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**ECONOMICS
AND
STATISTICS
ADMINISTRATION**

**Office of the
Under Secretary**

Testimony of
Under Secretary for Economic Affairs Kathleen B. Cooper
Before the Sub-Committee on
Rural Enterprises, Agriculture, and Technology
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Chairman Thune, Congressman Udall, members of the subcommittee. My name is Kathy Cooper. I am the Commerce Department's Under Secretary for Economic Affairs, which means I manage the U.S. statistical bureaus that produce much of the nation's economic, social, and demographic data.

I am pleased to be here this morning to share with you a Commerce Department report describing the important and developing relationship between American small business and "the new economy."

The term "new economy" was coined to describe an economy with surging productivity due largely to investment and use of information technologies (IT) like computers, software, and networks. And despite the recent economic slowdown and recession, higher trend growth in productivity appears to be continuing. U.S. businesses continue to add to the nation's IT capital stock, although at a slower pace, reflecting the downturn in business investment during the current recession.

Our report, "Main Street in the Digital Age," examines the degree to which small- and medium-sized businesses are participating in this high-tech revolution. If we are indeed in a "new economy," we would expect to see diffusion of these critical IT tools to businesses of all sizes throughout the economy.

Indeed, we *are* seeing the diffusion of these technologies. Small- and medium-sized businesses in every industry are investing in information technologies and exploring the potential of these technologies.

- Small- and medium-sized firms invest approximately one quarter of their total capital expenditures on computers and communications equipment. This is the same share as larger firms.
- Over 70 percent of small and medium-sized firms use computers in their businesses, and our best evidence from a combination of Census and private sector data suggests that a majority of small businesses are also Internet subscribers.
- Around sixteen percent of employees of small- and medium-sized firms who do not use a computer at work regularly use a computer at home or some other location. This combined with the share of small- and medium-sized enterprises (SMEs) employees who

already use a computer on the job suggests that there is a basic level of computer literacy in the current SME workforce.

However, our research *also* shows that:

- The smaller the firm, the less it invests in IT equipment on a per-employee basis. Companies with more than 500 workers invested twice as much per employee in computers and communications equipment as enterprises with 500 or fewer workers.
- Employees at smaller firms are less likely to use a computer at work than their counterparts at larger companies.
- And, the best available evidence suggests that small- and medium-sized businesses are less likely than larger firms to undertake certain e-commerce activities like buying and selling online.

Our report thus paints a picture of the diffusion—albeit the uneven diffusion—of information technologies to small- and medium-sized firms.

This is a first look at entrepreneurs' information technology investment patterns and suggests a variety of questions about the role of small- and medium-size enterprises in the digital economy. Why, for instance, do large firms invest more than small- and medium-sized firms in information technology equipment? And, what role does the Internet and e-commerce play in helping businesses to succeed?

Two factors help account for lower levels of IT investment per employee:

- First, although small and medium-sized businesses devote roughly the same percentage of their capital spending to IT as larger businesses, the total amount they invest in capital equipment is less than that expended by larger firms.
- Second, smaller firms are more prevalent in industries that tend to be less capital-intensive, such as retail, services, and construction.

Our data are revealing, but raise new questions that will require new data to answer. Are small- and medium-sized firms underinvesting in computer and communications equipment? Are there reasons beyond “no business need” that cause some of the size-related differentials to appear? All of these are areas for further research.

Improvements in the data collection programs at Commerce should aid in addressing these important research questions. For example:

- The Census Bureau's American Community Survey will yield better and more timely demographic and geographic information right down to local levels.
- The Economic Census is the statistical benchmark of businesses economic activity and is being conducted this year. As we have seen, many small businesses are involved in delivering services or producing and servicing IT.

- The Census Bureau and the Bureau of Economic Analysis (BEA) can and -- with funding in this year's budget -- will do a more accurate accounting of the evolving services and high tech sectors.
- An enhanced Gross State Product from BEA will help businesses serving local communities establish business models and budgets based on information about their locality.
- And, the institution of a first-time ever supply chain survey will help document shifts in economic activity by documenting how e-business processes are shifting functions and economic activity among manufacturers, wholesalers, retailers, transportation services, and logistics providers.

The emergence of the Internet and the combination of increasing quality and falling prices of computer equipment during the last decade should not be overlooked in this context. The less expensive computers and ubiquitous, relatively easy to use computer networks have given small- and medium-sized firms entrée into the information economy. Small business may not be engaging in some of the more sophisticated online activities—like buying and selling online—to the same extent as large firms. But, most firms are at relatively early stages of incorporating the Internet into their business processes.

Furthermore, as you know, small- and medium-sized enterprises are an incredibly diverse collection of firms. Some of the most technologically advanced firms in existence are small. We cannot expect a single technological approach to be appropriate for every firm. Business owners must evaluate each technology and each online business activity in light of their business goals. This research is just one part of the Commerce Department's efforts to improve our understanding of the place small- and medium-sized businesses in the new economy and to make sure that these firms are able to grasp the potential of new technologies.

- Commerce Secretary Donald L. Evans' E-Business Facilitation Initiative encouraged the Organization for Economic Cooperation and Development to examine the obstacles facing businesses, particularly small businesses, in conducting cross border transactions over the Internet and to look for positive ways to help businesses use information technology and electronic commerce to expand internationally.
- In my own agency, the Economics and Statistics Administration, we are making it easier for smaller exporters to complete their export paperwork and submit it to us online. This will reduce the paperwork burden on small business and enable the Census Bureau to produce trade statistics faster.

More broadly across the Administration:

- The President's economic security plan, particularly a provision for partial expensing of capital expenditures, will give incentives to small business to upgrade and modernize equipment. And, of course, the President's commitment to expanding trade will open markets to businesses large and small.
- The Office of Management and Budget is coordinating the E-government plan that will make accessing the Federal Government's online offerings easier to understand and more efficient. One-third of online adults visited a Federal Government site. And part of the

President's Management Agenda uses Internet-related technologies to accelerate and streamline service delivery to citizens. In fact, the Small Business Administration has partnered with OMB and the e-gov initiative to launch BusinessLaw.gov -- a new Web site to help guide small business through the maze of laws and regulations.

We want to foster small businesses' access to people and capital, reward risk, and foster a pro-entrepreneurial economic climate.

- An educated, trained workforce can bring to small business the expertise to try different high-tech approaches to business needs. Some of our future network experts may be the beneficiaries of the President's education plan, which dedicated resources to science and math education.
- The Small Business Administration (SBA) guarantees loans and provides access to capital to start or expand a business, and President Bush recently added \$320 million in loan capacity to the more than \$200 million the SBA has loaned to small businesses impacted by the September 11 attacks.

The potential for small business and IT is vast and growing. Broadband could provide high-speed, high-capacity connections needed to realize that potential. The Administration is educating businesses of all sizes about the value of high-speed service and the innovation and productivity it will provide.

Mr. Chairman, members of the subcommittee, I appreciate your leadership on this important front. This is a critical time for the economy as a whole and for the small business community's relationship with the high-tech sector.

An end to the decline in business investment would remove a major source of weakness for the economy. In fact, production data released in January show that the large declines in the output of high-tech products are ending. Small business and the high-tech sector have been hit hard. I hope we will see a rebound in the near term.

A solid recovery depends on a variety of factors, of course, including the strength of small business and the high-tech industry – both individually and together.