

GOVERNMENT'S ROLE IN ENCOURAGING SMALL BUSINESS

Steve Strauss

With most of the world's business being conducted by small entrepreneurs, it makes good economic sense for governments to implement policies that encourage small-business growth. The five ways in which government can have the most positive effect are by making capital more accessible, facilitating business education, promoting entrepreneurship, reducing regulatory burdens, and protecting intellectual property.

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In the late 1970s, a commune in communist China was so broke, and the peasants who ran the commune so hungry and poor, that they decided to risk their lives and do the unthinkable: The peasants secretly privatized and divided up the land. Each farmer had his own plot with which to grow his own food, use it, and sell the extra, if any.

Within a year, that commune became one of the most prosperous in China and, not surprisingly, caught the eye of communist officials. Yet rather than condemn what was a decidedly noncommunist idea, the government gave private commune plots an official blessing. The rest, as they say, is history. China's capitalist turn became the greatest antipoverty program in the history of the world, freeing millions of people from poverty in a few short decades.

That government policies can have a huge impact on the growth and promotion of small business is a vast understatement. In a world beset by too much hunger and need, small business is one thing with a proven capacity not only to ease suffering, but also to create a solid middle class, generate a secure tax base, and foster social stability. All in all, small business is good business.



AP/Wide World Photo

A branch of Philadelphia's Sovereign Bank, a major lender to small businesses.

Which raises the question: For those countries wishing to promote small business, what policies can be adopted to encourage its growth? I suggest that there are five main areas where appropriate government policies can have a huge impact on small-business growth.

MAKE CAPITAL EASILY AVAILABLE

When I was a young boy, my father owned several carpet stores. One day, I was given the assignment in school to write an essay about what he did for a living. Because "retail carpet store owner" was hard for me to describe, I asked him what he did. "Well," he said, "I'm an entrepreneur." A bit confused, I asked him what that was, and he replied, "An entrepreneur is a person who takes a risk with money to make money."

That remains as good a description as I have ever heard, although since then I have learned that entrepreneurs actually like to take small, calculated risks. Therefore, if a government wants to promote small business, it must advance policies that reduce the risk inherent in entrepreneurship. That way, people will be

more willing to leave the comforts of their jobs and start new businesses.

So the first policy necessary to promote small-business development is one that assists would-be entrepreneurs find the money they need to get started.

In the United States, we have a government agency called the Small Business Administration (SBA), whose duties include helping entrepreneurs get the money they need to take the risks necessary to start small businesses. Interestingly, the SBA does not actually make these loans, but it does guarantee them. Banks are more likely to loan money to risky new businesses when they know that the SBA and the U.S. government will guarantee repayment, even if the borrower defaults. The result is a vibrant U.S. economy in which 99 percent of all businesses are small businesses.

So the first thing any government seeking to promote small business should do is to establish a pool of federally guaranteed loans. Easy access to capital creates the foundation for a lively small-business sector.



A New Jersey beauty salon that got free start-up assistance from a center sponsored by the federal Small Business Administration.

AP/Wide World Photo

TEACH ENTREPRENEURSHIP

There are many things that go into creating a successful small-business economy, but surely a significant one is a collection of entrepreneurs willing to start new businesses. For that to occur, citizens must be able to learn business skills. There are several ways in which governments can assist them in doing this:

- **Create “business incubators.”** A business incubator is a facility that offers start-up businesses a place to grow. Typically, business incubators are associated with universities, and professors and other experts donate their time and

expertise teaching new entrepreneurs everything from sales and marketing to law and taxes. Once the would-be small-business owners conclude this crash course in business, they move on and start their businesses, and new entrepreneurs come in to take their place. Governments can offer universities financial incentives for creating on-campus business incubators.

- **Use the Internet.** The SBA has online tutorials that teach business skills and ideas to anyone with Internet access—<http://sba.gov/training/coursestake.html>. Any government that wishes to promote small and medium-sized enterprises should consider doing something similar.
- **Hire experts.** Likewise, private-sector small-business experts can be hired to teach business skills online. I write a weekly online column for the newspaper *USA Today* that does this: <http://www.usatoday.com/money/smallbusiness/front.htm>.

CELEBRATE AND FOSTER SMALL BUSINESS

Not only must new entrepreneurs be taught the skills necessary to succeed, but existing entrepreneurs should be promoted so as to encourage more people to start small businesses. In Costa Rica and Uruguay, small-business fairs and expos recognize small business and entrepreneurship. Uruguay also has awards for small businesses that contribute to society. Indeed, there is plenty a government could do to promote small business. For example:

- **Sponsor an “Entrepreneur of the Year” award.** A yearly award, on both the local and national levels, if well publicized, could do much to create an entrepreneurial mind-set.
- **Tap the expertise of business leaders.** A country that wants to promote small business must work to have its population look up to entrepreneurs. One way to do this is for the government to tap business leaders to help solve various issues and problems. Blue-ribbon government panels should take advantage of the expertise of entrepreneurs.

CREATE THE PROPER TAX AND REGULATORY ENVIRONMENT

A country’s tax code is one of the best tools it has for promoting small-business growth. In the United States, for instance, the tax code is changed often with the idea that

certain tax credits, deductions, or reductions can be used to foster growth in one segment or another.

Here is another example: Nearly 98 percent of all Canadian businesses are small businesses. The Certified Management Accountants of Canada recently recommended to the Canadian Parliament that the best way to foster even more small-business growth is through changes in Canada's tax policies, such as:

- reducing the corporate tax rate;
- offering tax credits for investments in training and education;
- increasing the deductions for investments.

Aside from lowering taxes to encourage business formation, it is important to reduce and eventually eliminate those government regulations that stymie business growth. The simpler and more expedited the regulatory process, the greater the likelihood of small-business expansion.

PROTECT INTELLECTUAL PROPERTY

Any government that wants to encourage small business needs to produce laws that protect the innovations of entrepreneurs. Innovation is at the very heart of small-business growth, but if innovations are not legally protected, entrepreneurs will be unlikely to engage in the risks necessary to invent new solutions to societal problems. Accordingly, policies that protect patents, copyrights, and trademarks are critical if small business is to flourish.

In the end, any government wanting to promote small business needs to implement policies that help entrepreneurs take less risk and make more money. Do that, and small business success is yours. ■

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