

FIRST, GET THE FUNDAMENTALS RIGHT

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what is the result (output) of an
optimal small business policy?

how does one measure the result of
an optimal small business policy?



Possible Optimal Outcomes

Conduit for Other Ends

- Employment; Jobs
- Innovation
- Economic efficiency
 - (Williamson sense)
- Competition
- Combat rent-seeking behavior
 - (Public Choice school)
- Foundation of democracy

End unto Itself

- Personal expression and self-fulfillment (Happiness)
- Personal wealth
- Anti-poverty (Self-employment)

Possible Measures of Optimal Outcomes

- Net jobs created
- Number of patented innovations; quality of them
- GDP growth
- Number of small businesses
- Tax revenues generated by small businesses
- Growth of fastest growing 5% of firms
- Public empathy toward small businesses
- Profits generated by small businesses
- Number of nascent entrepreneurs
- Greater business average life span

The American Policy?

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 ... be placed with small business enterprises, to insure that a fair proportion of the total sales of Government property be made to such enterprises, and to maintain and strengthen the overall economy of the Nation.

Public Law 85 -536 as amended

EU – Small Business Act for Europe

A Policy?

1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance
3. Design rules according to the “Think Small First” principle
4. Make public administrations responsive to SMEs’ needs
5. Adapt public policy tools to SME needs: facilitate SMEs’ participation in public procurement and better use State Aid possibilities for SMEs
6. Facilitate SMEs’ access to finance and develop a legal and business environment supportive to timely payments in commercial transactions
7. Help SMEs to benefit more from the opportunities offered by the Single Market
8. Promote the upgrading of skills in SMEs and all forms of innovation
9. Enable SMEs to turn environmental challenges into opportunities
10. Encourage and support SMEs to benefit from the growth of markets

A Different Policy Direction

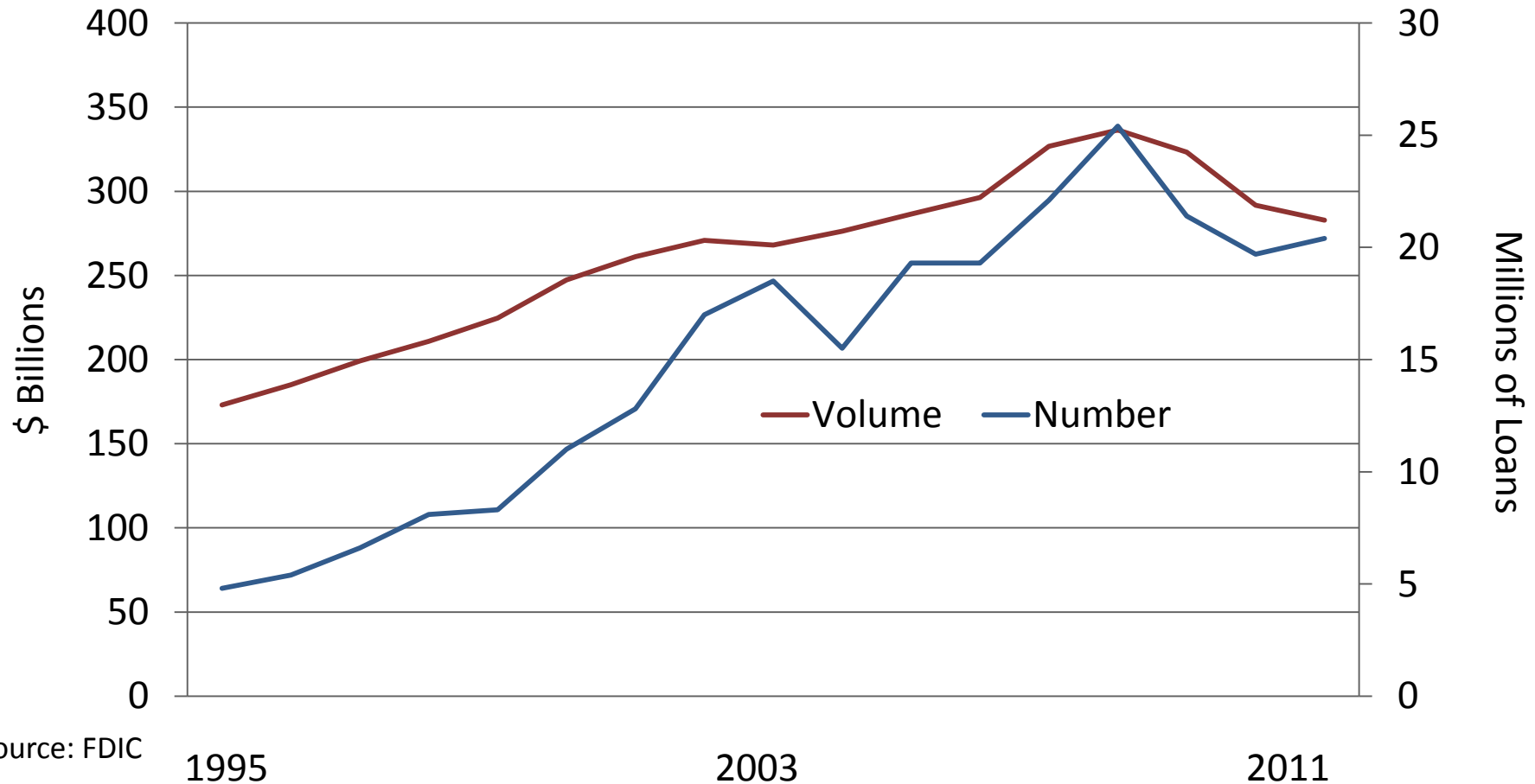
Feature	Small Business Policy	Entrepreneurship Policy
Objective	Firm growth; productivity	Motivate more new entrepreneurs
Target	Existing firms	Nascents; New starts; Individuals
Targeting	Pick winners	General population
Client Group	Easy-to-identify – existing firms	Difficult-to-identify – nascents
Levers	Direct financial incentives	Non-financial, e.g., counseling
Focus	Favorable bus. environment	Entrepreneurial culture/climate
Delivery System	Well-established	Lots of new players
Approach	Generally passive	Pro-active outreach
Results Orientation	More immediate	Longer term
Consultation	SME associations	Non-existent

Source: Anders Lundström and Lois Stevenson, *Entrepreneurship Policy for the Future*, 2001, Table 3.1

Small Business Policy as Currently Practiced in Much of the World

- Small business policy as a concept is currently meaningless, lacks specified outputs, and is not measurable.
- Small business policy is generally regarded as a conduit to broader economic policy.
- Small business policy is typically an uncoordinated maze of subsidies to small business owners.
- Small business policy often has a questionable cost/benefit ratio.
- Small business policy is part of the interest group “little picture”.

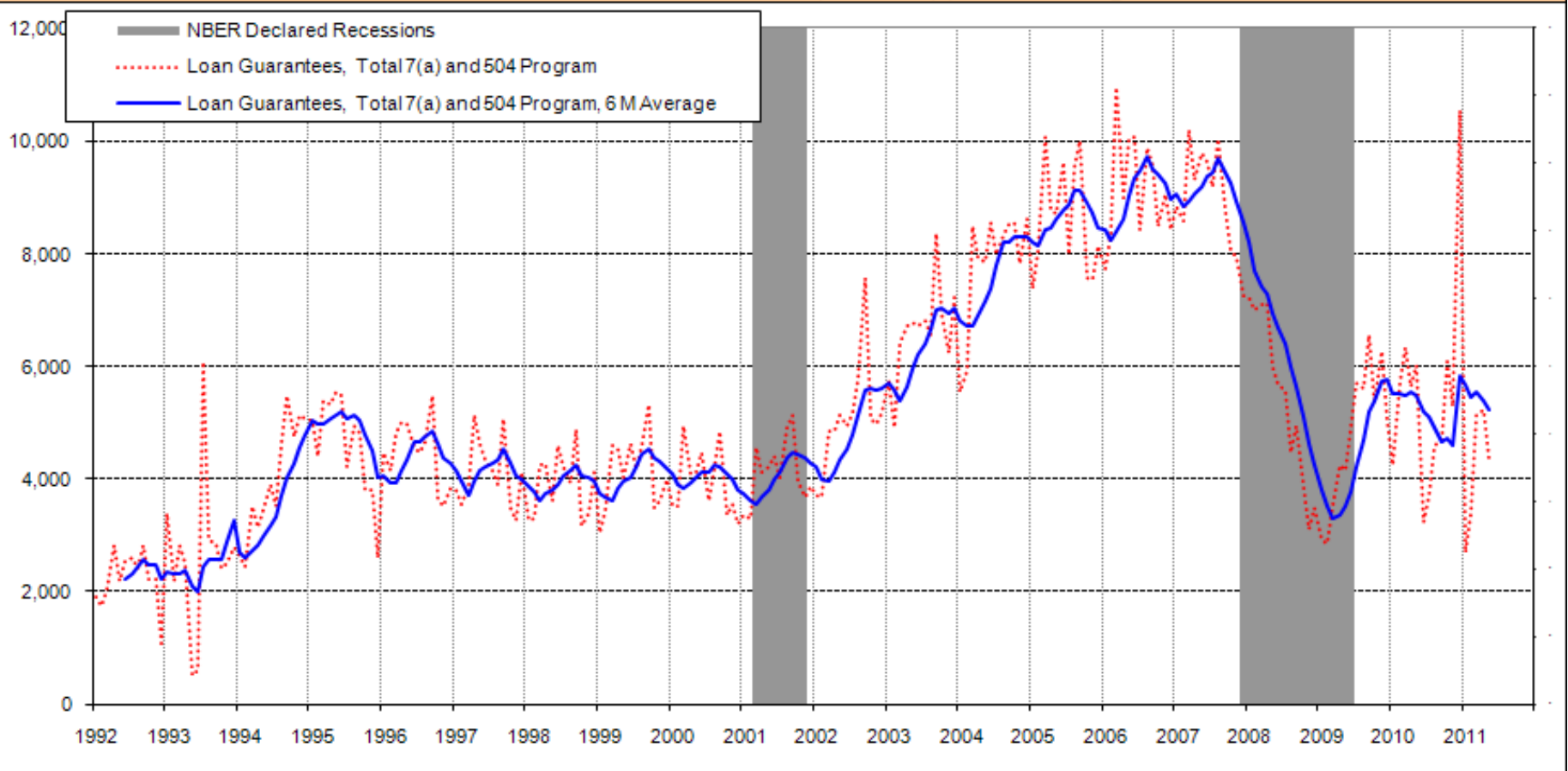
C&I Small Business Loans – Number and Volume – by Year



Source: FDIC

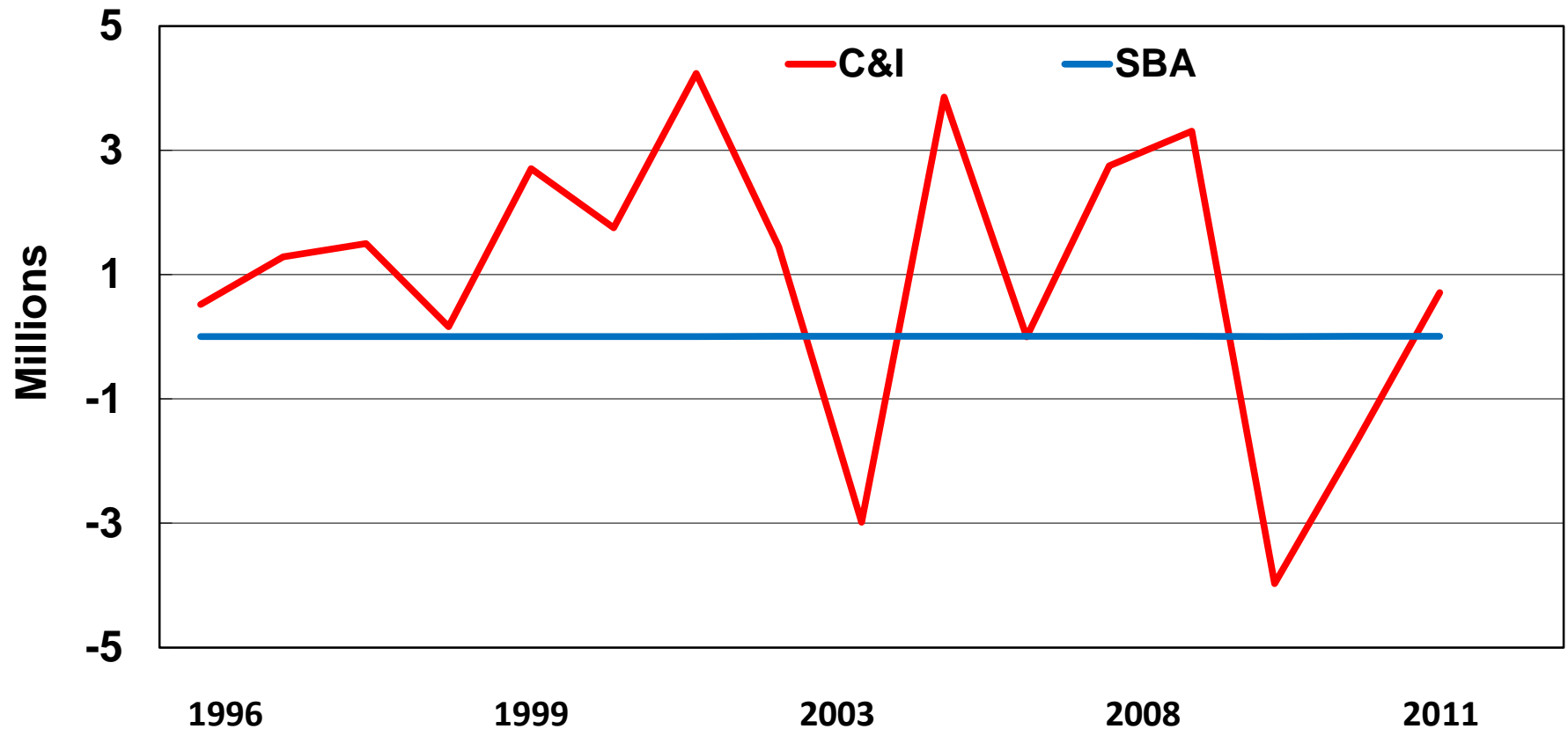
SBA Loan Guarantees Before and After the “Great Recession” - Number

Number of Gross Loan Guarantees, Total 7(a) and 504 Program



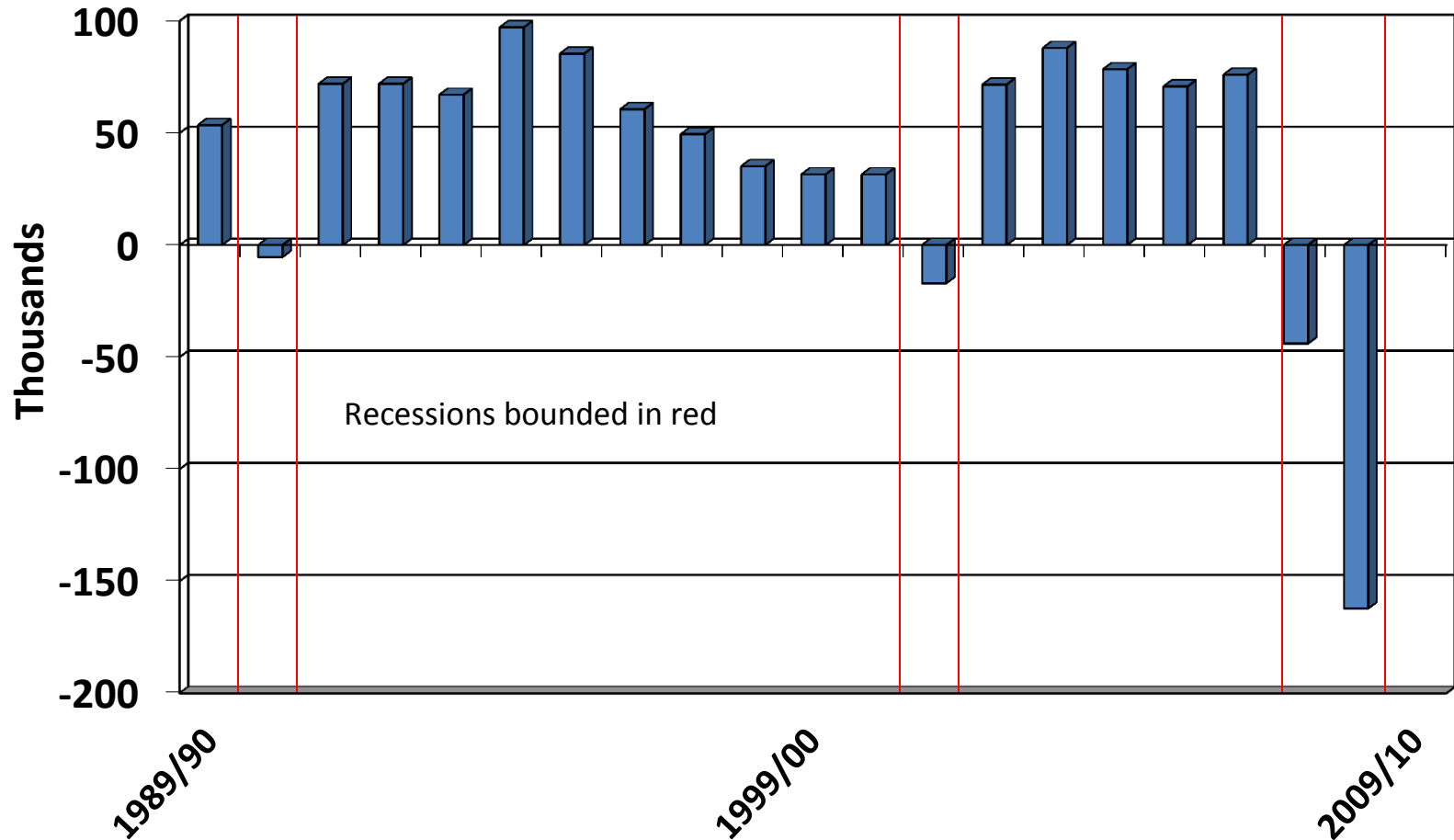
Source: U.S. Small Business Administration

Net Change in New C&I Small Business Loans and SBA Loan Guarantees by Year



Source: FDIC
and SBA

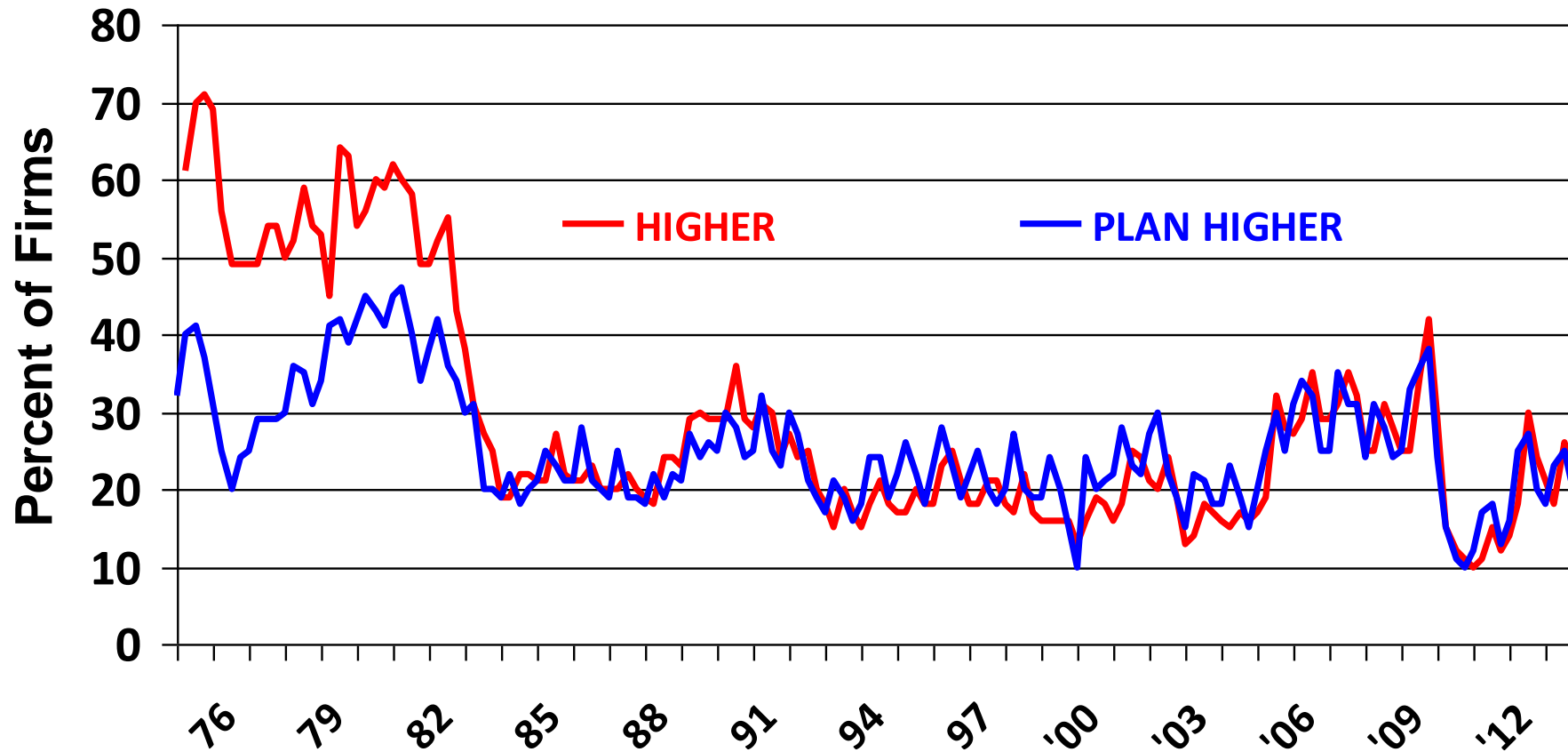
Net Change in Employing Businesses



Source: SBA

The Inflation Problem

Actual and Planned Price Changes



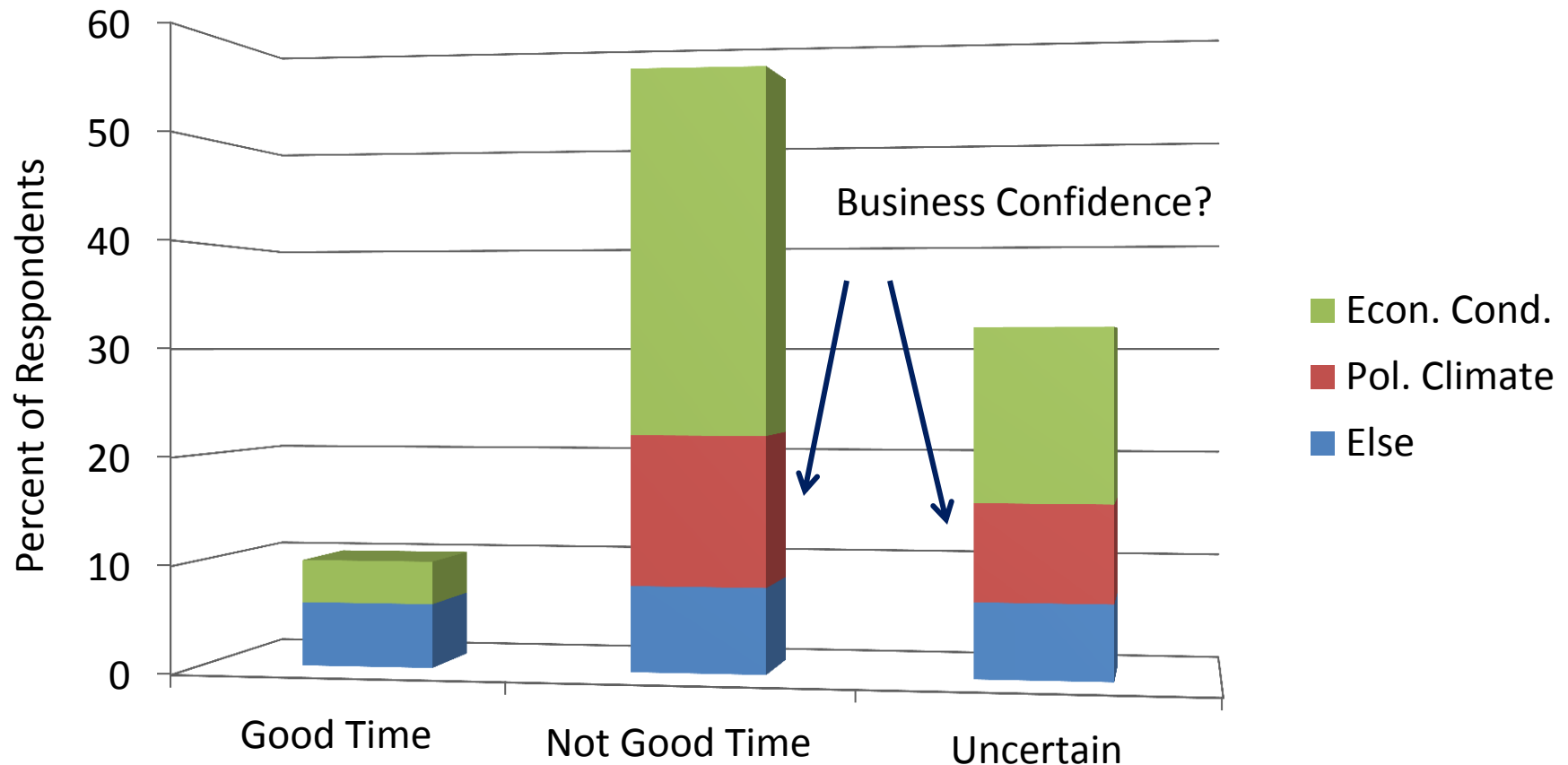
Source: NFIB Research Foundation

Fundamentals

- Rule of law, including institutional stability and policy certainty
- Property rights
- Stable currency
- Healthy economy, including economic certainty
- Cultural support of enterprise

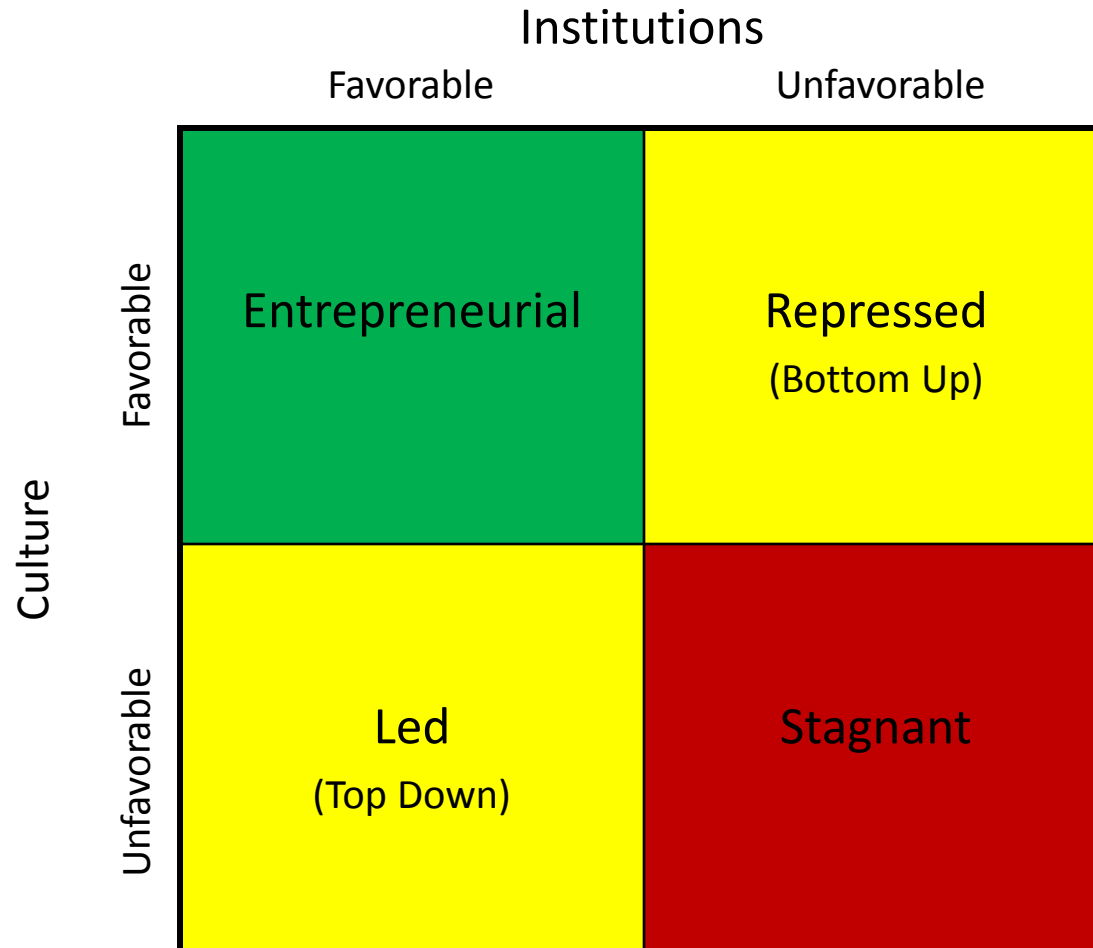
A Good Time to Expand Your Business?

April 2012



Source: NFIB Research Foundation

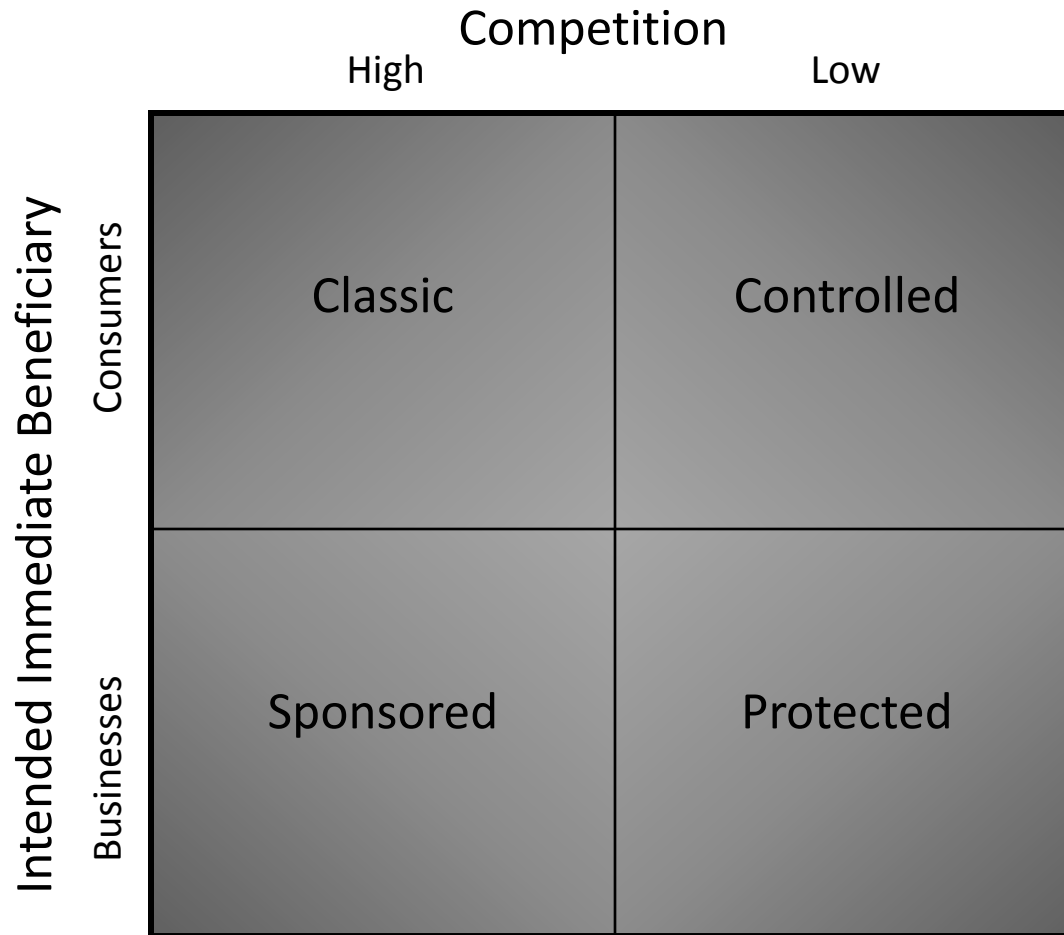
A Typology -- Factors Underlying an Entrepreneurial Climate



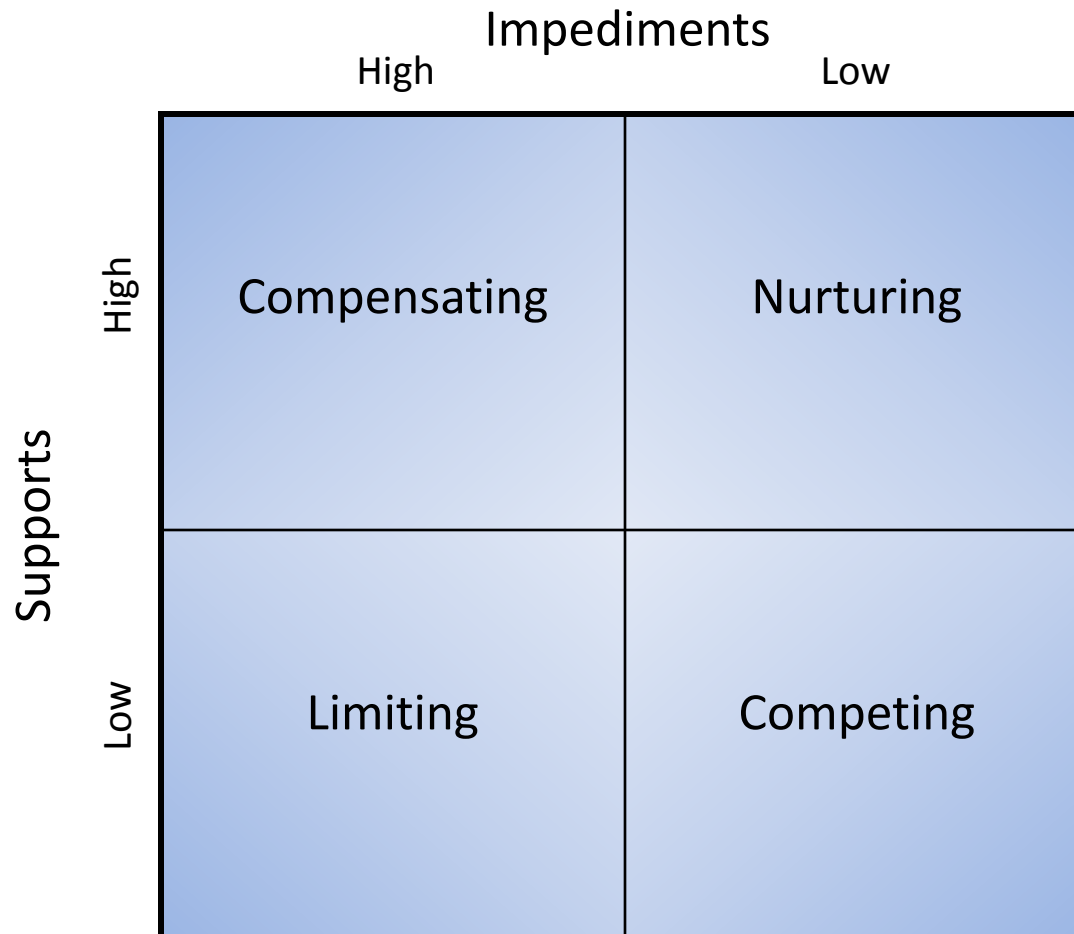
Implications of the Typology

1. Conditions can change b/c culture and institutions change; change not necessarily positive.
2. No universal optimal policy.
3. Culture must be addressed as well as institutions.
4. Policymakers cannot turn on and turn off entrepreneurial activity at will.
5. Change does not parallel election cycles; time.

A Typology -- Markets, Competition and Beneficiaries



A Typology --Typical Approaches to Small Business Policy



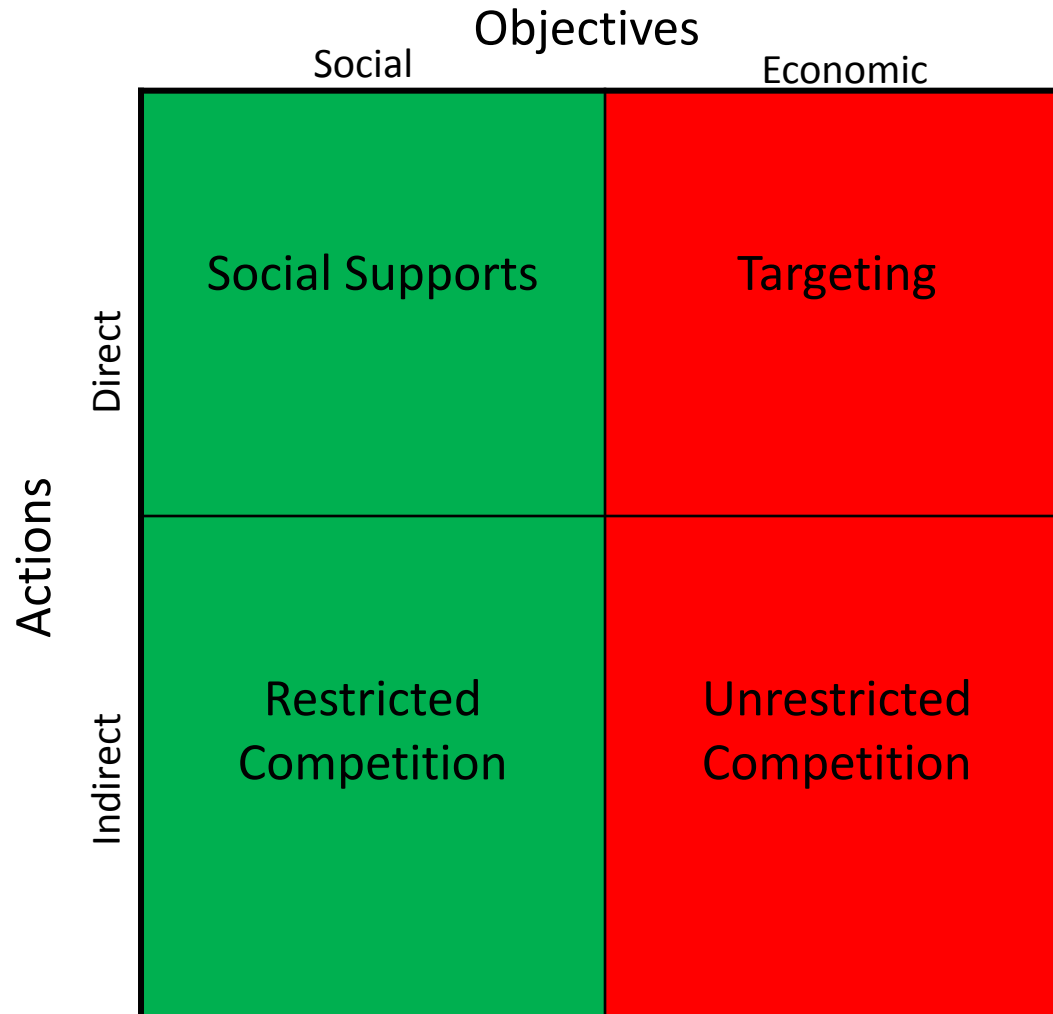
Implications of the Typology

1. Impediments swamp supports in their impacts.
 - Supports imply one-on-one treatment
2. Impediments are more difficult to change.
 - Vested interests compared to tax-payer interest
3. Most subsidies (supports) go to the privileged.
4. Nascents are invisible. Who subsidizes starts?
 - Impediments affect starts; supports rarely do
5. Poor countries lack resources by definition.
6. Policy can be sector specific.

Policy Landscape

Policy Area	Competitors in Debate	Resources Required to Participate	Small Business Impact on Debate	Policy Impact on Small Business
Fiscal	Insiders	Large	Marginal	Large (tails)
Monetary	Insiders	Beyond Reach	No Debate	Large (tails)
Tax	Free-for-All	Large	Large (parts)	Large/Small
Labor	Unions	Large	Large (parts)	Large
Regulatory	Interests	Large	Marginal	Dependent
<i>Environment</i>	Environ..talists	Large	Marginal	Dependent
<i>Finance</i>	Banks, Wall St.	Large	Marginal	Dependent
Innovation	Universities; BB	Medium	Small-Med.	Dependent
Trade	Limited	Depends	None	Minimal
Competition	Big Business	Large	None	Indirect
Small Bus.	Limited	Modest	Large	Modest

A Typology – Objectives and Actions



Implications

1. Social objectives assume a certain level of wealth.
 - Least financially attractive to those with greatest social problems
2. Competition can be an integral part of any social strategy.
 - The “weaning” problem

Small Business Policy Conundrum

- The greater the policy impact on small business, the less influence small business will have over its content.
- The lesser the policy impact on small business, the more influence small business will have over its content.
- Dennis's Law
 - A policy's impact on small business is inversely related to the ability of small business to affect it.

The Meaning of Impact

- Number of impacted firms (Potentially adjusted for size)
- Size of impact on firms (Dollars)
- Affect on potential entrants
(Creation/elimination of entry barriers)
- Time (Amount of time over which the impact will register)