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## Are Small Businesses the Framework for a Successful U.S. Economy?

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**Are Small Businesses the Framework for a Successful U.S. Economy?**

**By**

**Carson Jay Clevenger**

**Advisor: Dr. Karl Schubert**

**An Honors Thesis in partial fulfillment of the requirements for the degree Bachelor of  
Science in Business Administration in Accounting**

**Sam M. Walton College of Business  
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## **Introduction**

This thesis will investigate the impact of small businesses on the United States' economy. I will be assessing several impact areas including gross domestic product, employment, and local economy contribution. This thesis will cover a study from the time periods of 1998-2014 of the gross domestic product and employment levels and will use numbers from the years of 2018-present for other impact areas. Furthermore, I will be analyzing certain sectors of the economy, comparing small businesses contribution to corporate contribution, in order to discuss if small businesses are necessary for our country's successful economy.

### *Economy Overview*

An economy is defined as systems of organizations and institutions that participate in the production and distribution of goods and services in a society. Economies determine much of the way that a society function. How resources are distributed, the value of products and services, and the function of competition between organizations are all determined by an economy. Thus, the significance of a functioning economy is tied to every member of a given society. For the purpose of this thesis, I am researching the economy of the United States, which is considered a mixed economy. A mixed economy is one that has the functions of a free-market capitalist economy when referring to production (land, capital, and labor), given that individuals are able to make their own decisions and create an impact on the production of goods and services. Also, individuals are able to own all resources. A mixed economy also incorporates command economy characteristics as well because the government has set certain regulations in place to govern services such as retirement benefits and medical care. The basics of the United States economy have to do with supply and demand, where the price of goods, services, and labor are determined based on the societal need for a given product or service. In this type of structure, the individuals of a society are the facilitating force for determining the costs of production. In the United States' economy, certain drivers are used to measure the overall well-being and performance levels. Some of these indicators include gross domestic product (GDP), unemployment rates, inflation, and the stock market, among others. For the purpose of this thesis, I will be researching and discussing the areas of gross domestic product and employment throughout different times in the nation's history (Amadeo).

### *Research Focus*

One economic driver I will be focusing on during this research will be gross domestic product (also referred to as GDP in this thesis) of the United States. Gross domestic product is the total value of finished goods and services that occur within a country. Some of the things it takes into account include investments, consumption, production, income, imports, and exports. Measures are made using "real GDP", which adjusts the numbers to remove the effect of inflation, and "nominal GDP", which shows the numbers based on the dollar values of the given time period. GDP is a major factor when determining the success of an economy based on monetary levels (Gross Domestic Product).

Employment levels will be looked at when discussing the economy as well. Employment rates are an important measure for an economy based on the impact that individual contribution levels have on an economy. Individual contribution levels correlate to the level of consumption and production of products, which also effect the GDP. Employment rates also show a trend of the well-being of members in a society. Employment levels correlate to economic well-being

because of the ties between consumption and production. Individuals have to have money in order for them to contribute to the consumption of goods, which in turn relates to businesses production levels. I will use these two drivers for my comparison between small businesses, large businesses, and the economy (Employment: A Key Concept in Economics).

*Defining a Small Business*

For an entity to be classified as a “small business”, it must meet certain regulations set by the U.S. Small Business Association (SBA). Regulations are specific to each industry, varying based on number of employees or average annual receipts. Industries are grouped into sectors, which is the overarching group that each industry falls into. For the purpose of this thesis, I will be illustrating numbers based on the sector-wide level. Each sector mentioned has a variety of different industries in them, but all of them fall under the same category of business activity. It should also be noted that each industry has varying amounts of small businesses that make them up. Industry classification numbers change throughout years based on overall economic levels. Graphs will be used in this thesis that show the contribution of separate sectors that make up the economy.

I have provided Table 1.1 that shows a better description of the breakdown below. The examples of sector names that industries fall under are provided in parenthesis following the example industries.

Table 1.1 Examples of Industry Size Limits and Sector Classification

| <b>NAICS Code</b> | <b>NAICS US Industry Title</b>                        | <b>Size Standards (In Millions of \$)</b> | <b>Size Standards (Number of Employees)</b> |
|-------------------|---|---|---|
| 221320            | Sewage Treatment Fac. (Utilities)                     | \$22.0                                    |   |
| 236118            | Residential Remodelers (Construction)                 | \$39.5                                    |   |
| 311212            | Rice Milling (Manufacturing)                          |   | 500   |
| 423130            | Tire and Tube Merchant Wholesalers (Wholesale Trade)  |   | 200   |
| 511110            | Newspaper Publishers (Information)                    |   | 1,000                                       |
| 522220            | Sales Financing (Finance and Insurance)               | \$41.5                                    |   |
| 551111            | Offices of Bank Holding Companies (Mgmt. of Business) | \$22.0                                    |   |
| 611512            | Flight Training (Educational Services)                | \$30.0                                    |   |

Source: Electronic Code of Federal Regulations, <https://www.ecfr.gov/cgi-bin>

Small businesses have existed since the beginning of the United States’ formation. The number of functioning entities and their contribution levels have changed throughout those years, but they have always been a pillar to the society. In 2020, the number of small business in the United States reached 31.7 million, which made up about 99.9% of all businesses. These numbers also change year to year depending on new ventures and failures of existing entities.

### *Government in History*

Throughout history, the government has set regulations in place to protect small businesses from large competitors. Such as in 1887 when the Interstate Commerce Act was created to regulate rates charged by railroads in order to protect small farmers and other businesses. This act also created the Interstate Commerce Commission in the same year. Congress was preventing railroads owners from unfair business practices and required they use “just and reasonable” rates for all parties. This limited the act of favoritism to big businesses, as small businesses were not able to purchase the amount of goods necessary to obtain the “favorable rates” big businesses were offered beforehand. The Interstate Commerce Commission continued to play a role in the fair treatment of small businesses by continuing to regulate through the 1900’s. They ensured fair treatment on aircraft transportation and had a large say in all of the Department of Transportation’s ongoing regulations (Interstate Commerce Act 1887). Also seen through the Sherman Act of 1890 and the Clayton Act of 1914. Both of these restricted unfair trading practices, passed to protect the well-being of small businesses against large competitors, so that big businesses could not create monopolies and become a controller of the economy (Sherman Antitrust Act). Mentioned above, the Small Business Association, an independent government agency, was formed in 1953 in order to protect and aid small businesses in the United States. The goal of the organization has always been to maintain diverse industries, strengthen the economy, and allow equal opportunities for individuals. Needless to say, our country depends on small business creation, growth, and success in order to maintain a fair state, allowing for all citizens to have opportunities for success. It can be seen by these mentioned federal acts how important the government portrays small businesses, their existence is the way our capitalist economy is maintained, not allowing corporations to control society.

### *Underprivileged, underrepresented, underserved Individuals*

Another area that small businesses impact comes from the population of underprivileged, underrepresented, and underserved members of the society. The contributing population of these classifications can come from immigrants, felons, individuals below the poverty line, handicapped, or any other individual who may have factors that pose limitations on them to achieve success. More broadly defined, these groups can be classified as minorities. With the existence of small businesses, these individuals are able to show their creativity and worth by having an opportunity to create an entity that allows them to offer their services to the public.

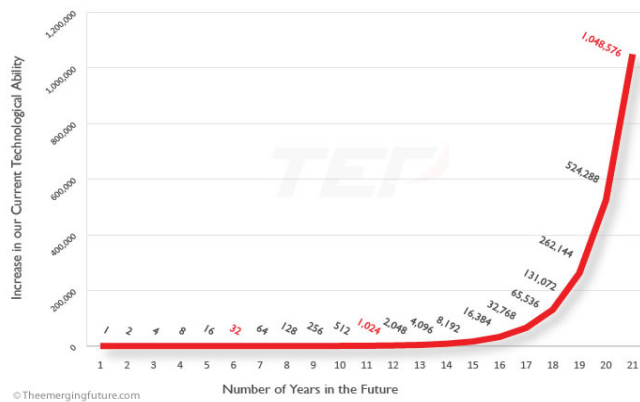
### **Data and Methodology**

#### *Observation Insight*

For the purpose of this thesis, I will be using numbers from distinct time periods that give an in depth look at the fluctuation and gross domestic product and employment. I will be focusing on the time period from 1998-2014. Current large-scale studies by the Small Business Association such as this take years to interpret and publish, so this is the most recent timeframe of information released. This seventeen-year observation period is able to illustrate a good perception of the impact of small businesses on the economy during abnormal times such as the early 2000’s recession and The Great Recession; it also encases many years of continual growth and flourishing of the economy. These years also offer the most relevant data to the current and future small business impact levels. I state this because the numbers show years where the United States experienced an immense amount of technological growth including: the invention

of the first major smartphone, advanced personal computers, and several new social media applications. The trend of technological growth does not seem to have an end in sight, so these years seem relevant when discussing current and future impacts. Below is an image of the technology growth forecasted over the next 20 years. The advancement of technology increases the impact that technology has on daily interactions including memory, communication, processing speed, and more.

Human Intuitive Perspective of Technological Advancement  
in Twenty Years  
A Million Times More Advanced



This image shows the technological capabilities to grow by 16 times in the next 5 years, and by almost 1 million times in 21 years. It is hard to wrap the mind around how immense the usage of technology will be in future, potentially changing the way daily life is gone about.

Photo used is found in the article by Yuli Ban, listed on works cited page.

*Introduction to Data*

As mentioned previously, I will be illustrating small business contribution in terms of percentages of overall measurements. The majority of the research numbers have been taken from studies done by the Small Business Association.

Source (Tables 2.2, 2.3, 2.4, and 2.5): Kathryn Kobe, “Small Business GDP 1998-2014”, U.S. SBA Office of Advocacy, <https://cdn.advocacy.sba.gov/wp-content/uploads/2019/05/10163013/Small-Business-GDP-Update-2002-2010-Research-Summary.pdf>

The following sectors (industry groups) and years will be measured:

| Sector                                   | Years     |
|--|-----------|
| Manufacturing and Mining (1)             | 1998-2014 |
| Wholesale and Retail Trade (2)           | 1998-2014 |
| Health Care and Social Assistance (3)    | 1998-2014 |
| Finance and Insurance (4)                | 1998-2014 |
| Professional and Scientific Services (5) | 1998-2014 |
| Real Estate/Rental/Leasing (6)           | 1998-2014 |
| Information (7)                          | 1998-2014 |
| Construction (8)                         | 1998-2014 |
| Administrative and Support Services (9)  | 1998-2014 |
| Transportation and Warehousing (10)      | 1998-2014 |

Table 2.1

|  |           |
|--|-----------|
| Accommodation and Food Services (11)     | 1998-2014 |
| Other Services (12)                      | 1998-2014 |
| Management of Businesses (13)            | 1998-2014 |
| Utilities (14)                           | 1998-2014 |
| Educational Services (15)                | 1998-2014 |
| Arts, Entertainment, and Recreation (16) | 1998-2014 |

### Gross Domestic Product

The following tables show the contribution of small businesses in each sector as a percentage of total GDP of that given sector (The total column in Table 2.3 shows the total small business percentage in respect to the overall GDP each year):

*Note: Refer to Table 2.1 for sector label identifiers; numbers are percentages*

Table 2.2 Small Business Shares of GDP by sector number

| Year    | (1)  | (2)  | (3)  | (4)  | (5)  | (6)  | (7)  | (8)  |
|---------|------|------|------|------|------|------|------|------|
| 1998    | 29.4 | 52.9 | 51.9 | 29.9 | 67.7 | 81.8 | 20.4 | 87.3 |
| 1999    | 29.3 | 52.0 | 52.9 | 30.2 | 66.3 | 81.3 | 19.1 | 87.3 |
| 2000    | 29.5 | 51.4 | 52.0 | 29.6 | 60.2 | 81.2 | 15.1 | 85.6 |
| 2001    | 29.7 | 50.6 | 52.5 | 28.9 | 61.6 | 82.2 | 11.1 | 85.1 |
| 2002    | 28.2 | 48.4 | 51.4 | 36.2 | 63.6 | 81.8 | 8.3  | 84.5 |
| 2003    | 28.4 | 47.5 | 53.2 | 34.6 | 62.5 | 80.4 | 12.4 | 84.6 |
| 2004    | 28.9 | 46.5 | 52.7 | 33.9 | 61.8 | 79.7 | 11.8 | 83.8 |
| 2005    | 27.4 | 45.8 | 52.3 | 32.8 | 60.5 | 76.8 | 14.3 | 82.5 |
| 2006    | 28.5 | 45.3 | 51.5 | 30.9 | 59.7 | 77.2 | 13.8 | 82.6 |
| 2007    | 27.9 | 45.0 | 50.7 | 30.9 | 59.3 | 81.6 | 12.4 | 85.0 |
| 2008    | 28.5 | 43.7 | 50.9 | 25.3 | 58.7 | 85.2 | 11.8 | 84.9 |
| 2009    | 26.7 | 42.0 | 49.9 | 32.6 | 57.4 | 82.8 | 12.4 | 85.4 |
| 2010    | 27.5 | 42.2 | 49.5 | 34.8 | 56.3 | 82.0 | 13.1 | 83.9 |
| 2011    | 27.7 | 42.1 | 48.5 | 34.7 | 56.2 | 81.8 | 12.8 | 83.1 |
| 2012    | 28.1 | 41.7 | 47.1 | 31.6 | 56.3 | 81.4 | 13.5 | 82.3 |
| 2013    | 27.2 | 41.5 | 46.7 | 30.5 | 55.2 | 82.2 | 12.0 | 81.4 |
| 2014    | 27.1 | 41.6 | 46.7 | 29.1 | 54.4 | 82.3 | 11.7 | 81.3 |
| Average | 28.2 | 45.9 | 50.6 | 31.6 | 59.9 | 81.3 | 13.3 | 84.2 |

*Note: Percentages based off Nominal GDP data*

Table 2.3 Small Business Shares of GDP by sector number

| Year | (9)  | (10) | (11) | (12) | (13) | (14) | (15) | (16) | Total |
|------|------|------|------|------|------|------|------|------|-------|
| 1998 | 45.3 | 39.9 | 57.7 | 83.7 | 30.3 | 9.9  | 44.8 | 79.5 | 48.0  |
| 1999 | 43.1 | 38.9 | 56.6 | 84.6 | 30.8 | 10.1 | 44.8 | 78.4 | 47.7  |
| 2000 | 43.5 | 38.4 | 58.2 | 83.3 | 29.5 | 11.3 | 44.7 | 77.5 | 46.9  |
| 2001 | 41.9 | 40.4 | 55.6 | 82.6 | 32.2 | 12.0 | 45.1 | 77.3 | 46.9  |
| 2002 | 43.0 | 40.2 | 55.3 | 83.5 | 33.0 | 12.0 | 43.5 | 75.7 | 47.1  |
| 2003 | 43.5 | 38.0 | 53.2 | 82.2 | 40.5 | 12.6 | 44.4 | 76.6 | 47.0  |
| 2004 | 43.8 | 38.0 | 53.0 | 82.9 | 40.0 | 12.8 | 43.7 | 76.0 | 46.5  |

|         |      |      |      |      |      |      |      |      |      |
|---------|------|------|------|------|------|------|------|------|------|
| 2005    | 39.8 | 37.7 | 51.4 | 81.8 | 36.9 | 13.2 | 42.8 | 73.7 | 45.5 |
| 2006    | 43.6 | 37.7 | 52.2 | 81.5 | 35.3 | 12.3 | 42.7 | 73.3 | 45.4 |
| 2007    | 40.3 | 36.3 | 52.0 | 80.5 | 34.8 | 13.3 | 42.4 | 72.6 | 45.4 |
| 2008    | 39.0 | 36.3 | 51.1 | 79.1 | 40.8 | 12.8 | 42.2 | 71.7 | 45.0 |
| 2009    | 38.9 | 35.6 | 52.7 | 80.0 | 42.3 | 11.6 | 41.5 | 72.5 | 44.7 |
| 2010    | 38.4 | 34.5 | 52.4 | 81.8 | 41.5 | 12.2 | 40.4 | 72.8 | 44.4 |
| 2011    | 37.9 | 35.5 | 52.9 | 81.1 | 46.8 | 11.4 | 39.6 | 71.4 | 44.3 |
| 2012    | 37.9 | 35.5 | 52.8 | 81.5 | 50.0 | 12.0 | 39.6 | 70.5 | 44.2 |
| 2013    | 37.1 | 35.0 | 52.8 | 82.2 | 47.1 | 14.2 | 39.7 | 68.7 | 43.6 |
| 2014    | 37.1 | 35.0 | 53.1 | 82.3 | 47.2 | 14.1 | 39.1 | 68.7 | 43.5 |
| Average | 40.8 | 37.2 | 53.7 | 82.0 | 38.8 | 12.2 | 42.4 | 73.9 | 45.7 |

*Note: Percentages based off Nominal GDP data*

*GDP Interpretation*

As shown by the tables above, small business contribution levels fluctuate between sectors; some making up a majority of the productivity, and some contributing more underwhelming percentages. A couple major impact sectors that are seen in Table 2.2 are the real estate/rental/leasing (6) and construction (8) industries, both of these contributing an overall average above 80% to their respective fields through the seventeen years. In the most recent year shown in the tables (2014), the real estate/rental/leasing small businesses made up 82.3 percent of the sector total. This comes out to be about 850 billion dollars coming from small businesses. The construction sector (8) is seen contributing an average of 84.2 percent over the seventeen-year time period. In the year 2014, the contribution percentage had fallen to 81.3. Still, this came out to an amount of 540 billion dollars. In Table 2.3, two sectors are shown contributing an overwhelming percentage, these being other services (12) and arts, entertainment, and recreation (16). Some examples of businesses included in the other services sector are personal care, pet care, laundry, and more. Small businesses in the other services category contributed an average of 82 percent through the time period. The arts, entertainment, and recreation small businesses are shown contributing almost 74 percent to their sector total. The four sectors above are not the only ones who contributed majority percentages to their groups; tables 1.2 and 1.3 show that small businesses in 7 of the 16 sector categories listed created GDP amounts that contributed to over 50 percent of the sector-wide total.

Growth and decline can be seen throughout the industries by these tables as well. Data shows that 13 of the 16 sectors shown contributed to a smaller percentage amount of GDP totals in the year 2014 than in the first year provided (1998). Continued growth of large businesses in these sectors led total GDP numbers to increase through the years, this in turn caused the percentage contribution to decrease. In 1998, the total amount of real GDP was about 9.92 trillion dollars between these sectors, in 2014 it had grown to about 13.62 trillion. While the percentage decrease throughout the years may seem to be startling, dollar amounts of contribution show how these numbers do not necessarily mean that the sectors are failing. An example of this can be seen in the finance and insurance sector, which decreased its contribution level by about 5.2 percent from 1998 to 2014. I have used real GDP when talking about the dollar amounts because inflation is taken into account with this data, which creates a better sense for dollar value. Dollar amounts and dates for small businesses are shown below:



|          |            |            |            |            |            |
|----------|------------|------------|------------|------------|------------|
| 1998     | 2001       | 2004       | 2007       | 2010       | 2014       |
| \$883.0B | \$1,062.0B | \$1,087.2B | \$1,163.4B | \$1,081.4B | \$1,222.9B |

In this example, we see an industry that had fallen in terms of small business contribution percentage but had grown in terms of dollars produced by small businesses. The amount produced from this sector grew by about 38 percent over the seventeen-year time period. Large business growth has undoubtedly caused U.S. GDP amounts to surge over the years, causing percentages to decrease for small business sectors. However, we can see that small businesses continued to increase their production amounts in each sector as well.

### Employment

Employment contribution can be seen in the tables below. Just as the above tables portrayed, these percentages are taken from the percentages of small businesses in each sector compared to overall levels (The total column shows the total small businesses in all sectors listed compared to overall employment numbers):

*Note: Refer to Table 2.1 for sector label identifiers; numbers are percentages*

Table 2.4 Small Business Share of Employment by sector number

| Year    | (1)  | (2)  | (3)  | (4)  | (5)         | (6)         | (7)  | (8)         |
|---------|------|------|------|------|-------------|-------------|------|-------------|
| 1998    | 41.5 | 50.9 | 46.9 | 32.6 | 66.3        | 72.2        | 28.7 | 88.3        |
| 1999    | 41.1 | 50.0 | 47.0 | 32.1 | 65.1        | 70.6        | 28.2 | 87.5        |
| 2000    | 41.4 | 49.5 | 47.5 | 32.1 | 64.7        | 69.9        | 28.1 | 86.3        |
| 2001    | 41.7 | 49.1 | 47.5 | 31.1 | 64.1        | 68.6        | 26.5 | 85.1        |
| 2002    | 42.4 | 48.6 | 48.0 | 30.6 | 64.2        | 68.8        | 25.6 | 85.0        |
| 2003    | 43.2 | 48.5 | 48.2 | 31.9 | 61.9        | 69.3        | 25.6 | 86.0        |
| 2004    | 44.0 | 47.6 | 48.5 | 32.5 | 61.6        | 69.1        | 26.2 | 86.4        |
| 2005    | 44.2 | 46.7 | 48.4 | 33.1 | 61.7        | 68.2        | 26.2 | 86.1        |
| 2006    | 44.4 | 45.9 | 48.3 | 32.9 | 61.6        | 68.6        | 26.3 | 85.4        |
| 2007    | 44.2 | 45.0 | 47.6 | 32.6 | 61.1        | 67.6        | 25.8 | 85.2        |
| 2008    | 44.6 | 44.5 | 47.7 | 32.2 | 61.1        | 65.8        | 26.7 | 84.1        |
| 2009    | 44.6 | 43.6 | 47.1 | 32.8 | 60.7        | 66.9        | 26.4 | 84.1        |
| 2010    | 45.1 | 43.5 | 46.9 | 33.1 | 59.6        | 68.7        | 26.5 | 84.3        |
| 2011    | 45.0 | 42.7 | 46.5 | 32.6 | 59.0        | 68.5        | 26.3 | 83.7        |
| 2012    | 45.1 | 42.6 | 46.0 | 31.9 | 59.5        | 69.3        | 27.5 | 83.3        |
| 2013    | 44.5 | 42.2 | 45.8 | 31.6 | 58.8        | 69.0        | 26.7 | 82.7        |
| 2014    | 44.5 | 41.8 | 45.5 | 31.8 | 57.7        | 68.8        | 26.6 | 82.8        |
| Average | 43.6 | 46.0 | 47.3 | 32.2 | <b>61.7</b> | <b>68.8</b> | 26.7 | <b>85.1</b> |

Table 2.5 Small Business Shares of Employment by sector number

| Year    | (9)  | (10) | (11)        | (12)        | (13) | (14) | (15) | (16)        | Total |
|---------|------|------|-------------|-------------|------|------|------|-------------|-------|
| 1998    | 43.1 | 43.5 | 61.4        | 86.3        | 11.3 | 15.2 | 47.0 | 70.0        | 50.9  |
| 1999    | 40.4 | 42.0 | 60.7        | 86.0        | 11.2 | 15.3 | 47.0 | 69.1        | 50.3  |
| 2000    | 38.1 | 41.1 | 60.3        | 85.9        | 10.7 | 16.0 | 47.1 | 67.9        | 50.0  |
| 2001    | 38.9 | 41.5 | 60.2        | 85.5        | 11.3 | 16.2 | 47.4 | 67.0        | 49.8  |
| 2002    | 39.6 | 41.6 | 60.6        | 86.2        | 13.0 | 17.1 | 47.2 | 66.2        | 50.2  |
| 2003    | 40.7 | 38.2 | 60.8        | 86.4        | 12.1 | 16.4 | 47.0 | 67.5        | 50.7  |
| 2004    | 41.1 | 38.3 | 61.1        | 86.3        | 12.1 | 16.9 | 46.0 | 67.7        | 51.0  |
| 2005    | 39.0 | 38.1 | 60.0        | 85.6        | 11.8 | 17.2 | 45.0 | 66.1        | 50.4  |
| 2006    | 37.3 | 37.8 | 60.2        | 85.4        | 12.1 | 17.8 | 44.8 | 64.9        | 50.3  |
| 2007    | 37.3 | 36.8 | 59.3        | 84.7        | 12.3 | 17.7 | 44.9 | 65.4        | 49.6  |
| 2008    | 36.8 | 36.5 | 58.7        | 84.6        | 12.8 | 17.0 | 44.8 | 64.3        | 49.3  |
| 2009    | 38.3 | 36.6 | 59.0        | 85.2        | 12.7 | 16.9 | 44.1 | 63.2        | 49.1  |
| 2010    | 37.7 | 36.9 | 59.9        | 85.7        | 13.1 | 17.2 | 43.2 | 62.8        | 49.1  |
| 2011    | 36.4 | 36.8 | 59.8        | 85.6        | 12.8 | 17.1 | 42.4 | 62.9        | 48.4  |
| 2012    | 35.6 | 37.0 | 59.9        | 85.8        | 12.7 | 17.4 | 42.9 | 63.3        | 48.3  |
| 2013    | 34.6 | 37.0 | 60.1        | 85.9        | 12.2 | 17.3 | 43.6 | 62.3        | 48.0  |
| 2014    | 33.9 | 36.5 | 60.3        | 85.7        | 12.0 | 17.5 | 43.9 | 61.9        | 47.8  |
| Average | 38.2 | 38.6 | <b>60.1</b> | <b>85.7</b> | 12.1 | 16.8 | 45.2 | <b>65.4</b> | 49.6  |

*Note: Bolded numbers indicate averages >50%*

#### *Employment Interpretation*

Employment shares contributed by small businesses differ on their impact levels, just as GDP did. The total average of employment provided by small businesses is interesting in this data. It is seen that small businesses contributed to over 50 percent of the overall employment in 8 of the 17 years provided. With the 17-year total average equaling 49.6 percent, it is seen how much of an impact small business in these sectors have. The livelihoods of almost 50% of working individuals come from the employment of small businesses in these sectors.

#### *Recession Impact*

Two major recessions took place during the time period between 1998 and 2014. The first one happening in 2001, and then the great recession which was from 2007-2009. The impact of these on small businesses can be seen when looking at both GDP and employment. I am going to focus on the great recession impact because the 2001 recession was briefer, causing the economy to become more stagnant rather than causing the decline seen during and after the great recession. Again, I will use real GDP when discussing dollar amounts because of the inflation factor being taken into consideration.

In 2007, the real GDP had grown to 12,738.8 trillion-dollar total. Small business real GDP totals had grown at an average rate of 2.33% in the three years leading up to 2007, reaching a production of 5,783.9 trillion dollars in 2007. Small business real GDP total decreased 2.4% in 2008 and 4.63% in 2009, bringing the dollar amount down to \$5.398.2 trillion in 2009. This correlated with the decrease in total real GDP of 1.25% in 2008 and 3.94% in 2009. Small business GDP numbers as well as total GDP numbers began to bounce back in 2010, but neither reached pre-recession numbers until 2012.

Small business employment took a major hit during the great recession. During the years 2008-2010, respective year numbers fell at a rate of .28%, 5.71%, and 2.29%. A slight increase was seen in 2011, but total small business employment numbers did not actually reach pre-recession numbers (60 million) until 2020 (Oberlo). Total employment levels experienced a decrease of 5.28% and 2.22% in 2009 and 2010. Total employment numbers did not reach pre-recession numbers until 2014.

### *Underprivileged, underrepresented, underserved in Small Businesses*

The opportunity to open a small business allows every individual to have a chance at a successful and meaningful life, no matter what their background is or their race. Getting a job with a large company or even small business can be challenging for some individuals who have situations in their life holding them back. While the country has made steps in the right direction in terms of equal opportunity, it is still hard for some individuals to get jobs. Individuals who are not able to earn a higher education, veterans, women, minorities, and immigrants all face challenges finding jobs in some professional fields. These groups benefit from the opportunities that small businesses offer. According to the most recent study by the SBA, there are 2.4 million veteran owned firms in the United States. These firms employ around 5.8 million people (Facts on Veterans and Entrepreneurship). The most recent study of minority-owned businesses revealed that 1.1 million businesses are minority owned, employing around 8.7 individuals. These 1.1 million businesses accounted for \$1.3 trillion in receipts, and 99.9% of them were classified as small businesses (Esposito). A study showed that as of 2020, there are 12.3 million women owned businesses that generate a total of around \$1.8 trillion in receipts a year. With the combined number of these being around 13.4 million, and these total number of small businesses being about 31.7 million, these make up about 43% of all small businesses in the United States (Shepherd). The U.S. Small Business Association does an incredible job of offering resources for these groups of individuals to start a small business. They offer grants, advocacy, loans, disaster assistance, and more resources for individuals who want to make an impact on the economy as well as their own lives.

### *Local Economies*

The existence of small businesses brings a numerous number of benefits to the communities they are located in. When money is spent at a small business in your community, roughly 68% of that money is going to stay in your community. When shopping at a national chain, roughly 32% of money spent goes back to the community. The money spent at local small businesses contributes to the community's taxes and pays wages of those employed. Local taxes paid contributes to public services such as schools, roads, and emergency responders. It can also be seen in donations; 52% of small businesses owners donate to charity, and 90% of those donate to local charities. Small business owners are also more inclined to buy products from other local stores. Small businesses also take pride in the communities they are located in; owners of these businesses have family, friends, and raise kids all in the area they are located in. Owners want to see their community succeed. Local small businesses offer benefits to individuals in them by offering jobs that are often more enjoyable than working for large corporations. 56% of small business employees have high commitment scores; only 38% of employees at large businesses reported high commitment scores. Commitment scores are related to how loyal employees are to their companies, studies have shown that commitment scores and employee happiness are also correlated. Small businesses help their local environment as well. 66.3% of small businesses use

recycled materials which helps reduce emissions in their areas. (10 Ways Small Businesses Benefit Their Local Communities).

## **Findings**

By looking at the total contribution percentage of small businesses in relationship to overall totals, it can be seen that small businesses impact the economy on a large level. In regard to GDP, it is shown that an average of 45.7% of total GDP was created by small businesses across the measured sectors during the years of 1998-2014. In the employment relationship, it is shown that an average total of 49.6% of total employment among these sectors come from the small businesses in them. Certain sectors are more impacted by small businesses than others, 7 of the 16 had average over 50% in regard to GDP contribution; 14 of the 16 had more than a 25% contribution. In regard to employment, small businesses in 6 of the 16 sectors accounted for over 50% of the total sector employment; 14 of the 16 sectors were comprised of over 25% small business employment. Small business performance mirrored total economic performance as well, with years of real GDP growth and decline of small businesses mirroring total GDP growth and decline.

## **Future Studies**

### *COVID-19*

The COVID-19 pandemic of 2020-present has caused harm on many levels, but a big area of concern has been the impact to small businesses. A study done by CNBC reported that 2% of all small businesses permanently shut down in 2020 due to the implications caused by the virus (El-Bawab). With the overall decreasing profits for most of the businesses still open, it will be interesting to see what the future entails.

### *Growth of Internet*

The growth of internet and social media usage by individuals of all ages gives a unique opportunity for small businesses. In a study done by Deloitte, it was found that small businesses that were digitally advanced experienced numerous benefits compared to those who lacked in the area. Some benefits included two times the amount of earned revenue per employee, revenue growth that was around four times the amount of previous year growth, three times as likely to create jobs than the previous year, and an employment growth rate that was more than six times that of the previous year (Small Business Technology Trends: Deloitte US). Internet growth will undoubtedly have an impact on small business numbers over the next several years. It will take until future studies to find out how beneficial it is for each industry, though. Large businesses are also seeing the benefits of technology, so we will be able to see how the growth cycle continues.

### *Mergers and Acquisitions*

Mergers and acquisitions refer to the process of companies or organizations combining with others. The process has shown to produce a healthy economy by pressuring companies to increase quality, lower prices, and create innovation. The economy in the United States continues to grow businesses are continually looking for ways to become more competitive in their industries. Small and large businesses working together could create an immense benefit for both parties, creating opportunities for more revenue while decreasing overhead costs. Working together, the parties are able to delegate duties, combine resources, and create innovation together. This creates a faster growth at a more affordable price. Given that the idea of mergers

and acquisitions allows for both businesses to continue operating, it creates a mutual benefit while keeping both operating. Mergers and acquisitions can also refer to larger companies outright buying small companies, this grows the big business impact levels and slows that of small businesses. It will be interesting to see the continuing innovation that small businesses bring to their industries, and how big businesses will try to compete with them. It will also be interesting to see the impact that the combination of resources has on the growth of the economy (Mergers and Acquisitions Benefit the Economy and Americans).

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