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Thomas M. Sullivan Confirmed As Chief Counsel For Advocacy

Small businesses have a vigorous new defender. Bringing energy and vitality to the job, Thomas M. Sullivan was unanimously confirmed by the Senate on Jan. 25, 2002.

As chief counsel, Tom Sullivan heads a team of professionals working to remove regulatory barriers to entrepreneurial growth, conduct economic research, and publish data on small businesses' contributions to the economy.

Sullivan sees his focus as helping small businesses do what they do best: create jobs. "The President's top domestic priority is economic security—jobs for all Americans," said Sullivan. "Advocacy's research shows that small business creates 75 percent of the net new jobs and virtually all net new jobs during recessionary periods. We'll help them do that, by working with federal agencies to

change rules that stifle innovation, creativity, and growth."

"This is an honor that comes along once in a lifetime," said Sullivan. He continued, "I plan to build on the good work already done by Advocacy and run a proactive office that will advance the interests of all small businesses."

Sullivan brings a strong background in small business issues to the office. Most recently, he was executive director of the National Federation of Independent Business (NFIB) Legal Foundation. Prior to that he led the Small Business Coalition for Regulatory Relief as NFIB's regulatory policy counsel. He also served in the administrator's office of the Environmental Protection Agency and in the Environment and Natural Resources Division of the U.S. Department of Justice.



Thomas M. Sullivan, the fifth chief counsel for advocacy, with SBA Administrator Hector V. Barreto (right), at Sullivan's confirmation hearing on Oct. 16, 2001.

Economic News

New Reports on Small Business Share of GDP; Small Business Economic Indicators

Small Business Share of Private, Nonfarm GDP At 52 Percent.

Small business's share of the private, nonfarm economy has increased to 52 percent over the last decade, according to *Small Business Share of Economic Growth*, a study by Joel Popkin and Company conducted under contract to the Office of Advocacy. The growth has been driven by the shift in the economy towards small-business-dominated sectors, such as services.

The growth of small business private, nonfarm gross domestic product (GDP) shows the continuing importance of small business to the overall health of the U.S. economy. "As firms start, grow, merge, split, contract, and exit over time, small firms continue to produce the majority of private economic output," said Chief Counsel for Advocacy Tom Sullivan. "While individual firms and economic sectors experience growth or decline, the vital role of small business remains the same. It's clear that the health of small business in general drives our economy and that it will be small business that leads us out of our current economic downturn," Sullivan said.

The study also highlighted the small business share of various sectors of the economy. The authors found that small businesses consti-

tute 68 percent of services, 65 percent of wholesale and retail trade, and 27 percent of mining and manufacturing. Mining and manufacturing is significant, since it is the only sector where small businesses increased their share over the last two decades. Changes in share are affected by business turnover, as well as by growth of small businesses into large firms.

Small Business Economic Indicators 2000. Few statistics are available that distinguish between small and large firms. The Office of Advocacy's annual publication, *Small Business Economic Indicators*, brings together data from several government agencies to help fill this knowledge gap.

Advocacy estimates that there were 612,400 new employer firms in 2000 and 550,000 business closures. High turnover tends to accompany economic growth, when there are plentiful opportunities elsewhere for owners of struggling firms. Firm births increased by 4.2 percent from the previous year, surpassing business deaths, up by 3.5 percent. Few of the closures resulted in bankruptcy—business bankruptcies numbered only 35,219, an all-time low.

Business turnover was high in the western states. The state of Washington had the highest rates of

For More Information

Both reports are available from the Office of Advocacy website.

The full Popkin report and research summary (No. 211) can be found at www.sba.gov/advo/research. Technical questions may be addressed to Dr. Radwan Saade at radwan.saade@sba.gov, (202) 205-6878.

Small Business Economic Indicators can be found at www.sba.gov/advo/stats. Questions may be directed to Brian Headd, brian.headd@sba.gov, (202) 205-6530, or by mail to the Office of Advocacy, U.S. Small Business Administration, 409 Third Street, S.W., Washington, D.C. 20416.

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Editor Rebecca Krafft

Managing Editor Rob Kleinsteuber

Contributing Editors Kathryn Tobias, John McDowell, David Voight

Production Assistant Darlene Moyer-Mahmoud

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both firm formation and termination. Nevada and Utah were in the top five in both categories. Colorado businesses also did well and grew without much replacement: Colorado was in the top five for new firm formation and the lowest five for firm terminations. Most of the job growth occurred in business services, and with the continuing construction and remodeling boom, special trade contractors also saw a large increase.

Message from the Chief Counsel

Jobs, Jobs, and More Jobs: That's What Small Business Is All About

by Tom Sullivan., Chief Counsel for Advocacy

I am pleased that President Bush stressed the importance of job creation in his State of the Union address, because that is what small business is all about. Small businesses create most U.S. jobs and they give our economy the flexibility to rebound quickly from economic recession.

The key role of small businesses in job creation has been recognized since the late 1970s. Dr. David Birch, a renowned business researcher, uncovered their key function in a dynamic economy. In his own words, "Small firms. . . are the major generators of new jobs in our economy and, in slower growing areas, the only significant provider."

Birch's findings were met with criticism at the time, and his data and methods were called into question, but repeated inquiries have confirmed his findings. Young, often small "gazelles" (fast growing firms) have the biggest impact on job creation, though that model may not be the most relevant in a downturn.

During a recession, large firms may seek to cut costs, shedding

existing jobs in the process. This downsizing may consist of shipping jobs overseas or replacing employees with machines. The newly unemployed often turn to self-employment and entrepreneurship to keep their heads above water. These newly self-employed are now able to capture work left over by the large firms that don't find smaller markets profitable.

New firms, by definition, create jobs that did not exist before their founding. Resource constraints often force these firms to start small, and those with sound ideas and innovative processes grow. It is this growth that again constitutes the new jobs.

Economic downturns also obviously cut consumer demand, which leads to an excess of supply. In these conditions, large firms may seek to merge with each other, reducing supply, raising prices, and letting go of marginally profitable customers. Small businesses are ideally suited to maneuver in such an environment, acquiring business lines that don't suit large entities

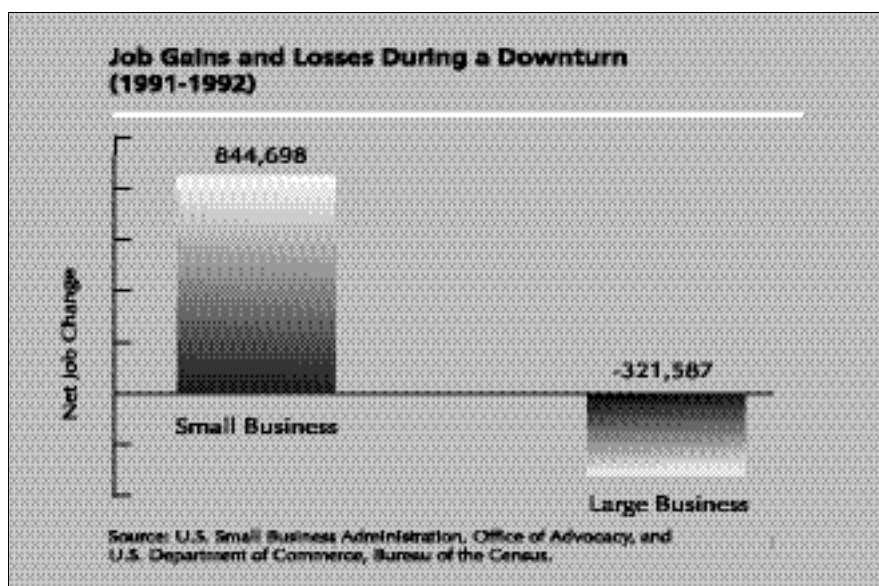
and establishing new market niches.

This account is backed up by facts. According to the U.S. Census Bureau, small firms constituted about three-quarters of the employment growth and 90 percent of the new business location growth in the 1990s. And according to the Bureau of Labor Statistics, self-employment rises when the economy struggles.

Our own Advocacy research confirms this analysis as well. We have found that 75 percent of the net new jobs are created by small business and that more than half of all private sector employees are employed by small business. The simple fact is, in order to revive the economy and bring us out of our current slump, we need to concentrate on the job-producing engine of small businesses.

The Office of Advocacy helps in this process by working to remove regulatory barriers to entrepreneurial growth. Advocacy works with federal agencies to change rules that may stifle innovation, creativity, and entrepreneurial success. Moreover, through our research we can identify for Congress and the Administration policies that will enhance economic growth.

I will use my time as chief counsel to do all that I can to help President Bush reach the goals of economic security. To do so, I will need the help and support of small business owners, employees, and their representatives across the country. So please, feel free to contact my office with your advice. Together we will advance small business. And together we will help to reinvigorate the American economy.



Small Business Week 2002

“Small Business: Where America Works” is the theme of 2002’s Small Business Week, scheduled for the week of May 5 in Washington, D.C.

Each year, the President sets aside Small Business Week to formally recognize the crucial role that America’s small business community plays in the economy. One of the highlights of the week is the recognition given to America’s best and brightest entrepreneurial talent, including outstanding small business advocates.

Look for profiles of the 2002 Small Business Advocates of the Year in upcoming issues of *The Small Business Advocate*.

Popularity of E-Mail Delivery Grows

Advocacy’s four electronic Listservs are the fastest way for small business advocates to find out about the Office of Advocacy’s activities. You can sign up for any of these Listservs by visiting Advocacy’s webpage at www.sba.gov/advo. You’ll receive an e-mail notification whenever a new item becomes available. The four Listservs are

- *The Small Business Advocate* newsletter
- Regulatory communications
- Office of Advocacy press releases
- Small business research and statistics

More than 2,000 people have subscribed to date.

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