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DISCUSSION AND COMMENTS ON THE MAJOR ISSUES FACING SMALL BUSINESS

A REPORT

OF THE

SELECT COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

TO THE DELEGATES

OF THE

WHITE HOUSE CONFERENCE

ON

SMALL BUSINESS

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DISCUSSION AND COMMENTS ON THE MAJOR ISSUES FACING SMALL BUSINESS

Introduction

The Select Committee on Small Business is the only committee in the U.S. Senate which is exclusively concerned with the interests of small business. As such it is in a position to make a significant contribution to the development of the relationship between our government and the small business community. All legislation primarily relating to the Small Business Administration is referred to the committee. Equally as important, the committee is empowered "to study and investigate the problems of the small business and report its findings and make recommendations to the Senate."

The Senators who sit on this committee believe that they can properly discharge this responsibility only by listening carefully to the business community itself. That is why the Senate Small Business Committee was instrumental in creating the White House Conference on Small Business, and is anxious to receive the views of the delegates.

The Conference provides a new forum for direct input from the small business community to all branches of government and, through the media, to the American public. For a few days in January, national attention will be focused on the problems and concerns of small business. The Nation will hear the results of a lengthy process of self-examination which the Conference has created within the business community.

Over the past year and a half, at dozens of local, State, and regional assemblies, and at task force and delegate meetings, the problems of the small business sector have been confronted, cataloged and defined. Never before have the delegates themselves been involved to such an extent in setting the agenda for a White House Conference. This format speaks highly of President Carter, the skilled and efficient staff of the Conference, the Commission and its Chairman, and the volunteers who worked on the task force reports. The most important contribution to the quality of this Conference, however, is the extensive input from the concerned, articulate, and thoughtful people that make up the small business community in this country.

The Senate Small Business Committee hears almost daily from the members of the business community through hearings, trade and business conferences and conventions, correspondence and meetings in Washington and across the country. As part of its continued oversight efforts and in anticipation of the White House Conference on Small Business in January 1980, the committee held 27 days of hearings to listen to the opinions of business leaders about a broad range of small business topics—topics which correspond to a great degree with the agenda of the Conference.

This report is designed to transmit to the Conference delegates the background and results of these hearings. We have outlined some of the problems and past approaches to the issues, and we have indicated profitable directions for the future.

This report is not intended to be a complete record of small business issues or a plan for action. It is, instead, designed to provide the delegates with background on the committee's activities and to facilitate greater understanding and cooperation between the committee, the Conference delegates, and the small business community from which they come.

Making changes is not an easy task. Only a broad range of participation in the decisionmaking process will put the problem and suggested solutions in the best possible light. This document is the committee's contribution to this effort.

Historians will look back at what we do and apply to our decisions the "Law of Unintended Consequences." No matter how careful we are, there will be things we cannot or do not see now. For example, back in the early seventies, when government regulation began to escalate, it appeared to be simply a direct means for preventing excesses and abuses. Today, we are faced with the unintended consequences of those actions. We know that the cumulative bulk of all government regulations is itself a growing problem for small firms. In this case the unintended consequences of yesterday's actions are the problems we must solve today. The more wisdom we can bring to the process of finding a solution to this and other problems, the better our chances of mitigating the undesirable consequences which might follow.

We must not underestimate what is at stake. It is more than the exact measure of health in the small business sector. Small scale entrepreneurship is one of the most important vehicles for maintaining and transmitting the most basic values of our culture, values such as initiative, innovation, and individual responsibility.

A penetrating observer of human nature, Alexis de Tocqueville, wrote in the early 1800's that "Americans show a sort of heroism in their manner of trading." "I am of the opinion" he wrote, "that the true cause of their superiority must not be sought for in physical advantages, but that it is wholly attributable to moral and intellectual qualities." [1]

There is a direct, reciprocal relation between these moral and intellectual qualities and their expression in independent business ventures. The existence of these attributes in the American people creates a vibrant pattern of enterprise that reaches into every crossroads town in the country. But if we take away this outlet for our creative energies, if we make it prohibitively difficult to go into business, we will actually be attacking and damaging the very qualities that make this country strong.

This result is not hypothetical. The committee, in an earlier publication, printed an article by sociologist C. Wright Mills. Dr. Mills contrasted cities in which most people were employed by small businesses, and cities where one or two big businesses dominated the town. In the

[1] Alexis de Tocqueville, "Democracy in America," 2 volumes, Vintage Books, 1961.

towns with many small firms, infant mortality was considerably lower and per capita health expenditure much higher. Housing was superior; home ownership was higher and there were one-third as many slums. Expenditures on education and libraries were far greater and church membership was higher in small business cities. There is no doubt that the presence of a healthy small business community contributes directly to the quality of our life in ways most people never realize.

That is why the Senate Small Business Committee is working to improve the climate for independent entrepreneurs. The goal must be to create a new economic climate, one in which small firms can be created, can grow and thrive, one in which a successful business can be passed down to the next generation with a deep feeling of accomplishment.

The committee believes the White House Conference on Small Business will help achieve this goal and looks forward to having its views.

GAYLORD NELSON,
Chairman.

CHAPTER I

Capital Formation

Capital is the lifeblood of business, and the ability to raise capital for existing and new businesses is fundamental to the health of the enterprises themselves, the American economy, and the free enterprise system.

In 1975, the ability of small business to raise equity capital was at a low ebb. One way of raising capital is through stocks issues but it was getting increasingly difficult for small companies to use this route. In 1975 only three small companies (with a net worth of less than $5 million), were able to raise capital by selling stock to the public, compared to 698 such companies which went public in 1969. There was no question that capital was truly drying up for the small business community and there was no single, simple remedy.

During the 1970's there was a radical change in investment patterns. Six million individual investors withdrew from the market leaving it increasingly dominated by institutional investors. In 1960, institutions owned by value about one-fourth of all common stocks; it is predicted that by 1985 they will own one-half of the market.

This presents particular difficulties for new and small firms, since individual investors are more inclined than others to take risks with their own money. Institutional investors, dealing with other people's money, are under legal constraints to make investments which they consider "conservative." Other factors leading them away from investments in smaller firms include the multi-billion dollar scale of their operations, and their lack of intimate knowledge of small, local firms.

In addition, there has been a steep decline in the number of independent securities brokers and dealers, which provide entry into the market and support services for new and small businesses. The number of brokers in the past decade has declined 37 percent from over 4,000 to 2,772 at the end of 1978. Only these smaller, independent brokers are close enough to local smaller firms to know them well enough to recommend the ones which are sound investments.

Many firms use retained earnings to provide the capital required for growth. Here, too, the capital sources were drying up. Tax laws, until 1975, cut deeply into a firm's ability to retain the capital needed for expansion.

Most small businesses have to rely on debt financing for their major source of capital. Inflation, the resultant decline in savings, and high interest rates have resulted in a credit squeeze on these small businesses.

The cumulative effect of these problems is to make it extremely difficult for small business to gain access to any source of capital.

BACKGROUND

An important evaluation of the capital formation problem was made by a Task Force on Venture and Equity Capital established by the

Small Business Administration in July 1976. Its membership included a highly knowledgeable and experienced cross-section of participants in venture capital financing organizations, executives of small and independent businesses, and brokers specializing in the financing of new ventures and educators. Chosen as chairman was William J. Casey, former Chairman of the Securities and Exchange Commission.

The panel submitted its findings in 1977. The so-called Casey report stated that in order to have a meaningful impact on the conditions of small business financing, progress must be made in several areas:

- Tax laws and regulations;
- Venture capital programs under the jurisdiction of the Small Business Administration;
- Requirements of the Employees Retirement Income Security Act of 1974 (ERISA);
- Securities laws and regulations.

The task force recommendations are significant because they indicate the range of changes required in legislation and in regulations to improve the future capital formation structure for small business.

The major recommendations were embodied in S. 1815, a bill introduced by Senators Nelson and Weicker in 1977. This legislation followed the outlines of the report, addressing its diverse areas, and, accordingly, several different Congressional committees had jurisdiction over the various subject areas.

Since S. 1815 was so broad in scope, various parts were reintroduced separately and referred to the various committees having authority to consider these matters. As a result, the ceiling on Regulation A stock issues was lifted twice by the 95th Congress, once from $500,000 to $1½ million and a second time to $2 million. The Securities and Exchange Commission has since expressed its willingness to "administer the $1½ million limit," and has informally stated to the committee that it prefers a "testing period" to evaluate its effects before the Commission would be willing to raise the ceiling to the full $2 million recently authorized by the Congress.

CONGRESSIONAL ACTION

In 1975, Irving Kristol wrote in the *Wall Street Journal* that the small entrepreneur was the "forgotten man" of American politics.

Four years later, small business is celebrating its status as a new political force and its gains are clearly seen in the area of capital formation.

Small business has gained $2 billion in yearly tax savings. Owners of farms and businesses now can pass on three times as much property free of federal inheritance tax to their families. Small firms are in the thick of a fight for additional billions in tax savings through further tax reforms.

This remarkable turnaround is due to a combination of several factors, including a major push led by members of the Senate Small Business Committee. The committee members argued persuasively that a generation of benign neglect should be reversed—that the American economy and society would gain immeasurable benefits if independent enterprise were given equitable tax treatment.

These efforts were successful and produced dramatic results.

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A. CAPITAL RETENTION

In 1978, Congress enacted the most progressive business tax reforms in 70 years. The new schedule provides a tax saving of up to $14,750 for small companies and a total of $2 billion over the pre-1975 tax laws in tax relief for the 94 percent of U.S. corporations which earn less than $100,000 a year.

The result is a tremendous increase in the amount of capital available to small firms in the U.S.

Wilson S. Johnson, president of the National Federal of Independent Business, said in October 1978: "Adoption of the * * * plan for progressive corporate income taxes for small business is the most significant tax reform of the past 40 years."

An investment tax credit is one of the most valuable provisions in the law. Under this provision, the cost of equipment is cut through a tax credit. In 1976, Congress raised the investment tax credit from 7 percent to 10 percent. At the same time, an amendment doubled the amount of used machinery eligible for that credit from $50,000 to $100,000. For smaller businesses, which most often buy used machinery, the investment tax credit is nearly tripled, and the cost of growth is cut.

The tax credit was again broadened last year to provide a 10 percent credit for renovation of 20-year-old buildings and single-purpose farm structures.

Legislation offering additional tax relief to small businesses has been proposed in the Senate. Just before the 1978 law there was a three-step corporate tax rate. Under the new law there is a five-step rate and the fourth step is for businesses making between $75,000 and $100,000. The new proposal would redefine the lower rate to apply to businesses making up to $150,000. Any business in the fifth-step category has a tax rate of 46 percent.

The committee recommends that Congress continue to structure tax measures so that small businesses can retain more of their profits for reinvestment, and a stronger small business sector can be built.

In order to improve our Nation's manufacturing efficiency and productivity, incentives to increase capital formation must be provided. Depreciation writeoffs provide an important source of investment capital for small business.

For the past 4 years, the Senate Small Business Committee has worked to increase these allowances. Last year, the Senate passed a committee proposal which would have allowed businesses speedier writeoffs of up to $25,000 of annual equipment purchases over a three-year period,[1] using simple procedures that would have eliminated over 100 pages of complex regulations. Unfortunately, the measure was dropped during a House-Senate conference on the bill.

In 1979, the committee is continuing to lead the fight. Last year's bill has been reintroduced, along with an even more sweeping measure which would allow businesses to write off investments in structures over 10 years, equipment in 5 years, and vehicles in 3 years. Another important provision in this bill would increase the investment credit from 6⅔ percent to 10 percent for 5-year equipment and from 3⅓ to 6 percent for 3-year vehicles. In addition, hundreds of pages of

[1] See Appendix for S. 1435.

complicated regulations dealing with depreciation in the tax code would be eliminated. Also eliminated would be the hundreds of cases in the tax courts involving depreciation controversies.

The committee believes that depreciation reform is long overdue. Inflation and the growing complexities of all the depreciation schedules should make this a matter of the highest priority.

B. OBTAINING DEBT CAPITAL

A number of proposals have been made to increase the ability of the SBA to efficiently and appropriately administer loans for debt financing to small firms. Under one proposal the Small Business Administration would increase the maximum ceiling on SBA guaranteed small business loans from $500,000 to $1 million.[2]

For the committee's comments on these and other ways of improving SBA financial assistance to small firms, see the section in this report on the mission of the SBA. For further information on encouraging savings and other methods of capital formation, see the section of the report on Inflation.

C. VENTURE AND EQUITY CAPITAL

The committee believes that the dramatic increase in the cost of doing business means that steps must be taken to ensure sufficient venture and equity capital for new and growing businesses.

In 1978 and 1979 the Senate Small Business Committee continued its hearings on capital formation, which developed into the most comprehensive look at capital formation problems of new and small businesses within the last 20 years. Legislation which emerged from these hearings included:

- The capital gains rollover bill (S. 653) which would allow tax deferral when a small business owner sells his firm, if the proceeds are reinvested in another small business within 18 months;[3]
- A tax credit for the purchaser of newly issued stock of firms with a net worth of $25,000,000 or less (S. 487 and S. 655);[4]
- A bill to strengthen the financial structure of independent securities firms in order to be able to render capital raising assistance to smaller businesses (S. 1967);[5]
- An exemption of publicly-held venture capital firms from the regulation of the Securities and Exchange Commission under the Investment Company Act of 1940 (S. 1940);[6]
- A bill creating a new security called a Small Business Participating Debenture which would have the status of a debt security with a stated rate of interest (S. 1481);[7]
- A reinstatement of tax favored options to broaden the base of ownership in new and small firms and to provide incentives for talented executives to join such ventures (S. 1967);[8]

[2] See S. 2049 in the Appendix for bill sponsors.
[3] See S. 653 in the Appendix for bill sponsors.
[4] See S. 487 and S. 655 in the Appendix for bill sponsors.
[5] See S. 1967 in the Appendix for bill sponsors.
[6] See S. 1940 in the Appendix for bill sponsors.
[7] See S. 1481 in the Appendix for bill sponsors.
[8] See S. 1967 in the Appendix for bill sponsors.

- A series of tax, patent, procurement, regulatory and paperwork proposals to help emerging technically-based companies (S. 1860).[9]

D. CAPITAL GAINS TAX RATES

From 1969 until 1976, maximum tax rates on capital gains increased from 25 percent to a peak of 49.1 percent. Last year, a Small Business Committee hearing proved that this high tax had dried up desperately needed investment capital.

To remedy this problem, Congress adopted a compromise proposal, developed in large part by the committee, to roll back the maximum capital gains rate to 28 percent effective November 1, 1978.

As a result, by mid-1979, more than $500 million in new venture capital had been raised for small enterprises.

The National Association of Small Business Investment Companies wrote on May 30, 1979:

> New, young and growing small businesses have hundreds of millions of additional dollars available to them * * * because of * * * leadership last year in reducing (taxes on) capital gains.

E. CONTINUITY OF OWNERSHIP

Small Business Committee hearings found that many family farms and smaller businesses were forced to sell out because of outdated federal estate tax laws which had not been revised since 1942.

To correct this major problem the committee drafted a comprehensive reform bill that Congress approved in 1976. Among its features are:

- Tripling of exemption from Federal tax from $60,000 to $175,625 to all heirs;
- Increasing relief for the surviving spouse by raising the special "marital deduction" to $250,000, or half the estate left to the survivor, if higher;
- Providing extended terms for paying tax on farms or businesses—15 years to pay the tax, with no payment of principal until the sixth year, and interest at 4 percent during the first 5 years for estates under $1 million;
- Favorable "use valuation" allowed if family farms or businesses are near growing cities and would otherwise be valued as development property for estate tax purposes;
- Increasing the lifetime gift tax exemption—the amount of lump-sum gifts which can be given during life was increased from $30,000 to $175,625.

Until last year, a wife who worked alongside her husband in a farm or business—but did not make a cash contribution—was required to pay estate taxes on the full value of the property when her husband died. An amendment changed that highly unfair "widow's tax" provision. The law now gives credit for a wife's labor at the rate of 2 percent per year (up to 50 percent) of the total farm or business value for estate tax purposes. Beginning Jan. 1, 1979, surviving spouses may claim this credit for all past years of labor.

Of particular interest to businesses was the provision in the estate tax reforms permitting a deferral of estate taxes for 5 years with

[9] See S. 1860 in the Appendix for bill sponsors.

interest at 4 percent for estates under $1,000,000 with the privilege of paying the estate tax on an installment basis from the 6th to the 15th year.

The committee believes that estate tax laws should take into account the special needs of small businesses, and that recent improvements be kept current by making periodic adjustments for inflation along the lines of S. 1825.[10]

CONCLUSION

At committee hearings in 1978, the American Electronics Association testified that companies formed in the 1970's could raise only half as much start-up capital as those founded in the 1960's. Witnesses blamed the 1969–76 capital gains policy as the primary cause of low venture investment.

Since those hearings 2 years ago there have been major accomplishments which assist small business capital formation. One of these was the significant reduction of capital gains taxes enacted on November 1, 1978. A second is the adoption by a Department of Labor regulation of the "overall portfolio theory" in July 1979. This action relaxes the Labor Department's interpretation of ERISA's "prudent man rule" so that pension fund managers can more easily place part of the investment portfolio in small business investments.

Together these items have resulted in the flow of more than one-half billion dollars in new venture capital to the small business community since the end of 1978.

As a result, the venture capital industry has been able to survive. According to testimony by the National Venture Capital Association before the committee, the infusion of new capital has added almost 50 percent to the amount of funds which are available to finance new and small businesses.[11]

This is a good beginning and 1980 should show continued improvement as a result of the measures discussed earlier in this chapter.

Meanwhile, much remains to be done, and new issues such as social security tax changes and a Value Added Tax (VAT) are being raised. The comments of the White House Conference Task Force on Capital Formation mirror this wide spectrum of concerns.

These are some of the difficult problems that must be solved if we are going to stop a growing concentration of economic power. The top 100 Fortune firms control the same share of manufacturing assets that the top 200 did 30 years ago. Put simply, this means that today the same amount of the Nation's assets are concentrated in half as many hands. The top 200 firms now control 61 percent of the nation's manufacturing and mining assets, which is the same percentage share owned by the top 1,000 enterprises at the start of World War II. As a direct result, small- and medium-sized businesses today control less than 27 percent of this country's corporate assets, a drop from nearly twice that amount in 1960.

The Senate Small Business Committee will continue to play an active role in developing and proposing solutions to the problems in capital formation. The suggestions that will come from the White House Conference on Small Business in January 1980 will be a significant contribution to this national debate.

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[10] See S. 1825 in the Appendix for bill description and sponsors.

[11] "Capital Formation", 4 hearings, Senate Small Business Committee, May 22, 1979.

CHAPTER II

Economic Policy Decisions and Government Programs

Decisions regarding the course of economic policy in our particular democratic system are not made by one central authority. They are made by the Congress, the executive branch, and by certain independent agencies—most notably the Federal Reserve Board. Fiscal policy and wage/price policy originate in the executive branch with the President; monetary policy comes from the Federal Reserve Board; and Congress is responsible for the tax system.

Just within the executive branch, the number of agencies which influence economic policy decisions includes the Treasury Department, the Department of Labor and the Department of Commerce. Within the White House itself there are even more policy advisors, including the Council of Economic Advisors, the Council on Wage and Price Stability, the Domestic Policy staff and the Office of Management and Budget.

The committee believes that small business must be given a greater voice in the economic decisionmaking process.

DEVELOPMENT OF GOVERNMENT STRUCTURE

The demand for government programs was a direct result of the unbridled economic growth historians call the industrial revolution. A new business world appeared, and it operated at first without the restraint of government: No one could foresee that this vast transformation would directly limit individual freedoms. But the problems became more acute and the demand grew for governmental action. By 1888, the corruption of the railway corporations led directly to Federal enactment of the Interstate Commerce Act, establishing the Interstate Commerce Commission as the first independent regulatory commission. Federal antitrust legislation followed to curb corporate power, including the Sherman Act in 1890 and the Clayton Act in 1914.

During the 1920's, corporate economic power continued to concentrate despite strong antitrust legislation. When the Depression focused attention on economic problems caused by big business, Congress authorized a temporary National Economic Committee, better known as the Monopoly Investigation. It's findings spurred the Senate to create a special committee to study the problem of small business and, in 1941 the House followed suit.

By the 1940's, government leaders recognized that special pains should be taken to protect the rights of small enterprises. When economic mobilization for World War II began, this concern was manifested in an important new design in the fight for small business rights. The Smaller War Plants Corporation was established to aid small businesses in obtaining a fair share of government contracts and to diversify sources of supply.

These developments laid the groundwork for much of the present government attention to small business. Congressional concern for the plight of small business was institutionalized in 1950 when the Committee on Small Business became a select committee of the Senate. The House of Representatives established its Small Business Committee in 1953.

The precedent established in the executive branch by the Smaller War Plants Corporation likewise progressed in stages. In 1951, the Small Defense Plants Administration followed the earlier model to assist in the Korean war effort. At the end of the war, this Administration was recast by the Small Business Act of 1953 into the Small Business Administration. Recognizing the different requirements and capabilities of the independent entrepreneur, this law created a single agency, reporting directly to the President, with a mission to concentrate exclusively on small business needs.

During the 1950's, government and business leaders agreed that special attention had to be given to the financing of smaller enterprises if they were to survive as a vital force on the national scene. In 1958, a new law, the Small Business Investment Act, set up a network of privately-owned and operated sources of funding to provide venture capital for new and small businesses.

During the past 2 decades, numerous amendments have been adopted to these two core statutes which have significantly enhanced the ability of the Small Business Administration, and the Federal Government, to improve the economic viability of small business. In 1976, Congress took the additional initiative of creating within SBA an Office of Advocacy, endowing it with a specific mission to promote the cause of small and independent enterprise within the executive agencies, and before the Congress.

During the past several years, Congress has stepped up its efforts to encourage agencies to recognize small business opportunities and problems, to accord "fair representation" for small business on advisory bodies, and to provide a fair share of contracts and other specialized assistance. Small business programs are continually being monitored and tested to better achieve these goals.

COMMITTEE ACTIONS

Committee hearings in October and November on "Small Business and the Economic Outlook" reviewed recent economic policy decisions and their impact on the small business community. Based on testimony presented to the committee, it is clear that small business must gain a more effective voice in the formulation of both fiscal and monetary policy.

One witness from Data Resources, Inc., an economic consulting and forecasting firm, said that a "full blown credit crunch is now in the process," and that it will place a substantial squeeze on small business. Another witness, Vondal S. Gravlee, President of the National Association of Home Builders, said that in his industry, composed almost solely of small businesses, the recent credit tightening actions of the Federal Reserve Board will reduce housing starts by 50 percent to 990,000 starts, and force the layoff of 1.5 million construction workers.

A. SMALL BUSINESS ADVISORY COMMITTEE

Small Business Advisory Committees serving the Internal Revenue Service and the Treasury Department, were created during the 1970's as a result of efforts by the Senate Small Business Committee. In 1977 these two groups merged into a single group called the Treasury Small Business Advisory Committee.

During 1978, the new committee organized itself into three subcommittees; tax policy; capital formation; and activities of the Internal Revenue Service.

The Advisory Committee and its subcommittees met with high Treasury officials on several occasions during the year. Serious efforts were made to identify, evaluate, and formulate views on tax policy and related matters which would be of benefit to the small business community.

The Advisory Committee provides an excellent medium for the small business community to talk face-to-face with Treasury officials who design policy and implement regulatory actions. In addition, it serves to educate the government about the particular concerns of the small business community.

The committee recommends that the Small Business Advisory Committee in the Treasury Department meet personally and regularly with the Secretary instead of meeting at the pleasure of the Deputy Secretary. The Treasury Department should create the position of Small Business Tax Analyst to study the effect of Federal taxes on small business and advise the Secretary on tax policy decisions affecting small business.

Other agencies, including the Federal Reserve Board and the Office of Management and Budget (OMB), should increase their coordination with SBA, and develop their own sources to increase small business participation in the economic decisionmaking process.

B. SMALL BUSINESS ECONOMIC DATA BASE

By and large, direct small business input into economic policymaking is limited to a few avenues: Advisory groups, the SBA, and public comment on proposed regulations published in the Federal Register. The committee believes that the effectiveness of small business participation, both direct and indirect, needs to be increased.

One reason why small business participation in economic policy decisionmaking has not been greater is the lack of data to prove the small business case. Currently, economic indicators are not broken down by business size (employee number), sales or asset level. Without this data, it is difficult to analyze the performance of the small business sector, or compare it to the performance of the entire economy. The solution to this problem lies in the creation of a small business economic data base.

The committee has provided clear direction to the Small Business Administration to accelerate the development of such a small business economic data base. The Congress has appropriated over a million dollars in each of the last 2 fiscal years to ensure its development.

The committee has indicated that information in the data base should include: Employment; number and type of business establishments; number of business formations and failures; sales and new orders; back orders; investment in plant and equipment; inventory rates and changes; capital investment; debt-to-equity ratios; exports; mergers and acquisitions; and concentration ratios.

The committee recommends the acceleration of a small business economic data base that is so vitally important to the creation of economic policies which address the problems of small business.

C. REGULATIONS

The committee believes that Federal regulatory agencies need to be more sensitive to their impact on small business and that SBA's Office of Advocacy should more vigorously represent the interests of the small business community in the Federal rulemaking process.

For more information on the committee's work on regulation see the "Regulation and Paperwork" section of this report and refer to the Appendix for bills introduced by Senators on the committee.

D. SMALL BUSINESS ADMINISTRATION

For the committee's comments on the Small Business Administration and its voice in government decisionmaking, see the section on SBA in this report.

CONCLUSION

Small business makes a vital contribution to the economy. It accounts for approximately 55 percent of nonagricultural employment, 45 percent of total GNP and 53 percent of total business. Economic policy must promote the continuing vitality of small business.

The Federal Government is the single most important determinant of the economic climate in which any small business will operate. Even though small business is wary of government, it is essential and in its own self-interest to improve and increase its participation in economic policymaking. Such participation is the best way to assure that government economic decisions promote a strong free enterprise system.

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CHAPTER III

Education, Training, and Management Assistance

I. MANAGEMENT ASSISTANCE

Hearings held by the Select Committee on Small Business have shown that one of the primary reasons for the high percentage of business failures each year is a lack of sound, basic management skills on the part of business entrepreneurs. If convenient, readily identifiable, locally based resources were available, the success ratios of smaller concerns might be much higher among the over 400,000 firms which go out of business each year.

Having grappled with the complex issue of management training since 1976, the committee has concluded that the establishment of a legislatively structured small business extension service program represents an excellent means for providing this needed assistance. Special legislation has been approved by the committee that would establish Small Business Development Centers (SBDC's) in selected States on a 3 year trial basis. Modeled after the highly successful rural extension service program which has made the United States the preeminent agricultural producing Nation in the world, the legislatively authorized, SBA directed, SBDC program would offer free management counseling and technical assistance to smaller concerns located throughout each of the participating areas.

The Small Business Development Center Act (S. 918) is not to be confused with the experimental program currently being sponsored and administered by SBA.[1] Although the SBA-designed program is meritorious, the committee believes the program can be vastly improved by harnessing the multiple resources of academic institutions, volunteer private sector resources, private consulting firms and other government assistance programs to provide specific, multi-faceted counseling to independent business concerns.

This legislation initiated by the Senate Small Business Committee is designed to insure that the program does not become an instrument of academic institutions. Instead, full time technology transfer agents and business analysts who have had extensive business experience are to direct and manage the program. For example, the following management and technical services are to be provided:

1. Furnishing one-to-one individual counseling to small business;
2. Assisting in technology transfer, research, and in coupling existing resources with small business concerns;
3. Maintaining current information concerning Federal, State and local regulations and counseling small businesses on methods

[1] See Appendix under S. 918 for bill sponsors.

of compliance. Counseling and technology development will be provided when necessary to help small business find solutions for complying with environmental, energy, health, safety, and other Federal, State, and local regulations;

4. Coordinating and conducting research into technical and general small business problems for which there are no ready solutions;

5. Providing and maintaining a comprehensive library of current information and data needed by small businesses;

6. Referring small businesses to resource people in the financial and investment and legal communities, as well as local and regional private consultants, small business groups and associations; and,

7. Conducting in-depth surveys for small business groups regarding local small business strengths and weaknesses.

Small business representatives serving on national and State SBDC advisory boards would establish the overall policies and goals of the various SBDC's to assure that responsive, qualitative services are provided on the most cost-efficient basis.

There is one other difference between the committee's and SBA's past approach to this program. The committee's version requires State governments and other local sponsors to pay for half of the SBDC program costs. This requirement will foster a high degree of commitment to, and awareness of, the small business sector by state and local policy makers. Many of the most pressing problems confronting small business today are unique to the locality of the small business. *The committee strongly believes that only a locally based and operated management and technical assistance program can relate to the small businesses which it serves.*

II. ENTREPRENEURIAL EDUCATION

Currently, our schools provide ample instruction on how to assume roles in large business and government organizations; there are schools of public administration, business programs are aimed at placing graduates in major companies, and ongoing training programs are conducted by both business and government. However, with a few notable exceptions, such as the Small Business Development Centers, there are few formal educational opportunities teaching the skills necessary for successfully operating a small business.

Lack of entrepreneurial education causes more than business failures; it is the reason why many potential entrepreneurs lack incentive to open their businesses in the first place. According to a recent survey of high school students in California, few young people had even the most rudimentary understanding of the nature of the business system, including the role of profits and productivity in business success.

Ideally, teaching entrepreneurship should begin at the public school level, where interested students could learn basic business principles and the skills of management, marketing accounting and capital acquisition. Later, in colleges and graduate programs, these skills could be focused and sharpened.

Such an educational process would accomplish a number of objectives. First, it would provide necessary, but hard to obtain, skills on how to run a business successfully and thereby increase the entrepreneur's probability of success. Second, it would demonstrate to prospective lenders that an entrepreneur has been exposed to the intricacies of managing an owner operated business. Finally, it would serve to interest young people in entrepreneurship.

State and local governments, as well as the Federal Government, should reevaluate their educational assistance and accrediting programs to insure that available government resources are used to encourage and broaden entrepreneurial education at the public school level. In the private sector, business associations can play an important role by cooperating with schools in providing expertise in this area.

In large part, the creation of these programs will come about only if local individuals convince their colleges, schools, and chambers of commerce that such programs are worthwhile.

The need for entrepreneurial education is particularly evident among minority businesspeople who, until recently, may have been unable to take advantage of the traditional means of learning business skills, such as work experience at executive levels in established businesses. The Federal Government, primarily through SBA and the Department of Commerce, provides financial assistance to minority entrepreneurs. *The committee believes that this assistance can only be of benefit if it is coupled with necessary management education and counseling.* For more information on the subject, see the chapter entitled "Minority Business Development."

A large-scale government program for minority entrepreneurial education is neither appropriate nor desirable. Local public schools and colleges across the country, as well as local business organizations, have the expertise and the resources to offer courses and other kinds of educational assistance to help new entrepreneurs. By working with these groups, it should be possible to create programs to assist people who need to gain the needed entrepreneurial skills.

CHAPTER IV

Energy

Small business has an important role to play in solving America's energy problems. The facts show that only 20 percent of all the new oil wells drilled in this country are initiated by the major integrated companies. Marketing and distribution of heating oil and gasoline are conducted primarily by the smaller independent local companies, in part because the international oil companies have declined to provide these services. As a result, small business has remained a leader in providing energy services and products to the American public.

As dependable sources of energy become more scarce and prices rise, the survival of these small businesses in the energy sector of the economy becomes more problematic. It is becoming increasingly difficult for these small firms to obtain fuel or obtain it at competitive prices. Credit is tight, and smaller fuel oil dealers cannot obtain sufficient capital.

The lack of dependable alternative supply sources has forced many of the smaller, usually under-capitalized, firms out of business. As a result of this tight supply, many small firms are forced to purchase these products, for example, heating oil and gasoline, on the noncontract or "spot" market, rather than at competitively bid prices. This source is both undependable and more expensive.

Additional uncertainties face the independent coal operators, the smaller natural gas companies interested in coal gasification, and even those interested in developing photovoltaic cells for solar energy. If we hope to maintain the competitive nature of our energy system, including some level of decentralized supply and distribution, the health of these smaller firms must be guaranteed.

I. NEW ENERGY TECHNOLOGIES

Committee Action

On September 7, 1979, the Senate Small Business Committee held a hearing on new energy technologies developed by small business. In particular, the committee reviewed the National Bureau of Standards/Department of Energy, Energy-Related Inventions Program, and the Small Business Administration's Energy Loan Program, the "7(l)" program.

Witnesses at the hearing agreed that small business inventors can make a substantial contribution to solving the energy crisis. However, major impediments to increased small business involvement in the energy field must be removed.

Demand for Federal assistance under the 7(l) program administered by the SBA has outstripped the funds supplied. Although the program was originally authorized in January 1978 at $30 million for direct loans and $45 million for guarantees, only $5 million for direct loans and $1 million for guaranteed loans were actually appropriated. These funds were exhausted in April 1979, after only 4 months. Recognizing this demand, the appropriation for fiscal year 1980 was increased to $15 million for direct loans and $30 million for guarantees.

A joint NBS/DOE program evaluates promising energy-related inventions and provides financial support for approved inventions, but it too, has problems. Since April 1975, NBS which does the project evaluation, has received 12,000 evaluation requests. More than 100 of these have been recommended to DOE for funding support. DOE has awarded 46 grants and 2 contracts averaging $70,000. Support is imminent for some 13 other inventors. However, the total time period for project approval, dating from the date of evaluation request to NBS, often may approach 2 years.

Based on testimony presented at the committee's hearings, the Committee believes a number of steps need to be taken to assure that small business plays the role it is capable of playing in solving the energy crisis.

First, SBA in cooperation with DOE should continue the development of the 7(l) and other existing loan guarantee programs which provide financial assistance for the marketing of energy-related inventions.

Second, the NBS/DOE program must be more responsive to small business. A 2-year delay in providing assistance is too great a time lag and deters small business from seeking government assistance.

II. EFFECT OF GOVERNMENT REGULATIONS ON INDEPENDENT GASOLINE MARKETERS

The Emergency Petroleum Allocation Act gives the Department of Energy responsibility for the preservation of the economic and competitive viability of independent gasoline marketers and for the equitable distribution of crude oil and petroleum products. Nonetheless, more than 30,000 gasoline retail outlets have gone out of business over the past 5 years, including more than 7,500 in the past 6 months. Countless others are in jeopardy. A recent report by the Small Business Administration cites DOE regulations as a primary cause.

COMMITTEE ACTION

The committee held 2 days of hearings on the impact of DOE regulations on independent gasoline marketers. These hearings focused on four major issues of concern to the small business community in the industry: The volume and complexity of regulations, rulemaking procedures, the downward certification rule, and pricing regulations.

A. REGULATIONS

The sheer volume and complexity of the government regulations on the industry place a greater burden on small marketing operations than on large operations. Only the latter can afford to hire specialists to keep them abreast of regulations which affect them and to file any necessary reports in processing applications for exceptional relief. In addition, the delays in processing applications for exceptional relief impose a severe economic burden on small businesses which do not have sufficient capital reserves to wait months for an increase in their product allocation. The backlog in the Department of Energy Office of Hearings and Appeals has run as high as 7,000 cases, and it is not uncommon for cases to take 5 or 6 months to be resolved. In fact, the average processing time is over 2 months.

B. RULEMAKING PROCEDURES

The Department's rulemaking procedures also appear to pose a major problem for independent marketers. According to the Office of Management and Budget, the "most visible problem with (DOE regulations) has been with the emergency rulemakings by the Economic Regulatory Administration." Testimony before the committee certainly supports the OMB contention that opportunities for public participation in rulemaking have lessened and that response time has been either nonexistent, too short, or extended beyond the time at which regulatory changes have been effected.

For example, since May 1979, four regulations concerning motor gasoline allocation base periods and set-asides were made with no advance notice and without any regulatory analysis as required by Executive Order 12044. This effectively denies interested parties the benefit of regulatory analysis and the opportunity, afforded them under law, to participate in the rulemaking process.

Further, the Federal Register has noted that ERA's frequent standby rules and special rules are not written so that they amend the Code of Federal Regulations but, rather, simply add to it. This often creates three or four levels of regulations that present the public with a hopeless tangle of pricing and allocation rules.

C. DOWNWARD CERTIFICATION RULE

One specific regulation which came under criticism at the committee hearing was the proposed downward certification rule.

Presently, when a marketer closes a retail outlet, he can take the volume from that outlet and distribute it among his other outlets. At a time when many stations are only marginal operations, this provides an independent marketer with valuable flexibility.

However, on July 16, DOE announced that, effective September 1, retailers would be required to downward certify to their suppliers any business lost since the base period. This meant that if a retailer closed a station or lost a big account, he would have to return that volume to the refiner.

On August 22, DOE suspended the effective date of the downward certification requirement from September 1 to October 1, to allow for the submission of written comments only. Then, on the afternoon of the committee's hearings, DOE indefinitely suspended the downward certification regulation pending proper hearing and comment procedures.

D. PRICING REGULATIONS

Pricing regulations in the industry are extremely involved. They include a division of retailers into three separate categories: Those retail stations owned by retailers, those owned by refiners, and those owned by so-called "jobbers." Regulations vary significantly for these thr classes. The result, as one witness put it, "is oftentimes an artifici government-induced price war with the victims being the independen marketer."

This is the situation.

Prior to July 16, 1979, any marketer selling gasoline would calculate his maximum lawful ceiling price to a given class of customer by calculating what his margain to the class was on May 15, 1973, with the following amendments: The Old Federal Energy Administration agreed in 1973 to allow retailers to add a 3 cent nonproduct-cost-pass-through to that margin, wholesalers were allowed an additional 1 cent. Between January 1, 1974, and July 16, 1979, no margin adjustments were granted by DOE.

Then, on July 16, DOE announced that retailers could charge 15.4 cents per gallon above their acquisition costs. This 15.4 cents included all expenses which previously could be passed through separately. The effect of this rule was to force some retailers to actually reduce their margins below what they were in 1973.

However, this rule applied only to retail stations owned by retailers. Retail stations owned by refiners and jobbers were *not* covered.

Two weeks later, DOE issued different regulations for jobber and refiner direct-operated stations. These regulations said basically that jobbers and refiners are to calculate their margin under the old regulation.

Since the committee hearings, the Department has proposed two amendments to their present regulations which they admit could result in refiners and resellers selling gasoline at retail prices substantially below those of independent retailers. Written comments are being solicited, and public hearings have been held.

As a result of these extensive hearings held by the committee, a number of suggestions were developed which would ease the burden on independent businesses.

(1) *The Economic Regulatory Administration's rulemaking procedures should be modified so that the regulations can be simplified, and so those affected by any new regulation will have both the time to comment on the proposals and the time to make any internal changes which may be necessary in order to comply.*

(2) *The procedures of the Office of Hearings and Appeals should be streamlined, and the Office adequately staffed so that all applications can be resolved in a maximum of 45 days. Every effort should be made to assure that those cases which involve economic hardships will be handled even more expeditiously.*

(3) *Assistance should be available in the Department of Energy to help small businesses determine their obligations under the regulations and file any necessary reports or applications for exceptions or relief.*

(4) *In promulgating any new downward certification rule maximum consideration should be given to the effect it will have on independent marketers and the regional distribution of products.*

(5) *The anticompetitive impact of the current pricing regulations by the Economic Regulatory Administration at the Department of Energy should be remedied, and should include appropriate relief for jobbers and consignees as well as independent retailers.*

III. GOVERNMENT REGULATION OF THE PRODUCTION AND USE OF COAL

Coal is this Nation's most abundant fossil fuel. At a time when energy shortages and exorbitant payments to OPEC threaten both our national security and our economy, it would seem only logical that the coal industry would be booming. It is not. In fact, the industry reports over 150 million tons of excess production capacity this year, and thousands of coal miners are out of jobs or on short workweeks. Mines are closing—particularly smaller mines which are ill-equipped to survive the restraints placed on them.

One of the major reasons these mines are closing is excessive government regulation of both the production and use of coal. Coal is one of the most regulated commodities in our economy. Coal production is directly regulated from exploration through production to postmining reclamation. Then regulation of use begins, with the transportation from mine to market through combustion to the disposal of any residues.

These regulations are particularly detrimental to smaller operations. Any government regulations which add to the cost of doing business will have more of an adverse impact upon small companies than on large companies since large companies are in a better position to disperse the added costs and remain competitive. The larger operations also are more likely to have the technical, supervisory and managerial expertise necessary to comply both with the substance and the recordkeeping and reporting requirements of the regulations.

The vulnerability of small operations is increasingly reflected in the structure of the industry. With approximately 6,200 operating coal mines, the top 50 in tonnage produce roughly 65 percent of the coal. Further, as larger amounts of capital are being required to operate a mine, many mining companies are being taken over by noncoal interests. These interests, including oil companies and electric utilities, now own 77 percent of the coal mining companies producing over 3 million tons annually. From 1962–75, annual coal production by oil companies increased 91.6 percent, accounting for over 20 percent of total coal production. Although both the GAO and Justice Department have found a "viable state of competition in the coal industry," small coal mine operators faced with huge capital investments and operating expenditures are being forced to close down their mines.

In today's depressed coal market, the small operator is further penalized by his traditional reliance on the so-called "spot coal market" which is more fluctuating and precarious than the long-term contract system under which the larger operators do business. The loss of the small operators, therefore, means not only the loss of their impact on competition but also the loss of the Nation's surge capacity to respond to unexpected changes in market demand.

COMMITTEE ACTION

On May 11, the Small Business Committee conducted hearings in Lexington, Ky., with followup hearings on May 14 and 15, in Washington, D.C. concerning the effect of government regulations on the production and use of coal. These hearings were supplemented by a mail survey of coal producers and users throughout the country,

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which was designed to elicit information on the effects of regulations and examples of any over-regulation, duplication, unnecessary complexity, wastefulness and conflicts.

The committee found the production and use of coal to be subject to no less than 18 major Federal laws and the regulations which have resulted from them. This does not include requirements for unemployment compensation, social security benefits, and workers' compensation. In addition, most States have their own environmental protection requirements relating to environmental impact assessment procedures, water and air pollution control, solid waste disposal, reclamation, leasing and zoning, among others, many of which are broader than Federal laws or duplicate them or in some way conflict with Federal requirements.

On the Federal level, administration of these laws is scattered throughout more than 20 departments and agencies. The number of State and local agencies regulating the industry varies from State-to-State, but adds significantly to the number of government agencies by which an operation may be inspected or to which it must send various records and reports.

The committee hearings and questionnaires focused on the impact of this plethora of regulation, and tried to pinpoint: (1) Specific circumstances which are within the jurisdiction of more than one Federal and/or State agency; (2) where those agencies require duplicate reports and permits; and (3) where they issue unnecessary or conflicting regulations or fail to determine uniform interpretations of regulations among their own personnel.

Information gathered from the hearings was made available to the regulating agencies and other governmental groups working in this area. One such group is the President's Commission on Coal which is examining coal regulation as part of its overall mandate. Another is the President's Regulatory Council, which responded with the establishment of a Coal Regulation Task Force to further pursue these problems.

While committee hearings and questionnaires provided a good start, the need still exists for a more comprehensive and exhaustive study of all these Federal, State, and local regulations than could be attempted by a Congressional committee. *A detailed categorizing of the unnecessary, overly restrictive, duplicative and contradictory requirements in the industry could be the first step toward the abolition of these burdens on independent businesses in the coal industry.*

One approach to bring order to this problem came out of suggestions at the hearings. *One option which should be seriously considered is the establishment of an Office of Coal Policy within the Department of Energy to coordinate all Federal policies relating to coal, and to balance conflicting economic, energy and environmental objectives.*

In the meantime, there is a need for one office to serve as a clearinghouse function to advise coal operators and users of the laws and regulations with which they must comply. *The committee urges efforts to continue toward "one stop permitting", at least at the Federal level.*

Paperwork requirements here, as throughout the government, are unnecessarily burdensome. Reporting requirements can certainly be reduced, simplified, and made more uniform.

In the coal industry, the capital investment required for small companies to come into compliance with Federal regulations is often quite large. The committee recognizes that, for this reason, the impact of Federal regulations on small operators is disproportionately heavy. *Special programs should be available to help small operators comply with regulatory requirements.* An example of one such program is the Small Operators Assistance Program (SOAP) established under section 507(c) of the 1977 Surface Mining Control and Reclamation Act, These programs can be one basis for the help that is required in this area.

Finally, the industry is burdened with onerous inspection demands. *Overlapping inspection responsibilities should be eliminated among Federal agencies and State agencies charged with this responsibility.* It is impossible for an industry to be effective unless all of these burdens are removed, and an efficient energy producing system is essential for our Nation's future.

CHAPTER V

Federal Procurement

Congress is clearly on record that more should be done and must be done to provide increased Federal procurement contracts for small enterprises. In the Small Business Act of 1953, Congress stated that the Government, as a whole, should "insure that a fair proportion of * * * contracts and subcontracts" be made to small businesses. This law covers the more than 60 agencies which have procurement authority, including the Departments of Defense, Energy, and NASA, which spend more than 80 percent of the Federal procurement dollars. Yet, despite this law, small business is not getting a proper share of Federal contracts. Statistics show that although small business accounts for nearly 50 percent of the gross national product, it receives only 25 percent of the almost $100 billion spent in Federal Government procurement.

HISTORY OF SMALL BUSINESS PROCUREMENT POLICIES

The primary thrust of Congressional efforts to increase contract awards for small business is found in section 15 of the Small Business Act as amended by Public Law 95-89 (approved on Aug. 4, 1977), and Public Law 95-507 (approved on Oct. 24, 1978). These pieces of legislation establish five separate procurement assistance programs in SBA:

1. The Prime Contracts Program, focusing on increasing the number of Federal procurement set-asides for exclusive competition among small businesses, opening additional procurement opportunities for small businesses, and helping to promote a favorable climate for small businesses by assisting firms with procurement and contract administration problems;
2. The Subcontracting Assistance Program which concentrates on increasing the number and dollar amount of awards to small businesses through subcontracts from large government prime contractors;
3. The Certificate of Competency Program providing small firms with an appeal to SBA when another government agency's contracting officer has doubts about whether a small, low bidder has the elements of responsibility to perform on a particular contract;
4. The Property Sales Program established to enable small business firms to obtain a fair share of Federal properties for sale, lease, or disposal; and
5. The Technology Assistance Program to make technological advances resulting from federally-funded research and development available to small business concerns, and to assist high-technology companies in competing successfully for Federal contracts.

Each of these programs has the specific goal of increasing both the number and dollar value of Federal contracts available to small businesses. Each is designed, fundamentally, to make small businesses aware of the existence of billions of dollars of Federal contracts for which they may be eligible to bid.

Unfortunately, many Federal agencies have failed to take an aggressive role in the small business contract programs. There are a number of reasons for this, including convenience, insufficient inventory of qualified small businesses, or uncertainty about small businesses' competitive capability. Rather than attempt, on a case-by-case, agency-by-agency basis, to establish small business contracting programs, the Congress has placed that responsibility squarely on SBA.

In 1974, Congress created the Office of Federal Procurement Policy with specific statutory authority to "prescribe policies, regulations, procedures, and forms," which will be followed by executive agencies in their acquisitions. Over the past 5 years, OFPP has assisted SBA in meeting the statutory mandates to provide a fair share of Federal procurement for small business, and to be an advocate within the Federal Government for increased small business contracting. Legislation recently enacted (Public Law 96–83) extended the life of the Office of Federal Procurement Policy for an additional 4 years. This time limitation and additional statutory restrictions leave open the question of whether OFPP can continue as an advocate for increased small business contracting.

COMMITTEE ACTION

The Federal procurement issue has long been a concern of the Senate Select Small Business Committee. In preparation for the White House Conference on Small Business, and as part of its continuing oversight responsibility, the committee held additional hearings to focus particular attention on the following issues: The SBA's computer-based procurement source system (PASS) ; the "break out" procedure; and subcontracting requirements providing for small business participation.

A. PASS

For several year SBA has been testing a procurement automated source system called PASS. This computer-based system contains business-supplied profiles of small businesses, and is designed to assist SBA and other Federal agencies in identifying qualified small businesses to compete for government contracts. For the second consecutive year, the Congress has appropriated additional funds beyond the President's request to accelerate the development and deployment of PASS. Although the agency has encountered difficulty in establishing a sizable PASS data base, the committee remains convinced that the concept is a good one. *The committee recommends that the PASS system be applied to obtain increased small business procurement and recommends that small firms which desire increased business with the Government utilize the PASS system.*

B. "BREAK OUT" OF LARGE PRIME CONTRACTS

Millions of dollars of Federal contracts are virtually insulated from small business participation because of their complexity and size. In many instances, it is both feasible and reasonable to expect agencies to subdivide procurement requirements into smaller components, thus freeing up additional contracts for small business. Particularly in the military, there has been a hesitancy to subdivide contracts for large weapons procurements. *The committee recommends that the SBA's current efforts in this area be continued to significantly increase the number and dollar amount of contracts made available to small business.*

C. SUBCONTRACTING

Public Law 95–507 requires that the apparent successful offeror or low bidder on large Federal contracts submit, before award of the contract, a subcontracting plan setting forth percentage goals for utilizing small and minority businesses. The agency contracting officer must then determine that the submitted plan provides the "maximum practicable opportunity" for small and minority business participation. SBA, the Office of Federal Procurement Policy, the Department of Defense, and the General Services Administration have each published regulations implementing these provisions. At this time, however, no contracts have been let which contain the subcontracting plans required by the statute, and it is too early to tell definitively whether this approach will have a significant impact on increasing private, large prime contractor's, subcontracts with small business.

The committee believes the implementation of the subcontracting plans should be carefully monitored.

Similarly, other procurement provisions of the statute, such as the establishment of offices of small and disadvantaged business utilization, and the assignment of "technical" advisors to SBA procurement center representatives, should be vigorously implemented by Federal procuring agencies.

CONCLUSION

In addition to these issues, the committee recommends that attention be focused on several other aspects of this problem. These include the Certificate of Competency programs, the SBA's budget for its procurement program and the opportunity for increased small business procurement which may result from the adoption of the Multilateral Trade Treaty and its implementing legislation. All of these issues will continue to be examined as part of the committee's ongoing commitment to increasing the small business share of Federal procurement dollars.

CHAPTER VI

Inflation

Although the economy has enjoyed substantial gains in output, employment, and income during the past 2½ years it has also been plagued by an even increasing rate of inflation: The rate of consumer price increase has accelerated from 9 percent in 1978 to an annual rate in excess of 13 percent this year.

Experts agree that a substantial part of the inflationary acceleration has been the result of an explosion in energy prices. The annual rate in the first 8 months of 1979 was a staggering 50 percent. Costs of home purchases and financing have also risen sharply—at a 20 percent annual rate—and food prices have climbed at a rate of 10 percent. Prices of all other consumer goods and services have risen at a 7 percent annual rate, the same as in 1978.

Underlying this price trend have been two quarters of sharp decline in productivity and a surge of consumer spending primarily in the third quarter of 1979.

The result is called "stagflation"—economic stagnation and rising inflation—and it is insidious. Inflation encourages people to buy now, and that pushes prices higher and higher. Taxes discourage people from saving now, in part by taxing the interest they receive. In the third quarter of 1979, savings as a percent of disposable income dropped to a dismal 4.1 percent. As inflation pushes the consumer into frenzied buying, that very action drains the economy of needed savings dollars and starves our capital markets.

SOME RECENT ACTIONS AFFECTING SMALL BUSINESS

In the fall, the Carter administration established a tripartite Pay Advisory Committee consisting of representatives of business, labor and the public to provide greater participation in its wage and price guideline program and to advise the Council on Wage and Price Stability. The Pay Committee, which has a small business representative, has just begun its work, but it is clear that it is in the national interest to prevent a pay explosion while insuring that the costs of fighting inflation are shared equitably.

On October 6, the Federal Reserve announced a series of policy actions designed to help dampen inflationary pressures. The discount rate was raised to 12 percent and an 8 percent marginal reserve requirement was established for funds purchased by commercial banks. For the first time, the day-to-day operating strategy of the Federal Reserve was changed from focusing on interest rates to focusing directly on the money supply.

The actions of the Federal Reserve are primarily aimed at the banking system and flow of credit, especially to business, as a means to further fight inflation. Short of controls, squeezing the banking system was perhaps the last available option to demonstrate further resolve to break the U.S. inflationary spiral. Many experts believe the policy provides a consistent means of dealing with dollar weakness, speculation, and inflation.

The new Federal Reserve Policy must be viewed as a plus from the point of view of international considerations, but poses considerable risks for the domestic U.S. economy generally and small business particularly. In terms of strengthening the dollar and halting the panic buying of precious metals and other commodities, the policy has already proved successful. However, there are negative factors to be considered. There is potential harm—particularly to small business—from a full-blown credit crunch. The new policy intensifies weaknesses in the U.S. economy and leads to much higher unemployment. Experts believe all this occurs without much inflation benefit at least in the short run. If the underlying inflation problems were primarily of the so-called "demand-pull" variety, then the general monetary restriction would provide major benefits on all accounts. However inadequate supply, particularly in energy, creates a different situation. With today's kind of inflation, experts believe it might be quite some time before the new sweeping restriction by the Federal Reserve Bank reaps a full harvest of benefits.

COMMITTEE ACTION

This fall, the committee held 2 days of hearings, on "Small Business and the Economic Outlook." Discussion of the inflation outlook and economic policies to combat inflation dominated both hearings. *The committee concluded that progress against inflation will require action on a number of fronts: (1) Firm fiscal and monetary policies; (2) an effective program of standards for price and wage behavior; (3) policies which promote incentives to save; (4) incentives to invest in productive capacity; and (5) elimination of costly and unnecessary government regulation.*

Experts agree that prudent fiscal and monetary policies are an essential weapon in the struggle with inflation. That means that *balancing the Federal budget must be a top economic priority and must be done as soon as practicable. Every effort should be made to reduce the large Federal deficits that only place additional price pressure on the economy.* These changes require action in a number of areas.

A. ENCOURAGING SAVINGS

This country's current policy toward savers is having a significant effect on the way our citizens manage their money. According to U.S. Department of Commere statistics, our rate of savings as a percentage of disposable income has dropped from a healthy 7.4 percent in 1970 to a meager 4.1 percent in the third quarter of 1979. The National Savings and Loan Foundation reports that the British save 13 percent of their disposable income, the West Germans save 15 percent and the Japanese, 25 percent. Each of these countries encourages saving through tax incentives. If Americans saved the same percentage of their disposable income as the Japanese, we would have saved nearly $300 billion more than the $76 billion saved in the U.S. last year. This would have provided a tremendous boost to investment in new plant and equipment, to business expansion and to new home construction.

To help reverse current savings and buying trends, a number of bills have been introduced which would allow a certain amount of interest earned from a personal savings account to be tax-free up to a total of $500.[1] On October 31, the Senate Finance Committee held a hearing on these bills.

On November 29, 1979, the Senate Finance Committee met to discuss various tax incentive proposals to increase personal savings. On a 15 to 2 vote, the committee agreed to allow a taxpayer to exclude the first $200 of combined interest and dividends received during the year ($400 for a couple filing a joint return). The committee proposal will be offered as an amendment to the windfall profits tax bill being debated in the Senate. The savings proposal is expected to pass the Senate.

The committee recommends that a tax incentive to encourage savings should be enacted.

B. CAPITAL FORMATION

Recent major new tax reforms will help increase capital formation for small business. Congress has restructured the corporate income tax so that all earnings under $100,000 will now be given a progressive and significantly lower level of tax. Subchapter J of the Internal Revenue Code has been liberalized. The Investment Tax Credit was increased 43 percent for all business (from 7 percent to 10 percent) but 185 percent for small business for buying used machinery because the credit for such machinery was doubled ($50,000 to $100,000). All of these measures help stimulate capital formation and improve productivity.

Another approach to the problem which is gaining consideration would accelerate the depreciation rates for commercial real estate, equipment and vehicles.[2] *The committee believes small businesses must be able to retain a greater share of their earnings and recommends enactment of tax measures to achieve this goal.*

C. MONETARY POLICY

One possible action to alleviate a small business credit crunch is the development of a two-tier interest policy which allows a discounted rate for small business borrowing.

Under this proposal certain small business borrowers could certify in their loan application that they are a "qualified small business." This would authorize the bank to loan funds at a rate three points below the prevailing prime plus any additional points charged the borrower in the same period of the previous year.

The bank would then use this certification as the basis for applying to the Federal Reserve System for a lower discount rate for that portion of their funds that were loaned to their small business customers.

The concept of a two-tier interest rate for the small business community is not a new idea; what makes this proposal unique is that it

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[1] See S. 1488, S. 1645, S. 1697 in the Appendix for bill description and sponsors.
[2] See S. 110 in the Appendix for bill description and sponsors.

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couples the two-tier policy with an incentive to the banking community.

The current concept, proposed by the National Small Business Association, and others, is one attempt to assure that small business is treated on an equitable credit basis with big business.

For banks that undertake a two-tier interest policy for small business borrowing, the committee recommends creating the incentive of a discount rate on Federal funds.

D. REGULATIONS

On the regulatory reform front, legislation is now pending before both the Senate Judiciary and the Governmental Affairs Committees which would substantially reduce the cost of government regulation. Serious consideration is being given to a "two-tier" system which would authorize agencies to tailor regulations to the size of a business.[3] The President on November 16 of this year sent a memorandum to all executive departments and agencies directing them to adopt the two-tier, or regulatory flexibility, principles. Another bill under consideration would require agencies to be more flexible in implementing regulatory goals, sunset all major existing regulations in 5 years, and require a cost/benefit justification for new regulations.[4] This would be of substantial assistance in eliminating unnecessary regulations and reducing the cost of both current and future regulations.

For more information on this subject, see the chapter in the report on regulations and paperwork.

CONCLUSION

To restore a strong business economic climate, it is imperative that inflation be conquered. If inflation continues at its present rate for another 5½ years, the dollar will be worth only half as much as it is now. But small business cannot be expected to bear the brunt of the inflation fight.

To correct structural inflationary problems, additional steps must be taken to promote energy conservation, lessen dependence on OPEC oil, and promote savings, capital formation, capital cost recovery, and productivity growth. Such steps will assure both price stability in the future, and the continued strength of the small business sector.

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[3] See S. 299 in the Appendix for bill sponsors.
[4] See S. 93 in the Appendix for bill sponsors.

CHAPTER VII

INNOVATION

More and more people are beginning to recognize that innovation by small business is a vital contribution to our Nation's economy. At hearings in 1978, the Senate Small Business Committee stressed the significance of small firm innovation: Small businesses have consistently accounted for half of all American innovation, and innovation accounts for between 40 and 50 percent of all economic growth in this country. These statistics taken together prove that small business innovation can be a vital spur to the Nation's economic recovery.

Within the business community, innovation by small businesses is particularly efficient. A Small Business Committee report of December 1978, revealed that smaller firms (with less than 1,000 employees) produce innovations at one-fourth the cost of medium-sized firms (1,000 to 10,000 employees) and one twenty-fourth the cost of large firms (over 10,000 employees).[1]

Precisely how to tap the innovative potential of small firms has been a major consideration of the Small Business Committee.

GOVERNMENT ACTIVITY IN TECHNOLOGY MATTERS

Section 9 of the Small Business Act of 1953 gives the Small Business Administration the authority to aid smaller businesses obtaining technical information and assistance.

Throughout the years, the Senate Small Business Committee has consistently supported the programs of the Small Business Administration to provide technical assistance to small firms, and facilitate "technology transfer," which makes available the results of government-financed research to private enterprise. These efforts have had significant results. For example, during 1975 the SBA performed an in-house study showing that $8.30 was generated in new business profits for each $1 that SBA spent on its technology program. Despite these statistics, very little attention was paid to the subject of innovation until relatively recently.

National interest in the enormous potential of innovation and technology was first kindled by a blue-ribbon study performed for the Department of Commerce in 1967. The so-called "Charpie Report" stated that small businesses have been responsible for approximately half of all major innovations in the 20th century.

In the next decade, a number of other studies confirmed the 1967 Charpie report findings and further emphasized the value of new and small technological enterprises in creating new jobs, accelerating eco-

[1] "Technological Innovation: Its environment and management" reprinted in "Small Business and the Quality of American Life," Committee Print, October 6, 1978, p. 262 et. seq.; see also "Small Business and Innovation," Joint Hearings of the Senate and House Small Business Committee's August 9–10, 1978.

nomic growth, countering inflation and sharpening the Nation's domestic and international competitiveness. The MIT Development Foundation, the American Electronics Association, the National Alliance of Business, and both the Senate and House Small Business Committees identified the small business sector as the major source of new jobs in the economy, far exceeding the contributions of big business.

A subcommittee of the House Small Business Committee found that, between 1969 and 1977, the top Fortune 1000 industrial corporations accounted for only 3 percent of the new jobs created in the economy.

The National Alliance of Business testified before the Senate Small Business Committee in mid-1978 that 70 percent of the new jobs in the last decade have been created by firms with less than 100 employees.[2]

By 1976 there was a growing awareness within the White House of the role of small business in the innovation process. The Office of Management and Budget (OMB) issued an interim report stating that the ability of the U.S. economy to innovate for commercial and defense purposes was in "serious decline." [3]

Another internal OMB document concluded that small businesses deserved greater support in federal research and development contracting because of their potential to strengthen the U.S. technological innovation effort. The report pointed out that Federal expenditures for research and development in fiscal year 1975 were nearly $20 billion (currently about $30 billion), but that small businesses were awarded only 3.4 percent of that figure. Regrettably the report was never publicly released and its recommendations were totally ignored.

Worsening energy and economic problems forced the innovation issue into greater prominence than an internal Administration report could give it. In May 1978 President Carter signed a memorandum directing a "Presidential Review" of innovation policy by 30 Federal agencies.

The Presidential recommendations were announced on October 31, 1979, at joint hearings which included the Senate and House Small Business Committees. The Administration made several recommendations. First, it suggested that each agency negotiate targets with OMB for increasing the small business share of the $30 billion federally funded research and development programs. Second, coordination of the innovation policies of 30 Federal agencies will be attempted by a subcommittee of the Council on Productivity.

Third, it recommended expansion of the highly successful National Science Foundation's Innovation Solicitation awards program. The latter point is a weaker variation of Title I of S. 1860, the "Small Business Innovation Act of 1979" introduced earlier this year.[4]

These recommendations are a significant step forward. However, the committee was disappointed that the Administration's innovation program did not include any tax proposals.

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[2] "Jobs Tax Credit," Joint Hearing of the Senate. Finance and Small Business Committees, July 18 and 26, 1978, p. 52.

[3] "Small Firms and Federal Research and Development," Office of Management and Budget, Executive Office of the President, March 10, 1977.

[4] See S. 1860 in the Appendix for sponsors and description of the bill.

COMMITTEE ACTION

The Senate Small Business Committee has long been concerned about the innovation issue, and has carefully monitored the interest that has been slowly growing since the first committee hearings began in 1970.

In August of 1978, the Senate and House Small Business Committees held joint hearings on the "under-utilization of small business in the Nation's efforts to encourage industrial innovation." It was at these hearings that the OMB report, mentioned above, was released at the request of the two committees.

Also in 1978 the Small Business Administration's Chief Counsel for Advocacy brought together a task force to consider the small business aspects of innovation. Included were the small business participants involved in the President's study as well as venture capitalists representatives of small technology firms, and other outstanding innovative entrepreneurs.

On August 2, 1979, the SBA task force report was presented to the Senate Small Business Committee. The report continued a detailed series of recommendations for legislation in the areas of taxes, government procurement practices, patent laws, capital formation, and reduction of regulation and paperwork.

A. SMALL BUSINESS INNOVATION ACT OF 1979

The wide-ranging recommendations of this SBA task force were embodied in S. 1860 the "Small Business Innovation Act of 1979." *The committee strongly supports this bill and urges its enactment.* This omnibus legislation would add more than $310 million annually in Federal research and development support to small business by raising the small business participation level to 10 percent over a period of 10 years. At 10 percent, the small business share would be about $3 billion, compared to about $700 million in 1975.

Other key elements of S. 1860 would:

- Allow small businesses to retain exclusive patent rights on inventions made under federally-supported research;
- Enable the Patent and Trademark Office to arbitrate patent disputes and thereby reduce the costs of such reexaminations from an average of $250,000 per case to $1,000;
- Authorize Federal agencies to tailor regulations according to business size in order to reduce the regulatory burden on small businesses;
- Amend the tax laws to stimulate innovation by—

  (1) allowing small R. & D. oriented firms to—

    (*a*) carry forward losses over 10 years instead of 7 years;

    (*b*) write off specialized R. & D. equipment in 1 year;

  (2) permitting shareholders selling securities of small R. & D. concerns to pay only half the normal capital gains tax if the securities had been held for 5 years;

  (3) establishing a tax free reserve for R. & D. expenditures;

  (4) increasing the number of subchapter S corporate shareholders from 15 to 100;

(5) enabling shareholders selling an interest in smaller companies to defer payment of capital gains taxes if the proceeds are reinvested in another small concern within 18 months; and

(6) reinstate the pre-1976 qualified stock option provision.

Small, innovative firms are being placed in the middle of a closing vise. They receive an inadequate and disproportionate share of Federal research and development dollars, they are being strangled by unnecessary regulations and a prohibitively costly patent litigation system, and they are being starved of necessary venture capital. Provisions such as those in S. 1860 directly address and would help remedy many of these problems.

B. INNOVATION AND CAPITAL FORMATION

Extensive work done by the Senate Small Business Committee in the areas of capital formation is directly relevant to the issue of small business innovation. Small independent firms have proven to be the best vehicles to transform ideas into actual products. Yet a 2 year study by the committee has shown that the economic climate and financial conditions must be improved for these new, small, and growing enterprises—the vehicles for one-half of the Nation's innovation. Better financial conditions for such ventures will have immediate effects on the ability to commercialize innovation.

For more information on the committee's work in this area, see the section in this report under the heading "Capital Formation."

C. GOVERNMENT FACILITATION OF TECHNOLOGY CREATION AND TRANSFER

Several government agencies have begun programs to facilitate the transfer of technology to the private sector. These agencies include the National Science Foundation, the Economic Development Administration within the Department of Commerce and NASA. The Small Business Administration participates in this activity through Small Business Development Centers and Technology Assistance Centers.

A great deal of attention is being given to this issue today. The President in his innovation report recommended that university-business cooperation be increased and members of Congress have proposed legislation to broaden and/or improve existing programs in such bills as S. 1860.

Committee recommendations and further comments on this topic are contained in the section of this report entitled, "the Small Business Administration."

D. REGULATORY CONSTRAINTS ON SMALL BUSINESS INNOVATION

One innovative small business owner who testified at committee hearings stated that 42 Federal, State and local agencies regulate his business and that he spends more than half his time coping with requirements that are frequently designed for large businesses.[5]

Some solution must be found to the plethora of regulations burdening small entrepreneurs.

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[5] "Some Causes and Consequences of Declining Innovation" by George S. Lockwood, Address to American Association for Advancement of Sciences, June 21, 1978.

The committee recommends that steps be taken as soon as possible to remove unnecessary regulations and paperwork requirements which burden the country's small innovative firms. For more information on this topic, see the "Regulation and Paperwork" section of this report.

CONCLUSION

More innovation in a free enterprise system means greater employment, a higher rate of productivity, reduced inflation, and an improved export performance and balance of trade.

Yet today innovation and growth have been hampered by government policies. Small enterprises receive only $3\frac{1}{2}$ percent of Federal research and development funds despite the fact that small firms produce 24 times as many major innovations per research dollar than large firms.

According to the Commerce Department:

- The U.S. share of patents filed worldwide and the number of U.S. patents awarded to U.S. citizens have decreased in the last decade;
- The number of new innovative, technology-based companies being formed in the U.S. is much lower than a few years ago;
- The U.S. worldwide lead in productivity has been narrowed by 50 percent since the 1950's and the current U.S. productivity growth is below its historical trend; and
- The Nation's large, favorable balance of trade from high technology industries is becoming more dependent on exports to developing countries and less essential to other industrial nations—who are developing their own high technologies.

A comparison of high technology industries with other industries in the period 1957 through 1973 shows that high technology industries grew 45 percent faster, their employment grew 88 percent faster and their productivity grew 38 percent faster.

There can never be too much innovation, *Because we have been taking our technological superiority for granted in this country, we are in danger of losing it. We must act now to reverse this trend.*

CHAPTER VIII

International Trade

For more than 41 consecutive months, the U.S. has had a trade deficit which reached a staggering $28.5 billion in 1978 alone. Trade statistics prove that, since the mid-1960's, the competitive position of U.S. business has been steadily eroding in the world marketplace. While foreign based companies have become increasingly competitive in international markets, U.S. companies have failed to meet the foreign challenge.

A look at the growth pattern of foreign-owned "big business" gives a clear picture of what has been happening. From 1965 through 1978, sales of the 50 largest foreign industrial companies increased 595 percent (from $68.4 billion in 1965 to $613.4 billion in 1978). Put another way, in 1965, total sales of the 50 foreign companies were 46 percent of the sales of their U.S. counterpart. By 1978, their sales had increased to 78 percent of U.S. companies sales.

A principal cause of U.S. international trade problems has been the understandable reluctance of many small businesses to enter into export trade. Today, international commerce remains the province of the largest U.S. corporations. It is estimated that only 200 firms account for more than 85 percent of all U.S. export sales.

Substantial export expansion is needed to reverse our trade deficit. However, this will not occur unless many more companies are drawn into export trade. *The committee believes that small companies have tremendous untapped export potential and are a vital part of the solution to our trade problems.*

GOVERNMENTAL INITIATIVES

Only in recent years has there been an economic need to actively promote U.S. exports. Responding to this need, President Carter announced in September 1978, the first major step toward developing a comprehensive strategy to stimulate U.S. exports. The Administration's efforts toward this goal have concentrated on three areas:

1. Increased direct assistance to U.S. exporters;
2. Reduction of domestic barriers to exports; and
3. Reduction of foreign barriers to U.S. exports.

The latter effort has resulted in a newly negotiated and approved Multilateral Trade Agreement. Many of the provisions of the trade treaty could provide a potential boon for small exporters, given more effective Federal support to successfully reach foreign markets.

Another series of actions taken by the Carter administration, in cooperation with the Congress, has reorganized Federal Government trade functions. This reorganization is designed to strengthen the U.S. position in international markets by expanding exports, improving enforcement of trade laws, and upgrading trade activities consistent with the Multilateral Trade Negotiations (MTN) agreements. As such, the reorganization centralizes authority for U.S. trade actions and provides the leadership required for the development and implementation of trade policy.

The reorganization consists of four principal elements:

1. The creation of a new Cabinet rank office of the U.S. Trade Representative, replacing the Special Trade Representative (STR) post, and imbued with increased responsibility for trade policy;
2. The Commerce Department's domestic and international trade functions are strengthened, and an Office of Under Secretary for International Trade is created with primary responsibility for nonagricultural trade program implementation;
3. The establishment of a Trade Policy Committee, an interagency coordinating group chaired by the Trade Representative, which is responsible for developing general U.S. trade policy;
4. The creation of a Trade Negotiation Committee, charged with the specific task of coordinating and managing specific trade negotiations consistent with policy objectives.

The reorganization will provide for better coordination of U.S. trade policy and focus responsibility on a single Cabinet Department for nonagricultural government trade activities.

One particularly noteworthy element of the trade reorganization is the significant and helpful transfer of foreign service commercial officers from the jurisdiction of the State Department to that of the Department of Commerce. Such a realinement of foreign service personnel serves two major functions. It will strengthen the role of commercial officers by supplying them with the technical backup assistance of a department concerned primarily with the interests of commerce and trade rather than politics and diplomacy. Second, it will form a newly defined professional Commercial Foreign Service with the same opportunities for career development, and an equal stature as is currently enjoyed within the diplomatic service.

However, the simple transfer of personnel from one agency to the other cannot, in and of itself, result in improved service to American exporting companies. It is necessary to clearly define the responsibilities of these personnel, with priority given to providing businesses endeavoring to export with up-to-date information and assistance.

COMMITTEE ACTION

The U.S. Department of Commerce estimates there are 20,000 U.S. companies which could export successfully, but do not. There are a variety of reasons why small businesses do not export, and many of them can be dealt with successfully through simple actions by executive agencies, or through corrective legislation.

Small businesses lack the funds to invest in market development abroad. They are unfamiliar with export opportunities and lack the in-house personnel with the necessary expertise to master customs documents and to carry out the details of shipping and marketing in foreign countries. Financial risk caused by wide currency fluctuations and by a foreign customer's slow payment for goods received can be an enormous problem for small business. The myriad of details involved in exporting are enough to overwhelm most small business owners.

There is a heightened awareness in the Congress of the need to amend and improve current U.S. export policies. Already in the 96th Congress numerous bills have been introduced which primarily address the structure of Federal export programs or the financing needs of U.S. exporting firms. Recently, a Senate Export Caucus was formed to draw Congressional attention to this important issue area.

In September, the Senate Small Business Committee held hearings on the topic of small business and exports as part of a continuing effort to monitor the problems confronting new-to-export small businesses.

Testimony received by the committee at these hearings covered a broad range of possible solutions to many of the problems facing small exporting companies, including the following:

1. Expanding the MASSPORT small business export program concept by providing Federal grants to States and other entities. These grants would establish, on a nationwide basis, individualized international marketing programs for business. A small business would be provided, free of charge, assistance in the following areas:

    (*a*) Analyzing markets to determine the nature of a company's export potential;

    (*b*) Training and advice on matters concerning export pricing, shipping, documentation, financing and business customs;

    (*c*) Identifying and contacting potential foreign customers and distributors for a company's products;

    (*d*) Managing and sponsoring foreign trade missions for participating firms to meet with prescreened buyers.

2. Establishing "one-stop-shops" for Federal export information and assistance to include representatives from Commerce, SBA, the Export-Import Bank, Treasury (including IRS) and the Overseas Private Investment Corporation (OPIC).

3. Increasing SBA involvement in export promotion, assistance and financing.

Legislation embodying these points has recently been introduced in the Senate.[1] Other ideas presented at the hearings included tax incentives for investment in exporting companies and amending tax policies such as the double taxation of U.S. citizens working abroad and taxation on first-year export sales.

CONCLUSION

A recent survey of international executives headquartered in the U.S. clearly pointed to one of the fundamental trade problems. When asked to select which two countries did the "worst job" of promoting exports, 57 percent of the respondents cited the U.S. as one of their choices, a figure much higher than any other country.

One executive charactized the U.S. government's attitude toward export development by saying, "In the U.S. it's an adversary role with actual hindrance on the part of our government."

[1] See S. 2040 and S.2104 in the Appendix for bill description and sponsors.

This attitude, coupled with a lack of understanding of export marketing, results in too few American businesses engaging in exporting. Small businesses have proven they have more than enough innovation, more than enough productivity and efficiency, and that they are more than ready to enter this field. But they need initial, direct assistance to export successfully.

The committee believes we must help small business overcome the basic problems so they can contribute to a better balance of trade. This, in turn, will strengthen the American dollar abroad and help tackle one of our country's toughest domestic problems, inflation.

CHAPTER IX

Minority Business Development

One result of the 1967 report of the Commission on Civil Disorders was the action taken by the Federal Government to increase the level of minority-business ownership. A strong commitment was made to provide greater opportunities for minorities to assume a larger role in our Nation's free enterprise system. Most recently, amendments to the Small Business Act state that "the opportunity for full participation in our free enterprise system by socially and economically-disadvantaged persons is essential if we are to obtain social and economic equality for such persons and improve the functioning of our national economy." [1]

Regrettably, however, Congressional and administrative actions in the past decade were not always designed to address the unique impediments which have plagued minority small business development. According to Department of Commerce statistics, as of 1972, only 4 percent of the total number of U.S. firms were minority owned. While the Federal Government has a limited role to play, there is little doubt that the tools it has available, if properly used, could enhance significantly the chances for minority-owned businesses to become a part of our Nation's economic mainstream.

Because of its concern with minority business development, the Senate Small Business Committee has held hearings on this topic as part of its continuing oversight responsibility and in preparation for the White House Conference on Small Business. These hearings included legislative hearings leading to the enactment of Public Law 95–507, on the implementation of that public law by the SBA, and on internal SBA problems concerning the management and funding of the programs relating to minority business development.

Additionally, hearings are planned for early 1980 to review agency reports due to be submitted to the Congress, and to assess the SBA and procurement agencies' operations under the new standards. During all of these hearings, the committee continues to focus on the appropriate Federal Government structure for delivery of assistance to small businesses in three key areas: Financial assistance, management and technical assistance, and Federal procurement assistance.

FEDERAL GOVERNMENT STRUCTURE AND COMMITTEE ACTION

In creating the Small Business Administration in 1953, the Congress stated that "it is the declared policy * * * that the government should aid, counsel, assist, and protect, insofar as is possible, the interests of small-business concerns in order to preserve free competitive enter-

[1] Sec. 2(e)(1) of the Small Business Act, as amended by P.L. 95–507.

prises." That policy is directed at both majority- and minority-owned small businesses.

Nevertheless, the programs of the Small Business Administration designed specifically to provide assistance to socially and economically-disadvantaged businesses are of relatively recent vintage. For example, while the 8(a) program of contract assistance was a part of the original Small Business Act, it was not until 1967 that it became a program for increasing minority-business development. Similarly, the minority-enterprise (MESBIC) provisions incorporated into the Small Business Investment Act of 1958 were not added until 1972. The Economic Opportunity Loan Program was not transferred from the Office of Economic Opportunity to the agency until 1974.

Attacking the problem on a different front, an Office of Minority Business Enterprise (OMBE) was established within the Department of Commerce by Executive order on March 5, 1969. OMBE's responsibilities at that time were to:

- Coordinate plans, programs and operations affecting minority business;
- Stimulate government and private aid to minority-business growth; and
- Develop information to assist minority-business development.

The responsibilities of OMBE were expanded by Executive Order 11625, issued by the President in October 1971. This Order authorized OMBE to provide financial assistance to both public and private organizations and to provide management and technical assistance to minority businesses. OMBE has met this task by establishing a national management assistance delivery system through contracts with local business development organizations.

There are parallel programs within the executive branch to provide minority business development assistance. On May 4, 1976, SBA and the Department of Commerce entered into an interagency agreement to define respective programs and to coordinate both their program and budget planning activities. That agreement remains in effect to date. Since then, the Congress passed, and the President approved, Public Law 95–507 in October 1978, providing a legislative structure and direction to the SBA's minority-business development programs. The Department of Commerce is presently preparing legislation to provide a statutory base for the programs administered by OMBE (recently renamed the Minority Business Development Agency).

In its report on the appropriations for the Department of Commerce for fiscal year 1979, the Senate Committee on Appropriations noted:

> The committee stongly supports assistance to minority business as witnessed by our recommendations for the Small Business Administration. However, OMBE has never had legislative authority and the testimony at the hearing was weak and by no means persuasive of the role of this organization. The committee urges the Office of Management and Budget to consider the merger of OMBE into SBA's programs of assistance to minority businesses so that a unified program will be available for consideration in the 1980 budget review.[2]

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[2] Senate Report 95–1043 July 28, 1978 Report to accompany H.R. 12934.

No action was taken on this proposal. Then, in the Appropriations Committee report on the fiscal year 1980 appropriation, that committee noted that it:

> Strongly supports assistance to minority business and recommends that a legislative proposal (for OMBE) be submitted with the 1981 request.[3]

Both Congress and the executive branch are concerned about the actual or perceived duplication between the programs administered by SBA and the Department of Commerce. The duplication may have wasteful effects as suggested in the White House Conference on Small Business task force paper on this subject. These efforts do not reflect the level of attention the small business community requires.

The Senate Select Committee on Small Business will continue to monitor the issue and solicits recommendations from the White House Conference on Small Business with regard to the administrative and legislative form minority-business development assistance should take.

A. FINANCIAL ASSISTANCE

The Small Business Administration has established a variety of financial assistance programs open to both majority and minority owned businesses. Two of these programs are of particular interest to minority businesses. One program provides financial assistance from the Small Business Administration either through direct or immediate participation loans and through loan guarantees of private financial institutions. The largest loan program in the agency, the 7(a) loan program, has disbursed cumulatively over $25 billion in loans and loan guarantees to businesses. Minority-business activity in this program, however, represents only 10 percent of that dollar volume. The Economic Opportunity Loan Program, on the other hand, places emphasis on the preservation or establishment of small businesses in two categories: Those in areas with high proportions of unemployment or low-income individuals, and those businesses owned by low-income individuals. This program has disbursed cumulatively a total of just over $200 million. The minority business share of this program is almost 75 percent of the activity.

Another approach to providing minority business financial assistance is the Minority Enterprise Small Business Investment Company (MESBIC) these companies are licensed by SBA pursuant to section 301(d) of the Small Business Investment Act of 1958. Each MESBIC is required to invest solely in small business concerns that facilitate ownership by persons, "whose participation in the free enterprise system is hampered because of social or economic disadvantages." These specialized SBIC's are privately-owned investment companies which provide both equity capital and long-term debt financing for small businesses owned by socially or economically-disadvantage persons. Their private funds are then "leveraged" by Federal funds to provide needed investments. Because the MESBIC investment policy is required by statute to be stringent, amendments were made to the Small Business Investment Act of 1958 by Public Law 95-507 to increase the flow of capital to minority small businesses.

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[3] Senate Report 96-251 July 19, 1979 Report to accompany H.R. 4392.

Recently, there have been efforts by several agencies to establish nonprofit MESBIC's. This past July, during the Senate's consideration of S. 1149, the Housing and Community Development bill, an amendment was offered and adopted which would authorize the Federal Home Loan Bank Board's district banks to pool individual resources (of up to $5 million) to start their own MESBIC. Although there was no similar provision in the House-passed bill, conferees did agree to the Senate amendment. The Senate provision demonstrates that financial institutions are concerned about the capital available for minority business, and are undertaking steps to make additional equity capital available.

The Senate Small Business Committee is concerned that minority business be given necessary financial assistance. While a larger commitment of Federal dollars would be one way to accomplish this goal, it is unlikely that a significant increase in Federal funds will be made available. Therefore, the committee will continue to explore ways, including those just mentioned, to encourage a greater infusion of private-sector dollars.

B. MANAGEMENT AND TECHNICAL ASSISTANCE

Many feel that the largest single factor contributing to minority-business failure is the lack of business-management skills. Unfortunately, while both the Department of Commerce and the Small Business Administration have several programs designed specifically to provide management and technical assistance to small and minority businesses, it is impossible for the Federal Government to reach, let alone adequately serve, all businesses needing that kind of assistance.

The Senate Select Committee on Small Business has taken steps to increase the amount of management assistance available to minority small businesses. For example, the management and technical assistance program (referred to as section 7(j) of the Small Business Act) was significantly rewritten in Public Law 95–507. That section now provides authority to pay the cost of management or technical assistance for individual enterprises. Special attention is directed to small businesses located in areas of high concentration of low-income individuals, and to small businesses eligible to receive contracts under section 8(a) of the Small Business Act. Section 7(j) specifically states that "the Administration shall give preference to projects which promote the ownership, participation in ownership, or management of small businesses owned by low-income individuals and small businesses eligible to receive contracts pursuant to section 8(a)."

To achieve this goal, a new section 7(j)(10) was enacted establishing within SBA a "Small Business and Capital Ownership Development Program," designed to provide assistance exclusively to small business concerns eligible to receive contracts under section 8(a). The management of that program was vested in the Associate Administrator for Minority Small Business and Capital Ownership Development. In recognition of the close link between management capability and business success, the act makes it clear that no small business concern shall receive a contract pursuant to 8(a) unless the program is able to provide that concern with management, technical and financial assistance as may be necessary to "promote the competitive viability of the small business concern within a reasonable period of time."

Committee efforts in this area have been tempered by a recognition of the limited Federal dollars and Federal personnel available to provide the wide range of management and technical assistance urgently needed by minority businesses in particular and small businesses generally. In part, because of this consideration, *the committee has encouraged an expansion of the existing SBA pilot Small Business Development Centers program which uses matching Federal and private funds.* At the present time, there are 17 SBDC's approved for operation. Twelve are now in existence in 11 States; five new centers in five states have recently been designated, but have yet to begin operation. *By shifting responsibility for providing management assistance from the Federal Government (and Federal employees) to the private sector, the committee is hoping to increase the number of clients who may be served more efficiently, and at a lower cost to the taxpayer.*

In this regard, the Congress is considering specific statutory parameters which would establish and define a Small Business Development Center program to meet the needs of the minority-business community for management, technical and other similar types of assistance.[4]

C. FEDERAL PROCUREMENT ASSISTANCE

Probably the best known minority-assistance program in SBA is the so-called 8(a) program. It was not until 1967 that these provisions were used as the basis for a minority-contract assistance program. Originally, it was designed merely to find contracts for small businesses. Prior to 1978, the 8(a) program, as administered by SBA, was a program to provide minority businesses with an opportunity to contract with the government. The program lacked any specific mission beyond this contract assistance. It was the feeling of the committee, and ultimately the Congress, that this program failed to foster any "business development" which would permit participating minority businesses to competitively operate in the private sector without a dependency on government contracts. To remedy this situation, Public Law 95–507 offered a new approach. The 7(j)(10) program outlined above provides management assistance to 8(a) firms to which contracts are made available. The legislative concept assumes that the combination of contracts and managerial assistance should create or contribute greatly to a business' ability to exist on its own without continued Federal Government support. Without this combination program participation is not appropriate.

Oversight hearings by the Senate Select Committee on Small Business indicate that the 8(a) program should now have the potential for "graduating" minority small businesses from reliance on Federal contract assistance to commercially-competitive businesses involved solely in the private sector. Unfortunately, implementing regulations have been slow to be developed, and it is still too early to state categorically whether the current design will be successful.

[4] See S. 918 in the Appendix.

Prior to the enactment of Public Law 95-507, the 8(a) program was fraught with abuse by contractors, and the perception followed in the public's mind that it was a badly managed "give-away" program. Internal SBA administration changes, including action to terminate several companies, combined with close Congressional scrutiny, may have combined to redirect the program on a more successful path. *Nevertheless, it is imperative that the number of contracts and the dollar volume of awards to minority small businesses under the 8(a) program be significantly increased if these minority small businesses are to have the maximum practical opportunity to develop into viable small businesses. The committee will continue its efforts to increase contracting opportunities to all small businesses.*

Another way to increase the number of contracts for minority small businesses is contained in Public Law 95-507. Unique authority is given to the Small Business Administration in a pilot program to negotiate contracts with the Department of the Army. Despite the fact that the pilot program has been in existence for 1 year, the committee was able to identify only one contract which has been issued as a result of this increase in authority. The pilot program is due to expire on the second anniversary of the law, and Congress will need to reassess the merits of either extending the deadline, extending the program government-wide or terminating it altogether.

The committee also will be carefully reviewing all agencies' compliance with the mandates of Public Law 95-507. In particular, the committee will be focusing on the agency's compliance with the subcontracting provisions of the act, the functioning of the various offices of Small and Disadvantaged Business Utilization within each agency and the assignment of "technical" personnel to SBA's procurement center representatives.

CONCLUSION

Congress has invested SBA and other Federal departments and agencies with a broad range of statutory and administrative authority to develop significant governmental and private sector initiatives to assist minority business development. To date, however, the efforts have been less than successful due in part to the slow development of regulation and internal agency operating procedures. In the case of the Department of Commerce, that agency has undertaken a review of the entire mission of its minority business assistance, and has indicated that a shift in emphasis toward business development is necessary. As the demand for Federal assistance grows, Congress will be looking for demonstrated results and proven successes for minority businesses.

CHAPTER X

Regulation and Paperwork

Comments received by the committee from small businesses all over the country indicate that excessive government regulation and paperwork is one of the most gnawing problems that independent enterprises face.

It is paradoxical. One of the purposes of regulation is to curb excess yet the cumulative bulk of today's regulations is itself excessive. Some 90 regulatory agencies now issue approximately 7,000 rules per year. Government has reached the point where it is stifling business, frustrating the public and undermining its own credibility. According to Professor Murray Wiedenbaum of the Washington University, regulation will cost about $103 billion in 1979.[1] Or put in other ways that means:

- $3,600 for every small business;
- More than $2,000 for the average American family;
- 20 percent of the entire Federal budget; and
- Nearly three-quarters of annual private investments in plant and equipment.

Testimony given at hearings before the committee over the last few years has shown that small independent enterprises suffer a disproportionate share of the regulatory burden. *The committee believes that this paperwork and regulatory burden must be lifted and has taken strong action to accomplish this goal.*

GOVERNMENT INITIATIVES

Administration efforts to reduce the burden of government regulation have principally been through Executive Order 12044 issued by the President on March 23, 1978. This effort to improve regulatory management established far-reaching new procedures for development of regulations by executive agencies. Under that Order, agencies are now analyzing the costs of all major new regulations to seek out the most cost-effective approach; they are expanding opportunities for public participation; and they are starting to identify and eliminate out-dated, unnecessary regulations. Under the Order, OSHA alone has voided nearly 1,000 nitpicking rules.

The focal point for curtailment of excessive Federal paperwork since 1974 has been the work of the Commission on Federal Paperwork. The commission was created as a result of legislation which came out of the Small Business Committee's study of the Federal paperwork burden on small business. When the Commission completed its work 2 years later, it had made 770 official recommenda-

[1] "Costs of Government Regulation of Business" prepared for the Subcommittee on Economic Growth and Stabilization of the Joint Economic Committee. April 10, 1978.

tions for a reform in Federal paperwork management, which would result in a savings of $3.5 billion.

Public Law 93–556 created the Commission and requires the Office of Management and Budget to report to the President on the status of the Commission's recommendations. In June 1978, OMB issued its first report, entitled "Paperwork and Red Tape; New Perspectives—New Directions." As of January 1, 1979, 269 of the 520 recomdations applying to the executive branch agencies have been heeded.

OMB reports seven changes brought about over the past 2 years as a result of the Commission's recommendations, the General Accounting Office's review of clearance procedures, and OMB's control of reporting requirements. They are:

1. A Presidential directive making each department and agency head personally responsible for the reporting burden that agency places upon the public;
2. A request by the President that each department or agency establish a reporting burden reduction goal for the fiscal year;
3. A charge to each department and agency head to establish an effective chain of command for overseeing the reporting burden reduction program;
4. The establishment of annual department and agency ceilings on the numbers of repetitive and single time reports and on the reporting hours for repetitive reports;
5. The promulgation by OMB of guidelines for agency use in working toward reporting burden reduction goals;
6. The assignment of additional clearance review responsibilities to departments and agencies to help them achieve their reporting burden reduction goals; and,
7. The institution of regular reports to the President and Congress on progress toward paperwork reduction and implementation of the recommendations of the Commission on Federal Paperwork.

COMMITTEE ACTION

A. Regulaton

Recognizing the severe problems Federal regulations impose on small business, 14 members of the Senate Small Business Committee have endorsed the principle of regulatory flexibility embodied in S. 299 and S. 1860.[2] *These bills authorize Federal agencies to establish a "two-tier" system of regulations.* Both bills direct executive departments and agencies to ensure that new regulations: (1) Take into account the size and nature of the regulated businesses while achieving intended social and economic goals of regulation; and (2) determine where existing regulatory and reporting requirements can be tailored to fit the size and nature of the businesses and organizations subject to them.

Last year, as a continuation of the committee's efforts to minimize the impact of regulations on small business, hearings were held jointly with the Senate Judiciary Committee on legislation identical to S. 299. This bill passed the Senate in October 1978, but no action was taken by the House prior to adjournment.

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[2] See Appendix for sponsors of S. 299 and S. 1860.

On November 16, 1979, the President sent a memorandum to all executive departments and agencies directing them to administratively implement the provisions embodied in the regulatory flexibility legislation. A letter was sent to independent regulatory agencies requesting them to take similar steps and, in a related action, he added the SBA to membership on the Regulatory Council.

A second bill which originated within the committee is the Regulatory Procedures Improvement Act (S. 93).[3] This comprehensive bill would, for the first time, require all Federal agencies to consider the cost of a proposed regulation before issuing it. The bill also allows businesses more flexibility in meeting regulatory goals, requires the scrutinizing of all existing regulations in 5 years, and requires a cost benefit justification of all new regulations.

A third proposal which has received attention at committee hearings would authorize small businesses required to file forms with certain federal agencies to be reimbursed by that agency for the cost incurred in preparing these forms.[4]

Finally, legislation is pending in Congress that would provide an opportunity for the legislative branch to review and possibly disagree with proposed rules of Federal agencies. This proposal, which embodies the so-called "legislative veto," is designed to insure that regulatory policies of the Federal agencies are consistent with congressional intent.[5]

B. Paperwork

Excessive paperwork is a direct result of excessive regulation. The Office of Management and Budget estimates that individuals and businesses spend 787 million manhours per year complying with Federal reporting requirements.

At the latest committee hearings on the paperwork burden held during June of 1979, testimony of both governmental and private witnesses confirmed that the paperwork burden faced by businesses of all sizes was highly excessive—and that the burden was far heavier on small businesses. Those testifying included representatives of the Internal Revenue Service, the Office of Management and Budget, and the General Accounting Office.

The Senate Small Business Committee believes that Federal paperwork requirements can be radically reduced. Already committee members have succeeded in:

- Offering an amendment incorporated in the Minimum Wage bill in 1977 which reduced 12 pages of applications and instructions to a single postcard form for employers hiring part-time students. The new postcard became effective when mailed and has increased part-time student employment nine-fold.
- Consolidating the quarterly wage reporting form 941 to one annual report. This resulted in a 75 percent reduction of annual paperwork for small business equal to a stack of papers 2 miles high.
- Reducing a 16-page pension reporting form to 5½ pages—a 66 percent paperwork reduction.

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[3] See Appendix for Author.
[4] See Appendix for S. 604.
[5] See Appendix for S. 104.

The Regulatory Flexibility legislation (S. 299) which was introduced by committee members and is described above would, when implemented, result in the immediate reduction of an enormous amount of paperwork imposed on small business.

The paperwork ramifications of this concept were endorsed by the President on November 30, 1979, when he issued an Executive order on paperwork reduction. This Executive order has four main sections. It would create a Federal Information Locator System, and require each agency to submit an annual estimate of the hours required to fill out all of its forms. The order mandates a "sunset" process; each form will be terminated every 5 years unless a new decision is made to continue it. Most important, however, is the requirement that all agencies consider the special paperwork problems of small businesses and, wherever possible, provide exemptions or less burdensome reports for small firms.

A more sweeping approach is the Emergency Paperwork Reduction Act which was developed within the committee.[6] This bill would direct Federal agencies to reduce their paperwork requirements by 25 percent in 2 years or explain why they cannot meet that target. The bill would save taxpayers about $3 billion annually.

CONCLUSION

Improving government regulations, abolishing unnecessary regulations, and reducing paperwork are goals that can and must be met. Small business is willing to pay its fair share of the burden to meet important national goals. But inflexible regulations and massive paperwork generate disproportionate costs for small business which can't afford the time or the expertise to meet them. Small business simply can't support needless rules, excessive costs and duplicative paperwork. *The committee believes that government must insure that regulation gives small business its money's worth.*

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[6] See Appendix for S. 259.

CHAPTER XI

Small Business Administration: The Role of the SBA

In this age of big business, if small enterprises are to remain viable, special steps must be taken to ensure that their voices are heard, and their existence is protected.

In 1953, the government accepted this responsibility and established the Small Business Administration to design policies and programs which would facilitate the continued existence and growth of small business. Later, Public Law 94–305 went further and created the Office of the Chief Counsel for Advocacy within the Small Business Administration to act as a spokesman for small businesses and ensure that their interests are fully represented within the Federal decisionmaking process.

Today, small business input into the decisionmaking process has taken several additional forms. At Treasury, for example, the Small Business Advisory Committee to the Internal Revenue Service has been extremely successful in making recommendations to IRS. Public Law 95–507 establishes in each agency with procurement powers an Office of Small and Disadvantaged Business Utilization. This office is headed by a director reporting directly to the head of the agency or his deputy, and has responsibility for implementing the agency's procurement programs imposed by the Small Business Act.

In the Congress, the Select Small Business Committee has the primary responsibility for representing the interest of the small business community in the Senate. Today, it oversees the Small Business Administration, and receives and reports all legislation primarily relating to SBA. In addition, the committee is empowered "to study and investigate the problems of small business" and report its findings and make recommendations to the Senate.

As part of this oversight responsibility, the Senate Small Business Committee needs to ensure that the Small Business Administration is kept responsive to the current demands and needs of the small business community. With that goal in mind, the committee has been carefully reviewing the Small Business Administration from two different perspectives. The first looks at the agency's internal structure and mission. The second looks at the role of the Small Business Administration in relation to the rest of the Federal Government.

COMMITTEE ACTION

Three basic statutes provide the structure of the agency's programs: the Small Business Act, the Small Business Investment Act of 1958, and Title II of Public Law 94–305, establishing the Office of the Chief Counsel for Advocacy. Numerous statutory amendments to those acts have created a patchwork of programs for the agency to administer—

all designed to provide assistance to small business. Essentially, the agency's programs can be grouped into six primary functions:

1. Finance and investment;
2. Minority small business assistance;
3. Procurement assistance;
4. Management assistance;
5. Advocacy; and,
6. Disaster assistance.

The Committee on Small Business has been working with the Small Business Administration in an effort to streamline the agency's programs, establish priorities for providing assistance to small business, and, wherever possible, looking for ways to rely more heavily on the private sector to provide needed assistance. Recently, reliance on the private sector has taken concrete shape in two significant areas.

A. FINANCIAL ASSISTANCE

The agency's 7(a) regular business loan program has, in the past, required the agency to duplicate the credit decisions of the financial institutions prior to approving guarantees for small business loans. The Congress is now considering legislation to provide SBA with limited authority to delegate to the financial institutions certain decisions involved in processing these loans. The agency's experiences, although limited to date under a pilot Bank Certification Program, have provided encouraging evidence that the program can be successful on a broader scale. *The committee recommends the expansion of the agency's bank certification pilot program.*

B. MANAGEMENT AND TECHNICAL ASSISTANCE

The committee has been concerned about the inability of the Small Business Administration to provide the degree of management and technical assistance needed by the small business community across the nation. The agency simply doesn't have the necessary personnel and the financial resources to meet the counseling requirements of the small business sector.

At the urging of the committee, the Small Business Administration for the past several years has been experimenting with a Small Business Development Center program designed to utilize both private and public funds to provide on-site assistance to small businesses through the private sector. The Small Business Development Center program has demonstrated great promise to date. *If studies in progress and the independent business community continue to give the program good marks, the committee recommends that the Small Business Development Center system be seriously considered as a substitute for the Small Business Administration's current management and technical assistance endeavors.*

C. ADVOCACY ROLE OF THE SMALL BUSINESS ADMINISTRATION

The Office of the Chief Counsel for Advocacy was established within the Small Business Administration in 1976 to insure a stronger voice for small business in the government decisionmaking process.

Thus, for the first time, small business has someone, on a full-time basis, responsible for representing their views with Federal departments and agencies.

In July 1978, the first Chief Counsel for Advocacy, Milton Stewart, was appointed. On October 3, he testified before the committee to report on his first year on the job. This hearing, and another on October 4, concentrated on the Office of Advocacy and the mission of the SBA.

Specifically, the Office of Advocacy in SBA is to:

1. Serve as a focal point for the receipt of complaints, criticisms, and suggestions concerning the policies and activities of the Administration and any other Federal agency which affects small businesses;

2. Counsel small businesses on how to resolve questions and problems concerning the relationship of the small business to the Federal Government;

3. Develop proposals for changes in the policies and activities of any agency of the Federal Government which will better fulfill the purposes of the Small Business Act and communicate such proposals to the appropriate Federal agencies;

4. Represent the views and interests of small businesses before other Federal agencies whose policies and activities may effect small business; and

5. Enlist the cooperation and assistance of public and private agencies, businesses, and other organizations in disseminating information about the programs and services provided by the Federal Government which are of benefit to small businesses, and information on how small businesses can participate in or make use of such programs and services.

The committee believes that advocacy should be one of the top priorities of the agency. Since enactment of Public Law 94–305, the committee has closely monitored the development of the Advocacy office and has been extremely supportive of its mission. Consistently, the committee has acted to insure that small businesses are being adequately represented within the government by this office.

In testimony before the committee on October 4, 1979, A. Vernon Weaver, Administrator of the Small Business Administration agreed:

> Several months ago, I called our management team together for an extensive review of how best SBA's mission should be fulfilled. The result is a new sense of priority. We think that we should give highest priority, first to a role as an advocate for small business; second, to our effort to facilitate maximum participation of small businesses in Federal procurement; and, third, business development and capital ownership for groups traditionally excluded from this country's economic mainstream.

Testimony received at these hearings from representatives of small business was tremendously supportive of the advocacy role of the agency. Many small business groups have suggested that SBA's only role should be to act as an advocate for small business within the Federal Government.

In the light of testimony received from the small business community, the committee recommends that the agency shift the administrative responsibility for the financing and management assistance programs to the private sector and that a portion of the resources freed *by this action be reallocated to emphasize the SBA's multi-faceted advocacy role. The committee has acted on the recommendation by introducing implementing legislation.*[1]

D. VETERANS ASSISTANCE

Veterans, especially disabled and Viet-Nam era veterans, have been neglected in the design and implementation of government business development programs. Congress has established that veterans deserve special consideration under many of these programs. Public Law 93–237, enacted in 1975, amended the Small Business Act to provide that, "The Small Business Administration shall give special consideration to veterans of the Armed Forces of the United States and their survivors or dependents." The agency outlined actions to accomplish the goal of "special consideration" in regulations, effective December 5, 1975. These actions were to include:

1. In-depth management assistance counseling on first interviews;
2. Emphasizing to SBA personnel designated as Veterans Affairs Officers the need for close cooperation with the local VA offices and organizations having direct interest in veterans affairs;
3. Directing SBA procurement personnel designated as Veterans Procurement Affairs Advisors to emphasize how veterans can obtain procurement contracts from the Government;
4. Local media campaigns to inform the veterans about SBA's ability and desire to help;
5. Special workshops and training;
6. Prompt processing of loan applications of any type;
7. Particular attention to giving maximum loan maturity to veterans;
8. Loans would not be declined solely because of the lack of collateral, providing the veteran, dependent, or survivor will provide any worthwhile collateral;
9. On all direct loans, placing a liberal interpretation on present deferment policy;
10. In the awarding of 8(a) contracts, veterans' status may be a contributing factor in establishing eligibility as socially and economically disadvantaged; and
11. In all district offices there shall be one or more loan specialists designated as veterans loan officers.

Though these regulations remain in effect to date, the agency has failed, in most instances, to implement them. Four years after the enactment of Public Law 92–237, there is little evidence that veterans have received the assistance to which they are entitled.

The committee believes that SBA should increase its efforts to be responsive to veterans. There are, in fact, recent indications that SBA is expanding its efforts to insure compliance with the veterans preference.

The recent formation of a White House Conference Task Force on veterans and business should help elevate veterans' unique problems.

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[1] See appendix for S. 793 and S. 918.

The committee will continue to monitor SBA's activities to insure that veterans receive the benefits and assistance which they deserve.

INTERAGENCY COORDINATION

There have been notable successes resulting from the cooperation among departments and agencies whose programs affect small business. At the same time, there has been a noticeable lack of cooperation or opportunity for the SBA to provide important small business input prior to the development of substantive Federal policy. The Senate Select Committee on Small Business has documented that the Small Business Administration did not have input concerning the effects on small business of the Occupational Safety and Health Act in 1971; on the development of numerous executive branch positions on various tax reform proposals; and most recently on the negotiations of the Multilateral Trade treaty. Subsequent changes in these policies which are more favorable to the small business community indicate that prior consultation could have prevented a great deal of subsequent regulatory hassles, embarrassing problems and back peddling. This lack of consultation again raises questions about the appropriate institutional structure for the Small Business Administration's relation to the other governmental agencies.

CONCLUSION

While the need for government commitment to small business has become generally accepted, the exact form of this commitment is still being debated. Some people have questioned whether the SBA should be elevated to department status. Still others have suggested it be stripped of its day-to-day program management responsibilities to become a Commission concentrating solely on an advocacy mission. As this debate continues, the role of the Small Business Administration is in a state of flux. Indeed, there is evidence that its standing in relation to the rest of the executive branch is beginning to improve.

The committee believes this debate is a healthy sign of concern. It can help to clarify the needs of the small business community and the kind of government actions and policies that can best meet these needs. For this reason, the committee welcomes suggestions and comments from the White House Conference on Small Business on the best form and function for the Small Business Administration in the future.

A discussion of other SBA programs may be found in chapters of this report on Procurement, Economic Policy, Minority Business, Women in Business, and Education, Training and Management Assistance.

CHAPTER XII

Women in Business

Like all small business owners, women who own businesses face obstacles to entry into the business system. But as a subset of all small business owners, these women face greater problems in receiving financial, management and procurement asistance in both the private and public sector. For this reason, careful attention should to be given by the Congress, the executive branch, and the private sector, to reducing the barriers which impede success for women business owners.

Women comprise over 50 percent of the American work force. Yet Congressional hearings and staff investigations have conclusively demonstrated that women have been excluded from positions of economic power in the American business system. The latest available data show that, in 1972, women owned only 4.6 percent of the Nation's businesses; and their receipts totaled only 3/10ths of 1 percent of the total receipts of all business firms in America. Ninety-eight percent of women-owned businesses were sole proprietorships.

A. SUFFICIENT DATA

Government Programs and Committee Action

One of the most difficult problems facing policymakers in developing programs to aid women business owners is the paucity of current, reliable data on this subset of business owners. The last comprehensive report available was published by the Department of Commerce in 1976, reflecting data collected in 1972. If programs are to be developed to provide individual assistance to women-owned business, it is imperative that timely and accurate data be collected.

The committee has found that data collection has been hampered by a lack of a uniform definition of a "woman-owned business." One definition is suggested by Public Law 95–507, and included in the President's Executive Order 12138 of May 18, 1979. The latter formulation provides that "woman-owned business" means a business 51 percent owned by a woman (or women) who owns and operates it. "Control in this context means exercise in the power to make policy decisions. Operate in this context means being actively involved in the day-to-day management." This is the identical definition used in Public Law 95–507 to determine minority business eligibility to participate in the SBA 8(a) procurement program.

The female entrepreneur encounters the same problems most commonly faced by small business people:

1. Lack of adequate capital;
2. Lack of management and technical assistance; and
3. Lack of significant procurement opportunities.

These barriers can be, and have been, addressed by a variety of legislative and executive branch actions; however, more needs to be done. In addition, the prospective businesswoman faces further barriers imposed by societal attitudes which persist in the business community. No legislation or Executive order can reverse those attitudes.

Of the areas of assistance needed by women business owners, the most important is adequate capital. From the data available to the committee, it is evident that women-owned businesses are usually the smallest of the small businesses. While their need for capital is as important to them as to other businesses, the dollar amount needed is often under $25,000. In this period of high interest rates, and a rapidly fluctuating economic climate, banks are hesitant to make these "small" amounts of money available to any small business for long periods of time.

The Small Business Administration can, and does, make financial assistance available to women under its 7(a) regular business loan program. In fiscal year 1978, SBA made over $400 million in guaranteed loans to women business owners. In addition, 7(a) direct loans are available to women who are not eligible for other types of SBA financial assistance. Unfortunately, the direct lending program has never been funded at a sufficient level to meet the demand from all types of small businesses.

However, in fiscal year 1980, SBA has established a target of providing $50 million in direct loans to women business owners. This program is neither a reservation nor a set-aside of those funds; all criteria applicable to other borrowers must be met here as well. The target is, rather, a statement of concern and commitment to this category of small businesses.

Following an Executive order from the President, SBA initiated a pilot 7(a) "mini-loan" program in fiscal year 1980 for women whose needs for starting or expanding a business are for amounts under $20,000. This $20,000 limitation may be applicable to either the direct loans or SBA's share of a guaranteed loan. *The committee recommends that Congress give serious consideration to strengthening the program by giving it a legislative basis.*

B. MANAGEMENT AND TECHNICAL TRAINING

Next to the availability of capital, the most common problem faced by small business owners generally, and women business owners in particular, is a lack of management and technical training. While SBA's management assistance programs, and those of other departments and agencies, offer some assistance to those businesses that request it (or which in some cases apply for loan assistance from SBA) it is simply not possible to provide the one-on-one management assistance which women-owned businesses need. Hearings by the Senate Select Committee on Small Business demonstrated the value of SBA's pre-business workshops as a first-step "learning center." But for established businesses, SBA simply does not have the in-house personnel to meet the demand.

The Small Business Development Center (SBDC) pilot program, now underway in 17 centers across the country, relies on the private sector to provide day-to-day management assistance by combining Federal dollars with private sector resources. *The committee is pursuing a legislative design for the SBDC program*[1] *in an effort to provide, nationwide, the management and technical assistance so vital to*

[1] See Appendix for S. 918.

women-owned small businesses. These centers will be directed to rely on management assistance services provided by other departments and agencies (including the Department of Commerce, National Science Foundation, and NASA) and private consultants. The SBA's existing SCORE/ACE program is an integral part of the management assistance and SBDC concept.

C. FEDERAL PROCUREMENT

The third area where the Federal Government can be of significant assistance to women business owners is in federal procurement. The Federal Government purchases over $100 billion in goods and services each year; small businesses as a whole receive less than 25 percent of total Federal procurement. Presently, there is virtually no data on procurements awarded to women-owned small business. Apparently, it is only a very small percentage of the total small business procurements, in part, because procuring agencies are not aware of potential sources of women-owned businesses with the capacity to perform Federal Government contracts. Recent efforts by SBA to expand company-supplied profiles on businesses contained in its Procurement Automated Source System (PASS) should provide an initial source of information to agencies on qualified women-owned small business. *The committee recommends that efforts be redoubled to increase the listing of women-owned small businesses in the PASS system.*

In other areas, Public Law 95–507 increases opportunities for subcontracting by small and disadvantaged businesses. Efforts are underway in several departments and agencies, under the leadership of the Office of Federal Procurement Policy and SBA, to specifically increase subcontracting opportunities for women business owners. The Senate Select Committee on Small Business, through its hearings and staff investigations on the implementation of that statute, is monitoring this policy. Specifically, the committee is looking at the agencies' compliance with the subcontracting provisions and the extent to which women-owned businesses have been included in Federal procurements.

The small business procurement set-aside program was created for the benefit of all small business firms, including those owned by socially and economically disadvantaged men and women. However, there is no law or regulation which establishes a preference under the total small business set-aside for women business owners and, to date, Congress has rejected creating an additional set-aside preference in the law. It should be noted, however, that under the 8(a) procurement assistance program, the SBA, on a case-by-case basis, will determine whether a woman entrepreneur is socially and economically disadvantaged.

CONCLUSION

In the past, little attention has been paid by the Congress or the executive branch to creating separate small business assistance programs specifically to aid women-owned businesses: action has usually been taken to strengthen the abilities of small businesses generally to compete in the marketplace. That attitude is changing, and new efforts are being made. It is likely that the particular needs of women small business owners will be addressed through specific legislative attention by Congress.

APPENDIX

Bills of Interest to Small Business Introduced and Cosponsored by Small Business Committee Members

(Committee Members' names in capital letters)

S. 93: Introduced by NELSON; cosponsored by: Eagleton, STEWART, HUDDLESTON, Stafford, Hollings, Durkin.

The "*Regulatory Procedures Improvement Act of 1979*", to require that federal agencies publish certain statements during the rulemaking process. Pending in the Governmental Affairs Committee.

S. 100: Introduced by PACKWOOD; cosponsored by: Durenberger, Melcher, Gravel, Dole, McClure, NELSON, Wallop, BAUCUS, Moynihan, Heinz, Talmadge, Chafee, Stevens, Simpson, Domenici, Danforth, HATCH, Garn, SCHMITT, HAYAKAWA, Cranston, Armstrong, Hart, BOSCHWITZ, Laxalt, Lugar, Church, Jackson, Long.

To amend the Internal Revenue Code of 1954 to provide for a deduction for expenses incurred for *reforestation* and to establish in the U.S. Treasury a Reforestation Trust Fund. Pending in the Finance Committee, where hearings were held.

S. 104: Introduced by SCHMITT; cosponsored by: Laxalt, NUNN, Schweiker, Goldwater, Stevens, Zorinsky. HAYAKAWA, Thurmond, Helms, Cochran, Tower, Warner, McClure, HATCH, Simpson, MORGAN, Jepsen, Johnston, Humphrey, Lugar, Armstrong, Garn.

The "*Regulation Reduction and Congressional Control Act*", to require each Federal agency upon promulgating a rule to publish and submit to Congress: (A) A statement of the need for the rule; (B) a preliminary analysis of its economic impact; and, (C) with respect to major rules: (1) An economic impact statement; (2) estimates of related paperwork requirements; (3) estimates of its effects on the operation of Federal courts; and (4) an index of all other rules pertaining to the same subject matter. Pending in the Judiciary Committee.

S. 110: Introduced by NELSON; cosponsored by: Ford, HUDDLESTON, Pell, SASSER, WEICKER STEWART, Matsunaga, Leahy, Hollings, Durkin.

The "*Small Business Depreciation Reform Act of 1979*", to amend the Internal Revenue Code to allow the straight-line depreciation based on a period of 36 months of business property with a useful life of 3 years or more and a basis not in excess of $25,000. Pending in the Finance Committee.

S. 111: Introduced by BUMPERS; cosponsored by: Melcher, Lugar, Pryor, Goldwater, DeConcini.

To place the *burden of proof on the regulatory agency* in court when the validity of its regulation is drawn into question, requiring the agency to prove that the regulation in issue is within the congressional intent of the bill whose authority was used to issue the regulations. Pending in the Judiciary Committee. The substance of S. 111 was adopted by the Senate as an amendment to S. 1477 on September 7, 1979.

S. 224: Introduced by HATCH; cosponsored by: Stevens, Young, Tower, Domenici, HAYAKAWA, Helms, Thurmond, Goldwater, SCHMITT, Dole, Stone.

To prohibit permanently the issuance of regulations on the taxation of *fringe benefits*. Pending in the Finance Committee, where hearings were held.

S. 259: Introduced by NELSON; cosponsored by: BUMPERS, Hart, Hollings, Durkin.

The "*Emergency Paperwork Reduction Act of 1979*", to establish the goal of reducing Federal paperwork costs by 25 percent, to prescribe the procedures for the reduction of such costs, to provide for the development of strategies and methods for determining such costs and effecting such reductions. Pending in the Governmental Affairs Committee.

S. 270: Introduced by BUMPERS; cosponsored by: Ford, Melcher, Young, Lugar, Cochran, Leahy, Hatfield, Bellmon, Wallop, SCHMITT, Church, Humphrey.

To amend the Occupational Safety and Health Act of 1970 to provide that any employer who successfully *challenges an OSHA ruling* in court may be allowed attorney's fees and court costs. Pending in the Labor and Human Resources Committee.

S. 299: Introduced by CULVER; cosponsored by: NELSON, Thurmond, Wallop, BAUCUS, NUNN, Tower, PRESSLER, Leahy, Matsunaga, DeConcini, McGovern, Cochran, Burdick, Lugar, Moynihan, Williams, STEWART, BUMPERS, Hart, Exon, HUDDLESTON, Domenici, Stevens, Hollings, Bayh, Tsongas, Durkin.

The "*Regulatory Flexibility Act*", to improve Federal rulemaking by creating procedures for regulatory issuance in two or more parts, and to require agencies to publish certain information on justification, cost, and compliance requirements. Pending in the Judiciary Committee, where hearings were held.

S. 326: Introduced by BUMPERS; cosponsored by: STEWART, HUDDLESTON, HAYAKAWA.

The "*Taxpayers' Bill of Rights Act*", to establish within the Internal Revenue Service an Office of Taxpayer Services to provide taxpayers with information and to receive and evaluate complaints of improper, abusive, or inefficient service by IRS personnel; to establish civil and criminal penalties for investigations of matters unrelated to the tax laws, and for the violation of other constitutional and legal rights guaranteed to taxpayers. Pending in the Finance Committee.

S. 388: Introduced by STEWART; cosponsored by: NELSON, WEICKER, HATCH, PRESSLER, BAUCUS, Gravel, Bentsen, Hatfield, Heinz, Leahy, LEVIN, Inouye, HAYAKAWA, MORGAN, Riegle, Goldwater, Zorinsky, Domenici, Humphrey, BOSCHWITZ, Simpson, Cohen.

The "*Small Business Employee Ownership Act*", to authorize the SBA to guarantee loans to companies financing future growth through employee stock ownership plans and to employees seeking to purchase their firms when the business would otherwise shut down or relocate. Passed Senate May 1, 1979; pending in House Small Business Committee; also, incorporated into S. 918, amendments to the Small Business and Small Business Investment Acts, which has passed both Houses of Congress and is pending in conference. See S. 918, below.

S. 487: Introduced by NELSON; cosponsored by: STEWART, PACKWOOD, Hart, Hollings, Durkin.

The "*Small Business Investment Act of 1979*", to amend the Internal Revenue Code of 1954 to provide a credit for investment in original issue stock of small businesses. Pending in the Finance Committee.

S. 542: Introduced by CULVER; cosponsored by: NELSON, McGovern, Riegle, Heinz, Helms, Percy, SCHMITT, Hatfield, Eagleton, Hollings.

The "*Product Liability Partial Self-Insurance Act*", to amend the Internal Revenue Code of 1954 to provide for a deduction paid into a reserve for product liability losses and expenses, to provide a deduction for certain amounts paid to captive insurers. Pending in the Finance Committee.

S. 543: Introduced by WEICKER.

The "*Commercial Fisheries Development Act*", to establish a program to improve the commercial fisheries of the U.S. Pending in the Commerce Committee.

S. 555: Introduced by MORGAN; cosponsored by: Baker, SASSER, Percy, Inouye, SCHMITT, Mathias, Riegle, McGovern, Ford, Cohen, Pell, Helms, PRESSLER, Durkin, Cochran, LEVIN, STEWART, Magnuson, DeConcini, Boren, Leahy, Hatfield, Church, Stevens, Bentsen, BOSCHWITZ, Gravel.

The "*Independent Local Newspaper Act of 1979*", to amend the tax laws to encourage the preservation of independent local newspapers. Pending in the Finance Committee, where hearings were held.

S. 582: Introduced by NELSON; cosponsored by: McGovern, Melcher, Heinz, Stafford, Ford, PRESSLER, Stevens, Leahy, Hollings, Riegle, LEVIN, STEWART, BAUCUS, Cranston.

The "*Farm Entry Assistance Act*", to provide Federal guarantees for State programs designed to assist individuals who, except for their lack of financial means, would be qualified to enter farming on a full-time basis. Pending in the Agriculture Committee, where hearings were held.

S. 604: Introduced by HATCH; cosponsored by: Schweiker, HAYAKAWA, SCHMITT, Armstrong, Stevens, BOSCHWITZ, Proxmire.

The "*Small Business Paperwork Cost Reimbursement Act of 1979*", to require all Federal agencies, other than the Internal Revenue Service, to reimburse small business concerns for the cost of preparing, furnishing, and submitting information required by such agencies. Pending in the Small Business Committee.

S. 653: Introduced by NELSON; cosponsored by: BAUCUS, WEICKER, HUDDLESTON, Hart, Hollings, Durkin.

The "*Small Business Capital Preservation Act of 1979*", to provide for the nonrecognition of gain of the proceeds from the sale of incentive stock if those proceeds are reinvested in such stock, and for an incentive in basis for incentive stock held for certain period. Pending in the Finance Committee.

S. 655: Introduced by WEICKER; cosponsored by: Moynihan, Chafee, HATCH, NELSON, PRESSLER, Young, BAUCUS, SCHMITT, Hollings, Durkin.

The "*Small Business Investment Incentive Act*", to provide a credit against tax for investment in original issue stock of small- and medium-sized corporations. Pending in the Finance Committee.

S. 718: Introduced by NELSON; cosponsored by Riegle.

The "*Reclamation Lands Family Farm Act of 1979*", to reduce the cost of future reclamation projects, to supplement and clarify the Federal reclamation laws, to promote the settlement of family farmers in federal irrigation projects, to provide for acreage equivalency between class I lands and lands of lesser productive capability. Pending in the Energy Committee.

S. 793: Introduced by NELSON; cosponsored by: CULVER, NUNN, BAUCUS, WEICKER, HATCH, PRESSLER, Hollings.

The "*Small Business Loan Reform Act of 1979*", to empower the SBA to guarantee or insure loans to small businesses directly through banks and other private financial institutions, which shall be responsible for all loan administration functions. Portions incorporated into S. 918, amendments to the Small Business and Small Business Investment Acts, which has passed both Houses of Congress and is pending in conference. See S. 918, below.

S. 851: Introduced by BUMPERS; cosponsored by: Pryor, Melcher, Lugar, Zorinsky, Helms, Young, Baker, BAUCUS, McClure, MORGAN.

To give taxpayers a *tax credit for converting their cars to run on alcohol fuels*. The credit would be a 50 percent credit up to $500 for amounts expended in converting to alcohol fuels. Pending in the Finance Committee.

S. 896: Introduced by NELSON; cosponsored by: Tower, Proxmire, Magnuson, Cranston, MORGAN, Bentsen, SASSER, Garn, Laxalt.

"*Interstate Land Sales Full Disclosure Act Amendments*", to exempt from Federal regulation and paperwork under the act, intrastate transactions involving sales of land in a State to residents of the same State. Pending in the Banking Committee, where hearings were held; proposal incorporated into the Senate version of the housing authorization bill, H.R. 3875, which currently is being considered in a conference committee.

S. 918: Introduced by NELSON; cosponsored by: NUNN, CULVER, HUDDLESTON, SASSER, WEICKER, MORGAN, BUMPERS, STEWART, LEVIN, HATCH, SCHMITT, Melcher.

"*Amendments to the Small Business Act and the Small Business Investment Act of 1958*" to: (1) provide for thorough and continuing congressional review of the Small Business Administration's budget; (2) strengthen the agency's advocacy program; (3) increase the number of Small Business Development Centers throughout the country; (4) create a small business "data base" to improve the quality of small business research; (5) provide for a national small business economic policy mechanism; (6) increase support for venture capital investment; (7) provide adequate funds for the White House Conference on Small Business; and (8) shift SBA's internal loan processing function to private lending institutions. Passed by both Houses of Congress, and pending in a conference committee.

S. 1025: Introduced by HATCH; cosponsored by: Thurmond, SCHMITT.

To allow employers, without prior certification by the Secretary of Labor, *to pay 75 percent of the minimum wage to*: (1) Youths between 16 and 20 years of age, for 180-day periods; and (2) full-time students over 16 years of age, on a part-time basis and for not more than 20 hours per workweek, except during vacations. Pending in the Labor and Human Resources Committee.

S. 1029: Introduced by NUNN; cosponsored by WEICKER.

To authorize the Small Business Administration to guarantee the payment of principal and interest on *State and local development company debentures*. Incorporated into S. 918, which has passed both Houses of Congress and is pending in a conference committee. See S. 918, above.

S. 1079: Introduced by PRESSLER; cosponsored by: Young, SCHMITT.

To amend the Internal Revenue Code of 1954 to permit farmers and small businesses to obtain the *investment tax credit for certain types of business property acquired from a related party*. Pending in the Finance Committee.

S. 1189: Introduced by HATCH.

To authorize the Secretary of Labor to make payments to both profit and nonprofit organizations, including commercial enterprises, for the *employment of individuals* for at least 1 year. Requires such organizations to be located in unemployment areas. Pending in the Labor and Human Resources Committee.

S. 1435: Introduced by NELSON; cosponsored by: Bentsen, PACKWOOD, Chafee, HATCH, Danforth, Tower, Lugar, Heinz, Percy, NUNN, Humphrey, Helms, Hollings, Jepsen, Leahy, BOSCHWITZ, Inouye, Durkin, Moynihan, Mathias, WEICKER, Matsunaga, Cannon, Williams, Boren, STEWART, Cranston, Eagleton, Schweiker, Ford, Gravel, DeConcini, Stone, Talmadge, Pryor, BAUCUS, HUDDLESTON, Armstrong, SCHMITT.

The "*Capital Cost Recovery Act of 1979*", to amend the Internal Revenue Code of 1954 to provide a system of capital recovery for investment in plant and equipment, and to encourage economic growth and modernization through increased capital investment and expanded employment opportunities. Pending in the Finance Committee, where hearings were held.

S. 1481: Introduced by WEICKER; cosponsored by: BAUCUS, HATCH, HAYAKAWA, Hollings.

To amend the Internal Revenue Code of 1954 to allow a taxpayer a credit against the income tax for investment in *small business participating debentures* and applies long-term capital gains treatment to amount actually paid to a taxpayer in respect of a small business participating debenture, which constitute the distribution of a share of the earnings of the issuer. Pending in the Finance Committee.

S. 1488: Introduced by NELSON; cosponsored by: Randolph, Melcher, Cochran, McGovern, HUDDLESTON.

To exclude from a taxpayer's gross income *interest or dividends on savings deposits* or withdrawable savings accounts from a bank or savings institution; to limit such exclusion to the excess of such interest or dividends for the taxable year over such interest or dividends received during the preceding year, up to a maximum of $100. Pending in the Finance Committee, where hearings were held.

S. 1543: Introduced by NELSON.

To amend the Internal Revenue Code to exclude from gross income a corporate stock distribution to a stockholder based upon the reinvestment of stock dividends in the corporation by such stockholder pursuant to his election to participate in a qualified dividend reinvestment plan. Pending in the Finance Committee, where hearings were held.

S. 1571: Introduced by PACKWOOD; cosponsored by: Ribicoff, Matsunaga, NELSON, Bentsen, Tsongas, Danforth, Durenberger, BAUCUS, Gravel, Chafee.

To amend the Internal Revenue Code to increase the investment tax credit for both individuals and businesses with respect to the installation of alternative energy equipment, especially solar, wind, and geothermal energy equipment, in private residences and other properties; to increase the gasohol exemption from Federal gasoline and special fuels excise taxes; to extend the investment tax credit for van pool operators to nonemployers. Pending in the Finance Committee.

S. 1645: Introduced by HAYAKAWA; cosponsored by: Goldwater, Simpson, Thurmond.

To amend the Internal Revenue Code to allow a credit against the personal income tax for the amount received by the individual as *interest on savings accounts*. Pending in the Finance Committee.

S. 1683: Introduced by HATCH; cosponsored by: Domenici, Cochran, SCHMITT.

To amend the Internal Revenue Code of 1954 to increase the amount of the annual *gift tax exclusion* from $3,000 to $6,000. Pending in the Finance Committee.

S. 1697: Introduced by WEICKER.

To amend the Internal Revenue Code of 1954 to permit a credit, or exclusion from tax, for interest received on *savings in residential financial institutions*. Pending in the Finance Committee.

S. 1760: Introduced by PACKWOOD; cosponsored by: Matsunaga, Ribicoff, BAUCUS, Boren, Bradley, Chafee, Danforth, Dole, Durenberger, Gravel, Heinz, Moynihan, NELSON, Roth, Wallop, Pell, Tsongas.

To amend the Internal Revenue Code to increase the investment tax credit for both individuals and businesses with respect to the installation of *alternative energy equipment*, especially solar, wind, and geothermal energy equipment, in private residences and other properties; to increase the gasohol exemption from Federal gasoline and special fuels excise taxes; to extend the investment tax credit for van pool operators to nonemployers. Pending in the Finance Committee.

S. 1789: Introduced by CULVER; cosponsored by: NELSON, PRESSLER, Tsongas.

The "*Product Liability Risk Retention Act of 1979*", to direct the Secretary of Commerce to promulgate rules and regulations which set forth the requirement for approval of product liability risk retention groups and the purchase of product liability insurance on a group basis. Pending in the Commerce Committee.

S. 1825: Introduced by NELSON; cosponsored by: Pell, Roth, Cranston, PACKWOOD, Melcher, Thurmond.

The "*Estate Tax Adjustment Act of 1979*", to amend the Internal Revenue Code to increase the unified credits against the estate and gift taxes so as to adjust the Estate Tax Reforms of 1976 for inflation which has occurred in the past 3 years, and to increase the minimum gross estate necessary to impose on the executor of a U.S. citizen or resident the duty to make an estate tax return. Pending in the Finance Committee.

S. 1860: Introduced by NELSON; cosponsored by: WEICKER, Bayh, Dole, CULVER, NUNN, HUDDLESTON, BUMPERS, SASSER, STEWART, BAUCUS, Durkin, Johnston, LEVIN, HATCH, Leahy, PRESSLER, HAYAKAWA, Chafee, PACKWOOD, Tsongas.

The "*Small Business Innovation Act of 1979*", to amend the Small Business Act to require that Federal agencies which conduct research and development programs of specified budget size establish and administer a Small Business Innovation Research (SBIR) program, and to direct that SBA develop an information program to assure that each qualified and interested small business concern has the opportunity to participate in the SBIR program. Pending in the Small Business Committee.

S. 1940: Introduced by NELSON; cosponsored by: Tower, Lugar, MORGAN, STEWART, SCHMITT.

The "*Venture Capital Investment Act of 1979*", to amend the Securities Act of 1933 to authorize the sale of certain securities to accredited investors without filing a registration statement under such act; and to amend the Investment Company Act of 1940 to grant an exemption from such act to certain issuers which engage in the business of furnishing capital or providing financing for business ventures and activities. Pending in the Banking, Housing, and Urban Affairs Committee.

S. 1945. Introduced by LEVIN: cosponsored by Boren.

The "*Agency Accountability Act of 1979*", to increase the accountability of policy coordination and management of priorities by agencies through an improved mechanism for congressional oversight of the rules of agencies. Pending in the Governmental Affairs Committee.

S. 1967: Introduced by NELSON.

The "*Capital Formation Incentive Act of 1979*", to amend the Internal Revenue Code to allow a corporation which deals in securities to establish a reserve for the net gain from certain marketmaking activities. Pending in the Finance Committee.

S. 2040: Introduced by NELSON; cosponsored by: HUDDLESTON, CULVER, BAUCUS, STEWART, LEVIN.

To amend the Small Business Act to increase *assistance to small businesses in exporting*; to encourage the development of local export assistance programs; and to provide for bridge and equity financing to small business through the Small Business Administration. Pending in the Small Business Committee.

S. 2049: Introduced by NELSON; cosponsored by WEICKER.

To amend the Small Business Act to double the maximum loan guarantee for SBA financial assistance. Pending in the Small Business Committee.

S. 2104: Introduced by WEICKER; cosponsored by: HAYAKAWA, SCHMITT, PRESSLER.

The "*Small Business Export Development Act*", to upgrade the programs of the Small Business Administration and the Commerce Department to improve the quality and the availability of export information and assistance to small business; to provide assistance to States or other entities to develop small business assistance programs and to insure a greater input for small business in export policy determinations.

S. Res. 136: Introduced by MORGAN; cosponsored by: CULVER, Helms, Eagleton, Ford, Lugar, STEWART, McGovern, Melcher, Kassebaum, NELSON, Proxmire, Pryor, BUMPERS, SASSER, BAUCUS, Hollings, Zorinsky, PRESSLER, Durenberger, LEVIN.

States that the Department of Agriculture and all appropriate budget appropriation review groups should recognize the need to reinforce and expand programs of cooperative research, service, education, and other cooperative assistance; declares that the Department should establish an Office of *Farmer Cooperatives* as an independent agency within it to coordinate such programs. Pending in the Agriculture Committee.

O

S. 1960: Introduced by NELSON; cosponsored by: MONDALE, Dole, [illegible], [illegible], EAGLETON, [illegible], STEVENSON, [illegible], [illegible], Burdick, Johnston, [illegible], HATCH, [illegible], PRESSLER, [illegible], Tower, PACKWOOD, [illegible].

The "Small Business Innovation Act of 1979"; to amend the Small Business Act to require that Federal agencies which conduct research and development programs [illegible] establish a [illegible] Small Business Innovation Research (SBIR) program and to [illegible] develop a [illegible] program [illegible] qualified and interested small business concerns the opportunity to participate in the SBIR program. [illegible] to the Small Business Committee.

S. [illegible]: Introduced by NELSON; cosponsored by: [illegible], MORGAN, [illegible], SCHMITT.

The "[illegible] Act of [illegible]" to amend the Securities Act of [illegible] to [illegible] the [illegible] [illegible] the [illegible] without [illegible] and to [illegible] the Investment Company Act of 1940 to grant an exemption from such Act to [illegible] and [illegible] [illegible] the [illegible] of [illegible] [illegible] Banking, Housing and Urban Affairs Committee.

S. [illegible]: Introduced by [illegible]; cosponsored by Dole.

[illegible] [illegible] to [illegible] [illegible] [illegible] in the Governmental Affairs Committee.

S. [illegible]: Introduced by NELSON; [illegible].

The "[illegible] Act of [illegible]" to amend the Internal Revenue Code to [illegible] [illegible] [illegible] the Finance Committee.

S. [illegible]: Introduced by [illegible]; cosponsored by: [illegible], [illegible].

[illegible] Small Business Act to [illegible] [illegible] [illegible] and to [illegible] [illegible] through the Small Business Administration [illegible] [illegible] Committee.

S. [illegible]: Introduced by [illegible]; cosponsored by WEICKER.

[illegible] Small Business Act to [illegible] [illegible] for [illegible] [illegible].

[illegible] Introduced by [illegible]; cosponsored by: [illegible], [illegible], PRESSLER.

[illegible] Business [illegible] Act to [illegible] to the presence of the Small Business Administration and [illegible] Department to improve the [illegible] and the [illegible] of [illegible] [illegible] [illegible] [illegible] [illegible] develop small business assistance programs and to insure a greater input for small business [illegible].

S. Res. [illegible]: Introduced by [illegible]; cosponsored by: CULVER, Helms, Bentsen, [illegible], [illegible], McGovern, Melcher, Baucus, NELSON, Proxmire, [illegible], [illegible], [illegible], Zorinsky, [illegible], Huddleston, [illegible].

States that the Department of Agriculture and all [illegible] [illegible] should recognize the need to [illegible] expand programs of cooperative research, service, education, and other cooperative assistance; declares that the Department [illegible] [illegible] Office of Farmer Cooperatives [illegible] [illegible] [illegible] [illegible] such [illegible], [illegible] in the Agriculture Committee.