

THE SMALL BUSINESS ADVOCATE

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New SBA Administrator Sworn In

On July 27, 2001, Hector V. Barreto was sworn in as the administrator for the U.S. Small Business Administration (SBA). This followed confirmation by the U.S. Senate.

Mr. Barreto is founder of Barreto Insurance and Financial Services, Inc., located in Los Angeles, Calif. The firm specializes in creating comprehensive financial plans for both the business and private sectors.

Speaking about the SBA before the Senate Committee on Small Business and Entrepreneurship, Barreto said, "A successful agency empowers small business to achieve its goals. If confirmed as the SBA Administrator, I will manage the efficient and effective operation of the agency, its policies and programs to maximize the benefit to small business."

Barreto continued by stressing four points. First, SBA will listen to small business, will work with its legislative partners, will develop ideas for modifying existing pro-

grams and policies, and will seek to reduce the burdens of outdated and overly cumbersome regulations. Second, the agency will work with its financial partners to facilitate small business access to capital. Third, SBA will expand its technical assistance and guidance to include access to business guidance 24 hours a day. Finally, Barreto will seek to strengthen public and private partnerships to encourage greater contracting opportunities for small business.

Reflecting on his small business roots, Barreto said, "It has been my experience that if you listen to your customers, they will tell you what they need to succeed. I intend to continue to listen to our small business owners and to act on their behalf."

All Advocacy staff are looking forward to working with Hector Barreto to make a positive difference for small business.

Welcome aboard!



New SBA Administrator Hector V. Barreto and Sen. Christopher Bond (R-Mo.) share a moment after Mr. Barreto's Senate confirmation hearing in the Senate Small Business and Entrepreneurship Committee Hearing Room on July 19.

The Impact of the Tax Bill on Small Business

There is a lot for small business to like in the \$1.35 trillion tax bill that Congress passed and the President signed into law on June 7. The Economic Growth and Tax Reconciliation Act of 2001 should leave a substantial amount of capital in the pockets of small business owners although it may contain one or two potentially serious surprises.

Tax Rate Reductions. Most small businesses (about 24 million) are either sole proprietorships or they receive their income from pass-through entities, such as partnerships or subchapter S corporations. A reduction in individual income tax rates, therefore, flows directly to their bottom line: the pocket of the business owner. Congress even sweetened the deal by including a rebate this year for every taxpayer, and the IRS has promised to get the checks out as quickly as possible. That helps the business owner's pocketbook directly

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and gives an immediate boost to customers' purchasing power. Both are good news for small businesses.

Pension Plan Incentives. In addition, the bill will help small business owners attract and retain talented employees by providing new incentives for offering pension plans. Owners who have neglected their own pension planning can use new provisions to "catch up" on retirement funding. Contribution levels have been raised to increase the incentive to start a plan. Employees concerned about being marooned by a small firm pension plan will have increased portability.

Estate Tax Relief. And there's more good news for small business. The bill ratchets down the estate tax rate over a period of years and repeals it altogether in 2009. Small businesses have complained for decades about the drain on business resources caused by expensive and time-consuming estate planning strategies and insurance costs. Once complete repeal takes effect, assets above a threshold amount within the estate would be taxed when disposed of at regular capital gains rates. Although the structure employs a complicated carry-over basis system, it can provide significant savings compared with regular estate tax rates, and the tax is deferred while the business is a going concern in the hands of the heirs.

Some Surprises. There's some bad news too. In order to limit debate, the budget process was used to pass the tax bill instead of the normal tax bill process. Under the budget rules, the tax cuts must "sunset" (or expire) at the end of the 10-year budget period. This has several strange effects. For instance, the estate tax—which the tax bill reduces and then repeals entirely in 2009—will spring back to life as if no law had been passed after 2010. While most believe that Congress will someday extend the provisions of

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Editor Rebecca Krafft

Managing Editor Rob Kleinsteuber

Contributing Editors Kathryn J. Tobias, Brian Headd, Major Clark III, Russell Orban, Jim Henderson, David Voight

Production Assistant Darlene Moyer-Mahmoud

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the bill, until that time entrepreneurs don't really know what to plan for.

In addition, Congress did not provide any long-term relief for the spreading alternative minimum tax (AMT), which threatens to erase a significant chunk of the reduction in marginal tax rates.

Unfinished Business. The small business community has advocated a host of other direct tax incentives, most of which stem from the agenda recommended by the White House Conference on Small Business in 1995. These items would significantly simplify the tax code

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Message from the Acting Chief Counsel

Economic Research—The Foundation We Stand On

by Susan M. Walthall, Acting Chief Counsel, Office of Advocacy

Small business is often described as the backbone of the U.S. economy. I would like to take this opportunity to highlight the backbone of the Office of Advocacy—our Office of Economic Research. Sound public policy results from good economic studies. The independent research and analysis conducted by my staff in economic research has helped to illustrate small business's role in the economy, to identify trends that favor or harm small business, and to respond to questions about small businesses from taxpayers, our office's main customers.

The office conducts in-house analysis and issues reports on topics relevant to small business. A new report on women-owned businesses is a good example of how we work. Every five years we learn more about women-owned firms than we knew during the previous five years because of the Census Bureau's Survey of Women-Owned Business Enterprises (SWOBE), which is released every five years. Although SWOBE has a time lag of at least three years, it provides data for almost every industry and county in the United States. Other information is also available on women-owned firms—information that is often annual and more current, but which provides less detail. By relying on these varied sources, we are

Sound public policy results from good economic studies.

able to gather pieces of the puzzle to form a current, complete picture of women-owned businesses.

When the 1992 SWOBE was released, Advocacy used the opportunity to bring together the various data sources on women-owned firms in a report titled *Women in Business* (1998). The well-received report compared and contrasted the data sources on women and analyzed these data for trends. Utilizing the Census's April 2001 release of the 1997 SWOBE data and the Federal Reserve Board's recently released Survey of Small Business Finances, Advocacy economist Dr. Ying Lowrey is producing *Women in Business, 2001*. The soon-to-be-released report gathers information on the ownership, formation, growth, management, procurement, and financing of women-owned businesses. The report presents numerous ways of looking at women-owned businesses and finds greater involvement by women in all aspects of business.

In addition to publishing *Women in Business, 2001*, Advocacy is working to improve the quality and

quantity of information available on women-owned firms. Advocacy took part in discussions on the Census Bureau's changing definition of women-owned firms. Advocacy wants Census to provide adequate information so that definitions can be developed that render data comparable over time and allow trend analysis.

On another front, Advocacy economist Kenneth Simonson has worked with the Internal Revenue Service's Statistics of Income Division to improve the annual tabulations on sole proprietors by gender, which Advocacy funds. Information on sole proprietors is valuable because it reveals the tax status of almost all small business start-ups and most small businesses. Simonson is analyzing the latest two years of data and preparing a forthcoming article.

I hope these examples of how Advocacy's Office of Economic Research operates shed light on our role in increasing the visibility of small firms. I take great pride in working with Advocacy's economic research staff, who distill so much useful information from a limited amount of data and fight to improve and increase available small business information.

Tax Bill, from page 2

for small businesses. They include

- Full and immediate deductibility of health insurance for the self-employed;
- Increased expensing for section 179 property;
- Expanded opportunities for small businesses to use cash accounting rather than complicated accrual accounting; and

- Repeal of the 20-year-old "temporary" Federal Unemployment Tax Act (FUTA) surcharge.

Simplifying the code is a key issue since most small business owners spend more to keep records and prepare income tax returns than they owe in income taxes.

Another Tax Bill on the Horizon? Help may be on the way from an unlikely source. The congressional leadership recently

announced its intention to bring up the minimum wage issue. Small business supporters and many in Congress have long argued that any minimum wage increase must be accompanied by a package of small business tax incentives. This may provide the next solid opportunity for small businesses to see some direct tax relief, which could simplify the tax process and level the playing field for small business.

Congressional Testimony

Procurement Reforms Eroding Small Business Share of Federal Market, Advocacy Tells Congress

While the procurement reforms of the 1990s have streamlined federal purchasing, the unintended result for small business has been a declining share of federal spending in recent years. In testimony before the House Small Business Committee on June 20, Acting Chief Counsel for Advocacy Susan M. Walthall described the extent of this decline and called for a recommitment to the Small Business Act. “[The principle of] fairness for small business must be strongly and forcefully reinstated so that government does not save pennies in acquisition costs while losing the soul of what this country is all about,” Walthall said.

The June hearing, chaired by House Small Business Committee Chairman Don Manzullo (R-Ill.), focused on the federal government’s largest buying activity, defense procurement, which makes up 65 percent of federal procurement. But, according to Walthall, the policy issues that apply to defense procurement apply to other federal agencies as well.

Walthall cited the Small Business Act of 1953 as the basis of federal goals for small business procurement. The act’s preamble states:

It is the declared policy of the Congress that the Government should aid, counsel, assist, and protect, insofar as is possible, the interests of small-business concerns in order to preserve free competitive enterprise, to insure that a fair proportion of the total purchases and contracts for property and services for the Government be placed with small business enterprises, and to maintain and strengthen the overall economy of the Nation.

Congress has set its statutory goal for small business procurement at 23 percent of all prime contract dollars. This share has gone from a high of 25.5 percent in FY 1996 to a low of 22.3 percent in FY 2000. In addition, agencies are also failing to meet their other socioeconomic program goals. (See Advocacy’s website at www.sba.gov/advo for the complete testimony.) Walthall

described how the tools enacted to streamline procurement have contributed to this unintended outcome.

Government Credit Card.

Although no comprehensive study is yet available, the government credit card appears to be having a negative impact on small businesses’ share of small government purchases. The small business share of federal small purchases is falling, while use of the government credit card has taken off. Prior to acquisition reform, micropurchases of \$2,500 or less were reserved for small businesses. Now, many such purchases are being made with the credit card. In the last three years, use of the government credit card has more than doubled—from less than \$5 billion in 1997 to more than \$12 billion in 2000. Meanwhile, small businesses’ share of small purchases has declined from 72 percent in FY 1995 to 62 percent in FY 2000, and the number of small purchase actions has plummeted from 9.9 million in FY 1995 to 3.8 million in FY 2000.

MACs and GWACs. Multiple award contracts (MACs) and governmentwide acquisition contracts (GWACs) allow agencies to access each other’s information technology contracts. Agencies use these tools to fill requirements quickly by simply issuing orders against these standing contracts instead of starting new procurement actions. This is convenient for the agency but it reduces opportunities for small business, since these contracts are usually too large in scope for small businesses to bid on.

Federal Supply Schedule. Likewise, the Federal Supply Schedule, which accounted for \$10.2 billion in federal purchases in FY 2000 (up from \$2.8 billion in FY 1996),

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House Small Business Committee Chairman Rep. Don Manzullo (R-Ill.) discusses the effects of procurement reform with Assistant Advocate Major Clark III and Acting Chief Counsel Susan M. Walthall.

Procurement, from page 4

has also hurt small businesses. Although the Small Business Act specifically requires purchases of goods or services between \$2,500 and \$100,000 to be reserved for small business, orders from the Federal Supply Schedule do not follow this requirement. Further, in most cases, the General Services Administration does not restrict Federal Supply Schedule contracts to small businesses, as required by the Small Business Act. Even though 70 percent of the vendors are small businesses, they received only 38.7 percent of the \$10.2 billion spent in FY 2000 on the Federal Supply Schedule. Prior to procurement reform, small purchases of less than \$25,000 were primarily restricted for small business awards, giving them close to 75 percent.

Contract Bundling. One of the most prominent forces reducing federal procurement opportunity for small business is contract bundling. Bundling is defined as “the consolidation of two or more smaller contracts into one very large contract.” Advocacy contracted with Eagle Eye Publishers to study the impact of bundled contracts in 1997. The study was updated in 2000 and revealed many alarming trends.

- The average bundled contract was valued at \$8 million in FY 1999, a 21 percent increase over the past eight years;

- For every increase of 100 bundled contracts, there was a decrease of 106 individual contracts awarded to small business; and

- In FY 1999, large businesses received 67 percent of all prime contract dollars and 74 percent of all bundled dollars while small firms received 18.7 percent of all prime contract dollars and 15.7 percent of all bundled contract dollars.

Evidence from Federal Procurement Centers. In a study of the approximately 2,235 Federal Procurement Centers across the

Procurement Reforms of the 1990s

Since its establishment, the Office of Advocacy has been actively engaged in the analysis of federal procurement policy and its impact on the small business community. The Office of Advocacy supports appropriate and carefully implemented acquisition reform. Streamlining is important to small business as well as to the government. One primary concern in recent years has been whether the top-to-bottom federal acquisition reforms of the mid-1990s—the Federal Acquisition Streamlining Act of 1994 (FASA), the Clinger-Cohen Act of 1996, and the Federal Acquisition Reform Act of 1996 (FARA)—have helped or hindered the federal government in achieving its mission as cited in the 1953 Small Business Act and subsequent amendments to this national policy statement.

As a brief recap, FASA repealed or substantially modified more than 225 provisions of law to reduce paperwork burdens, facilitate the acquisition of commercial products, and enhance the use of simplified procedures for small purchases. FARA eliminated the procurement authority of the General Services Administration for information technology. FARA also repealed the authority for the General Services Board of Contract Appeals to decide bid protests for information technology acquisitions. The General Accounting Office was assigned to handle all bid protest disputes. Finally, the Clinger-Cohen Act of 1996 provided for the use of multi-agency contracts known as government-wide agency contracts (GWACs) for agencies to access each other’s information technology contracts.

country, the Office of Advocacy found that almost two-thirds of federal prime contract dollars were controlled by centers that awarded the least to small business. Two hundred and sixty centers awarded no prime contracts to small business. Some 150 of these belonged to the Department of Defense. Of the 2,235 centers, 213 centers awarded 100 percent of their prime contract dollars to small businesses.

Stemming the Erosion of Small Business Procurement. In concluding her testimony, Walthall outlined a number of steps to help rein in the erosion of small businesses’ share of federal procurement.

- Congress should make clear that there are no exemptions to the requirements of the Small Business Act and find teeth to ensure compliance.

- Advocacy and Congress must make it clear to federal agencies what their responsibilities are under the Small Business Act and the consequences for not meeting their goals.

- Likewise, Advocacy and Congress should make it clear to small businesses what they can expect in dealing with the government and what resources are available to assist them.

- Each agency should include in its strategic and annual performance plans a commitment to meet small business goals. Senior managers involved in acquisition should have performance elements relating to their achievement in this area. This should be the case particularly for federal procurement executives and program managers.

For More Information

Visit Advocacy’s website for Acting Chief Counsel Walthall’s full testimony: www.sba.gov/advo/test01_0620.html.

The House Small Business Committee’s website contains the testimony of all the speakers at the hearing: www.house.gov/smbiz.

Regulatory Update

Advocacy's Involvement in Agency Rulemaking Since April 1

One of the Office of Advocacy's core missions is to work with federal agencies to ensure that they are aware of the impact their activities have on small businesses and to find ways to mitigate potential harmful consequences of their activities. Advocacy has specific legal authority to do this under the Regulatory Flexibility Act (RFA) and the Small Business Regulatory Enforcement Fairness Act (SBREFA). Here are some of the issues on which Advocacy has commented since April 1 of this year.

Medical Records. Advocacy sent a comment letter to the Secretary of the Department of Health and Human Services regarding the impact of the final medical records privacy rule. This rule would impose burdensome recordkeeping requirements on small health care providers. Advocacy challenged the agency's cost estimates and proposed less burdensome alternatives.

Number Optimization. Advocacy filed a letter with the Federal Communications Commission (FCC) alerting them to their failure to comply with the RFA in their number optimization rulemaking. The proposed rule would require small telecommunications carriers to be audited before additional banks of phone numbers could be assigned to them. Advocacy felt that the FCC failed to take into account a broad segment of the industry that would be affected, inadequately described compliance requirements, and failed to consider significant alternatives.

Domestic Companion Definition. Advocacy submitted a letter to the Department of Labor regarding its proposed rule changing the definition of a domestic companion in a way that would be harmful to home health care businesses. Under the

More and more agencies are contacting Advocacy in informal ways before a proposal reaches the Federal Register.

proposal these businesses would be subject to the Fair Labor Standards Act and face skyrocketing labor costs. Advocacy challenged Labor's rulemaking because it lacked sufficient information to support a finding of "no significant economic impact."

Air Toxic Rule. Advocacy prepared final comments on the Environmental Protection Agency's draft air toxic rule, which would regulate facilities that manufacture reinforced plastic composite products. This rule had been the subject of a SBREFA panel process last year that resulted in numerous revisions favorable to small business.

Non-Road Engines. Advocacy is participating in a SBREFA panel process that will give small businesses an opportunity to express their concerns regarding the EPA's proposed rulemaking on air pollution emitted by snowmobile, motorcycle, marine, and other non-road engines. This rule could be especially costly for engine manufacturers.

Snowmobiles. Advocacy submitted comments to the Secretary of the Interior suggesting that the National Park Service reopen its rulemaking that would ban the use of snowmobiles in several national parks. Advocacy felt that the National Park Service's economic assumptions were flawed and that reasonable alternatives had not been considered.

Roadless Conservation. Advocacy submitted a letter to the National Forest Service arguing that the agency had not fully considered the economic impact of the rule on small entities, that there was insufficient information to evaluate the impact, and that they failed to consider less burdensome alternatives. The roadless conservation rule would prohibit road construction on 54 million acres of national forest and adversely affect small timber and mining industry firms, construction companies, small natural-resource-dependent communities, and companies in the recreation industry, such as outdoor outfitters and snowmobile rental companies.

Mining Reclamation Rules. Advocacy wrote to the Bureau of Land Management supporting a decision to suspend Section 3809 mining reclamation rules implemented in late January and restoring rules existing prior to that date. Advocacy's letter cited a report by the National Research Council which found that the prior rules were generally effective and in need of no major changes. Restoring the earlier rules eliminated some bonding and engineering requirements on small mining operations.

Telecommunications Relay Service Rule. Advocacy met with the Federal Communications Commission (FCC) regarding a

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Public Forums Held on Ergonomics Rule

The Department of Labor (DOL) is again considering promulgation of ergonomics regulations. The Occupational Safety & Health Administration (OSHA) initially published regulations effective January 16, 2001. However, these were overturned by a congressional resolution on March 20, 2001.

Some believe that because of

this resolution, specific legislation by Congress is necessary for DOL to go forward with new ergonomics proposals.

Legislation giving OSHA this authority has been introduced but not enacted. Meanwhile, DOL has moved forward on a series of public forums to gather more comments to determine where DOL

wants to go. The first of these was held in Washington in July. The hearings then moved to Chicago and concluded in Stanford, Calif. on July 24. More information is available at the OSHA website: www.osha.gov. Advocacy continues to follow this issue and will work to see that small business concerns and needs are seriously considered.

Rulemaking, from page 6

concern that the agency's rule did not meet the requirements of the RFA. The proposed rule would require small telecommunications carriers to alter their payphone equipment to allow hearing-impaired users to use text band relay messages. The carriers would also be required to conduct extensive educational outreach. FCC analysts agreed to review the comments to ensure that small business issues were considered.

In all of these cases, Advocacy formally took part in agencies' rulemaking processes to ensure that small business concerns were heard. In the past, agencies have changed their rules in at least small ways that are beneficial to small business. In a few cases, Advocacy's involvement has resulted in a rule being dropped after the regulating agency determined that it was unnecessary.

These formal proceedings are not the only way Advocacy works. More and more agencies are contacting Advocacy in informal ways before a proposal reaches the *Federal Register*. Likewise, Congress is asking for Advocacy's opinion at earlier and earlier stages of the legislative process. These are important steps forward, since the earlier small business concerns are raised, the higher the probability that the result will be small-business-friendly.

New from the Internal Revenue Service Website Exposes Tax Scams, Fraud

If new tax-savings schemes from unknown sources sound too good to be true, there's a new place to check them out. In response to requests from tax practitioners and lawyers, the Internal Revenue Service has launched a website designed to alert taxpayers and tax practitioners to tax scams and fraud schemes. The website highlights priorities of the IRS's Criminal Investigation (CI) Division. Currently, CI is focusing on abusive foreign and domestic trusts, employment tax evasion, and nonfilers who do not comply with the requirement to file tax returns. Case summaries of individuals recently convicted of committing those crimes are included on these pages.

"For those looking for reliable information to counter claims by scam artists and snake-oil salesmen, this is the place to go," said IRS Commissioner Charles O. Rossotti.

"Money is the motivating factor in fraud schemes and tax evasion cases," said Mark E. Matthews, chief of Criminal Investigation. "Our special agents are experts at tracing the money and following financial transactions, and the results of their work can be seen on these pages."

The website can be found at www.treas.gov/irs/ci or by going to www.irs.gov and clicking on "Tax Scams & Fraud Alerts." To report suspected tax fraud, call (800) 829-0433.

Survey to Assess Burden of Tax Law Compliance

This summer, the IRS is conducting a survey to measure the time and cost burden placed on business taxpayers in complying with tax laws and regulations. The anonymous survey, which is sponsored by the IRS's Large and Mid-Size Business (LMSB) Division, is being mailed to a random sample of 2,500 business taxpayers and 2,000 practitioners.

The survey seeks to gather information on businesses' costs related to outside preparation of tax forms and documents, as well as on the time and cost businesses spend on compliance activities within the company. These maybe associated with recordkeeping, purchase of tax software, internal preparation of forms, or other income-tax-related activity.

The University of Michigan helped design the survey and will independently conduct it in order to ensure complete impartiality, confidentiality, and anonymity of those involved. LMSB will use the results to explore opportunities to reduce the burden on its customers. Potential remedies could include streamlining the compliance process, simplifying forms, and addressing widespread and recurring issues throughout the business community. The survey should be complete by September 2001.

Advocacy Conference Breaks New Ground on Taxation Issues

The impact of taxes on small business enterprises is a source of constant concern to business owners. In order to illuminate thought-provoking new research on tax topics, the Office of Advocacy sponsored a one-day conference titled "Tax Policy and Small Business: New Firm Formation, Growth, and Survival" on July 23. The conference was organized and moderated by Dr. Donald Bruce of the University of Tennessee and dealt with the impact of taxes on hiring, investment, debt finance, equity finance, firm growth, and

health insurance. It attracted over 100 experts from government, academia, and the private sector.

Keynote speaker Dr. R. Glenn Hubbard, chair of the Council of Economic Advisers, observed, "As marginal tax rates phase down, there will be increased employment and investment in small business. Research such as the Holtz-Eakin/Rosen study sheds light on the links between public policy and entrepreneurship and is important to minimizing inappropriate impediments to entrepreneurship—and thus to increased productivity growth."

The Ewing Marion Kauffman Foundation provided generous support to the conference.

Featured speakers included Dr. Harvey S. Rosen (Princeton University), Dr. William Gentry (Columbia University), Dr. James Poterba (Massachusetts Institute of Technology), and Dr. Jonathan Gruber (Massachusetts Institute of Technology).

Follow-up coverage will soon be posted at www.sba.gov/advo/news.html#conferences.

Advocacy-Sponsored Research Shows Benefit of Tax Cuts

A new Advocacy-sponsored report on the impact of taxes on small business growth was released in conjunction with the July 23 tax policy conference. The study is titled *Economic Policy and the Start-up, Survival, and Growth of Entrepreneurial Ventures* and was written by two professors from Syracuse and Princeton Universities, Douglas Holtz-Eakin and Harvey Rosen. Their study summarizes important research findings made with several other co-authors that originally appeared in leading economic journals. Their report for Advocacy presents these papers in a less technical, more understandable fashion, which is useful to small business advocates, policymakers, and small business owners.

Holtz-Eakin and Rosen's work shows that the lack of access to capital constrains the growth of entrepreneurial firms and makes them less likely to survive. The estate tax therefore restricts the growth of firms. Their work gives proof of something widely held to be true, but which had been very

difficult to prove empirically. "In short," they report, "by relaxing capital market constraints, inheritances have a substantial impact on the success of ongoing concerns."

The authors also show that when marginal rates of the individual income tax increase, entrepreneurs expand their businesses more slowly and are less likely to make new investments or hire new workers. With the recent reduction in marginal tax rates, the opposite effect should occur. In their words, "Marginal tax rate reductions will encourage entrepreneurship and are likely superior to providing financing directly to small firms or using other targeted approaches."

Holtz-Eakin and Rosen's results were derived from unique databases unavailable to most researchers: the tax records of entrepreneurs and estate tax records. Since one of the co-authors was an employee of the U.S. Department of the Treasury, the confidentiality of these records was not compromised.

To test how the lack of access to capital affected entrepreneurs, the researchers analyzed the tax returns

of a group of entrepreneurs (Schedule C filers) who had received different-sized inheritances. Those that received large inheritances were obviously less constrained than those that did not and would be likely to invest more in their start-up.

To test the effect of the change in marginal tax rates, the researchers compared business owners' Schedule Cs before and after the 1986 tax rate cut. They examined the impact of personal income taxes on three important decisions an entrepreneur faces: how fast to expand the firm; whether to invest in capital assets and if so, how much; and whether to hire workers. They concluded, "The short answer to all three questions is simple: taxes matter. As tax rates go up, entrepreneurial enterprises grow at a slower rate, they buy less capital, and they are less likely to hire workers. These results are significant from a statistical point of view, and they are quantitatively important."

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Highlights of the Tax Policy and Small Business Conference



Although major tax reform legislation was enacted in May 2001, the Senate Finance Committee Room is filled to capacity as the topic of "Tax Policy and Small Business" proves to be of interest to members of the media, legislative staff, chamber of commerce and association executives, and small business owners.



Prof. William Gentry, Columbia University, discusses entrepreneurial risk-taking while fellow panelists Jane Gravelle and Bob Berney listen.



Prof. Don Bruce, University of Tennessee (conference organizer), makes a point as Patrick Von Bargen, executive director, the National Commission on Entrepreneurship, looks on.



R. Glenn Hubbard, chair, CEA, joins Advocacy's Susan Walthall, acting chief counsel, and Bob Berney, chief economist.



Harvey Rosen answers a question from Barbara Benham, a reporter for *Working Woman Magazine*.

Special Features

Small Business Site Seeing: A Guide to New Research Online

by Leonie W. Huang

The Small Business Advocate *periodically highlights websites that contain information and data on small businesses. The websites featured below do not necessarily reflect the views and opinions of the Office of Advocacy.*

National Small Business United (NSBU). There was a significant increase in the use of technology by small and mid-sized businesses in the year 2000, according to the Survey of Small and Mid-sized Businesses, an annual survey conducted by NSBU and Arthur Andersen's Enterprise Group. According to the survey, 88 percent of small and mid-sized businesses own computers and 15 percent can access their networks from outside the office. Businesses with webpages increased from 32 percent in 1998 to 55 percent in 2000, while 23 percent reported selling goods and services online.

The survey also tracks trends in legislative and regulatory concerns. Respondents were most concerned about health care and tax reform: 49 percent cited health care as the most urgent issue for government action, while 43 percent cited tax reform. Less than 1 percent of those surveyed had hired a welfare recipient and taken advantage of the tax credit. Other survey topics include challenges to growth, financing trends, and employee issues. The report is available free of charge at www.nsbu.org/survey.

RISEbusiness. The Tax Reform Act of 1986 sought to reduce the inequality of the corporate income tax burden on firms of different sizes as well as on firms across different industries. According to *Tax Reform and the Distribution of Corporate Income Taxes*, a study prepared by Dr. George Plesko for

the Research Institute for Small and Emerging Business (RISEbusiness), past studies have shown improvement in the equal treatment of assets used in different types of production. This new study revisits the 1986 act and its effects on corporate income tax burdens. The study suggests that smaller firms suffer a heavier corporate tax burden relative to large firms. The study also shows that tax credits disproportionately benefit large firms, rather than reducing the burden on small firms. For more information and a free copy of the study go to www.riseb.org and look under "research; executive summaries."

National Federation of Independent Business (NFIB).

The NFIB's Index of Small Business Optimism rose 1.1 points from 98.4 to 99.5 in May. The index was standardized at 100 in 1986 and includes 10 indicators. According to the NFIB's economic report for May 2001, the index gain was driven in part by an 8-point increase in the percentage of owners expecting improved economic conditions. This is a net percentage increase from -16 percent in December to +18 percent in May. Sales declines have been reported in every month except April of this year. Despite this performance, firms are relatively optimistic: 48 percent of owners expect real sales gains in the next six months, a 7-point gain since December. Also influencing the index was a 4-point gain in the share of owners who believe that now is a good time to expand their business.

The report also includes an array of information on such topics as earnings, prices, and credit conditions. For example, 39 percent of all firms surveyed reported regular borrowing activity. This is the highest incidence of regular borrowing

since June 1999. For more information on the May report, go to www.nfib.org and look under "issues; research and background."

Kauffman Center for Entrepreneurial Leadership. *The Global Entrepreneurship Monitor (GEM) 2000 Executive Report*, a study conducted by researchers from Babson College and the London Business School, found that the United States has a 12.7 percent entrepreneurial activity prevalence rate. This is the third highest rate among the 21 countries studied. The United States has the highest awareness level of the desirability of entrepreneurship. The growth of the U.S. venture capital sector continues to surpass the rest of the world. Nevertheless, women and minorities generally still lack access to the venture capital needed to undertake projects with high potential. Other topics in the GEM study include physical infrastructure and e-commerce issues, as well as the need for greater and broader education. To view the report, go to www.entreworld.org/bookstore and look under "reports and journal reprints."

For more site seeing

For more small business research materials online, visit the following websites:

- Minority Business Development Agency (MBDA): www.mbda.gov
- The National Foundation for Women Business Owners: www.nfwbo.org
- U.S. Association for Small Business and Entrepreneurship: www.usasbe.org
- University of Arkansas's Small Business Advancement National Center: www.sbaer.uca.edu/

Advocacy Says Good-bye to Chief Economist Bob Berney

After more than seven years with the Office of Advocacy, Chief Economist Robert E. Berney will be retiring this summer. Berney has had a long career as an economist both at the Small Business Administration and in the academic world. He has done much to promote small business and competition.

Berney graduated from Washington State University with a bachelor of arts in business administration. He spent four years in the Army, completed both ranger and airborne training, and was assigned to the 82nd Airborne Division. He returned to academics after his military service, completing graduate degrees in economics at Washington State and the University of Wisconsin, where he earned his Ph.D. in 1963. He spent his early career teaching, but soon got involved with government service in 1973, as the first senior academic resident in public finance for the U.S. Advisory Commission on Intergovernmental Relations. In 1978, two years after the Office of Advocacy was established, Chief Counsel Milton Stewart offered Berney the newly created position of chief economist for the Office of Advocacy. Berney has held this position twice: from 1978 to 1980 and again from 1998 to the present. He also served as chief economic advisor from 1994 to 1996.

Berney never gave up his tenured teaching position. He was a professor at Washington State University from 1966 until retiring in December 2000. During this

time, he remained an employee of Washington State University and served in Advocacy under an inter-governmental personnel agreement. When asked why he's chosen to return to Advocacy time and time again, Berney responds, "It's a great place to be for an economist. SBA is in the business of creating competition by helping small businesses get started and stay alive. Competition that leads to efficiency is what economics is about."

One of Berney's key contributions to creating a more competitive and efficient environment for small businesses was the establishment of Advocacy's banking studies, such as the annual *Small Business Lending in the United States*.

Berney developed the banking studies despite general opposition to naming the names of small-business-friendly banks.

Berney retires August 1, and has already planned a 10-day, 400-mile self-contained bicycle trip along the Great Divide in the Rocky Mountains. (The term "self-contained" refers to the fact that Berney will be pulling all 50 lbs. of his gear in a trailer from Colorado to New Mexico.) He plans to go on many more adventures and hopes to one day visit Antarctica.

To anyone who knows Berney, it comes as no surprise that a man who has fought so long and so hard for small business is ready to adventure full-time.



After many years working to improve the competitive environment for small business, Advocacy's Chief Economist Bob Berney retires in August 2001.

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Subsequent to his work for Advocacy, Douglas Holtz-Eakin was appointed to the post of chief economist with President Bush's Council of Economic Advisers.

Address e-mail questions about the report to advocacy@sba.gov or

call (202) 205-6530. The complete report is available on the Advocacy website at www.sba.gov/advo/research/#business.

Paper and microfiche copies of all Advocacy reports are also available for purchase from the National Technical Information Service at

(800) 553-6847 or www.ntis.gov. The NTIS order number for this report is PB2001-105510.

Advocacy Celebrates 25 Years!

In 1976, Congress created the Office of Advocacy within the Small Business Administration to protect, strengthen, and effectively represent the nation's small businesses within the federal government's legislative and rulemaking processes. "Advocacy at 25—Looking Back, Looking Ahead" will be the theme of a day-long event commemorating the 25th anniversary of the creation of the Office of Advocacy. The event will take place in Washington, D.C. and will highlight past accomplishments and future objectives. It will include a panel discussion relevant to Advocacy's threefold mission:

- to reduce the burdens that federal policies often impose on small firms,
- to conduct economic research on policies' impacts on small firms, and
- to publish data on small businesses' contributions to the American economy.

Look for further information on the 25th anniversary celebration in

upcoming issues of *The Small Business Advocate*.

The past is prologue...



September 10, 1970: President Richard Nixon meets with small business representatives in the Cabinet Room of the White House in talks that presaged the formation of the Office of Advocacy. Six months earlier, Nixon had issued Executive Order 11518, which directed federal agencies to cooperate with the SBA in its advocacy efforts on behalf of small businesses. (Photo courtesy of the National Archives.)

U.S. Small Business Administration
Office of Advocacy
Mail Code 3114
409 Third Street, S.W.
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