, can be found at www.sba.gov/adv/research/rs261tot.pdf.

The proceedings of Advocacy’s March 2005 conference, “Putting It Together: The Role of Entrepreneurship in Economic Development” are online at www.sba.gov/adv/research.

Regulatory News

Advocacy Roundtables Educate Regulators on the Consequences of Proposed Rules

The Office of Advocacy regularly hosts small business regulatory roundtables to solicit input from small business representatives on regulatory proposals. The idea of the roundtables is to create a forum where people can talk, listen, and exchange information. They provide a venue where small business representatives can voice their concerns over pending federal regulations and Advocacy staff can learn how regulations will affect the small employer community.

Participants vary, but they usually include small business owners and representatives, trade associations, federal agency personnel, and Congressional staffers. Each roundtable covers a specific area of federal regulation that affects small business—environmental regulation, occupational safety and health, aviation safety, transportation, banking, and tax policy.

Since federal agencies promulgate over 4,000 federal regulations each year, Advocacy's staff cannot possibly cover them all. Roundtables help Advocacy determine what is important to small business and where Advocacy should focus its limited resources. The roundtable agendas are developed by the small business representatives, and the discussions are led by the participants themselves. Although Advocacy hosts them, small businesses drive the roundtables.

Helping small businesses improve their effectiveness in the regulatory process is one of the primary benefits of roundtables. However, providing effective input into rulemaking is not a simple task. Small businesses use the roundtables to discuss how new regulatory proposals will affect

them and how agencies might modify regulations to make them less burdensome and costly. Roundtable discussions also help small businesses evaluate agency cost projections and the scientific data that underlie regulatory proposals.

“Helping small businesses improve their effectiveness in the regulatory process is one of the primary benefits of roundtables.”

Roundtables are also a source of news about regulations. Unlike larger businesses that might have staff to monitor federal regulations, few small businesses have the resources to follow what's going on inside the federal government. Roundtables are one way that small business representatives find out about pending federal regulations that concern their industries.

Finally, roundtables are a forum for small business representatives and agency personnel to interact. One good example of this is Advocacy's most recent labor safety roundtable in October on U.S. Occupational Safety and Health Administration (OSHA) regulations. It included a small business presentation on OSHA's proposed hexavalent chromium rule, a discussion of OSHA's review of its lead in construction standard, and an analysis of OSHA's proposed electric power generation rule. The roundtable also included presentations from OSHA on its Alliance program for cooperative industry compliance, its efforts at small

business outreach, and its recent eGovernment advances (such as electronic compliance assistance and electronic filing and reporting).

Advocacy holds issue-specific roundtables as the need arises. For example, Advocacy recently hosted an issue-specific roundtable on lead hazards in construction. The forum was held in response to a request from OSHA for small business input into its lead in construction standard. The roundtable was designed to educate small business representatives on federal regulations involving lead, and it featured presentations from OSHA, the U.S. Department of Housing and Urban Development, and the U.S. Environmental Protection Agency. Each of these agencies has its own lead regulations that businesses must comply with. Afterward, small business representatives discussed which issues were the most important ones to raise with OSHA and how OSHA might better tailor its regulations to minimize the burden on small business.

Advocacy roundtables provide an excellent forum to discuss pending regulatory issues that concern the small business community. If you would like more information or would like to participate in one of the future roundtables, please feel free to contact Assistant Chief Counsel Bruce Lundegren at (202) 205-6533 or bruce.lundegren@sba.gov.

Mercatus Fellowship for Regulatory Studies Launched

The Mercatus Center at George Mason University has partnered with the Office of Advocacy to offer a Regulatory Studies Fellowship for second- and third-year law students interested in public policy and small business issues. Fellows will work in the office, assisting the chief counsel and staff in such areas as environmental law, occupational safety and health, telecommunications, tax, labor, agriculture, procurement, health care, and economic regulation.

Kristina M. Husar has been selected as the first Mercatus Fellow, and she began her fellowship at the Office of Advocacy in October. Husar has worked on Capitol Hill since 2001. Most

recently, she worked on the legislative staff of U.S. Congresswoman Virginia Brown-Waite (Florida), where she specialized in education and labor policy, veterans' affairs, judiciary, regulatory affairs, and appropriations legislation. Husar helped to shepherd three bills through to final passage. She also worked for Speaker of the House J. Dennis Hastert (Illinois), as well as for Congressman Bob Ney (Ohio).

Husar has attended George Mason University School of Law for the past two years as a part-time evening law student. She is the lecture series coordinator for the *Journal of Law, Economics, and Policy* and plans to graduate in the spring of 2007.



Kristina M. Husar is the first recipient of the Mercatus Center's Regulatory Studies Fellowship.

Comment Letter on Electronic Filing of Pension Plan Annual Reports

On October 14, the Office of Advocacy filed a comment letter with the U.S. Department of Labor's Employee Benefits Security Administration (EBSA), in response to their notice of proposed rulemaking, "Electronic Filing of Annual Reports."

The proposed rule concerns Form 5500, the annual report that most pension plans are required to file

with EBSA. It will require that Form 5500 be filed electronically for plan years beginning on or after January 1, 2007. Advocacy urged EBSA to consider allowing small plans to participate voluntarily in electronic filing of Form 5500 during the first year it is mandated. Advocacy also suggested that small plans be given a one-time exemption from penalties for unintentional filing errors when using

the new electronic filing system.

The comment letter is on Advocacy's website at www.sba.gov/advo/laws/comments/dol05_1014.pdf. A fact sheet summarizing the letter is at www.sba.gov/advo/laws/comments/factsdol05_1014.pdf.

If you have any questions regarding the issue, contact Candace Ewell at (202) 401-9787 or candace.ewell@sba.gov.

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Advocacy. Other funders include the U.S. Economic Development Administration, the John D. and Catherine T. MacArthur Foundation, and the Greater Kansas City Community Foundation.

The report notes that inner city businesses are similar to businesses in the rest of their regions, exhibiting similar startup and bankruptcy

rates. It also found that inner city job growth was concentrated in service industries, mirroring trends in other areas.

The complete report is available on Advocacy's website, www.sba.gov/advo/research/rs260tot.pdf.

Research Notes

New Study Examines Cost of Litigation to Small Business

Litigation hurts small business in more than just financial ways, a new Advocacy study has found. Since most small business owners are personally invested in their businesses, the toll of being sued also includes substantial emotional hardship and changes in the way the business operates.

Chief Counsel for Advocacy Thomas M. Sullivan released the study at the U.S. Chamber Institute for Legal Reform's Legal Reform Summit.

The Impact of Litigation on Small Business was written by Klemm Analysis Group with funding from the Office of Advocacy.

The study used a sample from the federal Public Access to Court Electronic Records system to identify small businesses involved in litigation from July 2002 through June 2003. Data was gathered from a subset of businesses interviewed by phone, and focus groups produced specific case studies that were examined in detail.

The study found most of the participants had to recoup their litigation losses by cutting expenses or by having to expend even more funds in a search for more customers. These costs were absorbed by the business because increasing prices was seen as a competitive

disadvantage and used as a last resort. The complete report can be found on Advocacy's website at www.sba.gov/advo/research/rs265tot.pdf.

"Global Perspectives on Entrepreneurship Policy" Proceedings Available

The proceedings of the June session, "Global Perspectives on Entrepreneurship Policy," are now available. The pre-conference session of the International Council for Small Business Annual Meeting was cosponsored by the Office of Advocacy, the National Federation of Independent Business Research Foundation, and the U.S. Association for Small Business and Entrepreneurship.

Researchers and policymakers from around the world examined many relevant topics, and interesting differences in national approaches emerged. Topics included the average number of days it takes to start a business in countries around the world; streamlining regulation in Denmark; the link between new inventions and new businesses in several countries; labor and employment policy challenges; and banking and finance in the United Kingdom, Canada, and Japan.

The complete proceedings are available on Advocacy's website,

www.sba.gov/advo/research. Print copies can be ordered from Natalyn

Tart-Jones, (202) 205-6181 or natalyn.tart-jones@sba.gov.



Twelve Small Business Research Contracts Awarded

In October, the Office of Advocacy awarded 12 research contracts to study small firms' contributions to the economy. The awards to researchers from across the country will further Advocacy's core mission of understanding the role small business plays in economic growth.

"Small business is the cornerstone of our economy," said Thomas M. Sullivan, chief counsel for advocacy. "These research studies will bring that role into clearer focus, and their results will help local, state, and federal policymakers make better decisions about economic policies that

affect small businesses."

The individuals and firms that received research contracts are listed in the table on this page. Since quality research takes time, these contracts will result in research reports to be issued in the fall of 2006 or thereafter.

Office of Advocacy Research Contract Awards, October 2005		
Researcher	Location	Area of Study
BCT Partners	Newark, New Jersey	How wealth and other factors affect minority entrepreneurship.
Dr. Donald Bruce	Knoxville, Tennessee	Contributions of small business to state economic growth.
Crossroads Consulting Group	Sewell, New Jersey	The importance of education to entrepreneurship.
Econometrica, Inc.	Bethesda, Maryland	The effects of regional costs and regulations on employer-sponsored health insurance.
Economic Consulting Services	Washington, D.C.	Small business's share of gross domestic product by industry.
Dr. Robert Fairlie	Santa Cruz, California	Silicon Valley entrepreneurship and comparisons with other regions.
Dr. George Haynes	Bozeman, Montana	Wealth comparisons of small business owners and non-owners.
NuTech Solutions	Arlington, Virginia	Industry dynamics and growth of small firms.
Open Blue Solutions	Chapel Hill, North Carolina	Characteristics of self-employed veterans.
Dr. Joe Peek	Lexington, Kentucky	The value to banks of lending to small businesses.
SAG Corporation	Annandale, Virginia	The relationship between employee turnover and compensation.
StratEdge	Alexandria, Virginia	Outsourcing and small manufacturers.



The Office of Advocacy's team of regional advocates met in Washington, D.C., during September. From left are Eric Munson (Region VI); Bob Judge (III); Mike Hull (IX); Sarah Wickham (regulatory and legislative counsel for regional affairs); Pat Gartland (IV); Connie Marshall (X); Jim Henderson (VIII); Viktoria Ziebarth (regional affairs director); Steve Adams (I); Ray Marchiori (V); and Wendell Bailey (VII). To learn more about Advocacy's regional outreach, visit www.sba.gov/advo and click on "state activities."

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