Report by the House Small Business Committee
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Small Business Index

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Introduction

The structure of the United States economy is extremely diverse and involves the complex interaction of many factors, trends, and economic sectors. This diversity and complexity has resulted in one of the most advanced economies in the world, which has led the way in the development of new technologies. The U.S. is by far the world's economic superpower – our GDP totaled $10.2 trillion in 2001; assuming international purchasing power parity, this was three times the size of Japan's output, almost five times the size of Germany's and more than seven times the size of the United Kingdom's.[1]

While the U.S. has been a global economic leader for much of the last century, its performance has often been marked by periods of dramatic contraction and resurgent expansion. Over the last century, the growth rate of real U.S. GDP has averaged about 3%, yet the pattern of growth has been far from even. Periods of economic expansion, job creation, and GDP growth are usually followed by periods of economic slowdown and contraction. This is reflective of the business cycle, which signifies fluctuations in the level of economic activity based on variables such as GDP and the rate of unemployment.

A complete business cycle has an expansion period, with an increase in production of goods and services, and a contraction period, when that production declines. Business cycles are measured from the peak of one cycle to the peak of the next. This cycle repeats itself throughout historical periods – from the roaring 1920s to the Great Depression of the 1930s, the boom years of the 1950s followed by the slowdown of the early 1960s, and the mid-1990s economic expansion which gave way to our most recent recession and continued downturn.

During the early 1990s, there was a period of economic contraction in the U.S., which led to one of the longest economic expansions in our history. This expansion was characterized by the acceleration in growth rates of real GDP, productivity, employment, investment and wages. For example, from 1995 through 2000, the annual average GDP growth rate was 2.55%. And over the 10-year boom, equity prices registered a spectacular increase, median household incomes jumped by more than 8% and almost 1.7 million families left the welfare rolls, ushering in a new era of economic prosperity.

An economic phenomenon that was key to recovery then – as it is now – is the power of small companies. In the 1989-1993 recession, these small companies created approximately 3.8 million jobs, outpacing large firms by nearly 500,000 jobs. It was the laid-off, white-collar executive who was most likely to start a business, as roughly 25 percent of downsized managers over the age of 40 started their own firms. Historically, small companies have led the way to recovery due to their ability to respond to sharp changes in economic conditions, spur job creation instead of layoffs, and maintain profits in an uncertain environment.

In an effort to better track the economic conditions facing small businesses and to provide policymakers with a means to evaluate economic proposals, the Democratic staff of the House Small Business Committee has developed the first-ever Small Business Index (SBI). The SBI reflects the current small business climate, while also providing insights into near-term performance of the small business sector. Issued on a quarterly basis, the SBI pools information

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[1] From the Economist Intelligence Unit, Country Profile, July 31, 2002.

from various sources and includes broad measures of the economy, such as the federal budget deficit, number of unemployed and the Producer Price Index (PPI), as well as those reflecting the cost of business, including energy and health care costs.

After reaching a five-year high of 107.73 in 2000, the current 2Q 2003 SBI represents a five-year low for the index, as conditions for small business creation and growth remain less than favorable. For the 2Q 2003, the SBI stands at 72.16, continuing its downward slide from the 1Q 2003 SBI of 72.39. Contributing to the SBI's recent decline are increases in the number of unemployed, the trade deficit, and electricity prices. Increases in the Russell 2000 Index and venture capital funding, as well as declining oil prices, partially offset the recent decreases in the SBI.

The downward trend in the SBI reveals the challenging economic conditions for small businesses. Today, we are once again witnessing a prolonged economic downturn, marked by massive job losses across many industry sectors, including manufacturing, as well as ballooning trade deficits and rising costs for energy and health care. While stock market and consumer confidence measures have shown signs of recovery, recent statistics released by the Labor Department showed that U.S. employers cut jobs in August at the fastest pace since March. The number of workers on non-farm payrolls slid 93,000 in August for the seventh consecutive month, even though economic growth in the U.S. accelerated to 2.4 percent in the second quarter. In addition, the U.S. trade deficit with China increased to a record level of $11.3 billion in July. Given these factors, it is not clear that the economy is poised to fully recover.

The economy's continued weakness is due largely to the lack of an economic environment conducive to small business creation and growth, as reflected in the SBI. Without the contributions of small businesses, and the jobs they create, it will be extremely difficult for the U.S. economy to make a recovery. Small businesses continue to face challenges on many fronts, including rising business costs as well as increased competition from abroad. Until the economic environment for small business improves, it is unlikely that the U.S. economy will rebound.

Methodology

The SBI is comprised of a basket of economic indicators. These indicators provide a broad measure of the degree of small business creation and viability by representing the characteristics necessary for a healthy domestic small business sector. An increasing SBI is indicative of an improving small business sector. The data is gathered and compiled quarterly from various sources, including government agencies, congressional sources, and private institutions.

The SBI is what is generally known as a coincident index in that it reflects the current economic conditions facing small businesses. In order to expand the scope of the economic environment measured by the SBI, both leading and lagging indicators are included. Leading indicators are commonly used to predict changes in economic activity, whereas lagging indicators typically confirm previous changes in the economy. By using both types of data, the SBI demonstrates not only the current state of small businesses, but also how strong the environment is for starting new ventures.

The SBI is calculated using both broad economic measures as well as more specific indicators showing the health of the small business sector. Broad economic measures incorporate the effect of changes in aggregate economic conditions, such as inflation, employment, and trade balances. The sector specific indicators track changes in the costs associated with operating a small business, such as health care and energy costs. Together, this combination of indicators provides an expansive measure of the small business economic environment.

For each economic indicator, data is used to calculate a percent change. This change is calculated quarterly beginning in 2003. For the five-year period between 1998 and 2002, the SBI is calculated annually. The change in each indicator is used as the basis for computing the SBI.

Understanding that not every indicator positively affects the economic conditions facing small businesses, each indicator is assigned a positive or negative correlation. Positive indicators contribute to more favorable economic conditions for small businesses, whereas negative indicators weaken the economic environment for them. The correlation determines whether the SBI will increase or decrease given a change in the value of each economic indicator.

The average percent change of the basket of economic indicators is then calculated. For this calculation, each economic indicator has an equal statistical weight. This average percent change is used to increase or decrease the SBI.

Indicators

Balance of Trade represents the net amount of domestic international trade, as the combination of the number of imports and exports. A trade deficit occurs when foreign imports exceed domestic exports. Conversely, a trade surplus occurs when domestic exports exceed foreign imports.

While trade deficits have helped contain inflation during periods of economic growth, they produce many challenges to domestic manufacturers and exporters, the majority of which are small businesses. For these domestic small businesses, trade deficits often signal a lack of global competitiveness and a loss of market share. Larger corporations are better able to move their operations abroad, reducing their exposure to the factors that cause trade imbalances. Small businesses, however, are unable to easily relocate overseas and must reduce their operating costs or change their business model.

Business Failures represent the number of small companies that failed during the year, as designated by statistics collected by the Small Business Administration's (SBA) Office of Advocacy. While the goal is success, many entrepreneurs find they must close their doors. Increasing business failures point to a decline in economic activity and show that the conditions are not strong or conducive for small businesses to thrive. Since it is never the objective of companies to close, the number of these failures is a negative force in the small business economy.

Business Start-ups represent the number of companies that are launched. The ability to turn an idea into a viable business demonstrates the economy has the necessary resources to contribute to economic expansion. Nearly every business starts small, including many Fortune 500 companies such as Microsoft and Federal Express. When entrepreneurs are able to get their ventures off the ground, make profits, and hire workers, this adds positively to the small business economy.

Commercial and Industrial Loans and Leases reflect the amount of business lending by commercial banks. Small businesses, including small manufacturers, rely on commercial and industrial loans to expand their operations and to modernize their facilities. These loans are used to purchase real estate and equipment, as well as for working capital purposes.

The measure of commercial and industrial lending and leasing activity provides a good gauge of the credit conditions facing small businesses. An increase in lending and leasing indicates that banks are willing to extend more credit, while a decrease represents a tightening, or rationing, of credit. Because bank lending patterns also reflect the financial conditions of their borrowers, a change in this measure is often correlated with the underlying economic fundamentals of the business sector.

Electricity Costs represent the average electricity retail price per hundredth cent kilowatt-hour. The data is for the commercial and industrial sectors that join to represent the business community. The modern economy relies on electricity to function. Few small companies could run without electricity since computers, lights, heating/air conditioning, factory machines, phone systems, and office equipment rely on its steady stream. As the cost of electricity rises, it comprises a growing percent of companies' budgets. With small businesses operating on thin profit margins, any changes can impact their overall health.

Federal Budget Surplus or Deficit represents the net amount of federal government outlays and receipts. A budget deficit may negatively affect small businesses for two reasons. First, it may be indicative of a decrease in federal government domestic discretionary spending, including reductions in programs targeted to assisting small businesses and entrepreneurs. For instance, budget deficits are likely representative of reductions in many of the Small Business Administration's (SBA) programs, as well as programs that provide vocational training to adults, energy and technological support to companies, assistance to small manufacturers, and mentoring opportunities to minority-owned businesses.

Second, budget deficits contribute to higher credit costs. As the supply of government debt is increased, the price (interest rate) on the debt must also be increased in order to attract investors. To remain competitive, private sector debt issuers often raise the interest rates on their instruments as well. The result is higher interest rates for all borrowers. Borrowers who rely on commercial loans, such as small business owners, are most likely to be hurt by these interest rate increases.

Health Care accounts for the cost of health care insurance premiums. The indicator represents the price companies pay for providing health care to their employees. It is a combination of the cost of health care supplied by all providers (HMO, PPO, and point of service). While small businesses are not required to provide health care to their employees, most do so in order to retain qualified workers. As with any workforce benefit, changes in the price of health care have a direct impact on the company's bottom line. Especially for small businesses, increases in these costs can lead to either a reduction in coverage offered or other forms of compensation, and can have a detrimental effect on the stability of the company.

Manufacturers' New Orders represent the amount of orders for durable and non-durable goods placed with domestic manufacturers, the majority of which are small businesses. Manufacturers' new orders are a benchmark for economic activity, often signaling a near-term economic recovery or downturn.

A rise in manufacturers' new orders reflects an upturn in economic activity and is a likely indicator of a rise in near term profitability. A decrease in manufacturers' new orders is indicative of a decline in business, which will result in lower profits for manufacturing businesses.

Natural Gas Costs are the average monthly price of natural gas sold to consumers in the United States. These figures are taken from the U.S. Energy Information Association. The amounts are measured in dollar amounts per cubic foot.

For many small businesses, the costs of energy, including natural gas, make up a significant percent of their daily operating costs. Spikes in natural gas prices can be devastating to certain sectors of the economy. These price increases are particularly tough on gas-intensive businesses like small restaurants and dry cleaners. Federal Reserve Chairman Alan Greenspan and other economists have cited the rising costs of natural gas as an impediment to economic growth.

Net Farm Income is a measure of the financial condition of the farm industry. It reflects the farm income received from the sale of livestock and crops and payments from the government less the production expenses. Farms often drive rural economies, providing jobs to local residents and generating wealth in these communities. As a result, the economic well-being of rural small businesses is frequently tied to local farms.

An increase in net farm income is indicative of an improving rural economy. Growth in net farm income often translates into higher profitability for rural small businesses. Alternatively, a decline in net farm income often signals tougher times for small firms, as farms purchase less goods and services from local rural small businesses.

Number of Unemployed represents the number of individuals without jobs, indicating the level of small business economic activity. A decline in the number of unemployed reflects an improving economy, in which more consumers have the means to purchase goods and services. An increase in the number of unemployed indicates a slowing economy, in which consumers are less able to spend freely on goods and services.

Oil Costs pertain to the sweet crude oil costs in U.S. dollars per barrel. Such figures are compiled by the New York Mercantile Exchange Index and are posted by the U.S. Department of Energy. As many small companies are dependent on transportation costs, changes in gasoline prices can severely affect the cost of doing business. In addition, price volatility of oil can make it difficult for small businesses to decide on future investments due to cash flow issues related to these rising costs.

Prime Rate is the interest rate charged by banks to their most creditworthy customers. Interest rates on small business loans are generally tied to the prime rate. The prime rate is included as a measure of the credit terms available to small businesses. While the prime rate is directly charged to the most creditworthy small businesses, the interest rates charged to less creditworthy small businesses are linked to this rate. This demonstrates how the prime rate affects the lending conditions of nearly every company.

The prime rate fluctuates based on the federal funds rate and other factors. The prime rate provides the lender with sufficient revenue to cover the costs associated with loans to borrowers determined to have a low risk of default. The rate is adjusted in increments, called the margin, to compensate for greater credit risk or other factors that affect the cost of lending.

Producer Price Index (PPI) measures the average change over time in the selling prices received by domestic producers for their output. The PPI represents the prices that small manufacturers and producers will receive for their products. In addition, the PPI also measures the prices charged to small businesses for purchases of their retail inventory.

Rising resource and labor costs often cause the PPI to increase and may result in a reduction in the demand for small businesses products, dampening economic activity. A decrease in the PPI reflects declining costs of production and may cause small businesses to lower their prices or increase their profit margins.

Regulatory Costs represent the total number of final regulations issued each year. Regulatory compliance and paperwork consistently rank as one of the top ten concerns facing small businesses in America today. Costs to small firms for regulatory compliance are generally 60% higher than they are for large firms.

Retirement and Savings represent the costs for small businesses to provide employee pension benefits per working hour. These costs are associated with the amount spent in offering retirement coverage to their employees, a critical tool in attracting and retaining employees.

Cost increases for small businesses can have a detrimental effect on these companies, many of which are operating on very thin profit margins. An increase in the cost of each employee hour worked can force small businesses to make cuts or raise their product's price. When the cost of each hour worked decreases, small businesses have more flexibility in running their companies, as they are able to provide more benefits, hire additional workers, or save money for a later date. The data is collected from the Department of Labor.

Russell 2000 Index represents the 2,000 smallest companies in the Russell 3000, a broad based index that represents approximately 98% of the value of what is invested within the U.S. equity market. The Russell 2000 makes up only about 8% of the total market capitalization of the Russell 3000. This is the most quoted index that focuses on the smaller company portion of the economy.

While most small businesses are not publicly traded, the Russell 2000 Index is a benchmark measure of the economic performance of smaller companies. An increase in the Russell 2000 reflects rising investor confidence in the smaller company sector and heightened expectations for future profitability. A decline in the Russell 2000 is generally driven by decreased investor confidence and lower profit expectations for the Index's companies.

Total Employee Compensation accounts for what small businesses spend on employees for each hour worked. This number represents the compensation for companies that have 99 employees or less, and is a combination of salary, benefits, and government paycheck requirements.

Cost increases for small businesses can have a detrimental effect on them, since many operate on very thin profit margins. An increase in the cost of each employee hour worked can force small firms to make cuts or raise their product's price. When the cost of each hour worked decreases, small businesses have more flexibility in running their companies, as they are able to provide more benefits, hire additional workers, or save money for a later date.

Venture Capital reflects the amount of equity investment in private companies, the majority of which are small businesses. Equity capital is an important financing element for entrepreneurs seeking to improve their business model, expand their operations, and reach new customers.

Venture capital activity is beneficial to small enterprise because it provides a source of long-term capital investment. Any increase in venture capital investment is beneficial to small businesses, as it provides another source of financing. A rise in venture capital financing is also symbolic of increased innovation and entrepreneurship. On the other hand, a decline in venture capital financing increases the likelihood that small businesses will have to rely on more costly financing arrangements such as high interest credit cards.

Analysis

The SBI exposes the variety of factors that have contributed to the current economic downturn for small businesses, as well as the impact such factors have had on small business investment and growth. It provides a snapshot of the economic picture for the future growth of small businesses and reveals the large number of obstacles they need to overcome if we expect to see an economic boom.

According to the SBI, which stands at a five-year low, small businesses are facing a difficult economic environment, marked by rising business costs, a decline in commercial lending, and increasing competition from abroad. Down 33 percent since 2000, the current SBI reflects a reduction in small business start-ups and an increase in small business failures. Economic conditions remain unfavorable for small business growth and expansion.

In contrast to the current SBI, the 2000 SBI marked a five-year high. Economic conditions in 2000 were favorable for small business growth as capital was more plentiful and operating costs were lower. This analysis reveals how each of the indicators contained in the SBI are generally negative for small businesses. To further analyze the recent decreases in the current SBI, the 19 economic indicators used are grouped below into four categories: costs factors, credit conditions, trade competitiveness, and industry metrics. Some of the indicators fall into more than one category.

Cost Factors

Health Care, Oil, Electric, Gas, Retirement and Savings, and Total Employee Compensation, Producer Price Index (PPI)

The data reveals that the overall cost of doing business, particularly for smaller firms, is getting more expensive. There have been substantial price increases with respect to energy, pension, and health care costs. The rate of increase has also been climbing for a number of these factors over the past few years. Obviously, there are small businesses that are more dependent on some of these resources than others. However, the majority of small firms have been focusing on the continual run-up of two costs: health care and energy costs.

The most defining cost factor for small businesses has been the sharp increases in health insurance costs. Recent surveys indicate that small businesses rank rising health care costs as their number one concern. While small businesses are not required to offer health insurance, over half of them do because scaling back could lead to increased turnover and instability. Additionally, small businesses are generally hit harder by premium hikes than large ones. For example in 2000, businesses with less than 200 employees faced higher premium increases, growing 12.5% compared to 10.2% for larger businesses.

The SBI shows that health care costs are reaching critical levels for small firms. These businesses have seen double digit premium increases over the last three years and the latest data shows that health care costs rose by an average of 13.9% – even higher than last year’s 12.9% increase.

To make matters worse, these spikes in health insurance are compounded by the rising energy, pension and regulatory costs. The second most significant increase has been in energy costs, as small businesses now account for more than half of all energy consumption in North America.

While there has been some fluctuation, oil and natural gas costs have also been on the rise since 2000. Small businesses are usually unable to negotiate wholesale rates on these goods and are particularly prone to price hikes. While large corporations are better equipped to ensure against such spikes, small firms are often left exposed because of cash flow issues.

The unique nature of these energy costs is their volatility. The price increases have not been consistent and there have been double digit rises and falls within the span of just a few months. When small businesses make bids for certain jobs, they base it upon what they believe will be the costs of input. Enormous energy price swings can mean what seemed like a reasonable bid one month ago is dramatically below the current cost of performing a contract. While some have benefited from the quick fall of energy prices in particular months, this volatility has likely contributed to the increasing number of business failures.

These cost statistics reveal that small businesses are getting the same amount of inputs to run their businesses, but at a higher cost. For a small business, these cost hikes can mean they are unable to hire another employee that may be critical to the expansion. This climate of instability has created an uncertainty with many small business owners who are trying to set prices for goods or services. This has prevented small businesses from making informed decisions and harmed business planning for companies seeking to grow.

Credit Conditions and Access to Capital
Budget Deficit, Commercial and Industrial Loans, Interest Rates, Venture Capital

As costs have gone up with minimal change in the price of goods sold, small businesses generally need more capital to grow and expand their operations. Small firms often rely on bank lending as a source of capital, yet while interest rates have declined over the past few years, so has the amount of commercial lending. In many ways, this has prevented small businesses from overcoming increases in business costs.

The SBI indicates that small businesses have experienced difficulty in gaining access to capital. The volume of commercial loans has declined dramatically in the past few years, from a high of nearly $1.1 trillion in 2000 to its current level of $934 billion. In the future, small businesses may continue to face difficulties in securing adequate capital, as growing budget deficits will cause an increase in interest rates. Interest rates will rise as private sources of capital compete with the public sector for investors. As a result of these higher borrowing costs, small businesses will continue to face challenges regardless of the economy's growth.

Rising interest rates increase the cost of capital for doing business, but also have a more severe impact on small businesses that place a greater reliance on debt financing. While large corporations are able to finance operations through alternative funding arrangements, the vast majority of small businesses depend mainly on commercial loans.
Venture capital funding is an important source for those small businesses seeking equity financing. Through venture capital investment and accompanying management assistance, small businesses are able to grow and expand. The substantial decline in venture capital funding from

over $26 billion a quarter in 2002 to its current total of less than $5 billion in the most recent quarter, has left many small businesses without a source of equity financing. As a result, many of these firms will face higher financing costs or will be left unable to attain their business goals.

Trade Competitiveness of Small Businesses
Trade Deficit, Manufacturers' New Orders

As evidenced by the rising trade deficit, U.S. small businesses are witness to their diminishing role in the international economy. For 2003, the trade deficit is averaging over $40 billion a month. The ballooning deficit reflects an increased flow of foreign goods into the U.S. and a reduction in the amount of U.S. exports. As foreign imports grow, small businesses face increased competitive pressures on the domestic front, further reducing their profit margins. Because many small businesses rely on foreign markets as a source of revenue, a reduction in U.S. exports may force a small business to reduce its operations, or even close their doors.

The decline in U.S. exports is demonstrated by decreases in manufacturing activity, as measured by manufacturers' new orders. Manufacturers' new orders, a benchmark measure of the domestic manufacturing industry, has declined from a high of approximately $347 billion per month in 2000 to $322 billion per month in 2003. While the manufacturing sector has recently ended its freefall, this measure indicates that the sector has substantial gains to make before it surpasses its 2000 peak.

A result of increased costs and difficulties in securing capital, as well as poorly-crafted trade and tax policies, the rising trade deficit has closed the international marketplace to many small businesses. As the majority of U.S. exporters are small businesses that are less likely than their corporate counterparts to absorb cost increases, the rising trade deficit has a disproportionate effect on them. While large businesses can move their operations abroad and take advantage of cheaper labor and resource costs, small businesses must bear significant costs or forego international trade altogether.

Failed trade policies and barriers to small business growth have significantly contributed to the SBI's decline. Without access to foreign markets, small businesses will be unable to prosper and grow. Until policies are enacted to reduce the trade deficit, small businesses will find it difficult to lift the U.S. out of its current economic downturn.

Industry Metrics
Business Start-ups, Business Failures, Net Farm Income, Russell 2000 Index, Total Unemployed

The SBI also includes factors that measure the performance or health of the small business sector. These figures include the number of business start-ups and failures, the small business stock index, and the overall rate of unemployment. These indicators are designed to show how small businesses are reacting to the increased costs and lack of access to capital, and whether they are able to overcome negative trends in other SBI indicators.
Sound policies can help foster small business growth, as measured by these industry metrics. Instead, these indicators show that small businesses are reacting poorly to the current economic policies by either going out of business or failing to enter the business market at all. This is evidenced by the fact that in 2002 almost 30,000 more businesses failed then were started. And since the peak of the SBI in 2000, the percent of business failures has increased by 6%.

These statistics also show what entrepreneurs can expect if they choose to start a business or expand an existing one. Small business owners base their investment decisions on the economic conditions facing their companies. If they see high unemployment numbers and low consumer confidence, they know the demand for goods and services may be low. Due to these factors, small businesses are unlikely to invest in their operations since there is the risk it will not generate a return.

When economists talk about a jobless recovery, it is critical to look at the number one job creator in this country – small businesses. The fact that the total number of small businesses has declined since 2001 by over 10% helps explains why the unemployment rate has increased over this same period. While the SBI is representative of the challenges that small businesses face, it is also symbolic of the flawed policies that have pushed our economy further into a downturn.

Conclusion

Viewed in its entirety, the 2Q 2003 SBI shows that the economic environment facing small businesses is not favorable. The rapid decline of the index value indicates entrepreneurs are struggling to start and expand their ventures. As the economy depends on small businesses to act as a catalyst for growth, the current SBI rating is troubling.

Historically, small businesses have spurred job growth during economic downturns, but have failed to do so since 2000. Small businesses are not creating jobs, as seen by the large number of workers in the United States who continue to remain unemployed. While the terrorist attacks of 9/11 clearly had an impact on small businesses, the SBI shows there has not been any improvement in the environment facing small businesses since that date. Due to a variety of factors, the current economic landscape has stifled small business creation and expansion.

Given rising business costs and the shortage of available capital, small businesses are reluctant to expand. Rising health care, energy, and labor costs impose further constraints on the ability of small businesses to maintain profitability. Contributing to these rising costs are ever-changing geopolitical forces, which add yet another layer of uncertainty for small businesses. For those small businesses that have been able to weather these rising costs and survive, many face additional difficulties in securing capital, as represented by declines in both venture capital investment and bank lending.

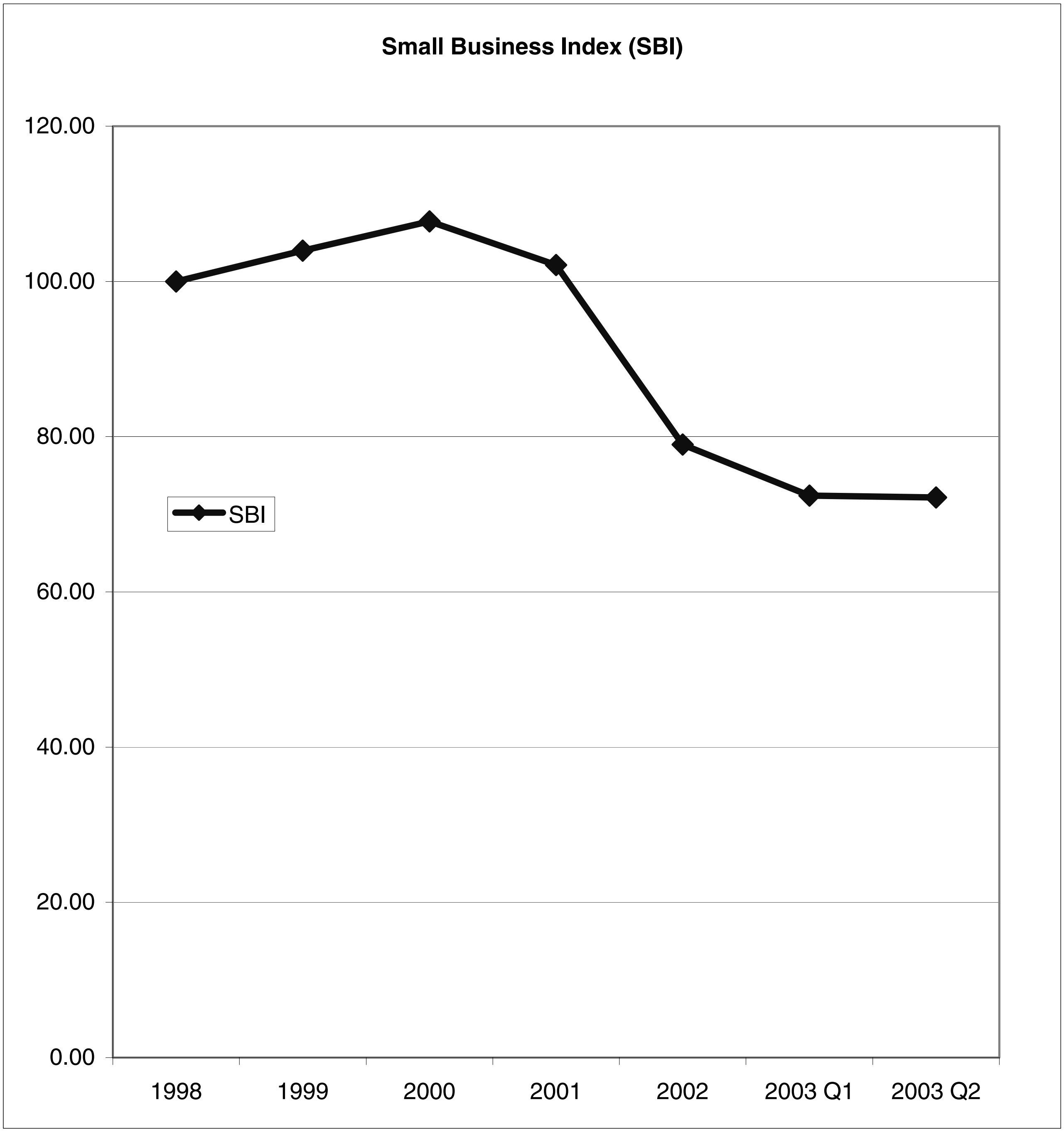
In an attempt to address these issues, Congress and the Bush administration have failed to establish favorable small business conditions. Instead of supporting pro-small business policies, the administration has favored economic policies that benefit large corporations.

These policy failures have contributed to the continual decline in the SBI. Since 2001, there have been no attempts to address the rising prices of the two largest costs for small businesses – health care and energy. The absence of both health care reforms and a national energy policy has contributed to the drain on small business resources. If small businesses are to aid in our recovery, the administration and Congress must actively promote policies to alleviate these burdensome costs, while increasing their access to capital.

The recent tax cuts of 2001 and 2003 were intended to provide an infusion of capital and reduce the overall cost of operation for small firms. However, more than half of small businesses will receive less than $500 and some 36% will receive less than $100 under the 2003 tax cut. The primary beneficiaries were large corporations that gained from the multibillion dollar dividend tax cut. Given this, it is apparent that the Bush tax reductions will provide little relief to small businesses, in turn leaving the economy with a less than effective stimulus.

The failed policies of the Bush administration, from tax to trade, as well as the lack of health care reforms and a national energy initiative have caused considerable hardships for small businesses – the lifeblood of the American economy. The SBI reflects these policy choices and the inaction on issues that matter most to the small business community. Until the conditions for small business success improve, the U.S. economy will remain weak, unemployment will remain high, and recovery will remain elusive.

Data



	1998	1999	2000	2001	2002	2003 Q1	2003 Q2
Small Business Index (SBI)	100.00	103.95	107.73	102.11	78.98	72.39	72.16