

**THE ROLE OF SMALL BUSINESS IN ECONOMIC  
DEVELOPMENT OF THE UNITED STATES:  
FROM THE END OF THE KOREAN WAR (1953) TO THE  
PRESENT**

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***Abstract***

A government can use its financial strength to acquire goods and services, while at the same time watering many sources to improve the health, welfare, and security of its population. Economic development has been evasive to a significant section of the U.S. and federal programs have attempted to remedy the disparity (ies). We contend that small business is an engine of economic growth and job creation; and that not tapping it delays rather promotes growth. While providing a brief history of federal economic development programs, we argue that small business was not given a chance to act as multiplier, and that if the U.S. is to continue to grow, small businesses must be part of the mantle to lead it to the next level; otherwise, the past is prologue.

**Introduction**

Let us suggest at the outset that *the past is prologue* (Shakespeare, *The Tempest*).

The United States (U.S.) Federal government's acquisition budget is larger than the entire budgets of some countries. The government uses this monetary strength to acquire the necessary goods and services to provide for the health, welfare and security of its people and allies around the world, and to promote and achieve other goals and objectives such as economic development. "These government contracts, by means by which many of the community needs are satisfied cannot be equaled with ordinary contracts..." (Turpin, 1968).

The goal of the present paper is to show a link between economic development and small business. The reasons are varied, but one can consider the contribution small business has had in the U.S. economy, both in terms of output and job creation. However, it has been argued that small businesses are not always at the forefront of some federal policy discussions on economic development (Chase, 1973). It is this assertion that we aim to either prove or disprove by looking at the significant legislative initiatives since the end of the Korean War and the procurement tools that ensued. To that end, the paper is organized as follows. Section 2 will define economic development. Within this context, Sections 3-4 will provide a brief history of economic

development in the United States with a focus on several major legislative initiatives. Finally, we will examine several procurement tools used by the Federal Government to promote job creation and economic development. The first procurement tool is the Labor Surplus Area program. This program was a creation of the Post Korean War. We also look at additional procurement tools such as the 1977 Local Public Works Act, the HUBZone Act, and the Stafford Act, and conclude with a review of the current effort to create economic development stimulus through the American Recovery and Reinvestment Act of 2009.

We find that, overall, these tools and actions failed to incorporate comprehensively the unique and valuable perspective of this nation's economic strength, the small business community.

## **1. Definition of Economic Development**

Economic development is fundamentally about enhancing the factors of productive capacity - land, labor, capital, and technology - of a national, state or local economy. By using its resources and powers to reduce the risks and costs that could prohibit investment, the public sector often has been responsible for setting the stage for employment-generating investment by the private sector (Valley County Economic Development, 1998).

The public sector generally seeks to increase incomes; the number of jobs; and the production of resources in regions, states, counties, cities, towns, and neighborhoods.<sup>1</sup> Drabentstott (2006) defines economic development as involving both the restructuring and growth of an economy to enhance the economic well-being of people that live in a particular place.

An increasing number of voices contend that economic development policies must pass the tests suggested by the following definitions: Are the policies, programs, and practices generating a higher standard of living and more and better jobs? Are programs becoming more accountable, cost-effective, and user-friendly? Are they expanding opportunities for all Americans? Are they becoming more compatible with conserving our environmental assets and promoting a higher quality of life?<sup>2</sup>

By definition, economic development is the nucleus of a nation's master plan for continued prosperity and existence. Economic development must link the sources of production with the wellbeing of its people. If economic development is to occur, several conditions must

be present. One report refers to these conditions as the Five M's which are materials, manpower, markets, management and money (Bruno 1980). As also shown by data from the Office of Advocacy (Advocacy) at the United States' Small Business Administration (SBA), small businesses are the gate keeper of the five M's.

Economic development must not only be in the present, but it must also be visionary for the nation and its regions. In the late 1990s, writings of Professor Michael Porter and more recently Karen Mills and others support a belief that perhaps cluster economic development or regional industry clusters—geographic concentrations of interconnected firms and supporting organizations—represent a potent source of productivity at a moment of national vulnerability to global economic competition (Mills et al. 2008). In fact, Drabenstott states that “the world has changed but federal policy has not. Most federal programs for economic development were written for the economy of the 20th century, not the 21st century.” Drabenstott further believes that “federal policy has focused on small business for half a century, but entrepreneurship is a much bigger issue.”<sup>3</sup> Contrary to Drabenstott, these 20th century policies failed to acknowledge the role of small business. A brief history of economic development in the United States will provide a foundation for the belief that history has a strong tendency to repeat itself; but if this nation is to continue its worldwide leadership role, it will have to deviate from history, and reoptimize its economic development policies to include small businesses.

## **2. History of Economic Development in the United States**

### **a) The period prior to 1953**

The first significant impact of Federal Government involvement in the day-to-day operation of the Country's economic system was during the Civil War and lasting through World War I. It was, according to Chase (1973), during this period that the first indications of significant growth of big business began to emerge that resulted in the Sherman Antitrust Act of 1890 and the Clayton Act of 1914, both designed to control the evils of economic concentration associated with monopoly and oligopoly.

Even with these bold legislative initiatives, the national economic development objectives of the United States did not begin to take shape in earnest until the 1930s and 1940s. Prior to the Great Depression the government had already established legislation for select elements of

area economic development (e.g., highways, vocational technical education). Areas not receiving attention included the chronically depressed regions of the United States (Economic Development Administration Legislative History).<sup>4</sup>

In his state of the union message to Congress in 1944, President Roosevelt presented an "Economic Bill of Rights" to the American people. An essential part of this doctrine was the right of every individual to a useful and remunerative job in an atmosphere of economic security.<sup>5</sup> To insure this right, Roosevelt's advisors set as the nation's post-war economic goal, "full and stable national productivity, income and employment" (U.S. Department of Labor). Yet for over a decade, the purposes of this Act were more symbolic than real.<sup>6</sup> Perhaps the effort was not fully successful because the Act did not recognize the importance small businesses as a major player in helping this nation solve its post war unemployment problem.

President Roosevelt's New Deal programs were the first to have significant application to depressed areas, although the focal point was national recovery,<sup>7</sup> with no specific emphasis on small business. The policies did not use the regenerative and multiplier ability of the small business sector. While small business benefited along with everyone else, small business could have been an instrument of even stronger economic development policies. Several planning authorities created through the New Deal had a substantial impact on the evolution of regional economic development policy, but again, small business was not a primary focus (Poverty in America). This type of regional economic development is perhaps the forerunner to the Porter, Mills et.al theories and contributions to the literature with respect to cluster economic development.

These New Deal planning authorities included the following:<sup>8</sup>

- i. The Public Works Administration (PWA): established via the National Industrial Recovery Act (NIRA) of 1933 for the purpose of completing a plan to construct, repair, and improve public highways, buildings, and other publicly owned facilities, as well as for the conservation and development of natural resources.
- ii. The National Resources Planning Board (NRPB): originally the National Planning Board, established in 1933 and renamed in 1934, was designed to implement the public works planning and construction provision of the NIRA.<sup>9</sup> Besides examining the physical aspects of regional economic development, NRPB recommended the creation of coordinated interstate, state, and local planning boards and districts, which were conceived of as

- early predecessors for the Area Redevelopment Act of 1961 (ARA) and the Public Works and Economic Development Act of 1965 (PWEDA).<sup>10</sup>
- iii. The Tennessee Valley Authority (TVA): designed to meet President Roosevelt's vision of a national system of interlocking river-valley regional development projects. It is the most well-known and well-funded of more than forty state planning commissions established during the 1930s to help coordinate federal economic planning. The TVA planning approach served as a precedent for other development commissions, such as the Appalachian Regional Commission (ARC).<sup>11</sup>

In 1942, the Smaller War Plants Corporation (SWPC) was established to determine how best small businesses could be used to assist in the production of parts for World War II. The SWPC was a pioneer agency because it was the first Federal agency established to assist small firms.<sup>12</sup> Prior to the creation of SWPC, Congress received numerous complaints that small businesses were being denied the opportunity to participate in defense contracting and that these contracts were being given mostly to large businesses.<sup>13</sup> This form of discrimination gave rise to a fear in Congress that unless small businesses were included in defense contracting, the United States might be weakened on the home front.<sup>14</sup> So profound was this problem, that a slogan was coined, "If America will save the small businessmen, then small businessmen will save America."<sup>15</sup> Congress also recognized the severity of this crisis and in 1941 passed Resolution 294 that not only authorized an investigation of the national defense program relative to small business but also began the process of creating a specific Committee to focus on the problems of small business.<sup>16</sup>

The work of SWPC ended in 1946. It slowly became evident that small businesses were good enough to help in the defense of this nation but not good enough to enjoy the economic benefits of a peace time prosperity. It was not until another war crisis that a new temporary small business agency emerged. The Small Defense Plants Administration was created to help small firms participate in defense production during the Korean War.<sup>17</sup>

In the 1940s, legislation to aid depressed areas was largely driven by several administration officials and congressional representatives, including Henry A. Wallace, who, as Secretary of Commerce, negotiated congressional hearings on the issue of chronically distressed regions.<sup>18</sup> Wallace focused on the South, arguing that the nation could not achieve full employment when an entire region was lagging (Wallace, 1945).<sup>19</sup> Also, Wallace pointed out that in 1820, farm employment represented 72 percent of the economically active population in the United States.

Between 1940 and 1970 the farm population declined from 30.5 million to 10.3 million.<sup>20</sup> One reason for this drastic decline was the loss of soldiers in war; and for those who returned home, many did not want to return to a life of farming.

Wallace's proposal was to develop a comprehensive federal strategy for depressed areas but it did not explicitly focus on small businesses.<sup>21</sup> In 1945, two legislative proposals on depressed areas reached Congress. The first bill became the 1946 Full Employment Act. This Act was amended to assist underdeveloped areas.<sup>22</sup> This bill was linked to underdeveloped areas, and focused on shifting remedial action for rural problems from a people-to-jobs orientation (worker mobility) to jobs-to-people orientation (employment establishment expansion). In sum, it promised assistance to private economic initiatives.<sup>23</sup> Presumably this would include small businesses, but history does not provide a clear picture of whether that was the case. The intent of the second bill was to provide industrialization aid to underdeveloped areas.<sup>24</sup>

During this period two significant statistical collection and distribution agencies were established: the Bureau of Employment Security and the Area Development Division. These additions reflected the Truman administration's desire to narrow regional differentials by raising productivity and incomes in lagging regions by improving agricultural methods and land use, industrial expansion and diversification, and increased health and education levels.<sup>25</sup> To achieve these goals the Council of Economic Advisers began to study ways to integrate programs in business, labor, agriculture, and all levels of government that would benefit each and contribute to the whole.<sup>26</sup>

President Truman's ascension to the presidency upon President Roosevelt's passing produced little change. He continued the New Deal legacy and responded to the predictions of massive post-war unemployment by reaffirming the nation's commitment to full utilization of its material and human resources through the Employment Act of 1946.<sup>27</sup>

#### **b) The period after 1953**

After President Truman, President Eisenhower believed that economic problems stemmed from various causes.<sup>28</sup> His deep concern over these issues surfaced in a strong appeal for legislation to aid chronically depressed areas, and opposition to bills that would establish policy for area assistance. In general, the Eisenhower administration tended to favor technical assistance and loans to depressed areas. This led to the passage of the Small Business Act in 1953 and the initiation

of the Rural Development Program in 1955.<sup>29</sup> Overall, the economic improvement programs of the Eisenhower administration focused more on the efforts of state and local governments, as well as civic organizations, than in the past.<sup>30</sup> This led to a new Area Assistance Program, designed to better assist communities that had experienced persistent and substantial unemployment.<sup>31</sup>

Unemployment in some concentrated regions of the nation created a concern for Congress. The Senate Subcommittee to Investigate Unemployment, of the Committee on Labor and Public Welfare, held hearings on the causes of chronic unemployment in March 1955.<sup>32</sup> The flow of depressed area legislative proposals continued, but at the close of 1959, none had received full legislative and executive support. It was nearly six years later before Congress would enact legislation creating the Economic Development Administration.

Within this historical economic backdrop in the United States, EDA was born in 1965.

### **3. Federal Economic Development Programs**

#### **A. *Economic Development Administration***<sup>33</sup>

As appropriately suggested by Glasmeier and Farrigan (2006),

President Johnson planned to group together distressed counties and communities in economically viable development districts, focusing planning and assistance on the area as a whole as well as on individual counties and towns. The details of the proposal were laid out in PWEDA. The PWEDA would be a permanent program to provide grants for public works and development facilities, other financial assistance, and the planning and coordination needed to alleviate conditions of substantial and persistent unemployment and underemployment in economically depressed areas and regions. The bill contained provisions for: 1) the majority of funding for grants for construction of public works projects to attract industry; 2) loans mainly for construction of industrial plants; 3) the guarantee of working capital loans by the government and help paying interest on certain loans for private firms.

The primary and secondary objectives of the EDA were as follows:

#### **i. Primary Objectives**

a- *Self-sustained economic development*- EDA was to provide stimulus for self sustained growth rather than effecting long-term income transfers to the unemployed. This followed the concept of the agency that

it could correct the negative effects of market forces and that prosperity was a desirable political and economic goal.

*b-Increased planning capacity-* EDA's goal was to promote sound, long range economic planning at all levels of government necessary to aid in infrastructure development; according to the act, this required the creation of regional commissions, development districts, a national advisory board, planning grants, and technical assistance, as well as community designed overall economic development plans.

*c-Rural focus of aid-* although not explicitly stated, the political perspective of urban ills presented in the act was that they were largely a spin-off of the deterioration of rural life and the resulting rural to urban migration. Therefore, a major objective of the EDA was to curtail rural emigration.

**ii. Secondary Objectives**

a- Maximization of national economic efficiency.

b-The achievement of equity as compared to other regions through economic growth.

c-Relief of effects of cyclical economic distress.

d-Geographic dispersion of assistance limited to 15% of EDA expenditures per state.

***B. The Small Business Administration***

Notwithstanding a nearly 25-year effort to get a central point of reference for economic development, the primary and secondary objectives of this historic EDA accomplishment did not acknowledge small business. Some would suggest that this new EDA law did not want to infringe on the jurisdiction of the Small Business Administration, but how can one think of maximizing national economic efficiency without a primary role for small businesses?<sup>34</sup>

Excluded from consideration in the 1965 EDA Act was the question of why small businesses are so vital to the well being of this nation's economic fabric. During World Wars I and II and the Korean War, the small business community rose to the fight. Small businesses kept this nation at the doorstep of victory. "If America will save the small businessmen, the small businessmen will save America." Small business saved America and America responded by creating the Small Business Act of 1953. The Korean War ended in 1953, President Eisenhower signed into law legislation that created the Small Business Administration (SBA) on July 30, 1953.<sup>35</sup> These two very separate events in the archives of American History were very much connected to



each other. SBA became the first peacetime Agency of government whose purpose is to provide assistance to all aspects of small business.<sup>36</sup>

Passed in 1953, the Small Business Act established the SBA with the mandate to "encourage" and "develop" small business growth, and to aid minorities and other disadvantaged people in securing loans and learning management techniques. "The essence of the American economic system of private enterprise is free competition," the act reads, "Only through full and free competition can free markets, free entry into business, and opportunities for the expression and growth of personal initiative and individual judgment be assured. The preservation and expansion of such competition is basic not only to economic well-being but to the security of this Nation."<sup>37</sup>

Congress adopted the Small Business Act during the Eisenhower Administration, a time of economic expansion. Millions of G.I.'s returning from the Army in 1945 and 1946 injected a renewed workforce into the economy, and factory jobs filled up quickly. Factories were no longer producing for the war effort, and many of the returning G.I.'s, either unable or unwilling to find work in large industrial firms, sought out their own business ventures. With the help of families and personal loans, businesses such as camera stores, food services, and car dealerships sprang up across the country. Still, large firms had tremendous advantages over smaller start-ups, and Congress created the SBA to help even the playing field.<sup>38</sup>

Small businesses currently represent 98 percent of all businesses in the United States and they generate nearly 64 percent of all net new jobs in this country.<sup>39</sup> Moreover, small businesses are generally considered to be the first line of employment and thus the initial training grounds for this nation's workforce.<sup>40</sup> There are twenty-nine million small businesses in the United States.<sup>41</sup> The SBA estimates that just over half of all employees in the U.S. work for a small firm, and that small business employers provide approximately 44.5 percent of payroll in the private sector. Ninety-seven percent of all exporters are small business owners, comprising 29 percent of total exports.<sup>42</sup> The most powerful statistic, however, is that 60 to 80 percent of all new jobs come from small businesses. This number fluctuates when some small businesses grow enough to become classified as large businesses, and when new small businesses are created. From 1999 to 2000, small businesses accounted for 75 percent of all new jobs created. By 2010, small businesses account for three quarters of net new jobs in the United States.<sup>43</sup>

Small businesses have a long history of being this nation's primary job creator, but as outlined above in the history of this nation's economic policy formation, small businesses were not at the forefront in this nation's policy manpower formation. The congressional policy "...that the government should aid, counsel, assist...the interest of small business concerns in order to preserve competitive enterprise....", in the 1953 Small Business Act carried very little potency as it can be seen in the creation of the Labor Surplus area program.<sup>44</sup>

### ***C. Labor Surplus Areas***

According to at least one source, the concept of channeling Federal procurement contracts into high unemployment areas can be traced back to the early 1950's.<sup>45</sup>

During the Korean conflict, there was concern among Government officials that high unemployment rates and low utilization of plants and equipment in some areas would lead to erosion of the mobilization base and adversely affect the Nation's production capability.<sup>46</sup> The Office of Defense Mobilization studied this problem and in February 1952 and issued Defense Manpower Policy Number 4 (DMP-4), implementing the idea of directing Federal procurement contracts to employers in labor surplus areas.<sup>47</sup>

What are labor surplus areas? Labor surplus areas are designated by the United States Department of Labor as having high unemployment. Employers located in these areas can be given preferences in bidding on federal procurement contracts.<sup>48</sup> The purpose in providing such preferences is to help direct the government's procurement dollars into areas where people are in the most severe economic need.<sup>49</sup>

"Success of the national defense program depends upon efficient use of all resources, including the labor force and production facilities, which are preserved through utilizing the skills of both management and labor. A primary aim of Federal manpower policy is to encourage full utilization of existing production facilities and workers in preference to creating new plants or moving workers, thus assisting in the maintenance of economic balance and employment stability. When large numbers of new workers move to labor surplus areas, heavy burdens are placed on community facilities, such as schools, hospitals, housing, transportation, and utilities. On the other hand, when unemployment develops in certain areas, unemployment costs increase the total cost to the Government, and plants, tools, and workers' skills remain idle and unable to contribute to our national defense program. Consequently, the purpose of Defense

Manpower Policy No. 4B is to direct attention to the potential of labor surplus areas when awarding appropriate procurement contracts and when locating new plants or facilities.”<sup>50</sup>

In the early 1950s Senator John F. Kennedy, in a speech about the high unemployment in his state said, “The Defense Manpower Policy Program for channeling defense contracts into labor surplus areas must be made into a reality, providing employment opportunities for thousands of workers whose skills and productivity will otherwise be wasted and dispersed.”<sup>51</sup> A program was designed to provide job opportunities to the unemployed and to provide job training for the under or sub employed. In other words, the Federal Government was to use the significant size of its economic strength to address some of the nation’s most perplexing problems of labor shortages and unemployment.

The House Small Business Committee and other House and Senate Committees of Congress held numerous hearings from 1950s through the 1970s on the LSA program; and while agencies had different horror stories as to why they fell short of the program goals, the end result was that the people the program was designed to serve never received the intended benefits of the program.<sup>52</sup> The Department of Defense (DOD) with the largest acquisition budget of any federal agency never met its LSA goals because of Senator Maybank’s amendment. This amendment prohibited DOD from using Federal taxpayer funds to help unemployed Americans.<sup>53</sup> Perhaps however, another shortcoming of the LSA program was its early lack of focus on the utilization of small businesses, and its inherent conceptual flaw which involved attempting to bring the businesses to the urban areas and not the people to the businesses. The flight to suburbia and the fight to integrate was at the door of America and this may have exacerbated the existing flaw(s). Thus, America lost a tremendous amount of manpower and economic strength because the economic value of the small business community was not acknowledged and the value of a well trained diversified population was not recognized.

It was not until the late 1970s that Congress began to recognize fully the value of the small business community in job creation and economic development. The LSA program was redesigned to recognize this largest group of business owners in the United States. The Small Business Act was amended by Public Law 95-89 to provide for labor surplus area set-asides for all businesses. After the passage of this law President Carter issued a labor surplus executive order, Executive Order 12073 in 1978.<sup>54</sup> The U.S. House Small Business Committee in House Report 96-125<sup>55</sup> called for passage of the Small Business Economic Policy Act of 1979 that would require Congress to establish a national policy to implement

and coordinate the policies, programs, and activities of all Federal departments, agencies, and instrumentalities in order to provide an economic climate conducive to the development, growth, and expansion of small and medium-sized business. With the enactment of the Small Business Economic Policy Act of 1979, it remained unfortunate that Congress could still not undue the strangle hold of the Maybank amendment nor was it inclined to recognize the full value of the small business community to job creation and economic development.

Today, while the Department of Labor continues to designate areas as labor surplus, the elements of the early LSA program are now embodied in the new HUBZone program of the SBA.

#### ***D. Public Works and Employment Act of 1977***

This act, like the Labor Surplus program, was designed to address the nation's high level of unemployment. The Public Works and Employment Act of 1977 was based on the premise that efforts by the Federal Government to stimulate the economic recovery could be substantially enhanced by a program of emergency Federal Government assistance to State and local governments to help prevent those governments from taking budget-related actions which undermine the Federal Government efforts to stimulate economic recovery. The significance of this 1977 law was that while the policy focus was on using construction projects to "prime the economic pump," this pump did not include a segment of this nation's population that was experiencing the higher levels of unemployment and more specifically, the efforts of the public works programs failed to incorporate minority small businesses. Thus, through the legislative process, Congressman Parren Mitchell was victorious in getting an amendment to the 1977 law that required the use of minority businesses.<sup>56</sup> The U.S. Supreme Court in *Fullilove v. Klutznick*, 448 U.S. 448 (1980) upheld the ability of Congress to use its spending authority under the Constitution to provide for economic development activities that were specifically designed for small minority businesses.

#### ***E. HUBZone Program***

It is unclear why the HubZone program emerged in the early 1990s as the small business preference acquisition program of choice. Unlike the other small business acquisition programs, this one did not focus on race or gender, but more on the location of the company.<sup>57</sup> The purpose of the program, as stated in CFR 13.126.100 is to "...provide Federal contract assistance to qualified SBCs (small business concerns) located

in historically underutilized business zones in an effort to increase employment opportunities, investment, and economic development in such areas.”<sup>58</sup>

If the company was a small business and located in labor areas designated by the Department of Labor and HUD and economically depressed, then the company was eligible to be certified as a HubZone company. Once the company completed a formal submission of documents to SBA to verify that it was a small business, that its primary office was in the designated area, and that it met the 35 percent employee test, then it would be issued a formal certification number by SBA. This certification placed the company in a select group of small businesses that were eligible to bid on federal contracts that were specifically earmarked for HUBZone contractors.

Since its congressional creation in 1997,<sup>59</sup> the HUBZone program has had at best a warm reception by the acquisition community.<sup>60</sup> The law was never adequately tied to the economically depressed communities that it was to serve nor to the source of its funding in the federal acquisition structure. The law required agencies to have a HUBZone procurement goal of 5 percent, but by imposing a requirement that the contracts be awarded to companies that may not have any relationship to the place of work of the contract, created unusual alignments that the acquisition community had to readjust too. For example, if the purpose of the HUBZone program is to provide economic improvements to impoverished communities, it is a little difficult to believe that a company that is certified in the District of Columbia will move its workforce to Macon, Georgia if the contract is awarded for work in Georgia.

#### ***F. Stafford Act***

The declaration in the 1953 Small Business Act still has its doubters. As late as 2005, the U.S. Federal policy makers did not understand the pivotal role small businesses play in the local and regional economy. It was unfortunate that it took a national disaster like Hurricane Katrina for this nation to understand why small businesses must participate as full economic partners at all levels of government. This lesson was not learned easily. Hurricane Katrina occurred in 2005 and it took an Act of Congress,<sup>61</sup> one year later, for the federal policy decision makers to require federal contracts to utilize local small businesses. This action by Congress came after a persistent outcry from local small businesses that they were being excluded from helping to rebuild their communities.

Unfortunately, it took the General Services Administration yet another year to implement the legislative change.<sup>62</sup> The legislative fix reads: “In the expenditure of Federal funds for debris clearance, distribution of supplies, reconstruction, and other major disaster or emergency assistance activities which may be carried out by contract or agreement with private organizations, firms, or individuals, preference shall be given, to the extent feasible and practicable, to those organizations, firms, and individuals residing or doing business primarily in the area affected by such major disaster or emergency. Prior Contracts - Nothing in this section shall be construed to require any Federal agency to breach or renegotiate any contract in effect before the occurrence of a major disaster or emergency.” Sec.307. Use of Local Firms and Individuals (42 U.S.C. 5150). This prior contracts provision is the germ that prevented some contracts from being awarded to local firms. In general, there is a recognition that it is too late to start the acquisition process for goods and services after a disaster occurs. Thus, The General Services Administration had in place emergency stand-by contractors ready to deliver products and services. These individuals had prior contracts but most if not all of these individuals were not from the local community.

Many more examples than the ones above exist to enhance the position that while small businesses are the economic backbone of this nation, these stakeholders and their advocates must be ever so vigilant in the pursuit of a level economic playing field. Where are we today?

### ***G. American Recovery and Reinvestment Act of 2009***

In the last two years this nation has been on the brink of a financial disaster unlike any time since the Great Depression. The thrust has been on getting Wall Street healthy before Main Street can prosper again. In this regard, one of the first acts by President Obama after he took office was to push for the passage of legislation that would start this nation’s economic recovery. On Feb. 13, 2009, Congress passed the American Recovery and Reinvestment Act of 2009 at the urging of President Obama, who signed it into law four days later.<sup>63</sup> A direct response to the economic crisis, the Recovery Act has three immediate goals:

- Create new jobs and save existing ones
- Spur economic activity and invest in long-term growth
- Foster unprecedented levels of accountability and transparency in government spending

The Recovery Act intends to achieve those goals by:

- Providing \$288 billion in tax cuts and benefits for millions of working families and businesses;
- Increasing federal funds for education and health care as well as entitlement programs (such as extending unemployment benefits) by \$224 billion;
- Making \$275 billion available for federal contracts, grants and loans.

The legislation makes it clear that small and disadvantaged businesses are not to be discriminated against in the use of federal funds for the recovery.<sup>64</sup> Moreover, the law refers back to the Small Business Act for utilization and compliance purposes. In fact, the Small Business Administration has been given a challenge to make sure that small businesses are the recipient of government guaranteed loans necessary to keep their businesses running until Wall Street and Main Street can regain their financial health. Unlike previous national recovery plans, small businesses are required to be a key player in the use of federal funds to “prime the pump” through the acquisition of goods and services. Since the 1990s, the Federal Government has had a procurement goal of awarding 23 percent of its contract to small businesses. The federal contracts associated with the American Recovery and Reinvestment Act should be in addition to the annual 23 percent goal, but it is unclear whether this would be the case at this time. It is however clear that, according to some sources, the dollars awarded to small business under the American Recovery and Reinvestment Act exceeds the 23 percent goal.<sup>65</sup> These achievements are not to be taken lightly for this may be the first time that small businesses have taken an integral part in a full fledged peace-time economic development action in this nation.

This accomplishment also carries with it recognition about the small business community. That is, as this nation sets forth new plans and visions for new frontiers of economic growth and prosperity, the 1953 Small Businesses Act view of a small business may need to be modified to reflect a changing world. For example, the American Recovery and Reinvestment Act, among other developments bring the concept of Broadband to America’s small business policy agenda. Moreover, unlike previous economic eras under Presidents Roosevelt, Truman and Eisenhower or Kennedy, small businesses are a part of the legislative fabric, as well as the socio-economic one. Small and socially economically disadvantaged business status, as defined by Section 8(a) of the Small Business Act, determines who participates and receives special consideration. The National Telecommunication and Industry Agency, in making Broadband grants, are restricted to this definition in

the SBA Act. The current legal definition of small business does not allow small businesses to compete effectively against giants in the telecom industry. In short, for a small business to participate in this industry it may need to be three times the size of the traditional definition of a small business. The American Recovery and Reinvestment process is preparing this nation to compete in the new global market and perhaps it is time to recognize that one size does not fit all small businesses. This recognition may require some federal policy makers to overcome their antiquated notion that this nation's small businesses are only mom and pop stores. What are the recommendations for going forward?

In summary, these programs, a few among many, have energized to some degree the U.S. economy, and various areas of interest. Judging from the growth of the small business sector, it is natural to argue that we have seen progress, economic progress. Yet much remains to be done, judging by the various studies that have been done to document disparities, and areas of consistent economic draught. Economic growth, though hampered a bit as of late, has been exemplary in the U.S., fueled by impressive productivity and technology. The programs discussed in this paper try to reduce the distance between the two parallel roads followed by the economy and the country's depressed sectors. The latest evidence points out that it has increased.

#### **4. Recommendations and Conclusion**

1. The achievements under the American Recovery and Reinvestment Act did not come about because of a natural evolution recognizing the importance of small businesses. They came about after nearly 60 years since the enactment of the 1953 Small Business Act, small business stakeholders and policy makers have gained a voice in the economic decision making process. There are more than 29 million small business owners in the United States who want their fair share of the economic pie. Policymakers must now begin to tailor small business programs and definitions to the specific characteristics of the industries. The above example of the telecommunication industry and the expanding use of Broadband technology is an excellent example of what needs to be fixed.

2. While not discussed in this paper, financial tools for Federal small business contractors must be redesigned by the government and private sector to reflect the need of the stakeholder. For example, some of the complaints of federal small business contractors regarding their inability to get contracts under the American Recovery and Reinvestment Act



center on the fact that while SBA was promoting 7(a) Loans, many banks were not equipped to make asset-based loans, which would be more beneficial to many Federal contractors, especially disadvantaged businesses.<sup>66</sup> As the new economic frontier moves forward, new and more appropriate financial tools must also move with this progress.

3. The government's use of Federal acquisition dollars to promote economic development should not be limited by restrictions of underdevelopment, instead, a full regional economic plan should include assistance to the unemployed areas of the particular region. Nor should there be restrictions on the movement of people in or out of the affected area. Clearly as seen under the cluster economic development approach, people and contractors will follow a natural alignment.

These Federal procurement vehicles represent some of the structures used by Federal policymakers to "prime this nation's economic pump." Some of these vehicles were modified later to include small businesses; and some other vehicles, while focusing on small businesses, did not provide a systematic and coherent approach for the assimilation of small in this nation's economic recovery and development.

If the United States is to continue to grow and expand, and if innovation is at the heart of this new horizon, then small businesses that are more innovative, in a head to head competition with large businesses, must be given the mantle to lead our nation to its next level of prosperity. The alternative will only be an additional data point to the Shakespearian insight, that *the past is prologue*.

## NOTES

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\* Both authors work for the Office of Advocacy of the U.S. Small Business Administration. Major L. Clark, III, J.D., is the Assistant Chief Counsel specializing in acquisition policy and Radwan N. Saade, Ph.D., is a Regulatory Economist. The statements, findings, conclusions, and recommendations found in this study are those of the authors and do not necessarily reflect the views of the Office of Advocacy, the U.S. Small Business Administration, or the U.S. government. It is our intent to discuss post Korean War to present legislative and economic development actions; it is however prudent to start before the end of the Korean War to set up the framework for appropriate analysis.

1 [www.valleycountyeconomicdevelopment.com](http://www.valleycountyeconomicdevelopment.com), page 1, also see Ahmad Amirazodi, American Economic Development Council-Economic development in Today's Economic Toolbox Publication from AEDC, 1998.

2 *Id.*, page 6.

3 Drabentstott, 2005, page 71.

4 Glasmeier Amy and Farrigan, L. Tracy, *Economic Development Administration Legislative History*, Poverty in America, PennState University, 2006,  
[http://www.povertyinamerica.psu.edu/products/publications/eda\\_legislative\\_history/eda\\_legislative\\_history.pdf](http://www.povertyinamerica.psu.edu/products/publications/eda_legislative_history/eda_legislative_history.pdf).

5 Kremen, R. Gladys, *Manpower Development and Training Act of 1962*, [www.dol.gov/oasam/programs/history/mono-mdttext.htm](http://www.dol.gov/oasam/programs/history/mono-mdttext.htm), page 2.

6 *Id.*

7 See Note 4, page 1

8 *Id.*

9 *Id.*

10 *Id.*

11 *Id.*

12 A History and Accomplishments of the Permanent Select Committee on Small Business, 1941-1972, page xii.

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13 *Id.*, page xiii.

14 *Id.*

15 *Id.* page xiv.

16 *Id.*

17 See note 13.

18 See Note 4, page 8.

19 See Note 4, page 2

20 Bruno, 1980, page 2.

21 See Note 4, page 8.

22 U.S. Congress, Senate, Congressional Record, 79th Congress, 1st session, September 24, 1945, 91, part 7: 8917. See also Note 4.

23 See Note 4, page 3.

24 S. 1385, A Bill to Provide for Aid in Industrialization of Underdeveloped Areas, 79th Congress, 1st session. U.S. Congress, Senate, Subcommittee on Domestic Commerce, Hearings on S. 1385, May 3, 6, 7, 1946, p. 14. See also Note 4.

25 See Note 4, page 3.

26 The Economic Report of the President, January 14, 1948, p.58. See also Note 4.

27 See note 5.

28 U.S. Congress, Senate, Special Committee on Postwar Economic Policy and Planning, Post-War Economic Policy and Planning: Report Pursuant to S. Res. 102, 78th Congress, 2nd session, S. Report 539, part 4, 1944, pp. 7-8. See also Note 4, page 4.

29 See Note 4, page 4.

30 The Economic Report of the President, January 20, 1955, pp. 59-61.

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31 See Note 4, page 4.

32 U.S. Congress, Senate, Subcommittee to Investigate Unemployment, Causes of Unemployment in the Coal and Other Specified Industries, July 14, 1955, Senate Report 2042, p. 2. See also Note 4.

33 See Note 4, page 13.

34 Rosenfeld Ross and Rosenfeld Seth, *Small Business Act (1953): Major Acts of Congress*. <http://www.enotes.com/major-acts-congress/small-business-act>. See also Note 4, page 15 for a discussion of President Johnson's decision to merge DOL and the Department of Commerce.

35 Carson, Dean, Ed., *The Vital Majority: Small Business in the American Economy*, 1971, page 13.

36 History and Accomplishments of the Permanent Select Committee on Small Business, U.S. House of Representative, 1941-1972, page 40-42.

37 See Note 34.

38 *Id.*

39 Office of Advocacy, Small Business Administration, Frequently Asked Questions, <http://web.sba.gov/faqs/faqindex.cfm?areaID=24>.

40 *Id.* Data located at [www.sba.gov/advo/research/data.html](http://www.sba.gov/advo/research/data.html).

41 See note 29.

42 *Id.*, also, " [Small businesses] made up 97.3 percent of all identified exporters and produced 30.2 percent of the known export value in FY 2007."

43 *Id.*

44 See Note 34.

45 Labor Surplus Areas, <http://lmi.ides.state.il.us/surplus.htm>.

46 U.S. Department of Labor, Area Trends in Employment and Unemployment, Eligible Labor Surplus Areas for Bidding on Federal contracts, May 1991.

47 *Id.*

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48 *Id.*

49 *Id.*

50 Title 44: Emergency Management and Assistance, <http://ecfr.gpoaccess.gov>.

51 Remarks of Senator John F. Kennedy before Massachusetts State Federation of Labor Convention, August 4, 1954. <http://www.jfklibrary.org/Historical+Resources/Archives/Reference+Desk/Speeches/JFK/JFK+Pre-Pres/1954/>

52 Selected readings in Employment and Manpower, United States Senate Committee on Labor and Public Welfare, 1964. Labor Surplus Area Procurement and Subcontracting to Small Business, Select Committee on Small Business, 1978. Also from personal interview with Thomas Trimboli, former legal counsel for the House Small Business Committee, and currently GC for the College of Charleston SC.

53 The Labor Surplus Area Award program, however, became the subject of controversy in Congress, resulting in the enactment of the Maybank Amendment in the 1954 Defense Appropriation Act, Public Law 179, Section 644, Aug. 1, 1953, 67 Stat. 336, and in succeeding DOD Appropriation acts. The Maybank Amendment provides that "no funds herein appropriated shall be used for the payment of a price differential on contracts hereafter made for the purpose of relieving economic dislocations.

54 Executive Order 12073, [www.archives.gov/federal-register/codification/executive-order/12073.html](http://www.archives.gov/federal-register/codification/executive-order/12073.html).

55 See legislative history for Public Law 96-302, July 2, 1980.

56 Public Works Employment Act of 1977, Pub.L.No. 95-28, 91 Stat.116.

57 Opinions gathered from calls received from stakeholders of the Office of Advocacy (Federal Contractors), and from public participation in the 2009 MBDA Capital Formation Conference.

58 Code of Federal Regulations CFR 13.126.100, [www.gpoaccess.gov/cfr/](http://www.gpoaccess.gov/cfr/).

59 Small Business Reauthorization Act of 1997, [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=105\\_cong\\_public\\_laws&docid=f:publ135.105](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=105_cong_public_laws&docid=f:publ135.105).

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60 For a thorough review of the HUBZone Program, see Beale Henry, The HUBZone Program Report, Research funded by the Office of Advocacy, SBA, SBAHQ-06-M-0486, May 2008, <http://www.sba.gov/advo/research/rs325tot.pdf>

61 H.R. 4979: Local Community Recovery Act of 2006, [H.R. 4979 \[109th\]: Local Community Recovery Act of 2006 \(GovTrack.us\)](#).

62 Department of Defense, General Services Administration, National Aeronautics and Space Administration, 48 CFR Parts 5, 6, 12, 18, 26, and 52, <http://edocket.access.gpo.gov/2008/E8-21387.htm>

63 The American Recovery and Reinvestment Act of 2009, [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111\\_cong\\_bills&docid=f:h1enr.pdf](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:h1enr.pdf).

64 *Updated Implementing Guidance for the American Recovery Act of 2009*, page 54, [www.whitehouse.gov/omb/memoranda\\_default/](http://www.whitehouse.gov/omb/memoranda_default/).

65 See U.S. Small Business Administration, Recovery Report Card (Feb 2010), [http://www.sba.gov/idc/groups/public/documents/sba\\_homepage/recov\\_perform\\_rptcard\\_02\\_2010.pdf](http://www.sba.gov/idc/groups/public/documents/sba_homepage/recov_perform_rptcard_02_2010.pdf); also for the Administrators testimony, [http://www.sba.gov/idc/groups/public/documents/sba\\_homepage/mills\\_recovery\\_testimony.pdf](http://www.sba.gov/idc/groups/public/documents/sba_homepage/mills_recovery_testimony.pdf); and an Article by Matthew Weigelt (Oct 6, 2009), Government breaks small-business goals with stimulus funds, <http://fcw.com/articles/2009/10/06/small-business-contract-awards-recovery-act.aspx>.

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