United States

Small businesses in the national economy

The SBA broadly classifies small businesses as any firm with 500 or fewer employees (see Box 33.1.). These firms account for 99.7% of all firms. They employ slightly over half of the private sectors' employees, pay about 43% of the total private sector payroll, generate about 64% of net new private sector jobs, and create about 46% of the private-sector output.

Table 33.1. **Distribution of firms in the United States, 2010**

By size of firm

Firm size (employees)	Number	%
Total firms	**14 590 831**	**100.0**
SMEs (0-499)	**14 544 533**	**99.7**
Micro (0-9)	13 645 795	93.5
Small (10-99)	817 109	5.6
Medium (100-499)	81 629	0.6
Large (500+)	**46 298**	**0.3**

Notes: Data excludes financial and insurance enterprises. Non-employer enterprises are included. The number of non-employer firms from the Non-employer Statistics Database was added to the number of employer firms from the Statistics of U.S. Businesses, so to obtain the total number of firms with zero to nine persons employed.

Source: OECD, *Entrepreneurship at a Glance*, 2013.

StatLink http://dx.doi.org/10.1787/888933015201

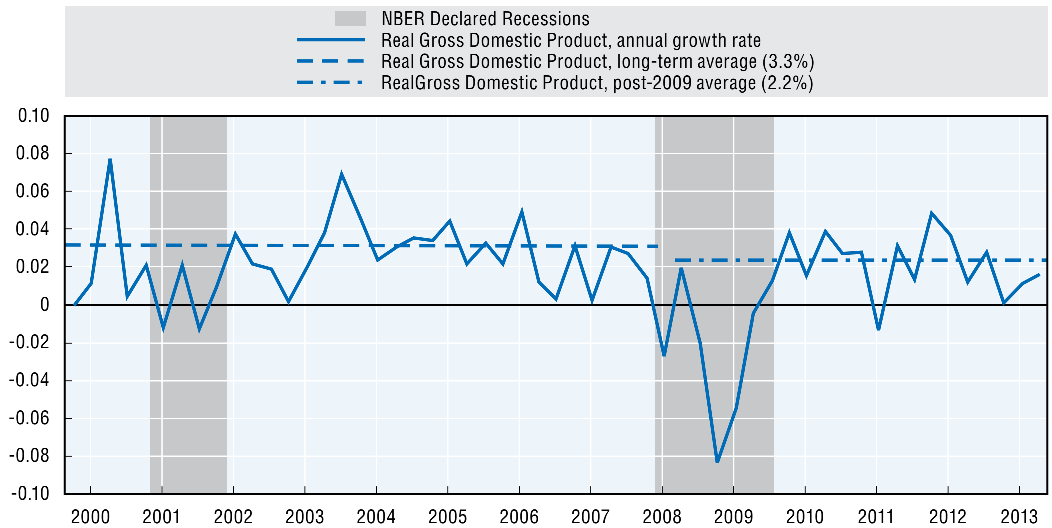
Macroeconomic environment and recent corporate trends

Since the Great Recession of 2008-09, the U.S. economy has recorded three years of positive growth, averaging 2.2%, below the historical average of 3.3%. This subpar growth has created a persistent and unusually pronounced underutilisation of resources, forcing economic agents to adapt to the modest growth environment.

This adaptive behaviour has resulted in historically high corporate profit levels and margins. The rebound in corporate profits has occurred across the entire firm-size spectrum. Profit margins at the largest firm-size class rebounded strongly during the recovery period and surpassed previous peaks. Profit margins at the smallest firm-size also rebounded during the same period, although not as strongly, and managed to reach but not surpass previous peak levels.

Figure 33.1. **Real gross domestic product, United States, 2000-13**

Year-over-year percentage change



Source: U.S. Bureau of Economic Analysis, NIPA

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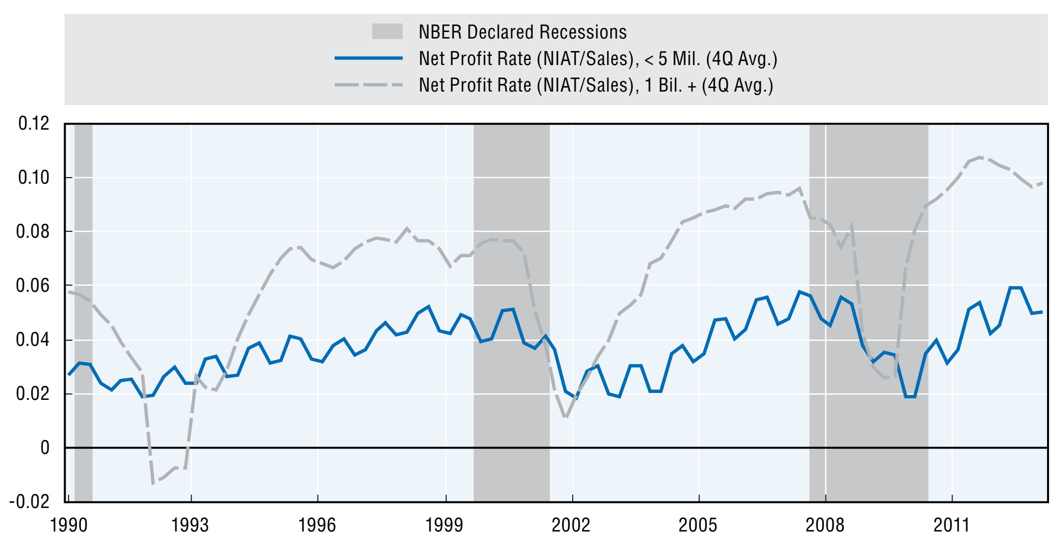
Figure 33.2. **Industrial sector, after tax profit margins, selected firm sizes in the United States, 1990-2013**

Year-over-year percentage change



Source: U.S. Census, Quarterly Financial Report, and SBA calculations.

StatLink http://dx.doi.org/10.1787/888933016493

Net firm formation experienced a very different pattern than corporate profits. Net firm formation declined 5.3% during the 2008-10 period, a decline more than ten times larger than the 0.4% drop recorded during the steep 1991 recession. Net firm formation experienced a modest 0.6% increase during 2011 and 2012. Thus U.S. economy in 2012 operated with about 245 000, or 4.8%, fewer firms than the peak level recorded during 2007.

Table 33.2. **Percent change in the number of firms in the U.S., 1989-2010**

Percentage change

	Change in the number of Firms by Employment Size (in %)						
Date	TOTAL	0-4	5-9	10-19	20-99	100-499	500+
1989	1.3%	0.8%	1.5%	2.3%	3.1%	4.3%	8.2%
1990	1.0%	0.6%	1.6%	1.7%	2.2%	1.2%	1.1%
1991	-0.4%	0.5%	-1.1%	-2.0%	-3.1%	-3.0%	-0.3%
1992	0.9%	1.3%	0.5%	0.1%	-0.2%	1.2%	1.0%
1993	1.9%	2.1%	1.8%	1.4%	1.6%	3.4%	3.6%
1994	1.6%	2.2%	0.3%	0.6%	1.5%	2.5%	2.5%
1995	1.7%	1.3%	1.7%	2.4%	3.9%	4.0%	3.0%
1996	2.0%	2.4%	1.6%	1.6%	1.4%	-0.1%	1.1%
1997	1.2%	0.9%	1.1%	1.3%	2.3%	4.7%	3.0%
1998	0.7%	0.5%	0.5%	1.1%	1.4%	0.5%	1.9%
1999	0.5%	0.4%	0.1%	0.9%	1.5%	1.6%	2.2%
2000	0.8%	0.2%	0.8%	1.9%	2.8%	3.7%	2.5%
2001	0.1%	0.1%	-0.2%	-0.2%	0.4%	1.1%	1.2%
2002	0.7%	1.9%	-0.8%	-0.4%	-1.9%	-3.5%	-3.0%
2003	1.2%	1.1%	1.5%	1.1%	1.3%	3.0%	0.5%
2004	2.1%	2.1%	1.8%	2.0%	2.2%	2.0%	0.7%
2005	1.7%	2.7%	0.6%	-0.4%	-1.0%	0.9%	2.5%
2006	0.6%	-0.2%	1.0%	2.7%	2.9%	3.8%	3.4%
2007	0.5%	1.0%	-0.1%	-0.3%	-0.6%	-2.2%	1.3%
2008	-2.0%	-2.4%	-1.5%	-1.8%	-1.1%	2.0%	0.9%
2009	-2.7%	-1.6%	-4.1%	-3.5%	-5.8%	-7.8%	-5.2%
2010	-0.6%	0.5%	-3.3%	1.0%	-4.1%	-1.9%	-1.6%
2008-10	-5.3%	-3.5%	-8.9%	-4.3%	-11.1%	-7.6%	-5.9%

Notes: An establishment with 0 employment is an establishment reporting no paid employees in the mid-March pay period, but paid employees at some time during the year.

Source: U.S. Census, County Business Patterns, various years.

StatLink http://dx.doi.org/10.1787/888933015220

In this environment, the critical policy question becomes which SME exited the market? Were they (1) the less efficient, or were they (2) the risk takers? Further empirical analysis is needed to answer this critical policy question.

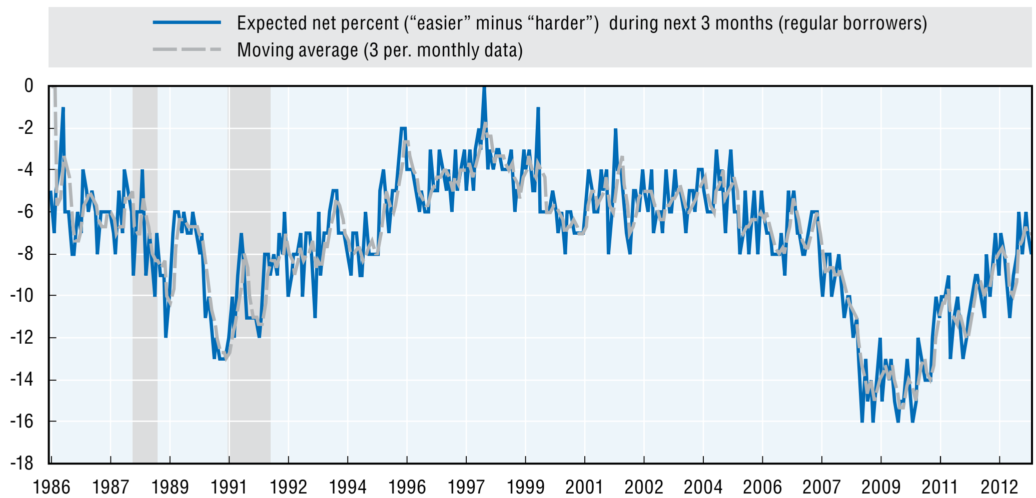
Employment at small and large firms continues to posting modest gains. Small firm employment got hit hard during the most recent recession, with 63% of the contractions occurring at small firms. During the recovery, small firms accounted for a strikingly similar 64% of the job gains. Recent labour churn is much lower than the historical average, and indicative of the conservative behaviour among small firms. Capital expenditures, excluding expenditures on real estate investments, for the entire business sector rebounded strongly during the recovery period. Data from the NFIB show that, since the latter part of 2009, a greater number of small firms have been planning capital expenditures one to two quarter forward.

SMEs' access to credit

The U.S. banking sector continues to improve. Quarterly net income at depository institutions slightly surpassed pre-recessionary levels, primarily benefitting from improvements in non-interest income and expense, and a reduction in loan losses. There is some evidence that small firms' higher usage of labour and capital during the recovery period, is also associated with a modest increase in credit usage. The net percent of bankers reporting stronger credit demand by small firms rose from the second half of 2009 and throughout 2013. Small firms that are regular borrowers are concurring with bankers that credit conditions have indeed been steadily improving. As a total group, however, small firms are reporting a lower percentage of them are borrowing, indicating that some small firms have not re-entered the credit markets.

Figure 33.3. **Net percent of regular borrower expecting improvement in credit condition during the next three months in the United States, 1986-2013**

percentage

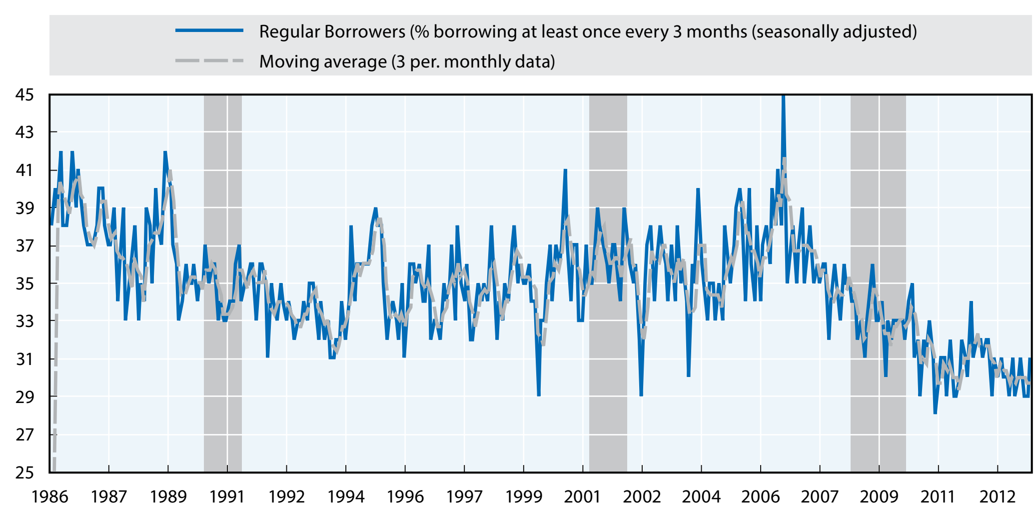


Source: National Federation of Independent Business.

StatLink http://dx.doi.org/10.1787/888933016512

Figure 33.4. **Percent of firms borrowing at least once a quarter in the United States, 1986-2013**

Percentage



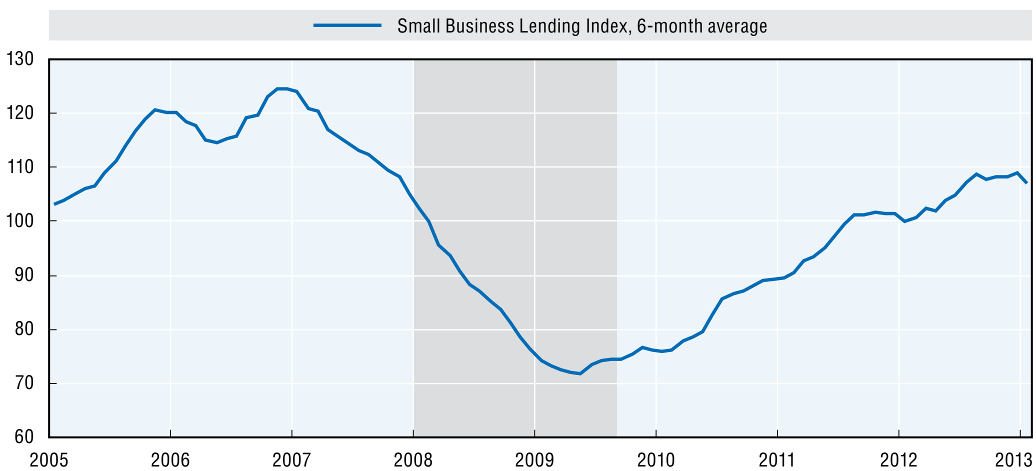
Source: National Federation of Independent Business.

StatLink http://dx.doi.org/10.1787/888933016531

Small loan balances at FDIC insured institutions have continued to decline since peaking during the second quarter of 2008. With the advent of financial innovation and financial deregulation, however, this dataset's capacity to capture changes in the supply of credit has significantly diminished. Data recently made available by some private sector firms indicate that origination, or new supply, of small firm credit may have been on the rise for several years now. For example, the Paynet Small business Index indicates that the new supply of credit to small firms has been steadily rebounding since the second half of 2009, although it has not reached the peak level recorded during the end of 2007. This data also indicates that the growth rate of credit origination directed at small firms seems to have reached a cyclical high during November of 2011, and during the first six months of 2013. Interest rates for small loans continue to remain low, reflecting the low interest environment fostered by the Federal Reserve strong intervention in the short-term and long-term markets.

Figure 33.5. **Paynet, small business lending index in the United States, 2005-13**

Percentage



Source: Thomson Reuters / Paynet.

StatLink http://dx.doi.org/10.1787/888933016550

The U.S. Small Business Administration role

The SBA works with approximately 5,000 banks and credit unions, some 250 Community Development Corporations (CDCs), over 170 non-profit financial intermediaries and Community Development Financial Institutions (CDFIs), and approximately 300 small business investment companies (SBICs). The SBA Capital Access Program has several major sub-programs that provide guarantees and co-funding for a wide range of products designed to meet the diverse financial needs of small firms throughout their life cycle, starting from small start-ups to established firms.[1]

The largest of these, the 7(a) Loan Program, provides guarantees for working capital loans up to USD 5.0 million to new and existing small businesses. The second largest sub-program, the Certified Development Corporation 504 Loan Program, provides guarantees and co-funding for loans up to USD 5.0 or USD 5.5 million used for the purchases of fixed assets.

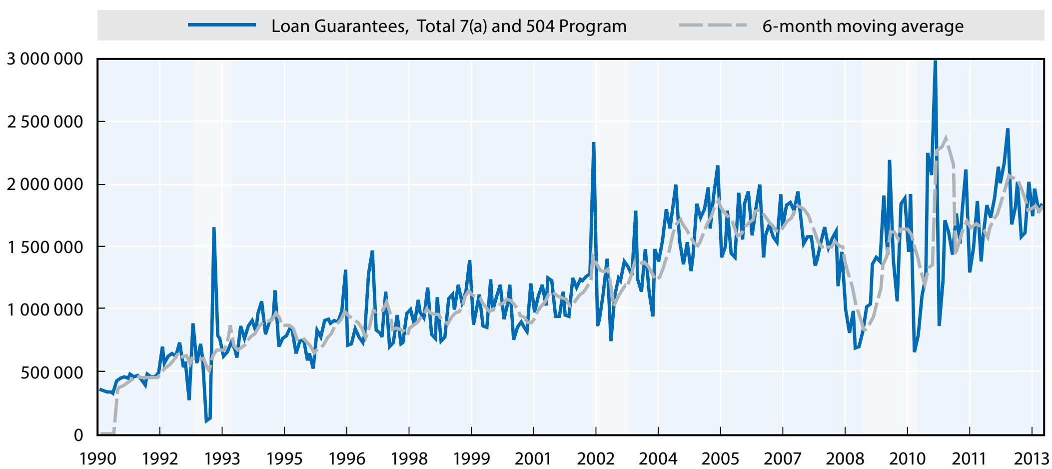
The financial and economic crisis of 2008-09 had a pronounced impact on SBA's Capital Access Programs, however, after several major interventions by the federal government the dollar volume of these two programs surpassed previous peak levels, reaching

USD 22.7 billion during 2012.[2] The bulk of these federal interventions were in the form of additional incentives to financial institutions, structural changes to its programs, and assistance in the secondary markets for SBA guaranteed loans.

More specifically, the Agency employed additional funding received from Congress to temporarily increase its guarantees from around 75% to 90%. The SBA also temporarily reduced or eliminated the fees it charges financial institutions participating in its loan guarantee programs. The Agency also increased its loan limits. Finally the U.S. Department of Treasury would purchase USD 15 billion of SBA loans on the secondary market.[3] Through this program the government promised to be a buyer of last resort for these recent loans.

Figure 33.6. **Gross loan guarantees, SBA 7(a) and 504 Programs, 1990-2013**

USD thousand



Source: United States Small Business Administration.

StatLink http://dx.doi.org/10.1787/888933016569

Box 33.1. **Definition of small businesses used in the United States' SME and Entrepreneurship Scoreboard**

Country definition

The SBA has two different approaches for defining small firms. The first approach is to define any firm with less than 500 employees as "small." This practice was first established by the Small Business Act of 1953. However, the same Act required the SBA to establish a size standard that "should vary to account for differences among industries." Second, the Act called on the SBA to "assist small businesses as a means of encouraging and strengthening their competitiveness in the economy." These two considerations are the basis for the SBA current methodology for establishing small business size standards. For further details see The U.S. Small Business Administration (2009) SBA Size Standard Methodology.

SME definition used in the United States profile

The United States statistics on business loans, interest rates and collateral are based on the loan size. Loans up to USD 1 million are classified as SME loans. In the case of SME government guaranteed loans the above mentioned thresholds are used.

Source: United States Small Business Administration (2009) SBA Size Standard Methodology; Table of Small Business Size Standards, www.sba.gov/content/table-small-business-size-standards.

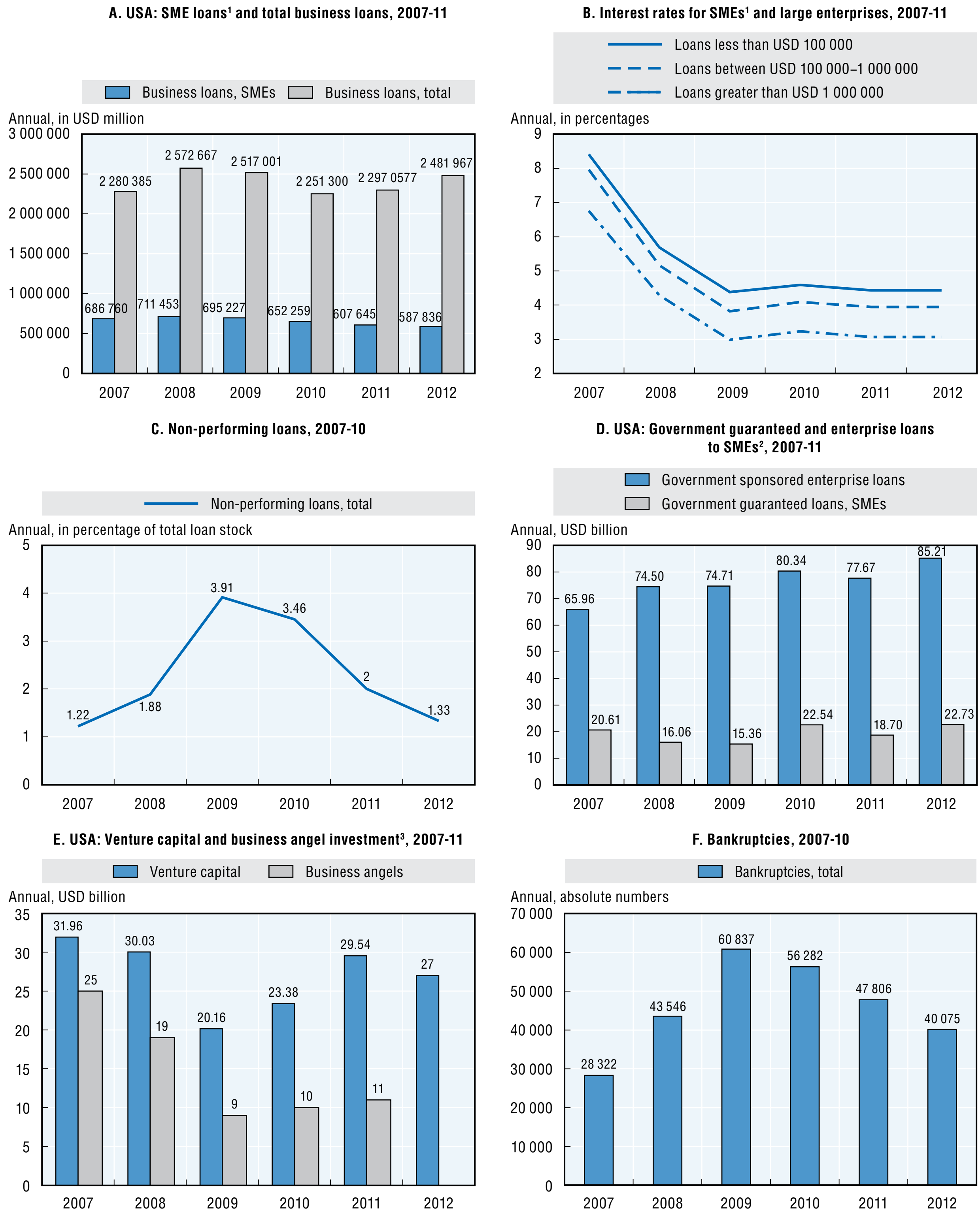
Table 33.3. **Scoreboard for the United States, 2007-12**

Indicators	Units	2007	2008	2009	2010	2011	2012
Debt							
Business loans, SMEs	USD million	686 760	711 453	695 227	652 259	607 645	587 836
Business loans, total	USD million	2 280 385	2 572 667	2 517 001	2 251 300	2 297 057	2 481 967
Business loans, SMEs	% of total business loans	30.1	27.7	27.6	29.0	26.5	23.7
Short-term loans, SMEs	% of credit market debt	29.9	30.3	23.8	20.6	21.3	20.8
Government sponsored Enterprise loans	USD billion	66.0	74.5	74.7	80.3	77.7	85.2
Government guaranteed loans, SMEs	USD billion	20.6	16.1	15.4	22.5	18.7	22.7
Ratio of loans authorised to requested, SMEs	%	71.8	66.6	..	..	..	..
Non-performing loans, total	% of loan stock	1.22	1.88	3.91	3.46	2.00	1.33
Interest rate, loans < USD 100 000	%	8.41	5.69	4.38	4.59	4.43	4.20
Interest rate, loans between USD 100 000 – 1 000 000	%	7.96	5.16	3.82	4.09	3.95	3.77
Interest rate, loans, greater than USD 1,000,000	%	6.75	4.29	2.99	3.23	3.07	2.81
Collateral, loans < USD 100 000	% of loans secured by collateral	84.2	84.7	89.2	..	..	..
Collateral, loans USD 100 000 – USD 999 999	% of loans secured by collateral	76.4	70.9	77.6	..	..	..
Collateral, loans USD 1 000 000 – USD 999 999 999	% of loans secured by collateral	46.7	42	48.5	..	..	..
Equity							
Venture capital	USD billion	32	30	20	23	30	27
Venture capital	Year-on-year growth rate, %	..	-6.0	-32.9	16.0	26.3	-9.1
Other							
Bankruptcies, total	Number	28 322	43 546	60 837	56 282	47 806	40 075
Bankruptcies, total	Year-on-year growth rate, %	..	53.8	39.7	-7.5	-15.1	-16.2

Source: Refer to Table 33.4.

StatLink http://dx.doi.org/10.1787/888933015239

Figure 33.7. **Trends in SME and entrepreneurship finance in the United States**



Note: 1. For loans up to USD 1 million. 2. Proxied by loans sponsored by the Small Business 7(a) loan program.

Source: Chart A: FDIC, Consolidated Reports of Condition and Income for U.S. Banks and thrift institutions. Chart B: Federal Reserve, Flow of Funds Accounts of the United States. Chart C: Federal Reserve Board. Chart D: Federal Reserve and USSBA. Chart E: PwC Money Tree Survey, Venture Capital Association. Chart F: Adm. Office of United States Courts: Business Bankruptcy Filings.

StatLink http://dx.doi.org/10.1787/888933016588

Table 33.4. **Definitions and sources of indicators for the United States' scoreboard**

Indicators	Definitions	Sources
Debt		
Business loans, SMEs	Loan balances held at financial institutions, loans to non-financial firms, loans up to USD 1 million.	FDIC, Consolidated Reports of Condition and Income for U.S. Banks and thrift institutions, June 30 reports.
Business loans, total	Loan balances held at financial institutions, loans to "Commercial Real Estate", "Commercial and Industrial Loans", and "Commercial real estate loans not secured by real estate"	FDIC Call reports.
Short-term loans, SMEs	Loans to non-financial corporations with duration of less than one year, loans up to USD 1 million, flows.	Federal Reserve, Flow of Funds Accounts of the United States, Table L102, line 43, "Short-term debt/credit market debt".
Government sponsored Enterprise loans	Government sponsored enterprise loans to non-corporate partners.	Federal Reserve, Flow of funds reports.
Government guaranteed loans, SMEs	Full value of guaranteed loans outstanding for working capital &fixed assets. Government guaranteed loans to SMEs by the Small Business 7(a) loan program, which is the most basic and most commonly used type of loans.	USSBA, 7(a) and 504 loan guarantee programs.
Ratio of loans authorised to requested, SMEs	Approval rate.	Kauffman Foundation, Firm Survey Micro data.
Non-performing loans, total	C&I bank loans, 30 days past due, all sizes, as a percentage of loan stock.	Federal Reserve Board.
Interest rate, loans < USD 100 000	Annual average from quarterly data.	Fed. Res. Board, Survey of Terms of Business Lending, E2 Release, SURVEY OF TERMS OF BUSINESS LENDING.
Interest rate, loans between USD 100 000 – 499 000	Annual average from quarterly data.	Fed. Res. Board, Survey of Terms of Business Lending, E2 Release, SURVEY OF TERMS OF BUSINESS LENDING.
Interest rate, loans between USD 500 000 – 999 999	Annual average from quarterly data.	Fed. Res. Board, Survey of Terms of Business Lending, E2 Release, SURVEY OF TERMS OF BUSINESS LENDING.
Collateral, SMEs	The percentage of loans secured by collateral.	Fed. Res. Board, Survey of Terms of Business Lending, E2 Release.
Equity		
Venture capital	Investment in all enterprises.	PwC Money Tree Survey, Venture Capital Association.
Other		
Bankruptcies, total	Bankruptcy data are 12 month numbers for 30 September of each year, all enterprises.	Adm. Office of United States Courts: Business Bankruptcy Filings.

Notes

1. For further details on the SBA's Capital Access Programs see www.sba.gov.
2. The SBA provides a range of guarantees through its various guarantee products. For a quick reference on the details of its loan guarantee programs see the U.S. Small Business Administration, Quick Reference to SBA Loan Guarantee Programs.
3. The Federal Reserve had already started to purchase some SBA guaranteed loans under the Term Asset-Backed Securities Loan Facility (TALF). For more details see Board of Governors of the Federal Reserve System, Term Asset-Backed Securities Loan Facility (TALF) Terms and Conditions, www.federalreserve.gov/newsevents/press/monetary/monetary20081125a1.pdf and the (White House Office of the Press Secretary 2010).

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