Comments of the Institute for Local Self-Reliance on SBA's Proposed Small Business Size Standards and Revised Size Standards Methodology

September 21, 2026

Ryan Lambert
Associate Administrator
Office of Government Contracting and Business Development
U.S. Small Business Administration
409 Third Street SW
Washington, DC 20416

Re: Small Business Size Standards (Docket No. SBA-2026-0199) and Revised Size Standards Methodology (Docket No. SBA-2026-0265)

Dear Associate Administrator Lambert:

The Institute for Local Self-Reliance (ILSR) submits these comments in opposition to the Small Business Administration's proposed revisions to its small business size standards and the methodology used to calculate them. We urge SBA to withdraw both proposals, which would dramatically expand eligibility for federal small business programs to substantially larger firms, diverting resources from genuinely small businesses and undermining the agency's statutory mission of strengthening competitive enterprise.

ILSR is a national nonprofit research and advocacy organization that has worked for more than five decades to strengthen independent businesses, challenge concentrated corporate power, and advance policies that enable communities to build more equitable and resilient local economies. Our work includes extensive research on the effects of corporate concentration on small businesses and the public policies needed to sustain competitive markets.

We are deeply concerned that SBA's proposals would accelerate corporate consolidation by extending federal contracting opportunities and loan guarantees intended for small businesses to tens of thousands of substantially larger firms. Under the proposed standards, a private equity firm with $1 billion in annual receipts, a casino with $744 million, an advertising agency with $543 million, or a software company with 3,600 employees could qualify as a small business. In total, more than 114,000 additional firms would qualify for these programs.

The consequences would extend far beyond the absurdity of classifying billion-dollar enterprises as small. Recent research examining previous increases in SBA's size thresholds found that expanding eligibility to larger firms caused government contracts and loans to shift toward newly qualifying businesses, crowding out smaller competitors.[1] Their revenue declined, they filed fewer patents, and they closed in greater numbers. The proposed changes would extend these harmful effects across a far broader range of industries.

At the heart of both proposals is a fundamental departure from the statutory purpose of the Small Business Act. Rather than determining what constitutes a relatively small business within a particular industry, SBA proposes to establish thresholds based primarily on the scale at which a firm becomes dominant in its market. In effect, the agency is replacing a measure of smallness with a measure of non-dominance. Congress did not establish SBA merely to assist businesses that fall short of market dominance. It established the agency to strengthen small businesses and preserve a competitive economy.

1. The proposed methodology conflicts with the statutory purpose and criteria of the Small Business Act.

The Small Business Act establishes two baseline criteria for determining whether a business qualifies as small. Under 15 U.S.C. § 632(a)(1), a small business is one that is "independently owned and operated and which is not dominant in its field of operation." The statute expressly authorizes SBA to establish additional criteria for determining whether a business is small within their specific industry.

Congress's inclusion of "independently owned and operated," along with its authorization for SBA to establish industry-specific size standards, makes clear that non-dominance was not intended to be the sole criterion of smallness. Rather, the law gives SBA the authority to develop size standards that distinguish small businesses from larger enterprises The proposed methodology effectively collapses this distinction by calculating size standards primarily on the basis of overall industry size and the scale at which a firm would become dominant. The larger the industry (or industry group), the larger a business can be and still qualify as small.

Under its current methodology, SBA examines the structure of each industry, including the distribution of revenue across firms of different sizes, the level of concentration, and average assets per firm (a proxy for the costs of launching a business). The aim is to determine what constitutes a relatively small business within the context of each industry.

The proposed methodology abandons this granular approach. Instead, it focuses on the overall size of an industry or industry group and sets the threshold to exclude dominant companies. Yet a business need not dominate an industry to possess substantial advantages over genuinely small competitors. A firm may command significantly greater financial resources and market power than most of its competitors without being dominant in its field.

[1] J. David Brown, Matthew Denes, Ran Duchin, and John Hackney, "How Big Is Small? The Economic Effects of Access to Small Business Government Support," National Bureau of Economic Research, Working Paper No. 35703, September 2026. https://doi.org/10.3386/w35703

Moreover, while the proposed methodology centers on dominance, it gives scant consideration to the other half of Congress's baseline criteria: what it means to be "independently owned and operated." This omission is particularly concerning given the growing prevalence of private equity roll-ups and other ownership structures that consolidate formerly independent businesses. Although SBA's affiliation rules require businesses under common ownership or control to aggregate their size, the proposed methodology would substantially increase the scale at which these consolidated enterprises could continue to qualify as small.

Congress's declaration of policy in 15 U.S.C. § 631(a) makes clear why these distinctions matter. The Act directs SBA to aid the interests of small business concerns in order to preserve free competitive enterprise and strengthen the national economy. The agency's mandate is not merely to exclude dominant corporations from federal small business programs, but to establish standards that strengthen the competitive position of businesses that are genuinely small. By allowing substantially larger enterprises to qualify for programs intended for small firms, the proposed methodology would undermine that purpose.

The overall result is a profoundly warped definition of small business: the bigger and more concentrated an industry becomes, the larger a company can grow and still count as small.

We urge SBA to reject the proposed methodology and retain an approach that examines the structure of individual industries and meaningfully distinguishes small businesses from their substantially larger competitors.

II. The proposed consolidation of industry categories would artificially enlarge industries and obscure important differences in their structures and competitive conditions.

SBA proposes to replace nearly 1,000 existing industry-specific size standards with 338 standards covering much broader industry groups. This change would artificially enlarge the industries used to calculate size standards by combining businesses operating in distinct industries into broader industry groups. Under the proposed methodology, which calculates size standards primarily on the basis of overall industry size, this aggregation would allow substantially larger firms to qualify as small.

Consider the Computer Facilities Management industry. A $200 million IT vendor might be among the largest firms operating in this relatively small industry. But when Computer Facilities Management is combined with other industries in the much larger Computer Systems Design and Related Services industry group, the same company represents a considerably smaller share of the aggregated industry. Nothing has changed about the company's size or its competitive position within its actual industry. Yet the proposed methodology would measure it against a much larger pool of businesses, potentially allowing it to qualify as small when it otherwise would not.

SBA justifies the consolidation as a way to simplify the size standards and reduce confusion. But its proposed criteria for grouping industries focus on their relationship within the NAICS classification system, rather than whether the businesses operating within them compete in the same markets. Industries may be sufficiently related for classification purposes while differing substantially in industry structure, the distribution of firm sizes, and competitive conditions.

This approach raises serious concerns under the Small Business Act. Section 632(a)(3) directs SBA to vary size standards by industry to reflect differences in industry characteristics. Congress also specifically addressed the use of common size standards in 15 U.S.C. § 632(a)(7), which requires SBA to publicly justify why a common standard is appropriate for each individual industry classification within a grouping. SBA's proposed criteria for combining industries do not establish that the resulting common size standard is appropriate for each constituent industry, as Congress requires.

Congress further directed SBA in § 632(a)(8) not to limit the number of size standards and to assign an appropriate standard to each NAICS code. While SBA has discretion to establish common standards where warranted, these statutory provisions make clear that reducing the number of standards is not an end in itself. The agency must demonstrate that its proposed standards are appropriate for the individual industries they cover, rather than sacrificing meaningful distinctions between industries for the sake of administrative simplicity.

We urge SBA to reject the proposed consolidation of industries into broader groups and retain industry-specific standards that reflect the actual distribution of firm sizes and competitive conditions within each industry.

III. The proposed methodology would cause size standards to automatically ratchet up over time, further expanding eligibility to larger businesses.

SBA also proposes to add productivity growth to the inflation adjustments it periodically makes to monetary size standards. The agency illustrates the significance of this change by examining a $1 million benchmark used in 1954. Adjusted for inflation alone, that benchmark would be approximately $9.7 million today. Adjusted for both inflation and productivity growth, it would rise to approximately $30.6 million.

Adjusting size standards for inflation preserves their real value over time. Adding productivity growth is fundamentally different: it would systematically raise the thresholds in real terms, allowing increasingly large businesses to qualify as small. SBA has not established why productivity growth should justify expanding the definition of small business in this way. Combined with the proposed methodology’s reliance on overall industry size, this adjustment would compound the expansion of small business eligibility, further undermining the distinction between small businesses and their substantially larger competitors.

Even under its proposed methodology, SBA’s analysis indicates that size standards should be lowered in 45 of the 338 industry groups. Yet the agency proposes to retain the existing thresholds in those industries. By adopting increases while declining to implement reductions indicated by its own analysis, SBA would create a ratcheting effect that progressively expands eligibility to larger firms at the expense of genuinely small businesses.

We urge SBA to reject the proposed productivity adjustment and retain an approach that evaluates the appropriate scale of small businesses within each industry.

IV. Expanding eligibility to substantially larger firms would harm genuinely small businesses and undermine competition.

SBA's size standards determine which businesses qualify for federal contract set-asides, loan guarantees, and other programs designed to strengthen small businesses. Raising these thresholds allows larger, better-resourced firms to compete for opportunities intended for small businesses, crowding out smaller competitors and undermining their ability to survive and grow. Rather than fulfilling SBA's statutory mission of strengthening small businesses and competition, the proposed changes threaten to accelerate the very consolidation the agency was created to counter.

A 2026 study by J. David Brown, Matthew Denes, Ran Duchin, and John Hackney provides compelling evidence of the harm caused by increasing SBA's size thresholds. The researchers found that when larger firms in a particular industry became eligible for government contracts and loans, smaller businesses were crowded out. Their revenue declined, they filed fewer patents, they cut payroll, and they closed in greater numbers. Following an increase in an industry's size standard, the number of small firms exiting that market rose by more than 9 percent on average. The losses were most severe for younger, more productive, and financially constrained small businesses — precisely the firms that are disproportionately important for economic growth and innovation.

SBA's proposals would take this experiment to a vastly larger scale. The previous increases examined by the researchers were considerably more modest and limited to particular industries. The proposed standards would sharply raise the thresholds across virtually the entire economy, bringing more than 114,000 additional firms under the small business designation. Of these newly qualifying businesses, approximately 37,000 already hold $71 billion in federal contracts. These established government vendors would become eligible to compete for contracts reserved for small businesses, potentially displacing much smaller firms that lack comparable financial resources and established relationships with federal agencies.

The consequences could be devastating. The available research shows that expanding eligibility to larger firms does not simply redistribute federal contracting opportunities and loans. It can drive smaller businesses out of the market altogether, reducing competition and innovation. SBA is now proposing increases that dwarf those previously studied, extending the risk of these harms across virtually every industry.

We urge SBA to reject the proposed size standards and revised methodology, which would redirect federal small business programs toward substantially larger firms at the expense of the smaller enterprises they were established to support.

V. The proposed standards would create additional opportunities for corporate consolidation.

The proposed size standards would also create new opportunities for private equity firms and other large investors to consolidate small businesses while retaining eligibility for federal small business programs. Under SBA's affiliation rules, businesses under common ownership or control generally must aggregate their size when determining eligibility. These rules are meant to be important safeguards, but substantially increasing the size thresholds would encourage mergers and allow private equity firms and other investors to acquire and combine more businesses before their aggregate holdings exceed the applicable standard.

Attorneys advising private equity firms have already identified the proposed changes as an opportunity to expand the universe of acquisition targets.[2] This is particularly concerning in industries where private equity firms are pursuing roll-up strategies that involve acquiring and consolidating numerous smaller businesses. By allowing substantially larger consolidated enterprises to qualify as small, SBA would extend federal contracting opportunities and loan guarantees to firms whose strategies contribute to the disappearance of independent businesses.

Rather than upholding Congress's directive to strengthen small businesses and preserve free competitive enterprise, the proposed standards would make federal small business programs an additional incentive for corporate consolidation. We urge SBA to reject the proposed standards rather than reward the acquisition and consolidation of independent businesses.

Conclusion

Congress established SBA to strengthen small businesses and preserve competitive enterprise. The proposed methodology and revised size standards would undermine that mission. By treating non-dominance as the principal measure of smallness, aggregating distinct industries into broader groups, and incorporating productivity adjustments that would drive thresholds higher over time, SBA proposes to extend small business status to very large companies. Doing so would crowd out smaller competitors, reduce innovation, increase small business closures, and fuel corporate consolidation.

ILSR urges SBA to uphold its statutory purpose by withdrawing both the proposed revised methodology and the proposed size standards.

Sincerely,

Stacy Mitchell
Co-Executive Director
Institute for Local Self-Reliance

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[2] Holland & Knight, "SBA Proposes Sweeping Overhaul of Small Business Size Standards," August 20, 2026; J. Ryan Frazee, John Prairie, and Morgan Huston, "SBA Proposes Major Overhaul of Small Business Size Standards for Federal Contracts," Mayer Brown, August 25, 2026.