

## Getting the Most Bang for the Buck: An Analysis of States' Relative Efficiencies in Promoting the Birth of Small Firms

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### Purpose

New business starts have economic and social value to communities and are often a goal of state economic development efforts. States would like to foster an environment that can nurture business births; however, analysis of the impact of their expenditures on business births is limited. This study evaluates the impact of various state expenditures on business births and gives states a benchmark for comparison with other states.

### Overall Findings

State expenditures do affect the number of business births, particularly investments in human capital and roads. The study also found states with larger populations tended to be more efficient than states with small populations in supporting business births with their expenditures.

### Highlights

- State expenditures on education, highways, and natural resources positively affected business births. To a lesser extent, so did state expenditures on healthcare, parks, and recreation.
- California, New York, and Florida were the most efficient states with respect to expenditures

leading to business births, while North Dakota, New Mexico, and West Virginia were the least efficient.

- Individual states' efficiency levels with respect to expenditures and business births tended to be stable over the period studied, 1999 to 2002.
- Police expenditures were found to be a response to higher crime rates rather than an indicator of providing a safer business environment.
- Future research could incorporate industry and tax details at the state level.

### Scope and Methodology

The researchers used economic models to test the impact of state expenditures for education, healthcare, highways, police, natural resources, and parks and recreation on establishment births. The efficiency measurement method of Data Envelopment Analysis was used, so expenditure inputs were regressed on business births from 1999 to 2002. Then the significant inputs were put into an efficiency test for the 48 states in the continental United States. States were ranked by their average efficiency index.

Data on business births were taken from the U.S. Census Bureau's Statistics of U.S. Businesses. (This data source is partially funded by the Office of Advocacy.) State government expenditures were also obtained from the Census Bureau.

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](mailto:advocacy@sba.gov) or (202) 205-6533.

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