

State Antitrust Activity's Impact on Small Business Entry

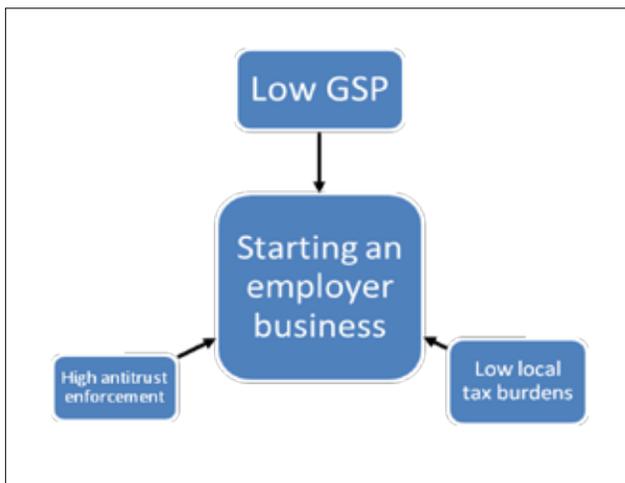
Robert M. Feinberg, Chevy Chase, MD. [21] pages.
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Purpose

Potential business owners have a lot to debate before starting a business. For states this leads to the question, does a state's level of antitrust enforcement have an impact on small business entry?

Overall Findings

The study finds that lower levels of a state's rate of economic growth (gross state product) and lower state and local tax burdens increase entry. But the research also found weak evidence for relatively high levels of a state's antitrust enforcement increasing small business entry. Small firms view a vigorous anti-cartel policy as a desirable feature of a state's law enforcement profile.



Highlights

- Antitrust cases filed per trillion dollars of GSP varied from zero to 4.57 per state. About half of these cases were horizontal cases which are generally anti-cartel or price-fixing.

- Growth in a state's gross state product along with high state and local tax burdens were the main factors in reducing small business entry at the state level. The GSP result can seem counterintuitive but is most likely the result of good labor prospects for potential entrepreneurs when the economy is doing well. Other measures of the state's size, economic conditions, and politics do not have an impact on entry.
- State antitrust enforcement was entry-encouraging for small businesses, but while the findings were statistically significant, they show that antitrust enforcement does play a relatively minor role in entry decisions. This means that massively changing a state's antitrust enforcement would have a perceptible but muted impact on entry.
- Decomposing antitrust enforcement into horizontal and vertical (such as supplier and retailer relationships) types shows the above results are from horizontal cases and vertical cases seem relatively insignificant to entry.
- Retail and wholesale industries had similar findings. The smallest retailers (fewer than 20 employees) increased entry in response to increased antitrust case filing, and the larger of small-firms (100-499 employees) had a negative response to antitrust enforcement.
- State-level antitrust enforcement had little to no impact on the entry and relocation decisions of manufacturers. The author suggests that they are more likely affected by federal antitrust policies.
- Considering the difficulty in sorting out the plethora of factors affecting small business decisions, the research is groundbreaking in that it captured the effect that state policies can have on small businesses.

Scope and Methodology

The research modeled the determinants of establishment entry from 1998 to 2006 at the state level. Establishment entry for firms with fewer than 20 employees and 20 to 99 employees tends to be new firms, while for firms with 100 to 499 employees it tends to be new locations for an existing firm. Entry data were from the U.S. Census Bureau's Statistics of U.S. Businesses, state antitrust enforcement data from the National Association of Attorney Generals, gross state product from the Bureau of Economic Analysis, tax data from the Census of Governments and other control variables were also included in the model. Federal antitrust enforcement was not included in the models.

Considering the prevalence and differences among retail, wholesale, and manufacturing, these major industries were pulled out for specific analysis.

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