

Small-Business Policy in the United States

The United States has no small-business policy. Rather, it has a competition policy of which small business is an essential component.¹ The opening phrases of the Small Business Act of 1953, the legislation founding the U.S. Small Business Administration, best summarizes the position of small business in national public policy:

The essence of the American economic system of private enterprise is free competition. Only through full and free competition can free markets, free entry into business, and opportunities for the expression and growth of personal initiative and individual judgment be assured. The preservation and expansion of such competition is basic not only to the economic well-being but to the security of this Nation. Such security and well-being cannot be realized unless the actual and potential capacity of small business is encouraged and developed.²

A Competition Policy, Not a Small-Business Policy

A competition policy simply means that the primary objective of policy is to encourage competition. The viability of any competitor or group of competitors is irrelevant. The consumer's "good" is the final objective; small business is only a means to that end. Government's role is therefore limited to setting and enforcing the rules of competition and ensuring that small firms have the opportunity to compete. Its role is not to support small business directly.

Three examples illustrate the policy. The first is treatment of the retail giant, Wal-Mart, and its small Main Street competitors. Wal-Mart initially targeted small towns and rural areas. Main Street retailers were the primary competition. As Wal-Mart grew, the number of Main Street retailers declined in the immediately surrounding areas. Yet, the response from policy-makers, business owners, and the small-business support community was not to create barriers to Wal-Mart's growth, but to help small retailers compete against the company or to find unoccupied niches. Policy focused on competition, not competitors.

The financial services, notably banking present a second example. De facto and de jure elimination of Depression-era prohibitions on interstate banking brought greater competition to the industry. It also brought a significant decline in the number of small banks. While the United States was home to over 15,000 commercial banks in the 1970s, fewer than 8,000 now operate.³ The policy was to open markets and enhance competition, not to protect small banks.

A third example with a far happier outcome for small business has been deregulation of trucking. Interstate trucking until 1980 also operated under a Depression-era regulatory structure featuring severe constraints on entry. Abolition of the regulatory structure with the Motor Carrier Act of 1980 enhanced competition. Enhanced competition, in turn, lowered prices, produced better service, left safety unaffected, and more than doubled the number of small truckers in the following six years.⁴

The corollary to the competition policy is that government "helps" small business compete. It does so through elimination (or reduction) of artificial barriers and tailoring

public requirements to be size-neutral. Direct support to individual firms is a footnote. In other words, small business “help” is designed to neutralize the liability of “smallness” when that liability is the result of government action. The legislative prototypes are the Regulatory Flexibility Act (RFA) and the follow-on Small Business Regulatory Fairness Act (SBREFA). Both are designed to make the regulatory structure as size-neutral as possible; neither compensate small-business owners for their regulatory compliance. This policy focus is the antithesis to “picking winner” industrial policies and makes the American approach to small firm assistance very different from most of the world (Exhibit 4.1).

Exhibit 4.1 presents a typology, i.e., a simplified classification, of basic approaches to small-business policy in various parts of the world. Note that the American approach tends to be “hands-off,” both on the impediment and direct assistance dimensions. Other parts of the world address the issue differently.

Exhibit 4.1 Typology of Public Policy Towards Small Business

Direct Assistance	Impediments	
	High	Low
High	European Community	Singapore
Low	Russia	United States

Source: William J. Dennis, Jr., “Small Business Policy in the United States,” *Svensk småföretagspolitik: Struktur, resultat och internationella jämförelser*, (eds.) Anders Lundström, Håkan Boter, Annelie Kjellberg, Christer Öhman, Stiftelsen Forum för Småföretags-Forskning, Örebro, Sweden, 1998.

New Policy Directions—From Competition to Subsidy

The Small Business Administration (SBA) has been an aberration to the competition policy from the outset. Established in 1953 as a measure to pacify Congress in exchange for abolition of the redundant Depression-era Reconstruction Finance

Corporation (RFC), SBA was intended to help small business with its long-term credit and equity needs.⁵ Since that time a variety of other small-business subsidy programs have been introduced into a variety of agencies. (A lengthy, though probably incomplete, list of such programs is presented in a later chapter.) However, beyond long-term finance and political expediency, the rationale for these programs and their objectives are rarely well articulated, let alone measured.

One clear policy objective has been welded to the competition policy—a social objective.⁶ SBA and the Minority Business Development Agency (MBDA), created at the Department of Commerce through a 1971 Executive Order, have instituted and administered a number of traditional subsidy programs intended to increase the number of minority and women business owners and the size of their firms. The underlying philosophy of these programs is at variance to the competitions policy, but their relative small size⁷ and lack of impact has not prompted a de facto shift in basic policy.

As small business increasingly became known for its “job generating” prowess, policy-makers took interest in small business as a weapon to fight poverty. The anti-poverty initiatives took two paths: one focused on using smaller firms to revitalize and provide employment in poorer geographic areas. “Enterprise zones” is the prime example. The initiative and subsequent iterations such as “empowerment zones,” use tax incentives and other measures to support new business formation and growth in a defined tract.⁸ The hope is that the resulting new, small, local businesses will revitalize and provide employment in the designated areas. The second path involves providing resources to lower-income or unemployed individuals for the purpose of helping them become self-employed. SBA initiated a micro-loan program patterned after those pioneered by the Grameen Bank in Bangladesh and the Banco Sol in Bolivia. The agency distributed \$42 million in direct and 12 million in guaranteed micro-business loans in F.Y. 1999, about four times the prior year’s total. However, initiatives patterned after schemes in Britain and France that altered unemployment compensation requirements

and payments to move unemployed people into self-employment proved to be a bust⁹ and have been largely disbanded.

The social objective is part of a gradual shift in the basic policy impacting small business. The change is piecemeal and ad hoc, certainly not consciously planned nor with clear non-political objectives. Each piece seems established with the Oscar Madison approach to public policy — throw it against the wall and keep what sticks. But regardless of the path, the policy direction is clearly toward European-style intervention and subsidies or as the affected agencies would prefer to say “help.”

Small-Business Owners Prefer a Competition Policy

Small-business owners generally support the competition policy, though certainly not as strongly when its results directly and adversely affect them. The most obvious manifestation of their perspective is owner policy priorities. Small-business men and women are preoccupied with eliminating government impediments to their competitive success rather than demanding special programs to give them advantages over other competitors. (A list of small-business owner interests can be found in another chapter of this guide.) As a result, the focus of small-business interest is agencies such as the Department of Treasury, the Department of Labor, and the Environmental Protection Agency rather than the Small Business Administration or the Department of Commerce. When asked which SBA function is most important, a representative sample of small-business owners opted for the less-known advocacy function over the more-known finance or management functions.¹⁰ The preference for a competition policy also helps explain why

small-business owners have never been more than luke-warm over enterprise zones or similar policies and often have opposed them.¹¹ The reason: enterprise zones provide one group of owners with a tax-subsidized market advantage financed by their competitors. Similarly, SBA’s Small Business Development Center program was instituted with the enthusiastic support of service providers and government officials, but serious reservations from small-business owners and their representatives.

Conclusion

The competition policy remains, and should remain, the dominant influence on American small business. Regulatory flexibility is an appropriate and important supplement. However, the basic approach is eroding. Subsidies and targeted programs, or “schemes” as the Europeans aptly refer to them, are gradually being substituted. A social objective is being fused. This merger does not have to undermine the overall policy so long as remedial efforts are limited to non-market based problems and effective efforts to resolve them.

The most pressing current need is to step back and review the role of small business in public policy. It has been almost one half century since the Small Business Act of 1953 established the policy framework for small firms in the United States. If the primary policy paradigm for small business is to change as it is now doing, the change should result from conscious decisions rather than from ignored erosion. The corollary step is to control the proliferation of small-business-oriented subsidy programs, scattered throughout government, that often masquerade as small-business assistance efforts. (This topic will be considered in a later chapter.)

Endnotes to “Small-Business Policy in the United States”

1. Y. Aoyama, and Michael B. Tietz, *Small Business Policy in Japan and the United States: A Comparative Analysis of Objectives and Outcomes*, Institute for International Studies, University of California, Berkeley, CA; 1996, William J. Dennis, Jr., “Small Business Policy in the United States,” *Svensk småföretagspolitik: Struktur, resultat och internationella jämförelser*, (eds.) Anders Lundström, Håkan Boter, Annelie Kjellberg, Christer Öhman, Stiftelsen Forum för Småföretags-Forskning, Örebro, Sweden, 1998; William J. Dennis, Jr., “Research Mimicking Policy: Entrepreneurship/Small Business Research in the United States,” *Handbook of Entrepreneurship*, (eds.) Donald L. Sexton and Hans Landström, Blackwell Publishers Ltd., Oxford, UK, 2000.

2. 15 USC § 631(a). The focus on competition still exists in principle. SBA’s draft strategic plan filed in March, 1997, asserts that the agency’s mission is to serve small business “to (1) help preserve free competition, (2) contribute to strengthening the Nation’s economy, and (3) assist disaster-ravaged communities recover from their losses.” Quoted from SBA’s Draft Strategic Plan, GAO/RC ED-97-205R, General Accounting Office, Washington, DC, July, 1997.

3. *Statistical Abstract of the United States*, Bureau of the Census, U.S. Department of Commerce, various editions.

4. “Effects of Industry Deregulation on the Small Business Sector,” *State of Small Business: A Report of the President, 1987*, Office of Advocacy, U.S. Small Business Administration, Washington, DC, 1987.

5. Anthony G. Chase, “Federal Support of the Vital Majority: The Development of the U.S. Small Business Administration,” *The Vital Majority: Small Business In the American Economy*, (ed.) Deane Carson, Government Printing Office, Washington, D.C., 1973.

6. Aoyama and Tietz, op. cit.

7. The amount of money SBA has directed into loans, particularly for minorities and women, has increased notably over the last few years.

8. Stuart A. Butler, *Enterprise Zones: Greenlining the Inner Cities*, Universe Books, New York, NY, 1981.

9. ABT Associates, Inc., *Self-Employment for Unemployed Workers*, Unemployment Insurance Occasional Paper 92-2, 1992; *Self-Employment as a Reemployment Option: Demonstration Results and National Legislation*, Unemployment Insurance Occasional Paper 94-3, 1994; and, *Self-Employment Programs: A New Reemployment Strategy, Final Report on the UI Self-Employment Demonstration*, Unemployment Insurance Occasional Paper 95-4, 1995. All were prepared for the Employment and Training Administration, U.S. Department of Labor, Washington, DC.

10. “Small Business and the Future of SBA,” *Small Business Matters*, NFIB Education Foundation, October, 1995.

11. NFIB members have consistently voted to oppose Enterprise Zone legislation.