

DISCUSSION

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The five papers cover a wide range of activities in the small business data base work, and consequently I have been highly selective in commenting on a few broad issues. [1]

It will probably be two to three years before some substantive analysis for policy questions can be made from the data base. This is a long time, but when we remember that the small business program was started a few decades ago when Truman was President, it doesn't seem so bad. This will be the first time there will be basic trend data organized systematically for assessing the overall dimensions of the relationship and sensitivity of small business to the rest of the economy.

The authors use different definitions of the cutoff size for small business - e.g. firms with less than 100 or 500 employees have been designated as "small" business. I have simply adopted whatever definitions were used in commenting on the individual papers. However, a new statistical standard for business size data which I will briefly note at the end takes a neutral position on small business definitions.

Bruce Kirchoff and David Hirschberg discuss the Small Business Administration's overall plan for the data base. Their focus is on developing a micro data base, i.e. a longitudinal data file that follows the progress of the same group of firms over time. I agree that being able to observe gross changes in company fortunes ranging from growing to larger businesses to going into bankruptcy gives much better insight into workings of the real world than conventional data which summarize the net end result of these dynamic changes into the shares of business accounted for by firms of various size. The conventional end result data are important, but they do not have the analytic power of the longitudinal information.

The paper raises the anomaly appearing in existing data that the small business sector accounts for a declining share of overall business activity and yet generates a high proportion of total employment growth. While it can be conjectured that this may reflect something real such as shifts of small business to more labor intensive industries, I think it is equally likely that it is caused by quirks in the data. For example, data on business failures are suspect, and better information on firms going out of business could also result in the anomaly's being a statistical illusion. Thus, although

new or rapidly growing small firms have spurts of hiring new people, they also are less financially capable of withstanding economic hard times, and if better data on business failures were available, part of the initial increase in employment might be shown to be short-lived.

Catherine Armington and Marjorie Odle describe the actual work in developing the micro business data file. This is done using the Dun and Bradstreet business lists because of the confidentiality of name and address lists used in Government data collection programs. It is complex work involved with tracing the parent firm ownership of branches and subsidiaries and in accounting for substantial differences in employment between the establishment file of 65 million and the enterprise file of 80 million. It is the core of the longitudinal data file and is an impressive effort in processing masses of diverse records into a consistent framework. The file so far has been developed for 1977, and it is expected this experience will make the file development for later years much easier.

I have a question on checking the overall coverage of the Dun and Bradstreet lists. It would be useful to have statistical comparisons of these files with the Internal Revenue Service and Bureau of the Census business size information. At a minimum it would give the user some overall guide to gaps and divergencies from more complete lists, and it also might provide the capability for revising the file.

Joel Popkin developed an annual time series on the proportion of the gross national product (GNP) accounted for by business firms with up to 500 employees. This is consistent with the GNP by industry series of the Department of Commerce and is the first time such information is available. The data development required a considerable amount of piecing together diverse statistics from the Internal Revenue Service (IRS) and Census Bureau. It is a thoughtful work of estimating for missing and inconsistent data. The time series runs from 1955 to 1976, but the most reliable information is for the economic census years of 1958, 1963, and 1972; estimates for 1977 will also be done. The 1967 census year was not included because a key data item on receipts per company from the IRS Statistics of Income was not available in that year.

The estimated long-term trend of the small

business proportion of the GNP declined from 51-52 percent in 1958 and 1963 to 49-48 percent in 1972 and 1976. Depending on the reference points used, the decline ranges from two to four percentage points. However, because of the problems with the data, I would not cite this as evidence of a decline. I think there is enough margin of error to infer that the proportion has been stable at one-half of the GNP. This is a contribution - we now know essentially what it is, and that it is not one-third or three-fourths of the GNP. In terms of additional insights, if more detailed industry data are now available beyond the nine broad industry categories that were published, it would be interesting to see what industry mix shifts between small and larger businesses have occurred within each of the broad categories.

Vito Natrella pointed up the confidentiality restrictions limiting the use of Government data for the micro data file. This is the reason the Small Business Administration has relied so heavily on the Dun and Bradstreet files. Various proposals have been made that would amend existing legislation to give selected agencies access to data with strong safeguards against leaks of individual company data. This would be an advance by having more consistent data among agencies as well as reducing reporting burden. However, it also involves a broader public policy issue which is the perception that regardless of the safeguards there is the potential for misuse. This issue will have to be explained satisfactorily to the Administration and Congress in order to get new legislation.

Bruce Phillips analyzed possible causes of shifts in employment and business activity associated with small business. He made imaginative use of existing data, and drew tentative interpretations on the role of mergers and taxes. Because of severe data limitations, such as reliance on cross-sectional data in the absence of time series and problems noted earlier with business failure data, it would be premature to use the analyses for policy formulations.

Despite the problems with the data, this work is suggestive of future types of analyses, including the use of supplementary information. One variable that would be interesting is the availability of bank credit to small business, which is the

subject of a new study by the Federal banking agencies. Thus, I think there will be long-run benefits in starting the analytic work now by focusing the data base development on problem areas and giving a head start to policy analyses when an adequate time series of the micro data file is available.

I will end with one other aspect of the data base development. This is the formulation of comparable business size categories by number of employees, sales or assets for Federal agencies to follow in tabulating business size data. A new Government-wide standard for tabulating statistical data on business size was developed as part of the work of the interagency committees on small business statistics. The standard does not designate size categories as "small," "medium" or "large," but rather provides the basis for uniform tabulations by all agencies and allows the data user to decide which designations are appropriate. It also has the property of reducing distortions in the size distribution of firms due to inflation, which arise from the fact that when firm size is measured by the dollar value of sales or assets, an upward shift from one size category to the next occurs simply because inflation raises the values of sales and assets. Use of an approximately logarithmic scale in which the successive size class intervals increase by an approximately constant factor reduces the tendency for inflation of dollar values to alter distribution shapes. Of course, this problem does not exist when firm size is measured by number of employees. The standard was developed by Jerry Coffey of the Office of Management and Budget*, and is expected to be included with other Government standards for statistical data.

NOTES AND REFERENCES

* Norman Frumkin and Jerry Coffey were with the Department of Commerce when these comments were given.

[1] The fifth paper, by Joel Popkin, entitled "Measuring Gross Product Originating in Small Business: Methodology and Annual Estimates, 1955-1976" (No. PB81 211799) is available from the National Technical Information Service, Sales Desk, 5285 Port Royal Road, Springfield, VA 22161