

## The Powerful Impact of Small Business

### The Backbone of the American Economy

While the landscapes of many of our nation's cities are dotted with massive corporate offices and headquarters, the true backbone of the American economy is not concentrated in a handful of huge blue-chip companies like ExxonMobil or Wal-Mart. Rather, the companies that have a greater impact on our economy are, in fact, the smallest.

According to the U.S. Small Business Administration (SBA), in 2007 the country's 27.2 million small businesses, those with fewer than 500 employees, represented more than 99% of U.S. businesses.

So while investors and the media may pay the most attention to those on Wall Street, it's the small businesses on Main Street that are quietly playing an instrumental role in the U.S. economy, in terms of both employment and private (non-farm) gross domestic product.

### Employment

The size difference between the average small business and the average large business in the United States is dramatic. According to the SBA's December 2007 report "The Small Business Economy: A Report to the President," the mean small business employer had one location and 10 employees.<sup>1</sup> In comparison, the mean large employer had 62 locations and 3,313 employees.<sup>2</sup>

Despite these major differences in scale, U.S. small businesses employ nearly 59 million workers—approximately half of all private-sector jobs.<sup>3</sup> In contrast, the companies in the S&P 500 employ about 22 million people.<sup>4</sup> Additionally, small businesses have been a driving force behind new job creation, generating between 60% and 80% of all new jobs annually over the past decade.<sup>5</sup>

While layoffs by big companies usually generate big headlines, behind the scenes and little noted in news reports, dynamic small employers are creating jobs for those displaced workers, in companies that are more responsive to changes in consumer tastes, new technologies, and global opportunities than are their big corporate brethren.



In fact, as recently as July 2008, a report released by payroll manager Automatic Data Processing (ADP) found that small businesses were responsible for the majority of new private-sector jobs, creating 50,000 new non-farm jobs, which offset the 41,000 jobs lost at larger firms in the same month.<sup>6</sup>

### Demographics

Small U.S. firms pay about 45% of the total U.S. private-sector payroll, which, according to the most recent data available in 2004, accounted for approximately \$1.9 trillion of the total (non-farm) private-sector payroll of \$4.3 trillion.<sup>7</sup>

In addition, small business owners represent a diverse group of individuals from all educational, ethnic and religious backgrounds and all age groups. In 2005, about 10% of Americans identified themselves as self-employed. According to the same SBA December 2007 report, veterans, the disabled, older individuals and those with formal education saw the highest rates of self-employment. However, according to current data, self-employed individuals are most often older, well-educated, and live in a suburban area.<sup>8</sup>

1. U.S. Small Business Administration, "The Small Business Economy: A Report to the President," December 2007 report, available at [http://www.sba.gov/advo/research/sb\\_econ2007.pdf](http://www.sba.gov/advo/research/sb_econ2007.pdf).
2. U.S. Small Business Administration, Frequently Asked Questions, available at <http://www.sba.gov/advo/stats/sbfaq.pdf>.
3. Ibid.
4. Bloomberg.
5. U.S. Small Business Administration, Frequently Asked Questions, available at <http://www.sba.gov/advo/stats/sbfaq.pdf>.
6. Brandi Stewart, "Survey: Most new jobs come from small businesses," Fortune Small Business, July 30, 2008.
7. U.S. Small Business Administration, "The Small Business Economy: A Report to the President," December 2007 report, available at [http://www.sba.gov/advo/research/sb\\_econ2007.pdf](http://www.sba.gov/advo/research/sb_econ2007.pdf).
8. Ibid.

## Employer Firms, & Employment by Employment Size of Firm by NAICS Codes, 2005<sup>1</sup>

	FIRMS Employment Size <500	EMPLOYMENT Employment Size <500
<b>Total</b>	<b>5,966,069</b>	<b>58,644,585</b>
Forestry, fishing, hunting & agriculture support	23,352	142,615
Mining	19,091	219,735
Utilities	6,459	109,175
Construction	776,663	5,841,751
Manufacturing	284,536	6,038,792
Wholesale trade	333,706	3,637,229
Retail trade	734,636	6,307,978
Transportation & warehousing	166,946	1,586,501
Information	74,147	890,289
Finance & insurance	258,310	2,128,868
Real estate & rental & leasing	299,302	1,463,060
Professional, scientific & technical services	754,274	4,741,326
Management of companies & enterprises	19,540	337,981
Administrative & support & waste management & remediation services	316,766	3,619,717
Educational services	71,293	1,294,428
Health care & social assistance	595,641	7,748,761
Arts, entertainment & recreation	113,495	1,280,666
Accommodation & food services	461,168	6,611,592
Other services (except public administration)	675,026	4,612,968
Unclassified	23,986	31,153

1. [http://www.sba.gov/advo/research/us05\\_n6.pdf](http://www.sba.gov/advo/research/us05_n6.pdf).

## Financing Small Business

U.S. small businesses have a significant impact on the American economy. In FY2006, small businesses constituted about 97% of all identified exporters and produced approximately 29% of the known export value. Further, small businesses collectively account for more than half of the United States' non-farm private gross domestic product.<sup>1</sup>

Most small businesses use traditional credit, such as credit lines, loans or capital leases, to fund their business financing needs. While commercial banks and other depository institutions are the largest lenders of debt capital to small businesses, in recent years small business owners have increasingly begun to use their credit cards to finance their businesses.<sup>2</sup> This use of credit cards is becoming even more prevalent amid the current credit crunch. Many established and creditworthy small businesses are seeing their traditional credit lines, with rates fixed for long periods, sharply restricted or canceled, and are being encouraged by their bankers to rely more on credit cards, whose interest rates can be hiked with little notice.

## The Future of Small Business

Being your own boss has been an American dream for generations—and that sentiment continues today. According to a 2006 Yahoo! Small Business and Harris Interactive survey, about 66% of Americans said that they would like to be their own boss one day.<sup>3</sup> Many of these people are acting on this dream. According to the SBA, each year about 7% of Americans take the steps needed to start their own business.<sup>4</sup>

1. U.S. Small Business Administration Frequently Asked Questions, available at <http://www.sba.gov/advo/stats/sbfaq.pdf>.
2. U.S. Small Business Administration, "The Small Business Economy: A Report to the President," December 2007 report, available at [http://www.sba.gov/advo/research/sb\\_econ2007.pdf](http://www.sba.gov/advo/research/sb_econ2007.pdf).
3. Phaedra Hise, "Everybody Wants In," Fortune Small Business, January 30, 2007.
4. U.S. Small Business Administration, "The Small Business Economy: A Report to the President," December 2007 report, available at [http://www.sba.gov/advo/research/sb\\_econ2007.pdf](http://www.sba.gov/advo/research/sb_econ2007.pdf).

