



February 8, 2011

Board of Directors

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Administrator
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409 Third Street, SW
Washington, DC 20416

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Dr. Winslow Sargeant
Chief Counsel
Small Business Administration Office of Advocacy
409 Third Street, SW, 7th floor
Washington, DC 20416

Dear Administrator Mills and Chief Counsel Sargeant:

I am writing to request that the Small Business Administration (SBA) Office of Advocacy withdraw its sponsorship of a report by Nicole V. Crain and W. Mark Crain, *The Impact of Regulatory Cost on Small Firms* (2010),¹ written under a contract with the agency's Office of Advocacy.

The Crain and Crain report purports to provide a complete accounting of all regulatory costs. As a newly released report by the Center for Progressive Reform (CPR) points out,² contrary to academic and government norms, the report provides only a part of the data, equations, assumptions, extrapolations, and calculations which are necessary to understand and verify the methodologies, data, and assumptions that were employed. Until this information is provided to the agency and the public, it is inappropriate for the SBA Office of Advocacy to sponsor the report.

The authors of the CPR report made several unsuccessful attempts to obtain the missing additional materials from Crain and Crain, as well as from the SBA Office of Advocacy. Remarkably, a staff member at the SBA Office of Advocacy explained that his office did not have access to any of the additional materials, since it had only contracted to receive the final report from the authors.³ Thus, the SBA Office of Advocacy entered into an agreement with Crain and Crain to spend taxpayer money on a report, whose findings it could not then have verified in any significant way—not even checking the arithmetic.

¹ NICOLE V. CRAIN & W. MARK CRAIN, THE IMPACT OF REGULATORY COSTS ON SMALL FIRMS (2010), available at <http://www.sba.gov/sites/default/files/rs371tot.pdf>.

² Sidney A. Shapiro et al., *Setting the Record Straight: The Crain and Crain Report on Regulatory Costs 2* (Ctr. for Progressive Reform, White Paper 1103, 2011), available at www.progressivereform.org/articles/SBA_Regulatory_Costs_Analysis_1103.pdf.

³ Telephone Interview with Radwan Saade, Regulatory Analyst, Small Business Administration, Office of Advocacy, Office of Economic Research (Jan. 11, 2011).

Further, the peer review process used by the SBA Office of Advocacy does not support the reliability of the report. There is no indication that the peer reviewers had access to the missing information. Moreover, of the two people who examined the report, one raised a significant criticism concerning their estimate of economic regulatory costs, a criticism ignored by the authors of the report.⁴ As for the second reviewer, his entire review consisted of the following comments: “I looked it over and it's terrific, nothing to add. Congrats[.]”⁵

Thank you for your attention to my request.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Sidney A. Shapiro". The signature is fluid and cursive, with a long horizontal stroke at the end.

Sidney A. Shapiro
Vice-President, Center for Progressive Reform

⁴ OFFICE OF ADVOCACY, SMALL BUSINESS ADMINISTRATION, INFORMATION QUALITY PEER REVIEW REPORT FOR THE IMPACT OF FEDERAL REGULATORY COSTS ON SMALL FIRMS 2 (2010) (Richard Williams' peer review), available at

<http://www.sba.gov/sites/default/files/files/TheImpactofFederalRegulatoryCostsonSmallFirmsPRFY2010.pdf>.

⁵ *Id.* at 4 (Bob Litan's peer review).