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How American Government Promotes Small Business: Lessons for China

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**How American Government Promotes Small Business:
Lessons for China**

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Submitted in Partial Fulfillment
of the Requirements for the

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Executive Summary

After I finished 300 hours intern in Small Business Development Center (SDBC), I found that governmental associate is necessary and useful for small business. Below is my finding about how American government, especially during Bush's Administration, helps small business. The paper includes: 1) Legislation and the special stimulus plan. 2) Service through Small Business Administration (SBA). 3) Priorities for small businesses in governmental procurement and 4) Disaster assist and special programs. After that, I provided Chinese small business department with nine suggestions that I developed from the knowledge that I learned in the United States.

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Introduction about Small Business

A small business can be started at a very low cost and on a part-time basis. Small business is also well suited to internet marketing because it can easily serve specialized niches, something that would have been more difficult prior to the internet revolution which began in the late 1990s. [EBay](http://www.ebay.com) (www.ebay.com) is a good example. According to a statistic¹, there were 724 thousand sellers reported that eBay is their primary source of income. Therefore, we can consider they were operating their own business on eBay---that is small business.

Adapting to the change is crucial in business, particularly for small business. By not being tied to any bureaucratic inertia, Small business is typically easier to respond to the marketplace quickly. Small business proprietors tend to communicate well with their customers and clients which results in greater accountability and responsiveness.

Another advantage of small business is independence. Most of small business owners who left their jobs at other companies said their main reason for leaving was that they wanted independent, they wanted to be their own boss. Freedom to operate independently is like a reward for small business owners. In addition, many people desire to make their own decisions, take their own risks, and enjoy the rewards of their efforts. Small business owners have the satisfaction of making their own decisions within the constraints imposed by economic and other environmental factors. However, entrepreneurs have to work very long hours and understand that ultimately their customers are their bosses.

Small Business in the United States

In the United States, a small business is a business that is independently owned and operated, with a small number of employees and relatively low volume of sales. The legal definition of "small" often varies by country and industry. According to the definition by American Small Business Administration (ASBA), the small business firm should under 500 employees or the income should under 7 million dollars per year.²

Small business contribute a lot of jobs opportunities for America. According to Statistics of U.S. Businesses, there are 115,074,924 paid employees work in 5,885,784 employer firms. Within these firms, there are over ninety nine percents of these firms employ under 500 persons, and these firms that employed fewer than 500 persons were offering more than half of the total job opportunities in the United States.^{3 4}

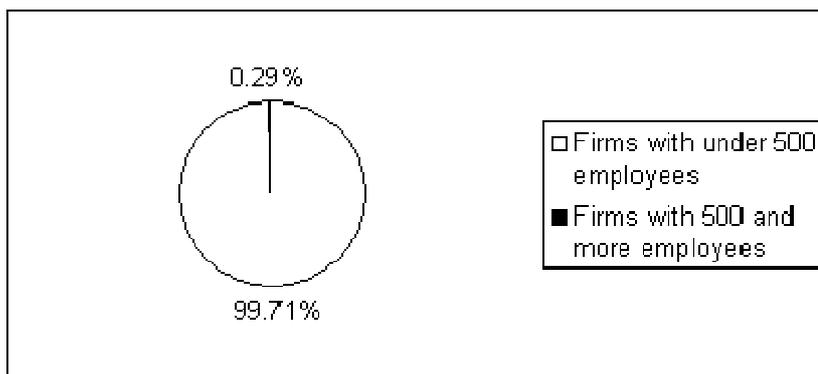


Figure 1

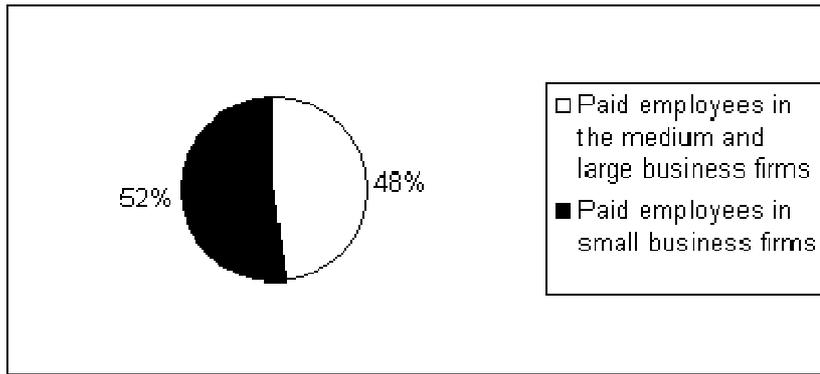


Figure 2

From the Figure 1 and Figure 2, the concept can be understood clearly: the small business firms play a very important role in American economy.

A report from the U.S. Bureau of Census and the Office of Advocacy shows: small businesses created over 92 percent of the net new jobs in the U. S. between 1989 and 2003! The smallest of these companies, those with fewer than 20 employees, created 85 percent of the net new jobs over the 14 years.⁵

In summary, small business firms⁶:

- Represent 99.7 percent of all employer firms.
- Employ half of all private sector employees.
- Pay 45 percent of total U.S. private payroll.
- Have generated 92 percent of net new jobs annually over the last decade.
- Create more than 50 percent of nonfarm private gross domestic product (GDP).
- Supplied more than 23 percent of the total value of federal prime contracts in 2004.

- Produce 13 to 14 times more patents per employee than large patenting firms. These patents are twice as likely as large firm patents to be among the one percent most cited.
- Are employers of 41 percent of high tech workers (such as scientists, engineers, and computer workers).
- Are 53 percent home-based and 3 percent franchises.
- Made up 97 percent of all identified exporters and produced 26 percent of the known export value in 2002.

SBA in the United States

When we review American small business, Small Business Administration (SBA) cannot be ignored. SBA contributed large effort to the development of small businesses, According to the SBA,⁷ since 1953, SBA has grown in terms of total assistance provided and its array of programs tailored to encourage small enterprises in all areas. SBA's programs now include: 1) financial. 2) Federal contract procurement assistance. 3) Management assistance. 4) Specialized outreach to women, minorities and armed forces veterans. The SBA also provides loans to victims of natural disasters and specialized advice and assistance in international trade.

Nearly 20 million small businesses have received direct or indirect help from one or another of those SBA programs since 1953, as the agency has become the government's most cost-effective instrument for economic development. In fact, SBA's current business loan portfolio of roughly 219,000 loans worth more than \$45 billion

makes it the largest single financial backer of U.S. businesses in the nation.

Over the past 10 years, (FY 1991-2000), the SBA has assisted almost 435,000 small businesses get more than \$94.6 billion in loans, more than in the entire history of the agency before 1991. No other lender in this country – perhaps no other lender in the world – has been responsible for as much small business financing as the SBA has during that time.”⁸

Therefore, we can consider that the success of small business in America is highly related with series of helping policies by American government.

How American Government Promoting Small Business

The purpose of my intern is to find how American government helps small business. During 300 hours intern in SBDC at Kennesaw, I took a brief view of American governmental service that relate with small business. American policies for promoting small business can be concluded as:

1. Legislation and the special stimulus plan.
2. Service through SBA.
3. Priority for small business in government procurement.
4. Disasters assist and special programs that cooperate between departments.

Below is a brief description of how these policies work for small business.

Legislation and the Stimulus Plans

Due to the important role in American economics, the President, Senate, and House of Representatives pay much attention to small business. Many acts and stimulus plans were past or adopted. The overall goals are creating a good environment for small business.

Legislation is the only way to protect the legal right of small business. Therefore, Senate and House Small Business Committee were created for promoting and proposing small business legislation in Senate and House respectively.

There were many acts that relate to small business were announced because government pay much attention on small business. Since 2002, there were 65 small business relative acts be adopted already.

In the developing of small business, the most important laws or acts include:

1. **Small Business Act:** This is a general act that shows American government takes the responsibility of promoting small business.
2. **Federal Administrative Services and Property Act (FASPA) :** This act provides various Federal Standards of government contracts and procedures. It regulates that providing more opportunities for small business organizations to take part in the government outsourcing.
3. **Regulatory Flexibility Act (RFA):** The purpose of this act is to minimize the impact to small business by various regulations. Cut down burdens of small business.
4. **Small Business Regulatory Enforcement Fairness Act (SBREFA):** This law

allows small business organizations to participate in and have access to the federal regulatory arena.

5. Equal Access to Justice Act (EAJA)⁹: This act provides for the award of attorney fees and other expenses to eligible individuals and small entities that are parties to litigation against the government.◦
6. Small Business Paperwork Relief Act (SBPRA): This act requires federal agencies to designate one point of contact to act as a liaison between the agency and small business concerns. It also requires the Office of Management and Budget (OMB), in conjunction with the Small Business Administration, to publish on the Internet a list of compliance assistance resources available at Federal agencies for small businesses.

Beside the legislation, stimulus plans also an impetus for developing of small business. During the Bush Administration (2000-2008), these major economic stimulus plans were announced:

1. The President's Jobs and Growth Plan.
2. Economic Growth and Tax Relief Reconciliation Act
3. Job Creation and Worker Assistance Act
4. The Jobs and Growth Act of 2003
5. The President's Small Business Agenda

The only purpose of stimulus plans is promoting small business under different economic situations. During Bush's Administration, Mr. President was focusing on:

1. Tax cut¹⁰.

President Bush believed that high taxes would be a stumbling block for small business. Therefore, he advocated for taxes cutting since he run for president. President Bush tried to help small business owners to substitute more attentions on customers instead of dealing the IRS.

2. Improve the health care and retirement system.

Because the small capital, small businesses do not have much money to provide health care and retire protection. So the following policy was introduced:

- a) Association Health Plans was offered by National Federation of Independent Business. This kind of policies was prohibited before. This policy can help the small businesses provide employees the same health care policy as the huge companies do with a lower price.
- b) Lower the entry of Medical Savings Accounts. Medical Saving Accounts generally suit for small businesses. President Bush lowers the entry, from 1650 dollar to 1000 dollar per year for individual, and from 3300 dollar to 2000 dollar for family. In forecast, this policy was expected to save 6 Billion dollar for small business in ten years.

Services through SBA

Federal government recognized that small business is critical to American economic, for building America's future and helping the United States compete in global marketplace. The Small Business Administration (SBA) was introduced in 1953.

According to the history of SBA¹¹, there are many similar organizations that help to promote small business in the United State:

1. During the World War 2, Smaller War Plants Corporation (SWPC) was created by congress in 1942.
2. After the World War 2, there was an Office of Small business (OSB) that belongs to Department of Commerce.
3. Congress created another wartime organization to handle small business concerns during the Korean War, this time called the Small Defense Plants Administration (SDPA).

After the Korean War, President Dwight Eisenhower proposed creation of a new small business agency -- the Small Business Administration (SBA). The U.S. Small Business Administration (SBA) that created in 1953 is an independent agency of the federal government, SBA help to aid, counsel, assist and protect the interests of small business concerns, also for preserving free competitive enterprise, maintaining and strengthening the overall economy of U.S. and the SBA also helps Americans start, build and grow businesses. Through an extensive network of field offices and partnerships with public and private organizations, SBA delivers its services to people

throughout the United States, Puerto Rico, the U. S. Virgin Islands and Guam Island.

Nowadays, SBA has four major programmatic functions¹²:

1. Access to capital (business financing)

SBA provides finance service to small business, it helps the small business to do financial report and guarantee the bank loan for qualified small business owners. The loan would from the smallest needs in micro-lending --- to substantial debt and equity investment capital (venture capital).

2. Entrepreneurial development (education, Information, Technical Assistance & Training)

SBA provides free individual face to face or internet consulting for small businesses. Every people can feel free to walk in the local SBDC (Small Business Development Center) to look for help. Also, SBA offers low-cost training classes for different needs, the class including: to start a business, taxes, loan, planning, marketing, new technology, information and so on.

3. Governmental Contracts (Federal Procurement)

In keeping with the mandate of Section 15(g) of the Small Business Act, SBA's Office of Government Contracting sets goals with other

federal departments and agencies to reach the statutory goal of 23 percent in prime contract dollars to small businesses. This office also provides small businesses with subcontracting procurement opportunities, outreach programs, and training.

4. Office of Advocacy (Voice for Small Business)

This Office was created in 1978 to review Congressional legislation and testifies on behalf of small business. It also assesses the impact of the regulatory burden on behalf of small businesses. Additionally, it conducts a vast array of research on American small businesses and the small business environment. The Chief Counsel of this office is appointed by the President of the United States.

In addition, SBA offers:

1. Disasters assist which provides low interest disaster loans to homeowners, renters, businesses of all sizes.
2. Special audience service: for example Women, Veterans, Native American and young or old entrepreneurs. There are special services for these specific groups.
3. Cooperate with other association to help small business owners, for example the Chamber of Commerce.

Priority for small business in Government Procurement.

In the United States, a mature federal procurement system was formed over past decades. American federal government is the world's largest buyer of goods and services, with purchases totaling more than \$425 billion per year. The government especially encourages small businesses to bid on contracts for some of these needs. In fact, Federal agencies are required to establish contracting goals, with at least 23 percent of all government buying targeted to small firms.¹³

The Small Business Act was amended by Public Law 95-507, and established the Office of Small and Disadvantaged Business (OSDBU). The Director of the OSDBU is the primary advocate within each Federal Executive Agency responsible for promoting the maximum practicable use of all designated small business categories within the Federal Acquisition process. The OSDBU is tasked with ensuring that each Federal agency and their large prime vendors comply with federal laws, regulations, and policies to include small business concerns as sources for goods and services as prime contractors and subcontractors. Some Federal Departments and entities may have offices in their organizations that are not designated as OSDBU but have similar responsibilities. The goal of the OSDBU and each of these offices is to advocate for and manage the small business utilization programs for their organization.

OSDBU is not a functional department in each Federal agency, but it is still a significant department. Let's take a look at NASA (National Aeronautics and Space Administration) for an example.

The Assistant Administrator of NASA also is the director of OSDBU of NASA.

There are Small Business Program Managers in each sub-department of NASA, including Space Flight and Aerospace Technology. Also, they have Small Business Specialists and Small Business Technical Advisors to help small business engage in the NASA procurement. In addition, the Assistant Administrator also is in charge of Minority Business Resource Advisory Committee.

OSDBUs are not working independently. There is an OSDBU Council that is led by the Directors of the Federal OSDBUs. OSDBU Council is an informal organization of Federal small business program officials that comes together monthly to exchange and discuss information on acquisition methods, issues and strategies; small business program initiatives and processes; and small business related outreach events that permit their respective agencies to increase their utilization of small businesses as prime and subcontractors to meet their annual requirements for services and goods.

Each year, the OSDBU Council holds an OSDBU Directors' Procurement Conference. Small business owners and representatives, large corporations, and Federal small business officials from throughout the country who come together in this conference to discuss and finding for a better cooperation.¹⁴

Disasters assist and special programs

Because the small size and limited capital, small business is much more sensitive with risks. Therefore, Office of Disaster Assistance (ODA) was introduced by SBA.

ODA of SBA is responsible for providing affordable, timely and accessible financial assistance to homeowners, renters and businesses following a disaster. Financial assistance is available in the form of low-interest, long-term loans. SBA's disaster loans are the primary form of federal assistance for the repair and rebuilding of non-farm, private sector disaster losses

Besides SBA and OSDBU, there are additional special programs that set up by other department due the special needs. Here is a list of other programs in Department of Agriculture:

1. Disaster Management Interoperability Services, DMIS
2. The Business and Industry (B&I) Guaranteed Loan Program.
3. Rural Business-Cooperative Service, RBS
4. The Intermediary Relending Program, IRP
5. Rural Economic Development Loan

Can China Learn From US?

Similar to the United States, small business contributed large share of Chinese economy. According to China Statistical Yearbook 2007¹⁵ that presented by National Bureau of Statistics of China, there are 40 million small businesses in China; it is about 99.6% of all businesses. The Chinese Gross Domestic Product (GDP) is 24,662 Billion RMB, and the small business contributed about 14,427 Billion RMB, about 58.5% of whole GDP. In addition, about 75% of job opportunities are created by

small businesses.

Let's look at comparison about small businesses between the United State¹⁶ and China.

	The United State	China
Percentages of all business	99.71%	99.6%
Percentages of GDP	50.7%	58.5%
Percentages of total jobs	52%	75%

From the comparison, we can find the first two data are almost the same, small businesses take more than 99% of all domestic businesses, and both American and Chinese small businesses contributed more than half of total GDP. American small business created about 52% of total jobs, but Chinese small businesses created much more than American small businesses did, it is about 75% of total job opportunities.

During 2001-2005 (in China, we call it "Tenth five period" that means the tenth "five years plan" since 1953), the annual increase rate of products of Chinese small businesses is about 28%. Due to lots export, China is called "world factory". The small business contributed about 68% of all export products. Also, more than 80% of Chinese multi-national businesses are small businesses. Hence, we can consider that the Chinese small business is significant for Chinese economics.

Due to the fast growing of small business, some problems appeared. Many Chinese scholars argue and defined the major problem as lack of capital and the

immature financial market¹⁷. But in my opinion, Chinese small businesses' situation is such similar to the American. So can we learn something useful from American experience?

What We Can Learn from US?

After I review the development of American small business and did intern in SBDC in Kennesaw, GA, based on the reality of China, I would like to provide my opinions about how to encourage Chinese small business.

1. Known and understand the nature of market.

The nature of market is free competition. Therefore, government should not put much regulation on small business.

Unlike American "Small government". Chinese government engaged heavily in market. Many unexpected regulations and barriers were set for small business and private business due to reasons. For example, administrative exam and approval is required when operating a business.

So the most important thing for Chinese government is releasing small business from too much unexpected regulation and barriers. Let them run in a fair competitive market.

2. Complete Relative Statutes and Laws for Small Business.

Every policy or regulation needs to be based on statutes and laws. When we review the history of small business' developing in US, we can find many

acts or statutes for protecting and regulating small business, like Small Business Act, Federal Administrative Services and Property Act and Regulatory Flexibility Act. These statutes encourage government to protect, regulate, help and promote the development of small businesses.

But in China, there is only one act, Small Business Organization Promote Act, that relative to small business so far.

I recommend establishing the Small Business Committee in National People's Congress (which is the legislature of China). The responsibilities of Small Business Committee include bills proposing and advocating for small business.

3. Change the functions of government.

In recently, in order to solve capital problems and promote local small business growing, many local governments set up Guarantee Corporations that can offer local small businesses an easy way to get loans (private financial organization is prohibited in China). But unfortunately, most of the organizations are profit-oriented organizations.

In my opinion, the government may change its role. The most important thing for government is not making money but serving society. So I suggest that government should minimize or eliminate unnecessary regulations and inspections, improve service consciousness and do its best to lower burdens of small business organizations, provide a better growing environment to small business.

4. Set up an organization for delivering service to small business.

American SBA proved that the professional helps are useful. According to a statistic in Georgia, SBDC's intervention cause 11.6% incremental change in employment and 10.77% incremental change in sales.¹⁸

So I believe that it's necessary to set up an organization which likes SBA.

But much more important is the independency. The purpose of this organization is only promoting the development of small business, finding the best way to serve small business. This organization should be a "Client's Interest-Oriented" organization. Therefore, independent from local government is the most significant factor that may impacts the result.

5. Improve the "Administration Open" and the construction of "E-Government".

"Administration Open" and "E-Government" offer a convenience, efficient and transparent way to people. The small business owners can be informed very fast when policies change or opportunities comes.

"Administration Open" and "E-Government" also is good for fair competition, improving effectiveness and lower non-business cost.

6. Set up the standard of evaluation and improve the feedback system.

A mature evaluation system can promote the efficiency and effectiveness. In this system, every employee must be evaluated objectively, personal reward may relate with the score. Also, the evaluation system can provide confident to clients.

Feedback system is a weak point of Chinese government. Since the small business is very sensitive with the policy and marketing, the feedback system is much more important for small business service deliverers.

According to SBA, Georgia's SBDC use Client-Based Performance Assessment. This is a good method that we can refer when we develop our own system.

7. Detailed the priorities of small business in government procurement.

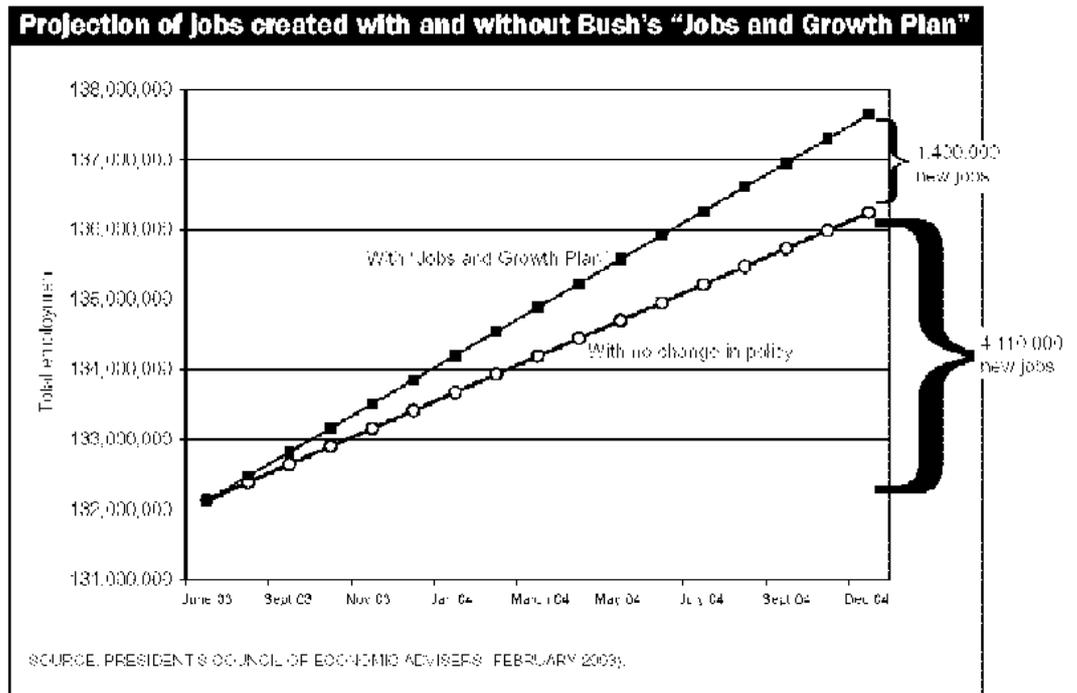
According to a report from Chinese Ministry of Finance¹⁹, Chinese governmental procurement was over than 400 billion RMB in 2007, it is about 1.6% of total GDP of China.

This is a good opportunities for small business. But the more important thing is regulating. We need a detail act to regulate and ensure small business's priority in governmental procurement. Make sure the government and small business in a Win-Win position.

8. Enhance the statistics of small business and information collection.

In America, I am so amazing that American people pay much attention on data analysis.

I found that the biggest different from Chinese is data analysis. Most of conclusions are based on the analysis of existing data. For example, after the < The President's Jobs and Growth Plan > be announced by President Bush, the statistic of the effectiveness of the policy was released, it shows that the Plan was succeed.



Accurate data analysis and information provide a scientific way to evaluate the result of policy or forecast the impact of a new policy. I believe that accurate data analysis will provide useful and accurate comment to the policies maker, also accurate data analysis can improve the efficiency and the accuracy of policies making.

9. Enhance the cooperation between governmental departments.

Many governmental departments need to be involved when helping small business. For example, the Business Administration Department, the Labor Department and Financial Department. Those departments are highly related with small business. Once those departments can enhance the cooperation between each relative department, it would be a good way to minus small business cost---Administration Cost (the cost when dealing with governmental departments).

Conclusion:

Chen Yun, who is the most famous economist in China, said: We have to test each step before taking it²⁰. But, I think, we can learn something useful from the successful experience. For example, experience from the United States in promoting small business.

Over all, I believe that the internship in Small Business Development Center is a good experience in my life and I will be benefited from it.

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