

## Entrepreneurship, Innovation Vital For Growth of Regional Economies

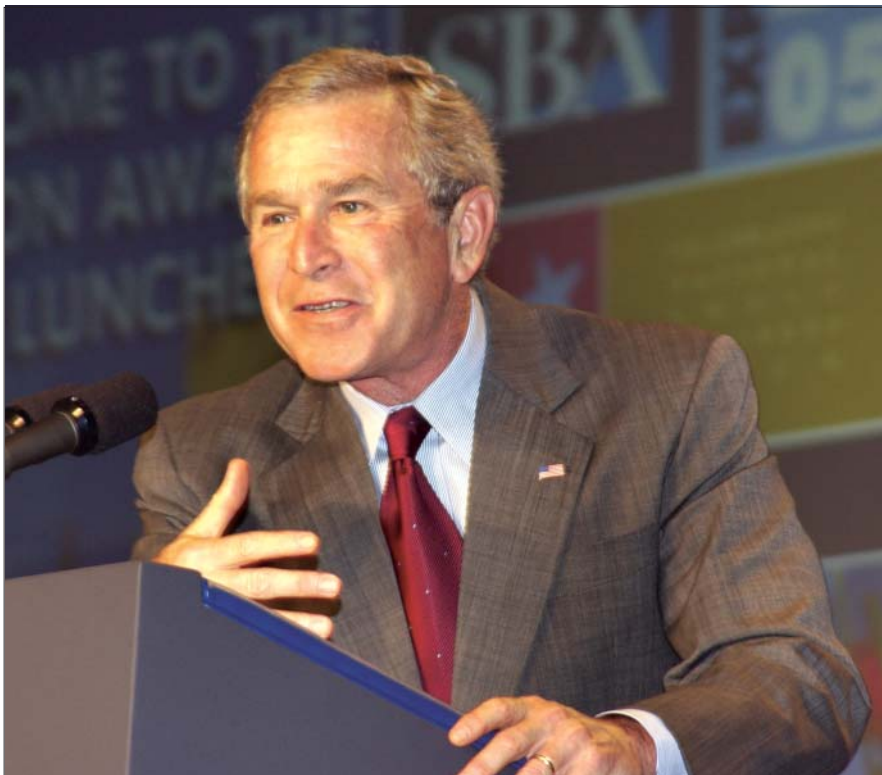
Entrepreneurship is a vital component of regional economic growth, according to a study released in April by the Office of Advocacy and the Edward Lowe Foundation. The study was issued at a forum in Longmont, Colorado, sponsored by the Magellan Center, a nonprofit entrepreneurial think tank. The study ranks Glenwood Springs, Colorado, first on its Regional Entrepreneurship Index.

“Entrepreneurship is the link between inventors, innovation, and economic growth,” said Brian Headd, economist for the Office of Advocacy. “It’s not enough to just focus economic development on inventors and innovation. Entrepreneurs need to be cultivated

as well, so that innovations can be turned into jobs and economic growth.” In fact, entrepreneurship and innovation were shown to have a synergistic effect on each other in local areas.

The study, *The Innovation-Entrepreneurship Nexus*, written by Advanced Research Technologies, demonstrates that innovation without entrepreneurship generally yields minimal economic impact. The author, Michael Camp, notes that, “Whether they are building new firms or reinventing existing ones, entrepreneurs, through the application of new ideas to products and services, capture locally the economic benefits of innovation.” Entrepreneurship tended to

*Continued on page 8*



President George W. Bush addressed the attendees at the U.S. Small Business Administration’s national small business conference, SBA Expo ’05, on April 27.

### In This Issue

Entrepreneurship, Innovation, and Regional Growth . . . . . 1

SBE Council Honors Advocacy 7

### Message from the Chief Counsel

Social Security Reform and Small Business . . . . . 3

### Regulatory Update

PHMSA Considers Wetlines . . 5

FCC Issues IRFA in Response to Court Order . . . . . 5

OMB Memo on Brand Names 6

### Legislative Update

109th Congress Off to a Fast Start . . . . . 2

Congress Considers Junk Fax Protection Act Again . . . . . 2

### Regional Roundup

Spring Highlights from Advocacy’s Regional Team . . . 4

### Economic News

June 15 Session on Global Entrepreneurship Policy . . . . . 6

Advocacy’s Finance Expert Featured at Fed Conference . . . 7

Two New Reports Published on Finance and Banking . . . . . 7

---

## Legislative Update

---

### 109th Congress Off to a Fast Start

The 109th Congress, which began this past January, has been very active and is showing positive results for small business. Already there have been two major business bills signed into law—the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 and the Class Action Fairness Act of 2005.

Committees in both the House and Senate have been very aggressive in holding hearings and starting the process necessary to bring bills before Congress for enactment. The House Small Business Committee has been holding nearly two hearings a week. The Office of Advocacy has testified on legislation (H.R. 682) that would improve the Regulatory Flexibility Act. Advocacy has also recently testi-

fied on the federal tax gap (the difference between taxes owed and taxes actually paid), as well as on the Bush Administration's proposal to deal with regulatory burdens on small manufacturers.

In addition, many pro-business bills are being introduced. Senator Olympia Snowe, chair of the Senate Committee on Small Business and Entrepreneurship, recently introduced a proposal (S. 769) which would make it easier for small businesses to comply with complex and confusing federal regulations by ensuring that agencies issue helpful and understandable compliance guides. This is one of the legislative priorities of the Office of Advocacy in the 109th Congress.

---

### Congress Takes Up Junk Fax Protection Act Again

Congress is once again considering legislation allowing businesses to fax other parties with whom they have an established business relationship without needing prior written consent. Senator Gordon Smith introduced legislation (S. 714) on April 6, 2005, that would reinstate the exception for established business relationships but would require business faxes to include a notice on their first page providing recipients a cost-free mechanism to opt out of receiving future faxes from the sender.

A similar bill was passed by both the House and the Senate last year, but the session ended before the two versions of the bill could be reconciled. The Senate Subcommittee on Trade, Tourism, and Economic Development held a hearing on April 13 and heard from witnesses both for and against the

bill. The full Senate Commerce, Science, and Transportation Committee approved S. 714 by voice vote on April 14.

Senator Smith introduced the bill in response to an agency interpretation of the Telephone Consumer Protection Act of 1991 that would place onerous burdens on small businesses. When implementing the Act, the Federal Communications Commission (FCC) created an exemption for businesses and organizations to send faxes if they had an "established business relationship" with the recipient. In 2003, the FCC eliminated this exemption and required businesses and organizations to obtain written consent for each fax machine prior to sending an unsolicited fax. Small business groups and the Office of Advocacy objected to the cost and record-keeping burdens of this new rule

#### The Small Business Advocate

Editor Rebecca Krafft

Managing Editor Rob Kleinsteuber

**Contributing Editors** Carrol Barnes, Major Clark, Brian Headd, Chad Moutray, John McDowell, Eric Menge, Kathryn Tobias, David Voight, Sarah Wickham

**Production Assistant** Dawn Crockett

*The Small Business Advocate* (ISSN 1045-7658) is published monthly by the U.S. Small Business Administration's Office of Advocacy and is distributed to SBA field staff and members of the U.S. Congress. *The Small Business Advocate* is available without charge from the Office of Advocacy, U.S. Small Business Administration, MC 3114, Washington, DC 20416; [advocacy@sba.gov](mailto:advocacy@sba.gov); (202) 205-6533. For delivery changes, send your current address label with your request to the above address. For back issues, contact National Technical Information Service, 5285 Port Royal Road, Springfield, VA 22161; [www.ntis.gov](http://www.ntis.gov).

*The Small Business Advocate* online: [www.sba.gov/advo/newsletter.html](http://www.sba.gov/advo/newsletter.html).

Electronic delivery of *The Small Business Advocate* is available by visiting [www.sba.gov/advo/newsletter.html](http://www.sba.gov/advo/newsletter.html). Subscriber information is kept confidential and not used for any purpose except newsletter delivery.



Federal Recycling Program  
Printed on recycled paper.

and persuaded the FCC to stay the effective date of the rule until June 30, 2005.

During markup of the bill, the Senate Commerce Committee approved two amendments offered by Senator Barbara Boxer. The first amendment requires businesses to accept opt-outs from consumers at all times, not just during regular business hours. The second amendment shortens the time frame from 18 months to three months before the FCC can initiate a rulemaking should the agency determine that companies are abusing the established business relationship exemption. The committee is seeking input from the FCC about its capacity to initiate a rulemaking in this short time frame.

---

## Message from the Chief Counsel

---

### Social Security Reform and Small Business

by Thomas M. Sullivan, Chief Counsel for Advocacy

The self-employed make up a significant part of the U.S. economy. According to the most recent data available to the Office of Advocacy, 9.8 percent of the total labor force was self-employed in 2003. This represents over 12.2 million businesses or half of the total small business population. The self-employed are clearly at the heart of the American economy, and their financial health is central to our country's economic progress.

Individual wage and salary workers pay 6.2 percent of their wages in payroll taxes to fund Social Security benefits for current retirees. Their employers pay taxes that match those amounts. The self-employed pay the full 12.4 percent Social Security payroll tax because they are rightly considered both the employer and the employee. When they retire, the self-employed expect that the payroll taxes on future workers and employers will fund their promised benefits.

According to the National Association for the Self Employed (NASE), more than 65 percent of 14- to 19-year-olds want to start a business. Do they realize that the Social Security system will be bankrupt at least nine years before they retire? If that is not a wake-up call for reform, how about explaining to young entrepreneurs that one-eighth of the money they earn goes into Social Security and—despite making decisions that mean survival or death for their own business—they cannot decide what happens to that money once they retire?

This looming Social Security crisis will affect a flood of entrepreneurs because the path of self-employment is being traveled by more and more people anxious to

---

**“The concept of personal accounts mirrors the American Dream of owning a business. A personal account, as part of Social Security reform, will allow the self-employed to make decisions about their savings.”**

---

be their own bosses. From 2000 to 2003, total self-employment increased by 6.2 percent. Minority self-employment is also on the rise. Latino entrepreneurs topped 1 million in 2003. The number of self-employed African Americans and Asians has also sharply increased, according to data from the Bureau of Labor Statistics' Current Population Survey program.

President Bush's plan to reform Social Security calls for a portion of payroll taxes to be voluntarily set aside into personal retirement accounts. The concept of personal accounts mirrors the American Dream of owning a business. A personal account, as part of Social Security reform, will allow the self-employed to make decisions about their savings. Personal accounts will allow self-employed individuals to reinvest in their business for growth or to ensure that it passes on to the next generation.

The importance of personal accounts is amplified by the limited retirement savings options for the self-employed. The double payroll tax puts small business retirement plans out of reach. An increased payroll tax eats up money that could go to IRAs or Keogh accounts. By crowding out the funds needed for retirement

savings, the burden of the double out-of-pocket payroll tax reduces the likelihood that small businesses will have a separate retirement plan. According to the Employee Benefit Research Institute, in 2003 over 50 percent of small business owners had either never heard of or had only vague familiarity with small business retirement plans. The only retirement savings vehicle they had a high degree of familiarity with was the 401(k), which is often too costly for the self-employed to administer.

Without reform, perhaps sons and daughters of entrepreneurs will never realize the full benefits of the Social Security system. Or, perhaps the 12.2 million self-employed in the United States and their families will take pride in their enormous contribution to the economy and insist that personal accounts remain a part of Social Security reform.

#### **The Small Business Advocate's New Look**

If this issue of *The Small Business Advocate* looks different to you, it's because we've made some modifications as part of our redesign of the Office of Advocacy's publications. To emphasize Internet access of our activities, we've added our website to the banner for greater prominence. We've also added our mission as the voice of small business in government. *The Small Business Advocate* is an important outreach tool to help fulfill this commitment.

—The Editors



---

## Regional Roundup

---

### Spring Highlights from Advocacy's Regional Team

Spring has sprung and things have been buzzing with regulatory flexibility model legislation activity! As of mid-April, 18 states had introduced regulatory flexibility legislation, two of these states had enacted the legislation, and one additional state had issued an executive order. On March 23, Virginia Governor Mark Warner signed legislation creating a friendlier regulatory environment for Virginia's small businesses. Small business owners also achieved a big victory in New Mexico on April 6 when Governor Bill Richardson signed its regulatory flexibility legislation there. Indiana and Missouri look to be on the horizon as the next states to enact the legislation.

The regional team has been busy continuing to educate stakeholder organizations, state legislators, key policymakers, and small business owners on regulatory flexibility legislation. In the Northwest, Region X Advocate Connie Marshall testified before the Oregon legislature and twice before the Alaska legislature to educate policymakers on the key components of regulatory flexibility legislation and its value to small businesses and economic prosperity. In the South, Region IV Advocate Pat Gartland was invited to speak at the annual meeting of the North Carolina Citizens for Business and Industry, and he met with legislators, representatives of key associations, and staff from North Carolina Governor Mike Easley's office.

The regional team has also continued to reach out to the academic community, the media, and small business stakeholders. On the West Coast, Region IX Advocate Mike Hull traveled to Los Angeles to attend the Society of

Manufacturing Engineers Expo. He spoke at a luncheon and two roundtables alongside Al Frink, assistant secretary for manufacturing at the U.S. Department of Commerce, and Barry Sedlik of the California Business, Transportation, and Housing Agency.

In the Northeast, Region II Advocate Alan Steinberg accompanied Chief Counsel Sullivan to Yonkers, New York, for Yonkers Business Week 2005. The chief counsel gave a keynote speech on the President's small business agenda and the importance of Social Security reform for small business. Region VIII Advocate Jim Henderson, who covers the Western states, worked closely with Advocacy economist Brian Headd on the public release of

the Advocacy-funded report, *The Innovation and Entrepreneurship Nexus*. The report was released in Longmont, Colorado, on April 19.

In the Midwest, Region VII Advocate Wendell Bailey met with Michael Song, director of the entrepreneurial program at the University of Missouri, Kansas City, to discuss the use of Advocacy's research materials in its curriculum. Their meeting was the result of a connection made at Advocacy's March 7 conference, "Putting It Together: The Role of Entrepreneurship in Economic Development."

Advocacy's regional team anticipates a busy summer, packed with regulatory flexibility legislation activity, outreach, media interaction, and opportunities in academia.



Earlier this year, Chief Counsel for Advocacy Thomas M. Sullivan and Viktoria Ziebarth, Advocacy's director of regional affairs, visited Richmond to track the progress of Virginia's regulatory flexibility legislation. Pictured here (from left) are Gordon Dixon, National Federation of Independent Business Virginia state director; Virginia State Senator Mark Obenshain; Ziebarth; and Sullivan.

---

## Regulatory Update

---

### PHMSA Considers “Wetlines” in New Rule

The Office of Advocacy is working with small businesses and the Pipeline and Hazardous Materials Safety Administration (PHMSA) to analyze the impacts of a proposed rule titled “Hazardous Materials: Safety Requirements for External Product Piping on Cargo Tanks Transporting Flammable Liquids.” External product piping systems are known as “wetlines” in the trucking industry. Wetlines are the series of pipes located underneath tank trucks through which the tanks are loaded or unloaded with gasoline and other flammable products. After a tank truck is loaded or unloaded, 30 to 50 gallons of product can remain in the wetlines. If there is an incident in which the wetlines are punctured, the product in the wetlines can be released and may ignite. The proposed rule would limit to one liter or less the amount of flammable product that can remain in each wetline after drainage.

Recognizing that the proposed rule may have a significant economic impact on small entities, PHMSA published an initial regu-



External product piping systems (wetlines) on cargo tank trucks are the subject of a new regulatory proposal.

latory flexibility analysis with the proposal. Advocacy is concerned that the rule may be much more costly for affected small businesses than the agency analysis indicates and is analyzing the proposal. To gather information from industry, Advocacy held a roundtable on March 24, attended by representatives from the National Tank Truck Carriers, American Trucking

Associations, and Petroleum Marketers Association of America. Advocacy staff also made a site visit to Baltimore Cargo Tank Services to see examples of wetlines. Advocacy is following up by engaging PHMSA and the industry in discussions to determine ways to resolve concerns in order to mitigate some of the rule’s likely costs.

---

### FCC Issues New Reg Flex Analysis in Response to Court Order

The Federal Communications Commission (FCC) released an initial regulatory flexibility analysis (IRFA) on April 22 addressing the impacts on small businesses of the FCC’s telephone number portability rule. The agency’s action was in response to a U.S. Court of Appeals for the D.C. Circuit’s ruling which found that the FCC had not complied with the Regulatory Flexibility Act (RFA) and remanded the rule back to the FCC to conduct the analysis. The court stayed enforcement of the FCC’s rule until the RFA analysis is done.

Comments to the recently released IRFA are due 30 days following *Federal Register* publication. Reply comments are due 15 days after that. Check Advocacy’s Regulatory Alerts page for updated information: [www.sba.gov/advolaws/law\\_regalerts.html](http://www.sba.gov/advolaws/law_regalerts.html).

The FCC originally adopted the rule in response to a petition by the Cellular Telecommunications and Internet Association (CTIA). CTIA asked the FCC to require wireline carriers to transfer telephone numbers to wireless carriers whose service area overlapped a wireline

carrier’s rate center, even when no point of interconnection between the two networks existed. The FCC granted CTIA’s petition, stating that the order clarified an earlier final rule, and it did not conduct an RFA analysis.

Two associations representing rural telecom carriers challenged the order on the grounds that it violated the RFA. They estimated it would cost \$76,000 per telecom carrier in initial costs and \$46,000 in annual recurring costs.

---

## Economic News

---

### Dialogue on Global Entrepreneurship Policy Takes Place June 15

This year, the International Council for Small Business returns to the United States for its annual meeting, having held the previous two in Northern Ireland and South Africa. In connection with this event, the Office of Advocacy, the National Federation of Independent Business Research Foundation, and the U.S. Association for Small Business and Entrepreneurship are co-sponsoring a pre-conference session, "Global Perspectives on Entrepreneurship Policy." The session takes place on June 15 in Washington, D.C., and focuses on public policy issues and their relevance to entrepreneurs around the world.

Participants will learn about the costs of entry, workforce challenges, regulatory burdens, technology transfer and innovation, and small business financing issues. To provide a truly global perspective, panelists are from several countries, including Canada, Denmark, Germany, Japan, the United Kingdom, and the United States.

To learn more, point your browser to Advocacy's website: [www.sba.gov/advo/research/conference.html](http://www.sba.gov/advo/research/conference.html). For information on the ICSB annual meetings, visit [www.usasbe.org/conference/2005-ICSB/index.asp](http://www.usasbe.org/conference/2005-ICSB/index.asp). We hope to see you at this very informative conference.

### Global Perspectives on Entrepreneurship Policy: Agenda

#### An International Perspective on the Costs and Problems of Business Entry

*William Dennis, NFIB Research Foundation*

*Simeon Djankov, World Bank*

*Andre Van Stel, Research Fellow, Max Planck Institute*

*Ray Bagby and Jeffery McMullen, Baylor University*

#### Global Efforts to Reduce Regulatory Burdens

*Betina Hagerup, Danish Commerce and Companies Agency*

#### International Lessons on Technology Transfer, Innovation, and Entrepreneurship

*Chad Moutray, Office of Advocacy*

*David Audretsch, Indiana University*

*Bo Carlsson, Case Western Reserve University*

*Donald S. Siegel, Rensselaer Polytechnic Institute*

#### SME Labor Challenges: Workforce and Knowledge

*Brian Headd, Office of Advocacy*

*Adriana D. Kugler, University of Houston and Universitat*

*Pompeu Fabra*

*Richard Judy, Workforce Associates*

*Francis W. Rushing, Professor Emeritus, Georgia State University*

*(Invited)*

#### Banking Deregulation, Banking Restructuring, and Small Business Lending: An International Comparison

*Charles Ou, Office of Advocacy*

*Stuart Fraser, Warwick Business School*

*Arito Ono, Mizuho Research Institute*

*Allan Riding, Carleton University*

#### The Importance of Policy to Small Business Owners

*Jack Faris, National Federation of Independent Business*

---

### OMB Reminds Agencies To Steer Clear of Brand Name Acquisition Contract Vehicles

In an April 11, 2005, memorandum to federal procurement officials, the Office of Management and Budget's Office of Federal Procurement Policy (OFPP) reinforced the need for federal agencies to comply with the Federal Acquisition Regulation (FAR) in writing contract specifications.

FAR part 11.105 directs agencies

not to write contract requirements so as to require a particular brand name product or a product feature that is peculiar to one manufacturer, thus precluding other companies from bidding. In the memo, OFPP Administrator David Safavian cited an example in which a federal agency issued a request for quotation for approximately \$81 million

in office supplies. The requested supplies were identified by a vendor number unique to one large office supply company. OFPP's reminder followed an inquiry in January 2005 by the National Office Products Alliance, the national trade association for independent resellers, most of whom are small businesses.



## Advocacy Economist Examines 21st Century Finance Needs at Federal Reserve Seminar

The rapidly changing world of small business finance was the focus of a seminar held during the Federal Reserve Bank of St. Louis's conference, "Striking the Right Notes on Entrepreneurship." Featured during the event, which took place in Memphis, Tennessee, was Dr. Charles Ou, Advocacy's most senior economist. Dr. Ou, who is a leading national expert on small business finance, hosted the April 18 seminar, "Small Business Finance in the 21st Century."

"Part of Advocacy's mission is to examine the critical issues surrounding small business finance and the economy," said Dr. Chad Moutray, chief economist for the Office of Advocacy. "That's why we are particularly pleased

that the St. Louis Fed recognized the importance of our work and invited Dr. Ou to present the 'Small

Business Finance in the 21st Century' seminar."

### SBE Council Honors Advocacy

The Office of Advocacy was recently honored by the Small Business and Entrepreneurship Council. SBE Council President Karen Kerrigan commended Advocacy for saving entrepreneurs billions in regulatory costs "by conducting effective outreach to federal government agencies, educating them about their responsibilities under SBREFA, and holding them accountable to small firms." She also commended the office's focus on research relevant to key issues for small firms, and stated that "The Office of Advocacy has become a hub of significant activity that regularly brings together key players to develop and share solutions that support and sustain entrepreneurship."

Advocacy works closely with the SBE Council, an advocacy organization devoted to protecting small business and promoting entrepreneurship.

## New Reports from Advocacy Probe Small Business Finance

The Office of Advocacy recently released a series of research reports examining various aspects of small business finance. The most recent release is *Finance Companies and Small Business Borrowers: Evidence from the 1993 and 1998 Surveys of Small Business Finances*, written by George Haynes with funding from Advocacy. The report confirms the importance of finance companies as the second most important institutional supplier of credit to small business borrowers, particularly for vehicle loans, equipment loans, and lease financing.

A second study examines how the pattern of bank holding company growth (through either outright merger or non-merged acquisition) directly affects its small business lending practices.

Substantial financial deregulation and financial innovation in recent years have changed bank-

ing. The resulting consolidation of banking and improvements in technology have had important effects on small business lending. The study's findings suggest that:

- In general, larger BHCs tend to do less small business lending, as a percentage of total business loans.
- The organizational form of a BHC relates to small business lending. When BHCs acquire other banks—but do not merge them—small business lending is little affected. In contrast, if bank portfolios are merged and integrated into larger banks, their small business lending declines.

KeyPoint Consulting LLC wrote the report, *The Effects of Mergers and Acquisitions on Small Business Lending by Large Banks*, with funding from the Office of Advocacy. It focuses on non-credit card lending at the 50 largest BHCs, which represent an ever-larger share of U.S. banking assets.

The authors used annual data from 1997 to 2002, which includes both the 2001 recession and the beginning of the recovery in 2002.

### For More Information

The studies are on Advocacy's website at [www.sba.gov/advo/research/rs255tot.pdf](http://www.sba.gov/advo/research/rs255tot.pdf) (Haynes) and [www.sba.gov/advo/research/rs254tot.pdf](http://www.sba.gov/advo/research/rs254tot.pdf) (Keypoint).

Advocacy has released a small catalog of banking studies in the past six months. New research includes *Banking Consolidation and Small Business Lending: A Review of Recent Research; Small Business and Micro Business Lending in the United States for Data Years 2002-2003*; and *The Impact of Bank Consolidation on Small Business Credit Availability*. These reports are online at [www.sba.gov/advo/research/banking.html](http://www.sba.gov/advo/research/banking.html).

**Entrepreneurship Index,**  
*from page 1*

be high in regions where innovation was high.

The study also developed the Regional Entrepreneurship Index (REI), a multifaceted measure that assesses the dynamic nature of entrepreneurship within regions. Regions scoring high on the REI

are the most active in creating new firms, supporting the growth of those firms, and building a strong base of support for entrepreneurs. The REI ranks Glenwood Springs, Colorado, as the nation's most entrepreneurial region. The report also includes a combined entrepreneurship and innovation listing. Fort Collins, Colorado, led the nation.

For more information, including the complete list of cities and their rank on the REI, visit the Office of Advocacy website at [www.sba.gov/advo/research/rs256tot.pdf](http://www.sba.gov/advo/research/rs256tot.pdf).

**Small Business:  
Your Issues Are Our  
Issues at the SBA  
Office of Advocacy**

Access Advocacy Listservs for the latest small business information, statistics, and regulatory news.

Visit <http://web.sba.gov/list> to join email lists for:

- ADVOCACY NEWSLETTER
- ADVOCACY PRESS
- ADVOCACY REGULATORY NEWS
- ADVOCACY RESEARCH

Visit Advocacy's Regulatory Alerts page, [www.sba.gov/advo/laws/law\\_regalerts.html](http://www.sba.gov/advo/laws/law_regalerts.html), to comment on important proposed regulations.



Advocacy Economist Brian Headd, Magellan Center President Pam Gibson, and Steve Quello of the Edward Lowe Foundation at the Magellan Center forum.

U.S. Small Business Administration  
Office of Advocacy  
Mail Code 3114  
409 Third Street, S.W.  
Washington, DC 20416

Official Use  
Penalty for Private Use, \$300

Return Service Requested

FIRST CLASS  
POSTAGE AND FEES PAID  
U.S. Small Business Administration  
Permit No.G-82