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An Interview with the New Senate Small Business Committee Chair

In January, Sen. Olympia J. Snowe (R-Maine), assumed the chairmanship of the Senate Committee on Small Business and Entrepreneurship in the 108th Congress. Snowe takes over the panel from Sen. Kit Bond (R-Mo.). Sen. Snowe discussed her views on small business in a recent interview.

1. What is it about small business and small business issues that made you want to head the Small Business and Entrepreneurship Committee?

The small business sector plays a particularly central role in Maine's economy. Small businesses are the most successful tool we have for job creation, providing roughly 67 percent of initial job opportunities in the country as our original—and finest—job training program.

2. How is small business important to the life of your state?

In short, small business is the economic lifeblood of my state. Of Maine's 37,000 employers, about 97 percent are small businesses with fewer than 20 employees, and these businesses account for the creation of virtually every new job. Entrepreneurship also prospers in Maine, with an estimated 73,000 self-employed workers.

3. What are the most important issues facing small business owners and their employees in Maine?

Soon after learning that I would have the opportunity to assume the chair of the committee, I began a series of small business roundtables in Maine so I could hear directly from small business owners and entrepreneurs about their needs and concerns. In January, I began



Senate Small Business Committee
Chair Olympia Snowe

reaching out with additional roundtables in Washington with key leaders of national small business organizations. Based on feedback I received at these meetings, I intend to focus my attention as chair on relieving the unnecessary pressures the federal government creates for small business and entrepreneurs.

My priorities will include:

- Assuring access to affordable health insurance for small businesses and their employees, including farmers and fishermen as well as entrepreneurs;
- Creating more jobs and opportunities for workers;
- Providing regulatory and tax relief for small businesses;
- Helping small businesses enter foreign markets so they can expand and grow;
- Encouraging further growth and entrepreneurship in women-owned small businesses;
- Improving access to capital for small businesses;

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Regulatory News

Small Fishermen Win Reprieve with NMFS Decision

Small New England fishermen won a reprieve in January as the National Marine Fisheries Service (NMFS) decided to give the industry five extra years to rebuild depleted stocks of cod and other groundfish. Advocacy had asked for such an action in an earlier letter to the New England Fishery Management Council. "A less burdensome way to rebuild groundfish stocks has been found by considering the concerns of small fishermen

in the regulatory process," said Barbara Manning, New England regional advocate for the Office of Advocacy. "Well-managed fisheries depend on sound science, and it appears the recent decision by NMFS will allow scientists the time necessary to assess the strength of the various species. I applaud them for their decision," she said. Advocacy research has shown that 99 percent of the fishing industry consists of small businesses.

EPA Listens To Small Business Concerns About HCFC Foam Allocation

After listening to the concerns of small business, the Environmental Protection Agency (EPA) issued a final rule that will allow limited production of certain hydrochlorofluorocarbons (HCFCs) beyond January 2003. The Office of Advocacy worked closely with the EPA, industry members, and suppliers to help shape a final rule that addressed the concerns of small businesses while still protecting the environment. "This was a great collaborative effort by all parties to achieve regulatory relief for small business that makes environmental sense. It's a win/win solution," said Chief Counsel Thomas M.

Sullivan. "EPA showed a willingness to overcome its initial assumptions and dig into the hard technical data. EPA has found that small industrial firms need more time to overcome challenges in developing foam formulas based on alternatives to HCFC-141b. These challenges are especially tough since the alternatives must meet worker safety, flammability, building code, and other standards," he added.

HCFC-141b is a critical blowing agent used, among other things, to make highly efficient insulating polyurethane foams. EPA's final rule allows spray-and-pour polyurethane foam industry mem-

Performance Track Program Seeks More Small Business Members

The Office of Advocacy, in partnership with EPA, encourages small businesses to consider participating in EPA's National Performance Track Program. Launched in mid-2000, the program provides recognition and incentives to top environmental performers. It is open to facilities of all types, sizes, and complexity; public or private; manufacturing or service-oriented. There are currently over 300 mem-

bers. Benefits of participating include a reduced likelihood of EPA inspections, reduced regulatory transaction costs, increased access to EPA officials, and recognition and networking opportunities. Facilities are chosen based on their systematic approach to environmental management, commitment to continuous improvement, sound compliance history, and willingness to reach out to the community.

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bers, who lack viable alternatives, to stay in business as long as they demonstrate that they are making progress transitioning to alternatives.

Message from the Chief Counsel

Small Business Saves \$21 Billion in Regulatory Costs in FY 2002

by Thomas M. Sullivan, Chief Counsel for Advocacy

Small businesses saved \$21 billion in regulatory costs with the Office of Advocacy's help in fiscal year 2002. And in years to come, they stand to save billions more as federal agencies become more proficient at considering small business concerns early in the rule-making process.

The Regulatory Flexibility Act (RFA), as amended by the Small Business Regulatory Enforcement Fairness Act, requires federal agencies, as a part of their rulemaking, to consider regulatory alternatives to minimize the impact on small businesses and other small entities while achieving the stated objective of the regulation. Our office monitors agency compliance with the RFA and reports the findings every year to Congress and the President.

And we've just issued our annual Report to Congress on the RFA for fiscal year 2002. The report highlights key RFA achievements as well as ongoing concerns related to agency compliance with the law.

Fiscal year 2002 was an exciting year for regulatory relief. President Bush, who has been a real friend of small business, added a new tool to the toolkit—Executive Order 13272. In it, President Bush directed federal agencies to tear down regulatory barriers to job creation and to give small business owners a voice in the complex and confusing federal regulatory process. E.O. 13272, "Proper Consideration of Small Entities in Agency Rulemaking," underscores agencies' obligations and gives Advocacy the job of teaching agencies how to improve their compliance with the RFA.

I'm happy to report that even at the beginning of implementing E.O. 13272, we're already seeing

"If agencies follow the President's direction, my office will be applauding more agencies on their small entity-friendly proposals."

results, as agencies consult with Advocacy and ask for training earlier in the rule development process. Our involvement in the regulatory process increasingly occurs at the preproposal and development stages. And our experience shows that the earlier agencies consider small business concerns, the more effective they are in meeting the RFA's intent.

In FY 2002, the Office of Advocacy's efforts to improve agency compliance with the RFA saved more than \$21 billion in first-year cost savings, with an additional \$10 billion in annually recurring savings. Revisions made by the Environmental Protection Agency (EPA) to its Cross Media Electronic Reporting and Record-Keeping Rule produced an estimated savings of \$18 billion. Early versions of the rule would have required any facility using a computer to keep records for EPA to retrofit their computer systems, at a per-business, per-system cost for retrofit estimated at \$40,000 up front and \$17,000 annually. We commend EPA for revisiting and revising the recordkeeping portion of the rule.

Although a valid cost savings, the EPA rule is extraordinary in its sheer magnitude; without that rule, Advocacy's interventions resulted in more than \$3 billion in first-year cost savings. We salute the achievements of our federal agency partners who used scientific and eco-

nomic data and adopted the recommendations of the small business community to reduce the small business burden of their rules. Looking ahead to fiscal year 2003, we think that cost savings will continue to increase as E.O. 13272 is fully implemented.

But you know what? I hope that the specific amount of money we can claim to have saved small business actually drops in the future. That's because I believe that as agencies request the Office of Advocacy's input earlier in the rulemaking process and improve their RFA compliance, the cost savings achieved by Advocacy after the publication of a proposed rule will decrease. If agencies follow the President's direction, my office will be applauding more agencies on their small entity-friendly proposals. This contrasts with our traditional role—criticizing overly burdensome regulatory mandates and documenting cost savings once an agency reconsiders its position.

The Office of Advocacy is available as a resource to assist federal agencies with their small entity outreach and to provide training to federal agencies and small entities on the RFA. Under Executive Order 13272, we have published new guidance on how to comply with the RFA, and Advocacy will provide governmentwide training on RFA compliance over the coming year. For additional information about our efforts to implement Executive Order 13272, and to view Advocacy's RFA guide, comment letters, and testimony, please visit Advocacy's website at www.sba.gov/advo.

Regional Roundup

North Dakota House Passes State Regulatory Flexibility Bill, 88-1

On Jan. 15, the North Dakota House Industry, Business, and Labor Committee held a hearing on HB 1212, the North Dakota State Regulatory Flexibility Act. The bill would require state agencies to prepare an economic impact statement before they adopt new rules that would have an adverse effect on small businesses. The measure defines a small business as one with fewer than 25 full-time workers. The bill was introduced by Rep. Mark Dosch (R-Bismarck), who is himself a small business owner. HB 1212 enjoys bipartisan sponsorship and it was voted out of committee by a 12-1 vote.

On Jan. 31, the North Dakota House of Representatives passed HB 1212 by a vote of 88-1.



Supporters of HB 1212, the North Dakota Reg Flex Act, from left: Region 8 Advocate Jim Henderson; Rep. Mary Ekstrom (D-Fargo); House Industry, Business and Labor Committee Chairman George Keiser; (R-Bismarck), Rep. Mark Dosch (R-Bismarck); and Bill Butcher, state director of the North Dakota office of the National Federation of Independent Business.

Commercial Signage and Its Importance to Small Business

Most small business owners are aware of the regulations pertaining to the display and content of signage. To the extent that some sign regulations may unduly burden small businesses, they may need to be revised, first to facilitate small business success, and at the same time to benefit state and local governments and economies. The Office of Advocacy is actively working to make state governments cognizant of the uneven impact of many regulations through the state regulatory flexibility initiative.

Many fledgling small businesses are totally dependent on commercial signage for their customers or retail sales. Without an on-premises sign, these businesses cannot compete with larger chains and franchises. A small business's on-premises sign can function in a number of ways to benefit the business. It identifies the business, it builds brand aware-

ness, and promotes impulse sales. The on-premises sign can be the linchpin of success for many categories of small business.

A sign's importance is illustrated in a survey conducted over the 1997-1999 period by Gulf Industries of Torrance, Calif. During the two-year study, 165 independent small businesses surveyed between 15 and 30 of their first-time customers or clients to determine what prompted their first visit. In all, 2,475 new customers were surveyed. When asked the question, "How did you learn about us?" Fifty percent responded that the company's sign was their first exposure to the business. Hence, a business's sign can be estimated to generate between 15 percent and 45 percent of a small firm's revenue.

Businesses in the United States sell retail goods at prices 15 to 50 percent lower than the going rates

in Europe and Japan. Yet U.S. businesses spend almost three times more on marketing and advertising. Business signage is an integral and essential component of U.S. businesses' marketing and advertising strategies, and by extension, of their success.

Legally speaking, commercial signage is regulated through each state's sovereign power to regulate land use. States may delegate some of this authority to their local units of government. For most of the 20th century, small businesses had to carry the burden of proof that such regulations harmed them because the courts created a presumption that these regulations were constitutional. This burden of proof was so heavy that it created a barrier to challenge regulatory land use and commercial signage decisions made by the states or their localities.

Continued on page 5

President's Plan Means Jobs and Growth for Small Business

by Chad Moutray, Chief Economist, Office of Advocacy

The President's economic plan will create jobs and growth in every state. Much is made of two provisions in the plan—accelerating the tax cuts enacted in 2001 and eliminating the double taxation of dividends. But, there is an equally important feature that is of great importance to the 23 million small businesses in the United States and their employees.

The President's growth and jobs plan increases the amount of equipment purchases a small business can immediately expense, rather than depreciate over time, from \$25,000 to \$75,000. This new amount is permanent and indexed to inflation. This is a major incentive for small firms to invest in new capital equipment, which will serve as a powerful tool for growth as small businesses are a dominant force in the economy, both in terms of jobs and economic output.

Expanding the eligible write-offs for small business investments has strong support in the small business community. All White House Conferences on Small Business have recommended increases in direct expensing. Moreover, the Office of Advocacy has long supported proposals to increase such write-offs and testified in support of this change before the Senate Finance Committee in March of 2001.

View this incentive for small business growth from an economic

“The President's growth and jobs plan increases the amount of equipment purchases a small business can immediately expense, rather than depreciate over time, from \$25,000 to \$75,000.”

development perspective. It is more than simply tinkering with the tax code. A 1998 National Bureau of Economic Research working paper concluded that marginal tax rate changes significantly change investment spending patterns. The study suggested that tax rate changes would alter the cost of capital for new investment decisions, and that lower tax rates would make more projects viable. They are not alone in this analysis as other studies have found similar links between taxation and investment.

The President got it right by focusing on jobs and long-term growth. From an economic perspective, small businesses would benefit most by making the increased deductions for small business expensing permanent. Short horizon tax benefits might result in some increases in equipment purchases, but any increases would be short-lived. Once the short-term incentives expire, any benefits would vanish with them. An approach that

is more permanent and predictable for small businesses would yield greater results as capital spending patterns from year to year would rise. Permanent expanded expensing creates a successful incentive for small businesses to invest and create more jobs.

It is refreshing to see the discussion focus on small business and its effects on the economy. Research sponsored by the Office of Advocacy has shown that small business accounts for more than half of the nation's private gross domestic product, and small firms employ over half of the private work force.

There are 5.6 million small employer businesses. If due to the President's plan on average they increased their equipment purchases by only \$10,000, almost \$56 billion would be pumped into the economy annually, creating jobs and expanding the tax base. More important, the nation would reap the reward of having significantly higher investments in equipment at a time when capital spending has remained stagnant nationwide, causing a drag on our recovering economy.

Americans should eagerly support initiatives that increase equipment write-offs for small businesses. These proposals are fundamentally sound, and they will provide a necessary incentive to drive job creation and economic growth.

Signage, from page 4

In the 1980s, the courts began to take a different view. Theodore Olson (now the U.S. solicitor general) won a landmark case, *Metromedia, Inc., v. City of San Diego*, which for the first time extended First Amendment protection to the realm of land use planning insofar as it affects commer-

cial signage. Today, a sign code is not presumed to be constitutional. The government must prove that its sign code is a content-neutral regulation of time, place, and manner of display.

Because of its critical importance to business success, small businesses should be aware of how to make the most of their commercial signage. To this end, SBA has

launched an educational website dealing with on-premises business signage. Visit this excellent resource at www.sba.gov/starting/signage.

Research Notes

Advocacy Sponsors Small Business Sessions at AEA Annual Meeting

Advocacy's Office of Economic Research organized three sessions on small business research at the American Economic Association annual meeting in January, a first for the office. The three sessions were:

- Firm Organization and Structure of Small Business, chaired by Zoltan Acs of the University of Baltimore;
- Small Business Dynamics, chaired by Alicia Robb of the Federal Reserve Board; and
- Entrepreneurs and Entrepreneurship, chaired by Joshua Lerner of Harvard Business School.

The papers presented and their authors are listed below.

The Two Faces of Entrepreneurship: Evidence from Eastern and Western Europe, by Mihir Desai, Josh Lerner and Paul Gompers. Contact jlerner@hbs.edu.

Economic Growth and Entrepreneurial Activity: An

Empirical Analysis, by Zoltan Acs and Catherine Armington. Contact zacs@UBmail.ubalt.edu and asegra@usa.net.

The Entrepreneur and Entrepreneurship: A Neoclassical Approach, by Ying Lowrey. Contact ying.lowrey@sba.gov.

Family Resources, Race, and Small Business Outcomes, by Robert Fairlie and Alicia Robb.

Impact of Tight Money and/or Recessions on Small Business by Kathryn Kobe, Rakesh Kochhar and Joel Popkin. Contact: rkochhar@jpcecon.com.

Income and Wealth: How Did Households Owning Small Businesses Fare From 1992 to 1998, by George Haynes and Charles Ou. Contact: charles.ou@sba.gov.

The Effect of Computer Networks on Small and Large U.S. Manufacturing Plants' Produc-

tivity: New Evidence from the CNUS Data, by B.K. Atrostic and Sang V. Nguyen. Contact: batrostic@ces.census.gov and snguyen@ces.census.gov.

Productivity Growth and Firm Size Distribution, by Zoltan Acs, Juan Alcacer and Bernard Yeung. Contact: zacs@UBmail.ubalt.edu, jalcacer@stern.nyu.edu, and byeung@stern.nyu.edu.

Main Street in the Digital Age: How Small and Medium-Sized Businesses Are Using the Tools of the New Economy, by Patricia Buckley and Sabrina Montes. Contact: patricia.buckley@esa.doc.gov and sabrina.montes@esa.doc.gov.

Business Closures: Checking the Assumptions of Closures Being Considered Failures and Closure Rates Being High, by Brian Headd. Contact: brian.headd@sba.gov.

Senator Snowe, from page 1

- Increasing access and utilization of new technologies and e-commerce by small businesses; and
- Assuring improved availability of worker education and training.

4. *What have you learned about American small business that you wish your senatorial colleagues knew as well?*

Unfortunately, I have found that despite the role small businesses play in growing our economy, government too often frustrates their efforts. In reality, the future of our country is tied to the future of small business—and by enhancing the conditions that support small business, we will ensure a more prosperous future for all. Especially when the economy is slow, many members of Congress tend to focus narrowly on the big economic picture and forget that finely targeted

legislative and regulatory initiatives can produce tremendous benefits for our nation's Main Street and the economy as a whole. Part of my job as chair of the committee will

be to work to ensure that the small business sector is not left behind as the 108th Congress works to get the economy growing again.

Small Business Economic Indicators for 2001 Released

In February, the Office of Advocacy released its annual reference guide to the latest small business data, *Small Business Economic Indicators for 2001*. The data give a picture of a weakened economy and signs of small businesses struggling: rising business bankruptcies and tightened financial markets. Overall, however, the total number of U.S. employer firms remained relatively level, rising from an estimated 5.7 million in 2000 to an estimated 5.8 million in 2001. Self-employment remained relatively unchanged as well, going from 9.9 million in 2000 to 9.8 million in 2001.

The report contains extensive U.S. data and information by state where available. It lists the number of businesses, new employer firms, business terminations, and bankruptcies; lending terms and standards for 2001 and years prior; employment information; and fastest growing industries. The complete report is available online at www.sba.gov/advo/research.

Economic News

Costs Run Higher for Small Group Health Insurance Plans

Small group health plans are more costly to administer than plans for larger businesses, according to a new Advocacy report. *A Study of the Administrative Costs and Actuarial Values of Small Health Plans* examined 19 health care plans in two states. It was written by Rose Chu and Gordon Trapnell of Actuarial Research Corporation for the Office of Advocacy. The authors found that administrative expenses for insurers of small group health plans ranged from 33 to 37 percent of claims, versus 5 to 11 percent of claims for large companies' self-insured plans. The

report also found that sales, underwriting, and operating expenses were all higher for the small group health plans studied versus plans designed for their big business counterparts.

"This report is one more piece of evidence that small businesses need new options in health care," said Chief Counsel Tom Sullivan.

"Small businesses employ over half of the private work force, yet many of their employees remain underinsured due to the high cost of health care. This report details the high administrative costs of health plans designed for small business. One

way to lower these costs would be to spread them across large groups of small employers through Association Health Plans. I urge Congress and the President to work together to make health care affordable for small employers and their employees," he said.

The report is available on the Advocacy website at www.sba.gov/advo. Paper and microfiche copies of all Advocacy reports are also available for purchase from the National Technical Information Service at (800) 553-6847 or through the NTIS website at www.ntis.gov.

Advocacy Recognizes Best Student Research Paper

How do small firms cooperate with each other to reach their economic goals? This is the topic of Robert Hartl's award-winning paper, the first recipient of the Office of Advocacy's Best Student Paper award. Hartl received the award in a Jan. 24 presentation at the annual meeting of the United States Association for Small Business and Entrepreneurship. Hartl is a doctoral candidate at the University of St. Gallen, Switzerland.

Hartl's paper won out over strong international competition from other doctoral candidates. Dr. Chad Moutray, chief economist for Advocacy, presented the award. "We're excited about this first Best Student Paper award," said Moutray. "Robert Hartl's paper sets a high bar for solid academic research into the role of small business and entrepreneurship in our economy. Research like this provides a strong base for public policy choices that encourage entrepreneurial success, job creation, and economic growth." The paper, *A Longitudinal Analysis of Industry,*

Enterprise and Behavioral Predictors of SME Interfirm Cooperation, is available as part of

Advocacy's working paper series, located at www.sba.gov/advo/stats/wkpaper.html.



Dr. Ying Lowrey, senior economist with the Office of Advocacy, and Best Student Paper recipient, Robert Hartl.



Region 6 Advocate Till Phillips (left) and Texas Gov. Rick Perry discussed economic development and regulatory issues on a recent tour. They are pictured here at the Air Motor Company, a windmill manufacturer in San Angelo, Texas.

Regional Advocate on Tour with Texas Governor

In August, Region 6 Advocate G. Till Phillips accompanied Texas Gov. Rick Perry on the multicity Trade Routes tour. Also participating were officials from the U.S. Department of Commerce, the U.S. Chamber of Commerce, and the

Texas Economic Development Commission. The delegation made stops in eight towns in west and southwest Texas and visited five small businesses. A total of 1,345 people attended the tour events.

Regulations.gov Makes Filing Comments Easier

Now, there's a federal government website that facilitates public input in the regulatory process. The site, www.regulations.gov, is the U.S. government website where anyone can find, review, and submit comments on federal documents that are open for comment and published in the *Federal Register*, the government's legal newspaper. Search buttons allow you to find rules, and specific comment links make it easier than ever before to express your opinion on a specific document. You can search for rules by keyword—or by federal agency. The site is a great leap forward in making government open and transparent: anyone with a computer and Internet access can find every pending federal regulation that is open for comment, read it, and submit their views.

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