

# SMALL BUSINESS

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# RESEARCH BULLETIN

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## *The Small Business Economy 2004: A Report to the President*

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In this third edition of *The Small Business Economy*, the Office of Advocacy reviews the economic environment for small businesses in the year 2003, including the financial and federal procurement marketplaces in Chapter 1. New research on the regulatory environment for home-based business and on government policies to encourage technology transfer are the subjects of Chapters 2 and 3. Advocacy's annual report on implementation of the Regulatory Flexibility Act and the results of Advocacy's initiative to carry regulatory flexibility successes to the state level are summarized in Chapters 4 and 5. Appendices provide data on small businesses and research focus group results.

### **The Small Business Economy in 2003**

Signs of economic recovery began to appear in mid-2003.

- The number of firms grew, and business bankruptcies declined.
- Corporate profits were up and sole proprietorship income increased 6.2 percent.
- Trends in employment indicated that small firms fared differently by industry.
- Financial markets were on track for supporting more growth as low interest rates spawned corporate bond issues and generated a wave of mortgage refinancings by households.
- Equity markets began to rally, although this did not immediately translate into a stronger equity market for small firms.
- Bank consolidations continued to affect the relative importance of banks of different sizes in the small business loan market; larger banks' share increased.
- Federal contract dollars going to small businesses increased to about \$98 billion in FY 2003, including both prime contracts and subcontracts.

- Small businesses, as well as minority-, women-, and veteran-owned businesses, all increased their shares of contract dollars.

### **The Regulatory Environment for Home-based Businesses**

Home-based businesses make up 53 percent of the small business population and represent a broad range of U.S. industrial sectors.

- Some 60 percent are in service industries, 16 percent in construction, 14 percent in retail trade, and the rest are scattered across the manufacturing, finance, transportation and communications, wholesale trade, and other U.S. industries
- Ninety-one percent report no paid employees.
- Home-based businesses are exempted from many industrial regulations, but face regulatory hurdles in Internal Revenue Service tax regulations at the federal level, and zoning regulations at the local level. Specific problems of these regulations that are especially burdensome to these very small businesses are identified.

### **Government Programs to Encourage Entrepreneurship through Technology Transfer**

Some of the best-known U.S. companies started as spin-offs of university technology development efforts. What government policies have encouraged economic development through the creation of university spin-offs? Five types of policies are identified:

- Funding of academic research,
- The provision of intellectual property rights to universities,
- Direct mechanisms to support the development of university spin-offs,
- Programs to reduce financing gaps in early-stage technological development, and

- Policies to encourage the movement of technically trained academics between academia and the private sector.

### **Implementing the Regulatory Flexibility Act in Fiscal Year 2003**

Fiscal year 2003 was an eventful year for the U.S. Small Business Administration's Office of Advocacy, charged with implementing the federal Regulatory Flexibility Act (RFA), which requires federal agencies to review their proposed rules for their effects on small businesses and other small entities.

- Advocacy's involvement secured more than \$6.3 billion in cost savings, as well as more than \$5.7 billion in recurring annual savings on behalf of small entities.

- Advocacy developed RFA training for the entire federal government in response to President Bush's Executive Order 13272.

- The office instituted a Regulatory Alerts page on its website to obtain small business comments on the proposed rules most likely to affect them.

### **Regulatory Flexibility Initiatives in the States**

Aware of the small business burdens of regulation at the state and local levels, the Office of Advocacy in

December 2002 developed a model state regulatory flexibility bill for use by state legislatures interested in mitigating the state regulatory burden. Since then, a number of states have taken steps to introduce or strengthen such legislation, and these efforts are showing results. Key provisions recommended in the model legislation include

- A definition of small business.
- An economic impact analysis.
- An examination of regulatory alternatives.
- A provision for judicial review of agency compliance.
- Periodic agency review of ongoing regulations.

### **Focus Groups on Advocacy Economic Research**

The Office of Advocacy in 2003 carried out a series of focus groups across the United States to review its research efforts. Recommendations included:

- More participation in and sponsorship of conferences.
- Tailoring Advocacy publications for different-including academic-audiences.
- Revamping *The State of Small Business* report.
- Broadening Advocacy outreach into academia.
- Broadening the understanding of historical changes in small business databases.
- Improving data sources about small business.

### **For More Small Business Information**

For the complete report, *The Small Business Economy 2004*, visit the Office of Advocacy website at [www.sba.gov/advo](http://www.sba.gov/advo). Sign up on Advocacy's Listservs at <http://web.sba.gov/list> to receive email notices of new Office of Advocacy publications accessible from our website. These include *The Small Business Advocate* newsletter as well as Advocacy press releases, research, and regulatory communications.