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Profit Margins Year-End, 2009

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How do Small Businesses Impact the Economy

By Rodney S. Laval, CPA

Most of us already know that small businesses are an essential component of the U.S. economy. They account for massive amounts of tax revenues, employment and help to generate a great deal of wealth for those individuals who are lucky enough to run one. But what exactly is a small business and how does its impact on the economy really measure up?

The Small Business Association's Office of Advocacy recently published a report that answers those exact questions and many more. The SBA considers any business with fewer than 500 employees to be a small business, a broader definition than some people are used to hearing. This survey, therefore, obviously includes more than your average "Mom-and-Pop" stores.

Small businesses account for a whopping 99.7 percent of all employer firms. More than half of the 119.9 nonfarm, private sector employees work for a business with fewer than 500 employees. That's more than 60 million employees working for small businesses. Of those employees, firms that employ fewer than 20 individuals account for 21.6 million jobs.

Not only does more than half of the private sector work for small businesses, but also, small businesses are responsible for about 64 percent of the new job growth over the past 15 years. The role of the small business is expanding in our national economy.

The benefits that small businesses provide in jobs are much larger than some people may think. The raw data confirms this. There were 22.5 million new jobs created between 1993 and third-quarter 2008. Businesses with fewer than 500 employees created 14.5 million of them.

Some critics have said that small businesses may have an impact on the economy but are volatile as they are more likely to close than other businesses. While non-employer firms have a higher rate of turnover than employer firms, the rate of turnover for employer firms is about 10 percent for entry and 10 percent for exit. The higher rate of turnover for non-employer firms, however, may be due to the fact that entry and exit conditions for these businesses are much easier.

Moreover, data show that seven out of 10 businesses last at least two years and about half survive five years or more. Specifically, 69 percent of small businesses formed in the year 2000 lasted at least two years while 51 percent lasted five or more years.

According to the most recent census data, in 2006, there were 29.9 million businesses in the United States. Small businesses, including employers and non-employers, made up 99.9 percent of that number, with large businesses numbering only about 18,000.

Large firms spend significantly less per employee to comply with federal regulations, while the average firm under 20 employees spends about 45 percent more per employee to comply. Furthermore, these firms spend four and a half times as much per employee to comply with environmental regulations and 67 percent more per employee on tax compliance than their larger counterparts.

We specialize in working with small business owners to help them achieve their goals. If you would like to learn more about our services, please call us today.