

Facts About Small Business

General

There are about 15 million small businesses in the United States, by size standards set by the U.S. Small Business Administration. About half of small businesses operate full time, the rest part time.

The number of small businesses has increased steadily during the past 30 years. In 1985, new business incorporations (one measure of new businesses) totaled about 668,904, a new record. The previous record of 634,991 new business incorporations was set in 1984.

Fiscal Year 1985 was a good year for small business. Small business income, as measured by sole proprietorship and partnership income, increased 12.3 percent during the first six months of the year compared with the similar 1984 period.

Small businesses employ about half of the private work force, contribute 42 percent of all sales in the country and are responsible for 38 percent of the gross national product.

One out of every two new small businesses will fail within the first four years of operation, studies show. Overall, a firm's chances of survival increase with size; firms with 20 or more workers have a 20 percent greater chance of survival than firms with fewer than 20 workers.

Employment

During 1981-82, small business employment proved a moderating force in the recession. During these years, small businesses produced a total of 2.65 million new jobs, while large businesses were cutting their employment by 1.7 million. Thus all the 984,000 new jobs generated in 1981-82 came from small firms.

Small firms also have led employment gains during the economic recovery and expansion. From October 1984 through September 1985, employment in industries dominated by small businesses (industries in which firms with fewer than 500 employees account for 60 percent or more of sales or employment) rose 5.9 percent; employment in industries dominated by large businesses rose six-tenths of one percent.

Jobs generated by small firms are more likely to be filled by younger workers, older workers and women. Many of these workers prefer or are only able to work on a part-time basis, and thus can be more easily accommodated by small employers.

Small businesses create two out of every three jobs, and thus are responsible for the major cost in initial on-the-job training in basic skills.

Innovation

Studies show that the incidence of innovation among small business workers is significantly higher than among workers in large businesses. Small firms produce 2-1/2 times as many innovations as large firms relative to the number of persons employed.

Innovation coming from small hi-tech firms is expected to increase in the coming years as a result of the Small Business Innovation Research Act. Under the Act, signed by President Reagan in 1982, 12 federal agencies with large research and development budgets must direct an increasing amount of R & D contracts to small firms -- the source of most innovations and new technologies. During the first three years of the Act, small firms received \$400 million in R & D contracts; small firms are expected to receive another \$400 million in Fiscal 1986.

Small businesses have been responsible for more than half of the new product and services innovations developed since World War II.

Almost every energy-related innovation of the past century has come from small business -- for example, the air conditioner, the gasoline engine, the electric light, the electric auto, and petroleum cracking.