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FOUNDATIONS FOR A NATIONAL POLICY TO PRESERVE PRIVATE ENTERPRISE IN THE 1980's

A STUDY

PREPARED FOR THE USE OF THE

SUBCOMMITTEE ON ECONOMIC GROWTH AND STABILIZATION

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

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LETTERS OF TRANSMITTAL

April 1, 1977.

To the Members of the Joint Economic Committee:

Transmitted herewith is a study entitled "Foundations for a National Policy To Preserve Private Enterprise in the 1980's," written by Prof. George A. Doyle, chairman of the Department of Economics and Foreign Affairs, Assumption College, Worcester, Mass. Professor Doyle's study is based on the premise that the survival of the free enterprise system as we know it today depends on the volume and vitality of small business in the next decade. I am certain that his findings and recommendations aimed at providing an improved climate for small business in terms of capital formation and Government regulation will be of great interest to members of the Joint Economic Committee and other Members of Congress.

The views expressed in the study are those of the author and do not necessarily represent the views of members of the Joint Economic Committee or the committee staff.

Richard Bolling,
Chairman, Joint Economic Committee.

March 28, 1977.

Hon. Richard Bolling,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

Dear Mr. Chairman: Transmitted herewith is a study written by Prof. George A. Doyle, chairman of the Department of Economics and Foreign Affairs, Assumption College, Worcester, Mass., entitled "Foundations for a National Policy To Preserve Private Enterprise in the 1980's."

This study is presented to further the recommendation for development of a national small business policy made by the Joint Economic Committee in its annual report of 1976. It is my hope that this will be the first of a series of reports dealing with the serious problems confronting small business.

Few people realize the enormously important place occupied by small business in the Nation's economy. As this study points out, small business constitutes 95 percent of all commercial and industrial entities and provides employment for 60 percent of the work force. Having made such an acknowledgment, it readily becomes apparent that survival of the free enterprise system depends primarily on the survival of small business. By the same token, achieving and sustaining a full employment economy is possible only if conditions favoring establishment and improvement of small business exist.

The study assesses the prospects of adequate capital formation for small business. Professor Doyle concludes that at best the picture is discouraging unless the need is recognized in both the public and private sectors that use of available capital must be planned to accommodate the requirements of small business.

Professor Doyle examines the counterproductive regulatory and procedural burdens placed on small business by the Occupational Safety and Health Act and the Employees Income Security Act. He concludes that ways must be found to achieve the purposes of this legislation without the flood and complexity of reporting and other requirements that often threaten the survival of many small businesses.

The inadequacy of the Small Business Administration, particularly regarding management consulting services, is also described in the study. Recommendations are made to strengthen the Agency in general and this service in particular so that it can be provided before rather than after small businesses reach a crisis stage from which recovery is often impossible regardless of the quality of such assistance.

Chief among the report's recommendations is one calling for acknowledgment of the crucial importance of small business through establishment of a cabinet level Department of Small Business.

The views expressed in Professor Doyle's study are those of the author and do not necessarily represent the views of members of the Subcommittee on Economic Growth and Stabilization.

HUBERT H. HUMPHREY,
Cochairman, Subcommittee on Economic Growth and Stabilization.

CONTENTS

FOUNDATIONS FOR A NATIONAL POLICY TO PRESERVE PRIVATE ENTERPRISE IN THE 1980's

By **George A. Doyle***

PREFACE

This paper deals with the unfolding difficulties which will endanger small business during the next ten years and does so through the perspective of small business. Some of those difficulties are looming on the horizon because of developments expected in the overall economic environment. That environment is described in Part I. Certain developments vitally affect the survival of small business in the latter part of the next ten years especially. In discussing the economic environment facing us in that time, the challenge will be presented to find new forms and solutions for small business.

The first question of importance is: will small business be able to get capital? This problem is dealt with in Part II. The coming capital gap is examined for its impact on small business.

When one learns that there is a turning of small business to the Civil Liberties Union for help against government, it is time to listen for the purpose of helping to solve problems. Part III cites two examples of government programs of current concern to small business: OSHA and ERISA.

Part IV incorporates the difficulties in marketing and management facing small business in the coming decade. The groundwork is then complete upon which to plea for new strategies.

The problems discussed in this paper were selected because they are the ones against which we can direct government action. Hence, the paper aims finally toward a structure for a national policy, carried out through a realistic approach to preserving private enterprise, one which will be permanently useful to the small businessmen of this country.

In the strict usage of the words, what we are talking about when we speak of small business is truly our traditional private enterprise—our proprietorships and our partnerships primarily, but our small and family-held corporations as well. The paper excludes our large corporations just as they are ruled out of consideration by the Small Business Administration as it carries out the responsibilities assigned it by the Congress. In looking into the prospects for small business, we are taking a serious look forward into the prospects for private enterprise in the 1980's.

There may be no satisfactory size definition of "small business" and there may be no satisfactory statistical concepts appropriate to the subject except as one uses an arbitrary definition for "small." But as

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SBA envisions the businesses eligible for its programs, it finds that 95 percent of American enterprises come within the concept "small business," and that employment in these businesses accounts for about 60 percent of total employment. Such figures make several things strikingly clear:

(1) No single government agency is currently structured or funded so as to deal with all the problems.

(2) Full employment, whether as a concept, or a goal, or even as embodied in a piece of legislation, will not have true meaning until we incorporate into it a definite set of policies which see to the continuing viability of small business.

(3) Our forecasts and models, despite their sophistication and the admirable progress made in this field are not capable of *producing* a favorable environment. *We* must create the policies which will do that, in the light of what the models can tell us about coming economic events.

Now, a primary interest of the Joint Economic Committee of the Congress is the achievement of Full Employment of the labor force. It constantly studies the condition of the American economy with this in mind, looks for weak spots, for areas that need help, and proposes means to reach full employment and solutions to problems. The Committee must above all concern itself with the future.

To contribute to these activities, this paper will draw attention to certain outstanding problems in the interface between government and small business today. These problems, if allowed to go on unresolved, make any forecast of the future, whether in model or in fact, unreliable, and any expectation of full employment unrealistic.

It is apparent that sufficient consideration has not been given to the problems of small business. What needs to be made clear is that Full Employment, the goal primarily worthy of our concern, demands not only sound fiscal policy and appropriate monetary policy at the macroeconomic level, but also effective policy implementation at the microeconomic level. A framework must be developed for this purpose; otherwise we do not have either a comprehensive Full Employment Policy or a National Small Business Policy.

I. TOMORROW'S NEED: NEW FORMS AND NEW SOLUTIONS FOR PRIVATE ENTERPRISE

> We are the only nation not to have known medieval communitarianism. * * * If America becomes communitarian, however, it will be following no tradition. The United States has the opportunity to invent its own fresh forms.[1]

Fresh forms are what we need in the United States, and so in the first part of this paper we will look into the anticipated state of the national economy in the 1980's. Finding that lower rates of growth are projected generally, it will be argued that it is imperative that new strategy be developed for the survival of small business.

But first we turn to envisioning the kind of relationship which will have to prevail between government and private enterprise in the 1980's. In particular, what must be the role played by government when it comes to preserving small business in the American economy?

The question we are posing to ourselves may also be phrased: what is the most effective framework for solving our future problems? Some, usually representing large corporations, are demanding less government activity. It is commonly thought that "liberals" demand more. Profit-sharing has some popularity in limited quarters. Certain organizations see expanded stock ownership as the solution. Others urge adoption of something similar to the "workers' councils" of Yugoslav enterprises. Still others recommend "indicative" planning along the lines of French practice.

But if we are to get down to the micro-economic level and come up with a viable structure for solving the problems of small business, there is something we ought to do first. And that is find out what the true actors of the business world think about the future environment in which they will have to function. For this we turn to the analysis done by Martin and Lodge for the *Harvard Business Review*.

In the May/June 1975 issue of that journal there appeared a questionnaire under the general heading "What will our society be like in 1985?" Responses were received from 1844 readers, of whom about 90 percent are businessmen. Half of them are under age 40; three-fourths of them are in management positions, and thus we may say we are hearing from people with a direct stake in the time span we are examining. Their views were analyzed in the Nov/Dec 1975 issue of the *Review*.

In general, these businessmen believe a change of considerable magnitude is under way in our economic system—away from individualism and toward communitarianism. In the latter, government plays a greater role in setting goals and coordinating the implementation of plans to achieve the goals of the community. Asked which

[1] William F. Martin and George Cabot Lodge, "Our Society in 1985—Business May Not Like It," *Harvard Business Review*, Nov/Dec 1975, p. 148.

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of the two "ideologies" they prefer, 70 percent indicated individualism, but less than that (62 percent) thought it dominant today in the United States. When asked which they thought would be dominant in the United States in 1985, an astonishing 73 percent thought the communitarian society would prevail, although only 38 percent were of the opinion that it would be more effective in solving our problems. Of those who foresaw a shift toward emphasizing the community and its needs, 64 percent view the change as inevitable but only 39 percent consider it desirable.

Looking at the results, Martin and Lodge pose some significant questions:[2]

> Are we inescapably locked into a system that is accelerating toward a community characterized by increased government interference and control of individuals and business? * * * Can we avert such a total transformation and retain some of the principles of our cherished heritage as exemplified by individualism and free enterprise? Precisely what is inexorable about the transition and where do we have a choice?

In the view of the author of this paper, it is *small* business that equates to free enterprise, and it is small business that needs our special efforts if it is to be preserved. As to the question, where do we have a choice?, it lies in the interface between government and the small business community.

The Challenges

From what will be introduced in this section, it should become apparent that there is need to develop new strategies. If private enterprise in the form of small business is to thrive in the United States we must begin to look upon Small Business as one of the most important concerns of the Federal Government.

Before going on to sketch out the conception of recommended relationships between government and small business, let us outline the challenges. For this purpose we turn to the influential journal, *Nation's Business*, which constantly speaks on behalf of the business community. It has recently addressed itself to the question of the future for small business.

According to Carter Henderson small business in the United States faces problems in seven areas: Capital, raw materials, labor, technology, markets, government regulation, and management.[3] We deal with three of these, capital, government regulation, and management, because they are the most susceptible to Government action. Part of our discussion deals with OSHA and ERISA and therefore involves problems of labor, but we cannot adequately deal with problems in the areas of raw materials and technology here for these are too far beyond our scope.

Henderson takes a gloomy view of the availability of capital for small enterprises, saying that it "could become virtually unavailable to many small businesses at almost any price." He cites the declining productivity of capital as an important factor to be considered. It is not just a matter of measuring the capital gap, as is done in Part II. What will greatly affect the supply-demand relationships will be the

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[2] Pp. 145–46 of their article in the Nov/Dec 1975 *Harvard Business Review*.
[3] Carter Henderson, "What the Future Holds for Small Business," *Nation's Business*, March, 1976, pp. 25–28.

fact that ever more real capital will be needed to accomplish what formerly required less. Big business is in better position to command the supply.

Another aspect of the capital problem is that of the rising cost of putting power plants into operation. There is facing us not only the higher cost of energy, but the higher cost of the facilities which will be required to produce the energy. For this reason, and for that of the declining productivity of capital in general, we must hope for new and ingenious ideas to raise capital.

The raw materials area involves us in an awesome challenge of truly world-wide significance. All business now is international business, for all are involved in or affected by the struggle for the world product. Henderson points out that our large corporations are "already locking up supplies." Being world-wide in their scope and in their contacts, they are buying up producers in other countries and in some cases forming joint ventures. Small business can doubtless be wiped out as the appetites of large corporations consume the available supplies.

The decline in the once vaunted productivity of American labor has been examined and complained about by many writers and numerous spokesmen for industry. What is at length dawning on larger segments of the community is the psychological aspects of participation in running the business. One of the ways being promoted is the ESOP (employee stock ownership plan) in the belief that it provides a kind of direct connection between work and return.

A direct voice in management for labor is a question which sends many corporate executives to the barricades. Other economic systems have found ways of giving labor a voice. We have paid very little attention to this aspect of productivity. In small business it should be more possible to relate the worker to a stake in management, and thus promote the survival of the business.

Advanced technology is something usually denied to or out of the reach of small business. It is always a question whether new technology may develop that wipes out the need for the product of a small business. Yet there are two rays of hope: one is the growing awareness of the value of general purpose tools in smaller producing units rather than centralization in large plants, and the other is the possibility of markets for simple tools in Third World countries.

Competition with the large corporations in the American market will continue to be a life-and-death struggle. But here again there are two possible bright elements. Gasoline prices have caused transportation to become a growing expense to nation-wide distributors. In the past, for example, milk producers in Wisconsin have outcompeted local producers in Massachusetts. But now, regional business may become more rational than nation-wide business. It remains to be seen. The second possibility arising out of growing transportation cost is that repair businesses may see a new rebirth.

Government regulation of business continues to grow. In Henderson's view, everything points to certain increase in requirements and compliance therewith. We shall later examine some aspects of this matter. The harassed small businessman becomes increasingly frustrated the more he has to endure dealing with government.

Finally, management is *the* crucial area for small business. Many consider it more important than the financial problem. How can true professionalism be introduced to the world of small business? How can we make our current governmental stance toward small business into a positive, aggressive strategy?

Labor Department Projections

The first step in our consideration of the future is: where does Small Business fit into the Economic Environment of 1980–85?

Projections made by the U.S. Department of Labor in its study, *The Structure of the U.S. Economy in 1980 and 1985*,[4] did not bode well for American small business. The picture was one of general slowdown in the overall rate of growth, with the private sector rate of growth in output and employment slowing and the public sector rate of growth in output and employment[5] rising, when compared with 1968–80, but neither recovering to the rates of 1955–68. Bearing in mind not only this distribution between public and private sectors but also the power of the large corporations to command resources, small business will have to look diligently indeed to find opportunities in such an environment.

Let us first state the most significant elements in the projections:

Real GNP, having grown at an annual rate of 3.78 percent during the years 1955–68, and expected to show a rate of 4.09 percent during the years 1968–80, was projected at only 3.25 percent annually during the years 1980–85.

Private GNP, having grown at .384 percent a year in 1955–68, believed to be headed toward a 4.32 percent for 1968–80, ws projected at 3.33 percent for 1980–85.

Private GNP per man-hour was expected to show steady, long-term decline: 3.02 percent in 1955–68, 2.90 percent in 1968–80, slowing still more to 2.76 percent in the years 1980–85.

In the disposition of Personal Income, it was projected that consumers will pay a larger share of their income in taxes and interest. Transfer payments would continue to grow, along with Consumption, as a share of GNP.

No sooner had these projections been published, along with nearly 500 pages of data covering every economic growth sector, than Labor Department analysts were at work refining them. Several basic assumptions had to be changed:[6]

(1) An unemployment rate of 4 percent every year, from 1975 through 1985, was patently unrealistic. New projections start with 8.5 percent unemployment in 1975, decling rapidly to 4.7 percent by 1980 and then slowly to 4.0 percent in 1985.

(2) With recent data from the Bureau of the Census showing rapid declines in child-bearing, Labor analysts now count upon more women entering the labor force than formerly. By 1985 the Labor force would be 2 million higher than originally projected.

(3) The assumption that energy supplies would be nearly unlimited, and cheap, had to be dropped, but research is only

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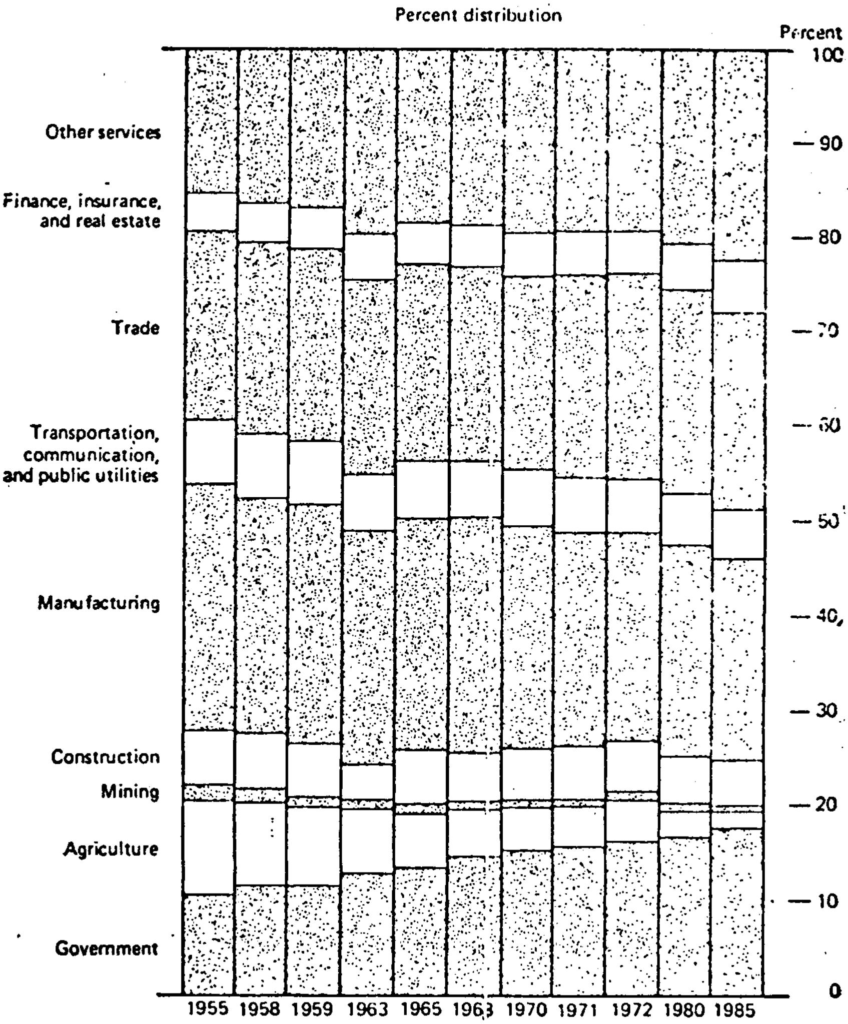
[4] Bulletin 1831, 1975. Calculations on this page are based upon 1963 dollars.

[5] See chart which makes clear growing government sector employment.

[6] See the article by Ronald E. Kutscher, "Revised BLS Projections to 1980 and 1985: an overview," *Monthly Labor Review*, March, 1976, pp. 3–8.

Total Employment by Major Sector, Selected Years 1955–72 and Projected for 1980 and 1985



Source: BLS, "The Structure of the U.S. Economy in 1980 and 1985," p. 95.

in the initial stages on how to incorporate satisfactory methods of recognizing the changes in the energy situation.

(4) The assumption of a steady rate of change (2.7 percent) in productivity has been revised downward. A rate of 2.2 percent is assumed for the years to 1980, with a rerurn of improved productivity (2.6 percent) after 1980. The reasons given by the Labor analysts for lowered productivity are: Our recent experience shows productivity to have in fact declined; pollution control costs will have to be met; requirements of industrial

safety will add other costs; higher energy prices and the necessity to conserve energy through use of different equipment; and the expected long period of less than full employment.

One notes, of course, that the projections do not give us any means to achieve full employment, rather they *assume* that we move toward an unemployment rate of 4 percent. Nothing has yet been changed in the basic model, nothing has been changed in the data base. In summary, what the changed assumptions mean for the private economy is that instead of growing at 4.3 percent, 1968–80, and 3.3 percent, 1980–85, the projections indicate a 4 percent rate, 1972–80, and 3.7 percent, 1980–85. Total real GNP is projected at 3.92 percent, 1972–80, and 3.57 percent, 1980–85. The overall economy winds up with a real GNP which is lower by 5 or 6 percent in 1985 compared with the previous projections!

Whether real GNP is 5 percent or 6 percent lower depends on which scenario one uses, for Labor now has developed three.[7] Two of them use the same rate of growth to 1985 and only differ in their assumed tax and expenditure policies. The third is a slower growth path which in fact does not result in a 4 percent unemployment rate by 1985, but gets down only to 4.5 percent. This scenario expects slower recovery during the years until 1980 than the others and a slightly higher growth rate, 1980–85. (See Table 1.)

National Planning Association Forecast Compared

By a very odd coincidence, the Labor Department and the private National Planning Association have each made a calculation of current dollar GNP in 1985 of $3.7 trillion. Each took a different road to that figure, each used different rates of growth, different rates of inflation, each shows a different unemployment rate, even differing estimates of the labor force in 1985, yet they agree on the value of GNP in 1985.

TABLE 1.—AVERAGE ANNUAL RATES OF CHANGE (LABOR FORCE, EMPLOYMENT, GNP)

	Past 1968–73	Projections: Basic scenario 1973–80	Projections: Basic scenario 1980–85	Projections: Slow version 1973–80	Projections: Slow version 1980–85
Total labor force	2.05	1.82	1.22	1.82	1.22
Federal Government employment (civilian)	-.80	1.02	.85	1.02	.85
State and local government employment	3.26	3.75	3.22	3.51	3.28
Private employment	1.89	1.65	1.18	1.51	1.28
GNP (1963 dollars)	3.42	3.65	3.57	3.34	3.67
Government	1.08	2.16	2.52	2.00	2.52
Private	3.67	3.78	3.65	3.46	3.76

Source: Monthly Labor Review, March 1976, p. 11.

[7] Charles T. Bowman and Terry H. Morlan, "Revised Projections of the U.S. Economy to 1980 and 1985," *Monthly Labor Review*, March, 1976, pp. 9–21.

One noteworthy characteristic of the NPA forecast is that rather than just select an average rate of growth for the period, a "growth recession" is actually forecast. This recession, NPA believes, will begin probably in mid-1978 and continue to 1980. A rate of growth of only 0.5 percent is called for in 1979, with unemployment of 7.7 percent of the labor force in that year. In fact, throughout the entire period through 1985, NPA expects unemployment to be above 5 percent.[8]

NPA sees gross private investment growing at 6.9 percent for the whole decade, and personal savings rates ranging from 8.8 percent in 1980 to 7.6 percent in 1985. The federal government share of GNP will decline from 7.9 percent in 1975 to 6.3 percent by 1985. State-and-local-government share will be constant at 13 percent throughout.

In current dollars, NPA forecasts personal income rising to $2 trillion by 1980 and $3 trillion by 1985. The Labor Department projects much the same thing: $2.1 trillion in 1980 (basic model) and $2.0 trillion if there is a slower rate of growth; $3.1 trillion in 1980 (basic model) and $3.0 trillion in the slower model. Other elements of comparison are shown in Table 2.

The outstanding feature of both sets of data is that neither is forecasting full employment. NPA sees unemployment declining to approximately 5 percent by 1985. Labor claims not to be forecasting, but only projecting a drop to 4 percent by 1985. The Labor Department of the United States cannot rely upon a set of federal government policies which can be counted on to achieve full employment of the labor force! And NPA does not expect there to be such a set of policies.

In the first half of the 1980's, Labor envisions a growth rate of 3.57 percent resulting in an unemployment rate of 4 percent in 1985. Whereas NPA sees a growth rate in those years of 4.2 percent only resulting in an unemployment rate of 5.1 percent by 1985. There is of course the matter of their disagreeing on the size of the labor force in 1985 (by 1.4 million people).

If we now view these forecasts and projections from the vantage point of Full Employment Policy, it is clear that we will have no true full employment policy until we can effect implementation at the micro-economic level of the American economy. Small business accounts for 95 percent of our enterprises and 60 percent of our employment. Every town depends on it; every city requires it. We must get closer to the problems of small businesses if we ever expect to achieve full employment again.

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[8] See the NPA publication, *Looking Ahead,* April 1976, "The National Economy Through 1985."

TABLE 2.—COMPARISON OF NATIONAL PLANNING ASSOCIATION FORECAST WITH LABOR DEPARTMENT PROJECTION

	NPA forecast	Labor Department projection
1985 GNP, current dollars (billions)	$3,713	[1] $3,770 [2] $3,641
Growth rate, real, GNP, percent:		
1975–80	3.7	
(1979)	(.5)	
1973–80		3.65
1980–85	4.2	3.57
Civilian labor force, 1985 (millions)	109.1	107.7
Unemployment, percent:		
1976	7.4	7.8
1977	6.4	6.8
1978	6.4	5.8
1979	7.7	5.1
1980–84	(3)	(3)
1985	5.1	4.0
Inflation, percent:		
1975–80	(4)	
1980–85	(5)	
1975–80		4.8
1980–85		4.1
Gross private investment (percent of GNP):		
1980	15.5	15.4
1985	16.6	15.4

[1] Basic model. [2] Slow model. [3] Declining. [4] Above 6. [5] Decline to 3–4.

II. THE CAPITAL GAP PROBLEM

The element in the future which must be dealt with by all segments of our society, and by the small business community in particular, is that of reasonably priced energy. If capital does not flow first and foremost into the generation of power, then all forecasts are awry. Secretary of Commerce Morton reported the need for capital investment in the energy field of $800 billion by 1985: [1]

Purpose:	*Billions*
Oil and gas resources	$300
New power plants	160
New energy-saving equipment	100
Coal development	40
Environmental controls	50
Facilities for post-1985 use	150
	800

We must endeavor to assess the impact of these needs upon small business. In the original BLS document, *The Structure of the U.S. Economy in 1980 and 1985*, it was assumed that any increase in demand over domestic supply of energy would simply be met by imports. As Kutscher pointed out in his revisions, "The Arab oil embargo of 1973–74 has drastically changed the energy perspective. It can no longer be assumed that relatively cheap, nearly unlimited supplies of energy are available." [2]

What then can be said? If we look to BLS itself as it seeks to revise the projections in the light of the energy picture, we find two elements singled out: Higher energy prices will slow productivity growth, and so will investment in energy-saving equipment.

The editor of the *Monthly Labor Review* informs us: [3]

> The effects of the changed energy outlook on labor productivity, capital requirements, and prices, as well as the relationship of these changes to economic growth are complex issues.
>
> Although a great deal of effort was devoted to these questions, BLS has not developed a satisfactory method of dealing with them in the industry and employment projections. Research by others is also just beginning to address the effect o changes in energy supplies and costs on the economy.

The definitive answers, we find, are not yet in from our sophisticated models. Are there nevertheless any important answers to be found? There certainly seems to be one that is outstanding, and that is that there will be a capital "crowding out" of someone. We have used this phrase in the last few years to refer to government borrowers crowding private borrowers out of the market. Who will be crowded out in the economy of the early 1980's? Assuredly, small business enterprise. This will be seen more clearly as we proceed.

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[1] "The Energy Outlook," *U.S. Industrial Outlook*, p. xiv.
[2] "Revised BLS Projections," *op. cit.*, p. 4.
[3] In a special note, "Energy and the Projections," MLR, March, 1976, p. 6.

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THE BROOKINGS STUDY [4]

There is considerable value in examining a related attempt to forecast the state of the economy in 1980, that of the Brookings Institution. To begin with, it relied heavily on the original BLS papers on the subject (*Monthly Labor Review*, December, 1973), which were amalgamated into the 1980–85 projections under study in this paper.

Brookings projected a larger labor force, higher participation rate for women, and a lower growth in private sector output per worker, yet its 1980 real output estimate is virtually identical with that of BLS. The important question posed, and answered, in the Brookings' study was expressed as follows: [5]

> Is it possible to provide industrial capital for an expanding economy, develop new sources of energy, achieve the national housing goal, and meet commitments for public and private expenditures for pollution abatement and transit facilities? Or must higher taxes, under-funded programs, and congested capital markets be expected? Our answer is that we can afford the future, but just barely.

Now, in taking account of energy demand and supply, and of capital requirements for investment in energy production, Brookings relied upon forecasts of the National Petroleum Council published in 1973. Hence, we crank into consideration the investment needs presented by Secretary Morton, and we again ask the question: can we afford the future? Noting that Brookings originally said just barely, the answer must now be: not all of us will be able to afford it. We should look further into the Brookings' study at this point.

Brookings' analysts projected gross private domestic investment for 1980 at 15.8 percent of GNP. This figure is higher than the 1980 projections of both Labor and NPA and calls for a federal budgetary surplus as well. The surplus would have to be 0.5 percent of GNP at 4 percent unemployment and more than 1 percent of GNP at 5 percent unemployment.

The unpleasant aspects of what Brookings has to say, so far as consumers are concerned, are best seen from the following:

> * * * to provide for (1) the present heavy commitments in the federal budget, (2) the needs of State and local governments, and (3) an adequate full employment surplus by 1980, the public will have to accept some increase in effective tax rates and a corresponding decline in the share of consumption in total GNP.[6]

And if that were not enough, what of the prospects of reaching 4 percent unemployment?

> * * * even if real GNP grew at 5.5 percent, it would take six years or more to bring unemployment down to 5 percent.[7]

In general, capital demand was expected by Brookings to be weak for several years. One reason given was the declining trend of profits. Another, the disappearance of the classroom shortage. And a third the near-completion of the interstate highway program. After the several years of weak demand, "We can foresee for the long run unusually strong demands for capital and the need for a fiscal policy that yields a substantial full employment surplus." [8]

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[4] B. Bosworth, J. Duesenberry, and A. Carron, *Capital Needs in the Seventies*, Brookings Institution, Wash., D.C., 1975.
[5] *Capital Needs*, p. 2.
[6] *Capital Needs*, p. 7.
[7] *Ibid.*, p. 8.
[8] *Ibid.*, p. 9.

Brookings was forecasting a federal surplus to begin as early as 1977 ($30 billion) and to rise to a very considerable sum (over $80 billion) in 1980. This was greatly at odds with the BLS projections. The Labor Department expected deficits to continue, though getting smaller, through not only 1980 but 1985 as well.

The aspect of the Brookings study on which we should focus our attention is that of the competition for credit. As the Brookings analysts put it, we could afford the future their forecast described, "but just barely." As we have seen, the essential ingredient is that there must be a federal surplus for the rest of the seventies. Monetary authorities would pursue an "accommodating path." Gradual reduction of the inflation rate was assumed, and therefore the happy result would be a decline of interest rates.

Average annual borrowings in credit markets for the rest of the decade were estimated at over $100 billion in the Brookings study, with non-financial businesses seeking 90 percent of the total. Commercial banks would extend one-half of this credit and one-third would be handled by the savings and loan associations, the mutual savings banks, and the insurance companies. State and local government deficits were also anticipated in the forecasts. However, their borrowings would amount to about one-sixth of the total and were not expected to be difficult to accommodate. (We have of course recently observed how the state of affairs in New York City and other localities may change the face of this estimate.)

The difficulty we are coming to is this: Despite the assumption of having the federal government in surplus, and the expectation that state and local government borrowing could be met without difficulty, the study concluded that the net growth in long-term corporate debt "is too great to be absorbed by life insurance companies and pension funds—the traditional holders of such securities." [9]

The nature of the Brookings assumptions and this last conclusion lead us to the necessity of taking note of anticipated capital demand and capital supply from another vantage point. For this we turn to the scenario described by the New York Stock Exchange.

New York Stock Exchange Analyses

Several studies have been made by the New York Stock Exchange, and reports made to the Joint Economic Committee. NYSE uses a rate of growth of GNP of 8.6 percent, 3.6 percent of which is real and 5 percent is inflation. It anticipates a capital gap of about $650 billion in the period 1974–85. The arithmetic is as follows:

	Billions
Demand for capital	$4,678
Supply of capital	4,032
Gap	646

The gap, NYSE points out, will not actually appear as a figure. Rather we will see intense competition for capital, higher interest rates, and reduced chances for small business to survive.

[9] *Ibid.*, p. 69.

The details of the estimated demands for capital are the following:[10]

	Billions
Plant and equipment:	
Energy	$824
Basic materials	328
Transport and equipment	225
Communications and services	772
Miscellaneous	419
Total	2, 568
Residential construction	1, 085
Nonprofit, agriculture, changes in inventories	850
Total gross private domestic investment	4, 503
Government demand for funds:	
Federal deficits	42
Net Federal agency borrowings	103
Net State and local government	30
Subtotal	175
Total demands for capital	4, 678

In the view of the NYSE, $400 billion of the total investment needed in the energy field would be spent by the electrical power industry. The balance, $424 billion, (for all other elements of the energy field) is thought to be a conservative figure.

Capacity shortages now exist in the basic materials industries. Aluminum, cement, glass, iron and steel, and other basic industries need a total of $328 billion in investment spending. The combination of high costs of energy and environmental requirements point to the necessity of investing in mass transportation systems (an estimate of $225 billion). Communications, services, durable manufacturing and non-durable manufacturing, food, machinery, and other industries will need $1.2 trillion. To meet total U.S. housing needs will require over $1 trillion (at 3 million housing units a year). Farm expenditures, inventory spending, and the capital needs of private colleges and universities, hospitals, and the like will total $850 billion.

Contrary to the estimates of the Brookings study, NYSE expects continued federal deficits. It also expects continued state and local borrowing for capital projects. In addition, there is the off-budget borrowing by federal agencies, a sum larger than the two preceding items.

The sources of funds for all these purposes are likely to be:[11]

	Billions
Business saving	$2, 923
Capital consumption allowances	2, 359
Corporate retained earnings	564
Personal saving	1, 109
Total	4, 032

Thus we see the origin of the capital gap of $646 billion. Business saving is estimated after examination of a regression of business saving on GNP over a 23-year period, in which it never went below 9.9 percent and only rose above 12 percent in the early Vietnam war period. As for personal saving, the difficulties are the population shift

[10] *The Capital Needs and Savings Potential of the U.S. Economy,* New York Stock Exchange, September, 1974, pp. 9 and 11.
[11] NYSE, *Capital Needs,* p. 16.

toward the low-saving 20–35 bracket, rising social security costs, and inflation continuing to exert its influence on all ages.

The conclusions of the New York Stock Exchange are:[12]

> Housing and other construction will be particularly hard hit.
> Small and medium-size businesses will find it increasingly difficult to obtain necessary financing.
> Even larger companies will feel the pinch.
> Overall, the capital markets may be unable to meet the essential financing needs of American industry.

The View of the Fed

The Brookings and NYSE analyses illustrate two types of studies and viewpoints concerning the problem of capital in the future. All view the matter as serious, but some (such as Brookings) are of the opinion that a Federal surplus will cover the shortfall in the private sector. Others do not believe in the possibility of a Federal surplus, but rather count a Federal deficit as being certain. To avoid a capital shortage in such a case, a low level of investment would be required. The NYSE analyses expect a Federal deficit *and* a high level of investment, the result being a capital gap of considerable proportions, and extreme difficulty for small business.

In testimony before the Joint Economic Committee (Nov. 21, 1975) FRB Governor Henry Wallich expressed the view that, "A significant capital shortage clearly would be adverse to small business, as it would be for all sectors." [13] In his analysis of the prospects for a shortage, he pointed to the historic relationship of gross savings and investment in the American economy of 15 percent of GNP. Personal savings are usually one-third of total savings (5 percent of GNP). This relationship, like business savings, is imbedded in the economic habits of the system. If there were to be changes, one of them would have to be the removal of the bias in the tax laws favoring debt as against equity (a bias particularly onerous to small business).

In more recent months, Governor Wallich has made his view more specific and has identified some of the data problems. For example, concerning the Federal surplus-or-deficit debate, he observes, "Anyone who relies on a future Federal surplus as the means of forestalling a capital shortage at full employment has the burden of proof on himself." [14]

From 1947 to 1966 the average rate of increase in productivity of capital was one-half of one per cent. For the next eight years, 1967–74, the productivity of capital declined by an average annual rate of 1.3 percent. This Governor Wallich points out suggests "that our capital needs, relative to output, have tended to increase of late."

Productivity increases per hour had been 3.4 percent in the years 1947–66, but were only 1.6 percent in the period 1967–74. To Governor Wallich, this "suggests that additions to the capital stock have not been sufficient."

Turning to the capital/labor ratio, we find it had risen an average of 3 percent per year 1960–69, but only 1.1 percent 1969–75. This also, Wallich observed, suggested "that in recent years additions to

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[12] *Ibid.*, pp. 26–27.
[13] *The Role of Small Business in the Economy-Tax and Financial Problems*, Wash., GPO, 1976, p. 174.
[14] Henry Wallich, *A Near-Term Look at the Capital Shortage*, San Francisco, Calif., June 26, 1976, p. 2.

the capital stock have been less than adequate." (Data on productive capacity and on capacity utilization are inadequate in many ways, and the Fed is currently putting a great deal of effort into generating better information on this subject.)

Taking the problem step by step, the views of Wallich are: (1) That there is doubt that we can avoid a capital shortage, (2) major bottlenecks are not likely until 1977, (3) upon rapid expansion of the economy thereafter, the question will be whether there will be enough savings to allow the investment and contain the bottlenecks, (4) related to this will be the matter of whether business will be capable of converting the savings into investment.

After this analysis, Wallich raises what is perhaps the most important aspect of the entire set of problems:[15]

> Finally, there remains the very serious question whether, at full employment of capital, our capital stock will be adequate to employ the full labor force.

Summation of the Problem

The investment needs of the American economy during the next decade are enormous. Their fulfillment would be possible if full employment were achieved and federal deficits were to disappear from the scene (in fact surpluses might be required). But this combination does not appear to be in our future. Therefore, the achievement of the investment goals is unlikely—more particularly the investment needs of small business will go unfilled.

An analysis of the crowding-out process was carried out by the Federal Reserve Bank of Dallas, employing the FRB–MIT–PENN econometric model. The conclusion was:[16]

> Whether capital needs of the 1970's and beyond are fully met will, therefore, depend critically on the position of the federal government's budget in the years ahead. * * * But what is undeniable is the fact that the crowding-out effect from continued budget deficits would make the achievement of such goals impossible.

Now, one need not accept as definitive any of the estimates presented above. One need not even accept the crowding-out analysis in the sense of federal deficits crowding out private parties. And perhaps not all the investment called for by the corporate sector should be carried out.

But what can be concluded from all this is that the time is at hand when both public and private sectors must plan the uses of our supply of capital *together*. Moreover, if we are to continue to have private enterprise (small business) in the United States, the public sector and the corporate sector will have to accommodate it in the market for capital. We will not get full employment any other way.

SBA has been responsive to needs, to the extent of its resources. We should survey all small business organizations, seeking new ideas through which to obtain capital. But more on this in the final part of the paper.

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[15] *Ibid.*, p. 11.
[16] FRB of Dallas, *Business Review*, June 1976, p. 7.

III. GOVERNMENT REGULATION AND THE PERSPECTIVE OF SMALL BUSINESS

Throughout the world and throughout the centuries, small businesses have resented government. They have always complained about tax burdens and regulations. In some societies the regulatory problems are dealt with through bribery of officials; we see some of this in the United States. In some, two sets of books have been kept; one, for the proprietor, recording the truth. Among those close to the financing of small business in the United States it has been observed that "clever" accounting is a means to deal with the tax collector.

Thus, when one attempts to assess the reactions of businessmen to government regulation one has to use the eyes and ears of experience. There are countless journals, magazines, and small papers published for every line of business, and we are nearing a total of ten million business enterprises. Given the failure rate of small businesses in this country, it may fairly be said that no "scientific" sample of opinion can last for long. The problem of dealing with the mass of material in print is to select that which will present a balanced picture of the perspective of small business and the aspects of that perspective which should be listened to by government, respected by government, and form the basis of changes in policy by government.

We must bear in mind the objective of the paper, and that is to make a contribution to the formation of a national small business policy. We have looked at the problem of survival in the economic environment of the 1980's and have spelled out the difficulties in terms of Small Business' obtaining capital. Now we will consider two examples of the problems of dealing with government regulation: safety and health (the OSHA experience); and pensions (the new ERISA program).

In examining these two matters we find good reason to re-constitute the interface between government and small business. The last part of the paper will suggest how the structure of the Administration ought to be changed so as to encompass within itself the capabilities to deal with the whole picture of the survival of private enterprise.

1. Small Business and the OSHA Experience

Taking care of paperwork thrust upon it by government regulatory agencies has always been the bane of small businesses. But in the view of some, the activities of the Occupational Safety and Health Administration may turn out to be a classic case of government frustrating small business as it attempts to deal with survival.

Our task is to try to anticipate the problems of small business in the years ahead. While there are many areas of regulation facing small business, they cannot all be covered in this study, for we are dealing always with the highlights of the problems of small business in this decade—OSHA certainly stands out as one of these. As we get into the year 1981 we will have completed a decade of experience with OSHA, and the intervening years will have seen us lay the groundwork of a new era in government regulations.

Safety and Health are the goals of OSHA, but they are not at issue. The costs of poor safety practices and bad health conditions were the concern but not the issue when the original act was passed in 1970 (P.L. 91–596 effective in April, 1971). The basic question was whether there should be a national responsibility assumed by the federal government, and the Congress decided in the affirmative. What we are looking for here is what this means for small business. Marginal firms claim to have been forced out of business as the cost of OSHA regulations have added the last straw atop a host of problems faced by such firms.

As for the OSHA paperwork burden on small business it has twice been somewhat alleviated. On January 1, 1973, employers with fewer than eight employees were exempted from record keeping as required in the original act. In December, 1974, the exemption was extended to those with ten or fewer employees.

The Commission on Federal Paperwork carried out a four-month study of OSHA requirements and recently produced a total of 26 recommendations for changes. Chief among them are the following: [1]

(1) Those firms with under 100 employees should be exempted from the paperwork burden of maintaining a log of illnesses and injuries.

(2) National standards should be subject to regular review procedures in order to eliminate paperwork which is no longer necessary.

(3) The Departments of Labor and Health, Education & Welfare need to launch new studies to determine more efficient ways to manage long-term record-keeping than is now the case.

(4) There is duplication of requests for paperwork coming at businesses from area offices, regional offices, and national offices, and it should be stopped.

When faced with these recommendations, OSHA Administrator, Dr. Morton Corn, has objected, saying that "any exclusion from record keeping is a bad idea." And there we have the age-old conflict between government and business. It is a conflict which has sometimes meant the frustration of business, sometimes government, many times both. It is of the utmost importance to the survival of private enterprise that we deal with this matter intelligently.

OSHA has had three chief administrators in the five years of its existence. Each time there is a new one there has been reorganization of structure and activities. Observing this, G. J. Tyssen, Director of Labor-Management Relations for the National Association of Manufacturers, concludes that Congress has been derelict in its duty to give clear legislation and clear mandates. OSHA in its early years has been in the position of trying to deal with situations beyond its capabilities.

The consequence, according to John Grimaldi, Director, Center for Safety at New York University, is that we have used archaic approaches. In dealing with a very complex set of problems, OSHA has not a sufficient number of the professionally qualified people

[1] Prentice-Hall *Executive Action Report,* July 17, 1976, p. 290.

it needs. And so it uses the traditional, and bureaucratic approach of government codified regulation, inspection, and fine—precisely illustrating the limitations of OSHA.[2]

The lack of qualified people is a very real one. OSHA has 100 offices and 2,200 employees. Its goals are to have 1,000 compliance officers in the field of safety and 1,000 in the field of health. There are, however, only 2,000 industrial hygienists in the whole country. To fill the gaps, Administrator Corn says OSHA intends to hire college graduates in science and engineering, give them short-term specialized training, and send them out to enforce the act. Such a measure stems from haste.

The first field of activity entered into by OSHA was that of safety hazards. It is now going into developing standards to apply to chemicals and other agents entering the workplaces of the United States. This is a task of immeasurable proportions for more than 10,000 new chemicals appear yearly.[3]

The situation is further complicated by the fact that certain aspects of the OSHA program are still to be definitively settled in the courts. The Supreme Court, for example, has agreed to conduct a review of federal appeals courts' rejections of the claims of two construction companies that the procedures of OSHA are such as to deprive them of guarantees under the Constitution.[4] A decision will not be forthcoming until December, 1977.

Certain entrepreneurs have challenged the right of OSHA to inspect without a warrant. H. R. Gibson, Jr. of Gibson Products Co., Inc., Plano, Texas asked OSHA officers for a search warrant. He argued his case on the basis of protection under the 4th Amendment, and the court did rule that OSHA must show probable cause that a violation exists.[5]

In the first five years of enforcement of OSHA standards (through May, 1976), the agency made 318,920 inspections. Its officers found 1,196,726 violations and issued 229,931 citations, more than 98 percent of these being for "non-serious" cases. The average fine was under $27. It would seem that a great amount of effort was devoted to very minor matters.[6]

Many firms drag their feet, and the experience of large firms is one of the reasons why. General Motors spent $79 million in 1974 to meet the standards insisted upon by OSHA. It had been inspected more than 600 times, and had received 258 citations with reference to 1,800 violations. GM asserts no effect, however, on safety or health records as a result of this expenditure. DuPont and others make similar claims, and so OSHA experiences some bad press.

By contrast, a small firm in Worcester, Massachusetts is believed by the small business community there to have been driven out of business by OSHA. This is not completely true, but the point is that this aspect of the whole situation is considered to account for the

[2] "OSHA—A Look Ahead," interviews by Doris Balwin and Stephen Sinclair, in *Job Safety and Health,* July, 1976, pp. 24–31.
[3] See the article "OSHA's New Focus: The Health of Your Employees," *Nation's Business,* May, 1976, pp. 19–23.
[4] *Engineering News-Record,* April 1, 1976, p. 11.
[5] Brennan v. Gibson Products Co. Inc., ED, Texas January 28, 1976, No. S–75–5–CA.
[6] *Factory,* August, 1976 in a special cover story on the subject "Why OSHA Should Be Dissolved," p. 15–31.

demise of this old company. The Worcester company was a firm already suffering from the recession of recent years and had experienced a capital deficiency at the same time as the OSHA requirements were being enforced upon it. It was, so to speak, the last straw. As has been said, it is the marginal firm which may be pushed to the wall by OSHA requirements. And it is in the small business arena that we are always finding just such a firm.

The View of the Entrepreneur—Risk Management

The Director of NIOSH,[7] Marcus Key, gave a cogent analysis of the problems of OSHA in early 1974.[8] He pointed out that dissatisfaction was attributable to three matters: standards, manpower, and employer acceptance.

In the settling of standards, he said, more professional judgment was required. In addition, the standards being issued did not protect the workers. Professional and trained manpower was sorely needed by the agency. And as for the businessman, he also needed professional help and he needed to be convinced of the need for the changes required.

In the entrepreneurial view, OSHA had entered the world of Loss Control—a field which studies the conditions which cause interferences with the accomplishment of the objectives of a firm. Recognition of conditions which may result in injury to equipment or to persons is one part of loss control engineering. But to get at the problem of eliminating the probability of such losses, that is the difficult task and that is the area of developing control procedures. In any productive process it becomes necessary to determine what areas thereof can be structured so as to control the probability of loss.[9]

The thought comes to mind that the safest OSHA type of plant will be the one which is so automated that the workers have been removed entirely. Short of that condition, a safe plant will be one which is large enough to employ several types of supervisory personnel, including a loss control engineer, the combined efforts of whom will yield high probability of occupational safety. Where does that then leave the small firm? The one in which such activities have to be included in the job of president? The multi-location firm can afford an entire risk-management department. Not so the small business.

At the time of the initiation of OSHA, it is estimated that 10 percent of the effort of risk management departments was devoted to occupational safety. Commonly, firms then dealt with some of their problems by purchasing insurance. Now, five years later, the majority of the loss control efforts are devoted to complying with OSHA requirements.

OSHA publishes its standards in the Federal Register. They can be understood by safety professionals, and these professionals can convert them into Standard Procedure Instructions which will satisfy federal requirements. There is an advantage for the employer if he has such Standard Procedure Instructions in force in his plant, for if he can prove that he educated his employees to comply with the instruc-

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[7] National Institute for Occupational Safety and Health.

[8] In *International Journal of Occupational Health and Safety,* (first issue) Jan/Feb., 1974, pp. 14–16.

[9] See the analysis by C. Binford, C. Fleming, and Z. Prust, *Loss Control in the OSHA Era,* New York, McGraw-Hill Book Co., 1975.

tions and if the employees did not carry them out, he is in position to dismiss them on grounds of non-compliance.

It has been commonly accepted for many decades that about 90 percent of industrial accidents have occurred because of the unsafe actions of employees. Seldom has anyone been charged with negligence by virtue of having permitted the job to be carried out in an unsafe fashion. Now, however, with OSHA, employers are responsible for job practices and job conditions. A vast new world of activity has been opened for writers and publishers of guidelines and texts, for consultant services, for industrial hygienists, for lawyers. How can we put the small business firm in touch with this world? What will happen when we do?

A good occupational safety and health program must run the gamut of managerial activity from pre-recruitment standards through to daily supervision of employee movements. At every step of the way the program is involved with human behavior, and so it is unending. Whatever the standard or procedure we establish today, it is based upon our knowledge of the past. Were OSHA enforcement to be only a matter of identifying substandard conditions and punishing employers, this would not constitute a good safety and health program and could place the agency squarely in opposition to the goals of the federal government involving the preservation of small business.

If small business is to survive in the OSHA era, then it has to be offered reasonable alternative plans by which compliance with OSHA standards may be achieved. Without these, then OSHA becomes one more harassment to the small businessman and one which is both powerful and dangerous from his point of view.

The views typical small businessmen hold of OSHA and its program may be gleaned from the results of a survey by the Small Business Service Bureau of Worcester, Mass.[10] A total of 312 firms responded to a questionnaire sent out in July, 1976. One very interesting result was the discovery that 37 percent reported expenditures to comply with OSHA regulations, yet only 20 of the 312 had been inspected by OSHA. Apparently there is considerable compliance without enforcement.

The following are the chief elements in the opinions of small businessmen:

(1) Only 11 percent consider present OSHA standards fair.

(2) Sixty-five percent believe small business should be exempted from certain OSHA standards.

(3) Ninety percent advocate the availability of no-penalty pre-inspections at the request of the business.

(4) Only 27 percent believe OSHA standards serve the purpose of protecting workers' safety.

(5) Only 24 percent agree that jurisdiction over worker safety is properly placed in the federal government.

It must be pointed out of course that although OSHA originally preempted the field from the states, it has been encouraging the states to propose their own safety and health programs. Upon submission and approval, the responsibility then passes to the state. Twenty states,

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[10] See the Small Business Reporter, August 1976, p. 7, for the results of the survey carried out by Stewart Alsop II.

for example, have no-penalty pre-inspection arrangements. State employees, in such arrangements, report to OSHA only in serious, hazardous cases.

A piece of legislation begins with an objective and with characteristics. An agency is created, people are hired, and it begins to make itself felt in the community at large. Others now begin to act upon it. Gradually it changes its nature. Will OSHA remain as part of risk management or become a risk itself?

The approach of OSHA has been as follows: (1) Economic hardship is not ground for a variance from enforcement of a standard; (2) a time limit is set within which the correction of a condition must take place; (3) in the case of a business eligible[11] for SBA assistance, section 28 of the Occupational Safety and Health Act authorizes SBA to make loans of up to $350,000 for corrections when "substantial" economic injury is likely.

Thus OSHA may create a risk to a business as standards are enforced. The risk either takes the form of draining current working capital, or affecting a firm's short term capital position if it obtains a loan from a bank for a nonincome-generating expenditure, or interfering with long-term development via a loan from SBA. Even if the loan is at non-bank rates of 5½ percent to 8 percent, the assistance has taken the form of more long-term debt. In any one of these three situations, the marginal firm is at risk.

When one talks to small businesses one hears of "Mickey Mouse" standards, of "incomprehensible" regulations, of "insensitive" inspectors, and that such a program "may have lofty goals but it won't work." But OSHA looks at the vast area of three and a half million small businesses with less than 25 employees and claims that there is where there are more than half of the serious violations and more than half of the fatalities.

During the years between now and our target years of study, 1980–85, the conflicting elements in this area of risk management must be resolved. Both OSHA and Small Business must be around in 1985.

2. ERISA, the New Horizon in Pensions

To the small businessman, harassed and gun-shy as a result of being the focal point of all the problems of his business, any new government program is looked upon with a querulous attitude to say the least. Concerned with whether he and his business will survive next month, he finds it mind-boggling that the government wants him to give great attention to the details of pension plans for the long term future; profit-sharing arrangements; accident, disability and death benefits; hospital, medical, and surgical payment plans; apprenticeship, legal, scholarship, and vacation plans. He lives in a different time span than does government, and he is afraid that bureaucrats will put him out of business in his time span.

Public Law 93–406, the Employee Retirement Income Security Act, was signed into law on September 2, 1974. The federal government, concerned about the viability of private pension programs for

[11] Generally, in manufacturing, 250 employees or less, and in trade and service firms no more than $2 million in receipts.

workers, and perhaps because of its growing awareness of the limitations and inadequacies of its own (Social Security), was now to begin regulating pension and welfare plans, at the same time pre-empting state regulation in most cases.

The small business saw itself required to comply with the regulations of an act which involved four Congressional Committees and took nine years to formulate into about 200 pages. Accountants, actuaries, and lawyers would be needed if a small business were to come off well in dealing with the two agencies charged with carrying out the act, the Labor Department and the Internal Revenue Service.[12]

By May 30, 1976, employers were to file with the Labor Department a description of their plans, and each person covered by a plan was to be provided with the basic details of the plan of the firm in which employed. A no-penalty delay until July 30 was allowed, and firms with fewer than 100 employees in a covered plan were not required to file but were required to have the documents on hand.

The act also required annual reports concerning financial matters and participation details. Along with the reports, two sets of statements of financial condition were to be filed, each with the opinion of an accountant. The Labor Department began to recognize the difficulties of compliance and twice delayed the deadline; it is now set for December 15, 1976. This time, one financial statement and one accountant-opinion will be sufficient. In addition, no accountant-opinion is required of a firm with less than 100 plan members.[13]

The reluctance of small business to rush into drawing up and publishing detailed plans becomes understandable in the light of a recent New York case, the result of which was to raise the pension benefits of a retired teacher by $94,529.[14] The ground for the decision was negligence, that is, not conveying adequate knowledge upon which an informed choice could be made by the retiree so as to select the highest benefits. Picture the small businessman writing and publishing a plan description, knowing the plight of a long-standing, well-organized, New York official plan.

In the light of this court decision, Prentice-Hall advised its subcribers:[15]

> If your company has a pension plan brochure, make sure it describes plan benefits accurately and in a way that a person of average intelligence can be expected to understand. Read through the brochure line by line, keeping an eye out for any provision that might be subject to differing interpretations. Tighten up any language you think might cause confusion or be misleading to employees.

A related source of fear on the part of the small businessman is the role of fiduciary described in the act, together with the possible penalties he might face (including a year in prison) should he do something a "prudent man" would not have done. Although he might have a co-fiduciary sharing the task with him, he will also have to share in any mistakes or misjudgments or wrongdoing of his co-fiduciary. What can he do to protect himself?

> There is insurance available to protect the fiduciaries from monetary liability and more and more fiduciaries are purchasing policies. Experts recommend that the policy be worded "to pay on behalf of insured all sums which he shall become

[12] See Herbert J. Bober, "Around and Around with ERISA," *Small Business Reporter*, July, 1976, p. 19.
[13] Prentice-Hall *Executive Action Report*, August 14, 1976, p. 329.
[14] Shea v. Teacher's Retirement System (App. Div., 1st Dept., March 23, 1976), N.Y. Law Journal, p. 4, March 29, 1976.
[15] August 14, 1976, *op cit.*, p. 329.

legally obligated to pay as damages by reason of his neglect, error, omission, breach of duty or mistake, or action by him constituting a 'prohibited tranaction' under E.R.I.S.A. as a fiduciary or party in interest." [16]

To the small businessman, another cost.

ERISA and Plan Terminations

It was the intention of the Federal Government to take action to protect employees against losing their benefits under pension plans of their employers. For this reason, it created the Pension Benefit Guaranty Corportation. Employers are required to pay premiums to PBGC to cover their plan participant employees, and these premiums guarantee that vested benefits will be paid.

The initial impact of ERISA has been analyzed by the PBGC, and the study contains some surprising information.[17] The implications of the trend in termination of pension plans go far beyond the ERISA program.

To begin with, estimated plan terminations rose from 722 in 1967 to 3,092 in 1974. Inasmuch as PBGC estimates that 70 percent of plans are "defined benefit plans," it concentrated its analysis on this group. It budgeted for an increase in defined benefit plan terminations of between 25–40 percent! Yet the actual terminations ran even higher!

The corporation received notices during the calendar year 1975 of 4,300 intended terminations of defined benefit plans, which would indicate that probably more than 6,000 plans overall were terminated. A total of 3,950 terminations were covered by PBGC insurance.

In its first annual report (fiscal year 1975), the corporation had estimated, on the basis of its study of plan terminations, that 89 percent of such terminations occured in firms with 50 or fewer employees and that 70 percent of the plans had been in existence for 5 or more years. At that time 16 percent indicated a different plan would be adopted.[18]

In the 1976 analysis, two particular items are especially noteworthy: (1) 12 percent of the firms indicated that ERISA was the single cause of their terminating their pension plan; (2) a further 11 percent indicated that ERISA plus other reasons led to the termination. Overall, 35 percent stated they were shifting to another type of plan. It is then possible (PBGC does not make clear whether the first two groups are part or not of the 35 percent) that an additional 12 percent were taking new and different action because of ERISA.

How many of the 12 percent who blamed ERISA alone accused it unfairly as a whipping boy, is not clear. How many of those who terminated without mentioning ERISA (77 percent) neglected to do so out of fear of conflict with a government agency is not clear either. Certainly if 23 percent of the firms point the finger at ERISA (in whole or part), this indicates a matter demanding a great deal of investigation into the impact of ERISA on small business. An agency and a program with the lofty goal of protecting pension benefits deserves nothing less than the highest professional efforts based upon real information.

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[16] H. J. Bober, "What is a Fiduciary?" *Small Business Reporter,* August, 1976, p. 15.
[17] PBGC, *Analysis of Single Employer Defined Benefit Plan Terminations,* 1975, Washington, D.C., March 19, 1976.
[18] PBGC, *Annual Report to the President and Congress,* June 20, 1975, p. 28.

Pre-ERISA and Post-ERISA

For thirty years the Bankers Trust Company has been studying and publishing information concerning pension and benefit plans in the United States. Private pension plans now cover 30,000,000 workers, whereas thirty years ago less than 7,000,000 were participants in plans. ERISA marks a new historic point in this field.

> The changes mandated by ERISA are so sweeping and the regulations so complex that most employers will be working through the problems for years to come.[19]

That is the assessment of the Bankers Trust Company. Imagine then the effect on the small businessman. It will help if we examine the results of a survey taken by Bankers Trust of 100 corporations, having a total of 2.1 million covered employees, and seek to find the effects of ERISA upon them.

In general, corporations are trying to shift fiduciary responsibilities away from their Boards and toward some other level in the organization. What can the small entrepreneur do?

Corporations are trying to conform to the law, but without simultaneously increasing costs. As the Bankers Trust Company points out, "The long-term trend toward liberalizing plan provisions such as participation requirements and vesting seems to have been halted." [20] The trend now is that corporations are not making participation requirements more liberal than the law requires.

What ERISA requires is that pension plans include workers who are 25 or over and have been employed for one year. Before ERISA, the trend may be described in these terms: in ten years plans with no age or service requirements went from 28 percent of total plans to 43 percent, but since ERISA have dropped to 39 percent. Plans with both age and service requirements went from 35 percent down to 25 percent, and since ERISA have gone back to 34 percent of the total. The new law requires new employees to be included unless they are within 5 years of retirement. Prior to the law 36 percent had maximum age bars, now 39 percent have maximum age restrictions.

Vesting of benefits was the focus of attention as ERISA was coming into being. The act permitted three routes to vesting: (*a*) 100 percent after 10 years; (*b*) a graded system going from 25 percent after 5 years to 100 percent after 15 years; (*c*) the rule of 45, i.e., 50 percent vesting when the sum of age and years employed total 45 followed by 10 percent yearly until 100 percent. The Bankers Trust study found no corporation following the rule of 45, 3 had a graded system, the rest are following the ten-year rule. Only 2 had more liberal vesting than required! What the law required brought into line the 62 percent of corporations without 10-year vesting pre-ERISA. Can small business make such a change when corporations have to extend themselves to reach such a minimum?

Facing Up To Accounting to ERISA

Keeping correct accounting records as required by government agencies is one of the ordinary concerns of small businesses. With the

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[19] *ERISA Related Changes in Corporate Pension Plans*, Bankers Trust Company, New York, 1976, p. 1.
[20] *Ibid.*

advent of ERISA concern became near-paranoia. Public accounting firms began publishing bulletins and pamphlets examining the provisions of the act, discussing accounting "philosophy", cautioning clients about the dangers which lay in wait, and otherwise educating businessmen concerning their new responsibilities to a new government agency.

The small businessman saw ERISA as a bonanza for accountants and a boon for bureaucratic record-keeping. Section 107 required that any person who had to file any report or description must keep records for six years such as to—

> provide in sufficient detail the necessary basic information and data from which the documents thus required may be verified, explained, or clarified, and checked for accuracy and completeness, and shall include vouchers, worksheets, receipts, and applicable resolutions.

One firm [21] developed a guide book analyzing the Act and the IRC code and outlining requirements and reports demanded by the legislation. Despite fifty pages of text, it carried the caveat "This booklet is a layman's summary of those provisions of the Act deemed to be of greater interest. * * * Anyone intending to take action on the basis of the Act should refer to the Act itself and his counsel."

Another, Arthur Young & Company, with the assistance of actuarial consultants Dreher Rogers & Associates, Inc., launched a similar publication.[22] It emphasized that the effects of the new law were far-reaching, that their booklet dealt only with major points, that the need was for background and analysis, and it too carried the warning "It is not legal advice."

As Arthur Young outlined the provisions of the legislation and indicated the accounting responsibilities, at each step a list was made of "Points to Ponder." Some examples are:

> The joint and survivor annuity provision could well be big "hidden cost" element of the new law * * * (p. 20).
>
> How will terms like "reasonable," based on past experience, "best estimate as to the future," and "in the best interest of plan participants" be interpreted in administering the funding legislation? (p. 24).
>
> What administrative procedures will—or should be—set up for resolving conflicts of opinion between the Treasury, Labor, enrolled actuaries, and plan sponsors? (p. 24).
>
> What impact will the program have on an employer's willingness to take risks with new benefit designs or in investing a plan's assets? For many employers, the answer will be closely related to the availability of insurance (p. 31).
>
> Much of the initial writing has been alarmist, misleading, and inaccurate. Careful analysis is required before the financial executive forms conclusions about the impact on his company. * * * Ask your actuary * * * (p. 31).

Clearly there is much cause for small business to be concerned about its responsibilities and the costs of any pension and benefit plans it may consider.

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[21] Kwasha Lipton, Inc., Consulting Actuaries and Employee Benefit Services, Englewood Cliffs, New Jersey, "Summary of Employee Retirement Income Security Act of 1974."

[22] Arthur Young & Company. "Pension Plans 74, A Businessman's Guide to the New Legislation."

IV. ELEMENTS OF THE PROBLEMS OF MARKETING AND MANAGEMENT

Given the nature of the projections discussed earlier, and the new complications vis-a-vis Government, the basic data small businesses need for their future survival concerns what and where the possibilities are of doing business. The Labor Department projections are useful for the purpose of answering this question. The Commerce Department model of the economy in the 1980's will also be introduced.

THE LEADING OPPORTUNITIES

The Department of Labor carries its projections into sectors of the economy and then into Standard Industrial Classification categories within each sector. The sector tables have been searched for industries where the expected real rate of growth in output is 4 percent or better. Appendix A presents a listing of these opportunities through the end of the decade. Appendix B does the same for 1980–85. Expected opportunities are far fewer in 1980–85 than in the last years of the 1970's.

Outstanding rates of growth in output are considered to be those with projections of 10 percent annually or better. Following is a tabulation showing these for the remainder of the seventies. There are none such envisioned for 1980–85!

	Percent
SIC 15, 16, 17, new public utilities construction	10. 3
SIC 2821, 2822, plastic materials and synthetic rubber	11. 8
SIC 307, plastic products	10. 5
SIC 3573, 3574, computers and peripheral equipment	13. 7
SIC 357, except 3573, 3574, typewriters and other office machines	11. 4
SIC 45, air transportation	10. 2

A small business may either be one of the firms in the fields listed or may be a firm servicing a larger firm in such fields. Either way, the information in the appendices is a basic marketing guide for small business.

MARKETING—THE COMMERCE DEPARTMENT MODEL

Commerce projections for 1985 are published as a forecast, but are not aimed at estimating employment in the 1980's. In a sense the projections may be said to be unrealistic, for they are based upon an assumed rate of growth in GNP of 4½ percent annually, and an assumed rate of inflation of 4 percent annually in the price level.[1] Data are generated from these assumptions.

There are nevertheless two ways in which they are useful. Commerce includes a descriptive narrative for each industry, wherein its

[1] *U.S. Industrial Outlook 1976, With Projections to 1985,* Commerce Department, January 1976.

analysts, who specialize in such studies, offer a preview of coming events. In addition, the values generated in the projections might be looked upon as a measure of what is lost to the economy for not achieving a rate of growth of 4½ percent.

At this point in the paper the Commerce projections will be used to supplement the preceding section and so indicate further the nature of leading opportunities. For this purpose Commerce dollar values of output may be ignored.

Construction of New Public Utilities (SIC 15, 16, 17) [2]

A basic reason to expect expansion of construction in this field is the goal which has been set to make the United States independent in the energy field. This calls for new and different types of power plants. Environmental requirements demand that old plants which are sources of pollution be replaced with new ones equipped with pollution controls.

New types of manufacturing plants will appear, smaller in size, more disparate in location than heretofore, and requiring utilities of all types, also in new locations. New communities are anticipated, ones linked by new mass transit systems. Everywhere, in old as well as new communities, utility facilities will have to be put underground.

The whole area of construction, but in particular public utility construction, offers growing opportunities for small businesses. In addition, the same developments which generate the demand for new utility construction will spawn a myriad of enterprises.

The period of rapid expansion is seen ending by 1980, in Labor's view, when the rate of growth goes from above 10 percent to 3.3 percent annually until 1985.

Plastic Materials and Synthetic Rubber (SIC 2821, 2822) [3]

Important factors in the anticipated continuing high demand in the plastics field are the construction just discussed, the new transportation systems mentioned, and continuing requirements for packaging, appliances and furnishings.

Commerce also foresees new resins coming into development which will make possible expansion of existing uses of plastics. Further growth is expected in the field of engineering plastics.

The industry spends a great deal of its income on research and this is expected to continue to develop new uses not even currently imagined. Biodegradable plastics are expected to overcome some of the current objections to the production of plastic materials, and technology which eliminates pollution is anticipated.

Opportunities are to be seized during the rest of the 1970's. The growth rate for 1980–85 is expected to be below 5 percent, whereas until 1980 a rate close to 12 percent is anticipated.

Synthetic rubber is linked with plastic materials in one sector by the Labor Department. The prospects however are not similar. The demand for plastic materials is not hurt substantially by price rises

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[2] *Industrial Outlook,* ch. 1.
[3] *Industrial Outlook,* ch. 9.

because the materials from which competing products are made are also rising in price. In the case of synthetic rubber however we have an industry built upon derivatives of petroleum and natural gas. As these rise in cost, transportation patterns will probably change, affecting the demand for synthetic rubber products.

Plastic Products (SIC 307) [4]

This industry makes miscellaneous household items chiefly, but also experiences considerable demand from the automotive industry and the construction industry. In fact any upturn in either of these raises prospects for the plastic products industry considerably.

For some years this has been one of the fastest growing of American industries. Consumers constantly discover new products made of plastic which formerly were made of metal or wood or rubber.

Projected growth rates follow the pattern for the other industries described above. Prospects are excellent (above 10 percent rate of growth annually) until 1980 and then decline to below 6 percent, 1980–85. However, dramatic developments are possible in this industry. If the construction industry and/or the automotive industry make sudden innovative changes in their basic materials, plastic products may experience a new and unanticipated boom in demand.

Computers & Peripheral Equipment (SIC 3573, 3574) [5]

It is common knowledge that computer usage continues to grow, that smaller and smaller equipment comes into availability constantly, and that new applications are being found as technology develops. The mini-computer is currently the most rapidly growing element in this industry. Its applicability has passed from the scientific area to the commercial and the cost of its usage has declined considerably.

Perhaps the paperwork jungle which has been created in the American economy will be alleviated by forthcoming systems developed by the computer industry. A great deal of attention is focused on Electronic Funds Transfer Systems as a replacement for the paper work created by checks and cash records. Both private and public sectors are experimenting with its usage.

Mainframe technology is probably about to enter a new generation, making it possible and necessary to replace older and larger systems. This is part of the output expansion expected for the rest of the 1970's. Thus, Labor anticipates close to a 14 percent rate of growth until 1980 and thereafter somewhat over 6 percent until 1985. The progress of technology and production capacity overseas will doubtless reduce previous American advantages in penetrating foreign markets.

Related to this field is that of electronic computing and accounting equipment. Here, labor-saving and paperwork-saving equipment has become available to small business. Point of Sale terminals may become linked with EFTS in the near future on regional and national bases. POS units are now in use connected to central computers.

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[4] "Industrial Outlook," ch. 11.
[5] "Industrial Outlook," ch. 29.

Air Transportation (SIC 45) [6]

In measuring the dollar value of output in this industry, Labor lumps together freight traffic and passenger traffic, domestic and foreign, and terminal services. It expects the constant dollar value to show about 10 percent annual growth through the 1970's and then 7 percent from 1980 to 1985.

Commerce, on the other hand, measures and forecasts revenue passenger miles and cargo ton miles. It expects the revenue passenger miles of scheduled airlines to grow at 6 percent through 1985 and that the same rate will apply to schedule cargo ton miles. Supplemental airlines (accounting for only about 5 percent of the business) may show slightly greater growth in revenue passenger miles than the scheduled airlines because of the new charter services, but their cargo ton miles will still grow at a rate far below that of the scheduled lines (3 percent).

Terminal services would seem to be the most likely area of opportunities for small business in this industry. This is where most of the problems are for the airlines—on the ground.

Consultants—Fingers in the Dike

We have been trying to envision the environment for management in the 1980's, and what we have seen is a stark reality indeed. When, however, we introduce a consideration of the failure record of small business, the result should be a conviction that the role of SBA in those years is going to have to be nothing less than an agency for the preservation of private enterprise.

Bear in mind the basic concept that 90 percent of our firms are small businesses. Next, consider the fact that under *good* economic conditions, before the recent recession, half of these firms would fail and go out of business during their first two years. This is the world with which SBA has been trying to work. It has never had sufficient resources. The 1980's will be a time in which we must make sure that it gets them, or we will live in a time more dominated than ever by the demands of the big corporations.

It is commonly said by corporate representatives that there are many small businessmen who should not be in business. This may be perfectly true, but it is beside the point. There are some presidents of corporations and chairmen of boards who should not be where they are. There are some in political life and government who have betrayed public trust. There are many in other walks of life as well who are no better.

All such parties are using and/or misusing our resources. The true questions to be asked are: Is the enterprise a viable use of resources? What can be done to make its functioning more rational and efficient?

This paper looks to future answers and hence to future characteristics of SBA. It sees past and present answers as part of an evolution of that institution. So in order to make clear what SBA must become, it will now take a look at one of the important activities of SBA in recent years. For this purpose, the work of the Price Waterhouse & Co. staff on behalf of SBA proves invaluable. Their assignment was to

[6] *Industrial Outlook*, ch. 16.

evaluate the success of what has been called the 406 Call Contracting Program.[7]

Among the purposes of the Economic Opportunity Act of 1964 was the involvement of "socially" and/or "economically" disadvantaged persons in small businesses. The Act authorized SBA to assist them in setting up and managing their own enterprises. People who could not be expected to start or to manage a business on their own were (when in trouble) to be helped under Section 406 of Title IV of the Economic Opportunity Act by the provision of private consultant services.

Each year SBA has had to determine the extent of services to be needed by businesses of the EO type in each of its regions. It has then invited bidding by consultants interested in providing the services. The consultants/contractors must themselves be small businesses. In general, SBA has selected lowest bidders.

Consider the nature of the assignment facing a 406 contractor: Such a firm has to be able to offer guidance in setting up the accounting system, technical engineering assistance, market research, training, guidance in obtaining government contracts, and general managerial guidance. And the clients have to be those most likely to fail, as we shall see.

In order to obtain the assistance of a consultant under this program, the small EO type business must first of all be in trouble already. SBA discovers the situation when one of its loans is found to be delinquent. The businessman finds he cannot meet his current expenses, he needs more money, or he is in legal difficulty. To get help, he must sign a form giving permission to be helped and holding SBA innocent if the assistance makes things worse. He must already be disadvantaged (or low income) and he must be located in an area of high unemployment (or low income). That he survives at all, or that the consultant has success with him at all, is indeed remarkable.

The Price Waterhouse analysis shows the following types of assistance services provided by the consultants:[8]

	Percent of task orders
Market analysis	14
Advertising and sales promotion	17
Financial management	17
Recordkeeping	27
Production management and control	2
General management	23

Having determined that the businessman is in sufficient difficulty, and also that a contractor is eligible to provide help, SBA writes up a Task Order. Only about one out of eight businesses assisted under this program have had no prior financial arrangement with SBA.

In providing assistance, the consultants report having spent their time as follows:[9]

	Percent
On the site	28
Developing solutions	24
Preparing their reports	29
Administration, et cetera	19

[7] Price Waterhouse & Co. Staff, *Evaluation of the 406 Call Contracting Program*, Washington, U.S. Small Business Administration, April, 1976.
[8] Price Waterhouse Study, Vol. III, p. 14.
[9] *Ibid.*, p. 16.

Their clients showed the following particular characteristics: 71 percent were non-white, 89 percent had finished secondary school or better, 80 percent were in their second year of operation, more than half were delinquent on their loans.

The Success Rate

The Price Waterhouse staff concluded that in the course of the three years experience studied by them five out of eight tasks carried out proved to be unsuccessful; in addition there was no significant year-by-year improvement in the success rate.[10]

The state in which the client had to get himself prior to assistance is sufficient explanation in itself for the high rate of lack of success in salvaging him. Nothing better could have been expected, and the P–W staff so assesses the situation. However, they found other factors which are important to note. Among the reasons found for the unsuccessful cases, 70 percent relate to the SBA Task Order itself, the Contractor's work, or the interaction of both: [11]

The Task Order was too late in 21 percent of cases.

The report of the Contractor did not respond to the Task order in 25 percent of cases.

Neither got to the real problem in 24 percent of cases.

In studying the successful cases, no relationship was found significant as to racial background, nor was there any significant difference found as to type of business assisted. It was found, however, that the possibility of success rose with size of sales of the business.

Before SBA issues the Task Order a Management Evaluation is carried out to determine the exact needs. This may be done in SBA or it may be done by a Consultant. When done by SBA, the cases turned out to be 30–40 percent successful. When done by consultants having less than 5 years' experience, the rate was 21–41 percent. And when done by consultants with more than 5 years' experience, the success rate was 43–57 percent. (It would seem apparent SBA needs to be in position to hire experienced consultants on its own staffs.)

SBA has limited funds and a limited number of people with which to carry out its responsibilities under its enabling legislation. Hence it comes to look upon use of the 406 Consultant as an expensive way to use its funds. It has various in-house and volunteer resources it uses first to solve a problem. Price Waterhouse argues that there is a better chance for success when 406 Assistance is injected early. (One could also point out that if such experienced people were already on the SBA staff and were put on the job early the success rate would likewise rise.)

In general, Price Waterhouse considers the 406 Program effective, in fact, among SBA's tools the most effective. Its short run record of helping one out of three, considering the high failure rate of small businesses, is acceptable as a success rate. However, there has been no improvement in the success rate during the years 1973, 1974, and 1975. Hence means must be found to enhance the program.

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[10] Price Waterhouse Study, Vol. IV, pp. 3–5.

[11] *Ibid.*, Vol. IV, pp. 22–25.

Recommendations

Price Waterhouse emphasizes that the viability of the business enterprise is the basic consideration. Many have been set up in businesses which could not have turned out to be viable. In over-zealousness, assistance has been given to disadvantaged people only causing them additional grief in dealing with their economic survival. They have even wound up losing what little they had in economic assets.

The timing of Consultant assistance is wrong. When the businessman gets into severe financial trouble is already past the time when the assistance is needed. Such help should be provided initially.

When it comes to the tiny business ventures, the Mom-and-Pop type, the Consultant can do little. His experience in market research or advertising is not likely to apply, his sophisticated accounting expertise is not needed, the textbook strategies he can draw upon will be beyond the nature of the case—here a different program is needed or no program at all because there may after all be no potential.

The Price Waterhouse Study goes on to make many minor recommendations for improvement in procedures, forms, staffs, consultants, and so on, all applying to the existing program.[12] What we are interested in here is a larger picture, and so we cite their recommendations that services be expanded in the following areas: [13]

(*a*) The identification and development of new business opportunities.
(*b*) General planning and research for solving the problems of small businesses.
(*c*) Furnishing of centralized services with regard to public assistance and government programs.
(*d*) Establishing and strengthening business service agencies, including trade associations and cooperatives.
(*e*) Expanding management training aimed at developing individual entrepreneurial and managerial self-sufficiency.

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[12] For example, SBA should provide standard accounting packages, models of budget forms, outlines of business plans, advertising methods befitting the business, and so on.
[13] Vol. V, p. 4.

V. NEW STRATEGIES

Small Business in the United States is becoming an endangered species. A positive, aggressive strategy on the part of government is essential if Small Business is to survive. Achieving the solution to its situation will involve some revision of existing enclaves (and that will be another problem). Just as our internal revenue code is a collection of regulations for special purposes rather than a national policy document, so too are our government's dealings with small businesses a patchwork rather than a policy. The Joint Economic Committee has said: [1]

> Congress should review the Federal laws, agencies, and regulations affecting small business. This review should develop a National Small Business Policy that will foster a dynamic small business sector.

As one looks at the problems of private enterprise (our small businesses) one sees three types. There are those which are solvable, because they arise from a law, or an administrator carrying out a law, or a conflict of laws and/or administrators. Then there are those which need constant attention, for example the appearance of new entrepreneurs who do not know what they are getting into, who lack managerial skills to meet the constant battle of competition. Thirdly, there are those which are overriding in their requirements for solution because they threaten the very existence of small business.

Consider, for example, the world of federal/state OSHA programs. There are 5 million businesses in the sphere of OSHA regulation, of which 90 percent have 25 or fewer workers. A sizable penalty assessed by OSHA can put such businesses to the wall.

If a small business is required to invest in reforming its operations to comply with OSHA directives, it may apply to SBA for a loan:

> In the program's five years, the SBA has loaned $31.3 million to approximately 156 firms. This is only 0.001 percent of the firms that OSHA has inspected. An estimate of OSHA-related investment by larger firms in 1975 was $3.1 billion, or 99 times as great as the total loans by SBA.
>
> Special assistance for appealing citations for small businesses does not exist * * *.[2]

Large business and small business are treated the same. OSHA recognizes that small firms may not have equal access to capital, and that they are probably unable to pass on their new costs in the prices they charge. OSHA even has this to say:

> Moreover, a firm with large resources and available credit will be able to withstand short-term losses in anticipation of future profits. A smaller firm, frequently with a single line, may have no choice but to retrench or close down when faced with similar short-term increases in costs.[3]

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[1] JEC, *1976 Joint Economic Report*, SR 94–690, March, 1976, p. 86.

[2] OSHA, *Occupational Safety and Health Administration's Impact on Small Business*, July 1976, p. 19.

[3] N. A. Ashford, G. Gorski, and G. R. Heaton, "The Relevance of the Foreign Experience to the Occupational Safety and Health Problems in Small Business," *Ibid.*, Appendix E, p. 1.

Among those circumstances which might reduce the burden, according to OSHA, we find the following:

> * * * small firms which are not as capital intensive as larger firms in the same line of business may find it easier to relocate than larger firms when faced with stringent requirements.[4]

Easier to relocate? Retrench? Close down? Are these the choices of small business as it faces its government? There is one clear way to establish proper priority for small business:

A Department for Small Business, With Cabinet Rank

We in the United States constantly proclaim ourselves believers in private enterprise as the foundation of our economic system. Yet it is other economic systems, not proclaiming themselves private enterprise systems, who do more actively to preserve, help, and promote small business. If we are to begin to do the same, then we must start with the following basic principle: Only one face of government toward small business.

There should be no such situation wherein any agency of government so regulates, or threatens the existence, of a small business, forcing that business to go to the Small Business Administration for credit so that it might comply with directives of that other agency. Small business should only have to deal with one government, not many governments.

As was pointed out in the beginning of this paper, small businesses constitute 95 percent of our enterprises and account for 60 percent of employment. Agricultural employment is less than 3.5 percent of the labor force, yet there is a Department and a Secretary of Agriculture. It is time to recognize that this is 1976, not 1876! If the Government of the United States is related to the economic system of the United States, then let there be representation at the highest level which looks after the development of that system—and that system is largely a world of small private enterprise.

A Small Business Investment-Reserve Fund

It is gradually becoming known that the effective tax rate upon small business is much greater than, perhaps twice, that upon large corporations. Small business failures are alarmingly high. Sell-outs to large corporations are too common to ignore. The situation even reached the point at which the *Harvard Business Review* ran an article "How to buy a small manufacturing business." The author observed that there were usually 37,000 firms for sale in the category of $100–500,000 annual sales and that "This price range is attractive because it is large enough to make the company interesting to manage and also remunerative."[5]

Our national policy should be one that will make it possible to continue to own and develop a company. The Investment-Reserve Fund practice Sweden developed might accomplish that. Allow a small business to take 40 percent of its before-tax profits and deposit

[4] Ibid., p. 2.
[5] Article by Douglas E. Kellogg, Sept./Oct. 1975, p. 92.

that sum in an account with a Small Business Investment-Reserve Fund (attached to the office of the Secretary for Small Business). Leave half under the control of the Secretary, to be returned at such times as the Council of Economic Advisers indicates a policy of stimulating investment is in order. The other half would be drawable for investment purposes in accordance with the development plans of the firm at any time.

A Small Business Management Institute

Within the structure of regional and local offices of the Department for Small Business, there should be branches of an institute for research and training. Before new businesses are given access to public funds the SBMI should determine whether they have the management know-how required for the responsible use of those public funds. The proper way to deal with this is as an educational and testing exercise.

Certainly, a local institute should be a library resource. Training programs could be partly based upon in-house staff and partly upon local university and business resources. The institute should satisfy market research and management-capability needs. If we so strengthen those going into new businesses the chances both of collecting on loans and of prosperous survival will be enhanced. No one should be able to draw public funds and not meet capability requirements.

As we saw earlier, in examining the consultant program, help is not now provided until the firm is already in deep water. It is then too late; it is also wasteful. The SBMI should have in-house consultant services for use from the beginning of the business or the beginning of a loan program.

Links With Regional Economic Development

For any funds being appropriated for regional economic plans there ought to be a required Small Business Impact Statement. We must nip in the bud any merging of political and large-corporation interest which may be detrimental to the growth of small business in any region of the country.

Transfer of the Economic Development Administration away from Commerce to Small Business might be an even better arrangement. Regional development of the United States and small business development ought to be part and parcel of the same national policy.

The Mississippi Economic Development Corporation is an illustration. Its chartered purpose is "to improve and stimulate the state's economy in general, and the small business segment in particular." [6] Mississippi was the first state to develop such a policy. MEDC finds new sources of venture capital, provides training, and supplies managerial assistance. In doing so it quite naturally found itself getting involved in the export business of Mississippi and from that MEDC was led further to development of ports and harbors. It does what has been described above by way of services to small business. Moreover, it goes a step further and unites public and private capital resources for the purpose.

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[6] Cf. Mississippi Economic Growth Programs, Hearings before the Subcommittee on Economic Growth of the JEC, Jan. 7, 1976, p. 6 and the Prepared Statement of Robert Robinson.

The Federal Reserve Bank in each region of the country is an important missing link when it comes to connecting development and the world of small business. It will take a high level directive if a change is to be effected. Just as the Washington level of the Federal Reserve System has ignored the world of small business, so have the district banks.[7]

It was the original intention of the author to conclude with a laundry list of suggestions to "re-vitalize" the Small Business Administration. Among those were to be ways to give it greater authority, more responsibility, and to broaden its strategic role. A more aggressive SBA, he thought, was the need. More functions, more capital resources, more et cetera, would have been recommended.

But in carrying out the research it became more apparent that all that would have been just mere details of legislation, each piece having to be fought through the halls of Congress. The importance of small business and the difficulties it faces in this, a supposed private enterprise economy, pressed more to the fore. The author gradually realized the original intention, a "new" SBA would not be enough.

It was asserted early in the paper that we will not have a true Full Employment Policy until we have a National Small Business Policy. And as a final word, the author is led to say that we will not have either until we have a Secretary in the Cabinet, heading a Department for Small Business.

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[7] While researching literature for this paper, the author inquired of a district bank concerning what analyses it had done concerning small business and was told "none, and we don't intend to do any."

Appendix A. Industries With Projected Real Rate of Growth of 4 Percent or Better Until 1980

Economic growth sector	SIC Nos.	Title of sector	Projected real rate of growth
5	101, 106	Iron ore mining	7.0
6	102	Copper ore mining	5.3
7	103–109 except 106	Other nonferrous metal ore mining	7.6
10	141 through 145, 148 and 149	Stone and clay mining and quarrying	5.3
11	147	Chemical and fertilizer mining	8.9
13	15, 16, and 17	New nonresidential building construction	7.4
14	15, 16, and 17	New public utilities construction	10.3
16	15, 16, and 17	All other new construction	6.3
22	221, 222, 223, 224, 226, 228	Fabric, yarn, and thread mills	4.0
23	227 and 229	Miscellaneous textiles and floor coverings	4.3
26	239	Miscellaneous fabricated textile products	5.4
27	241, 242	Logging, sawmills, and planing mills	4.1
28	243, 244, and 249	Millwork, plywood, and other wood products	4.9
30	25 except 251	Other furniture	5.5
31	26 except 265	Paper products	4.4
32	265	Paperboard	5.6
33	271, 272, 273, 274	Publishing	4.4
34	275, 276, 277, 278, and 279	Printing	5.7
35	281, 286, and 289	Chemical products	7.0
36	287	Agricultural chemicals	8.0
37	2821 and 2822	Plastic materials and synthetic rubber	11.8
38	2823 and 2824	Synthetic fibers	5.3
39	283	Drugs	7.1
40	284	Cleaning and toilet preparations	7.3
41	285	Paint	4.8
43	30 except 307	Rubber products	4.8
44	307	Plastic products	10.5
47	324, 325, and 327	Cement, clay, and concrete products	5.0
49	331	Blast furnaces and basic steel products	4.2
51	3331	Primary copper metals	5.1
52	3334	Primary aluminum	8.2
55	3352	Aluminum rolling and drawing	5.7
56	3356 and 3357	Other nonferrous metal rolling and drawing	5.9
57	336 and 3392	Miscellaneous nonferrous metal products	5.1
58	341 and 3491	Metal containers	6.0
59	343	Heating apparatus and plumbing fixtures	4.2
60	344	Fabricated structural metal	6.4
61	345 and 346	Screw machine products	5.8
62	342, 347, 348, 349 except 3491	Other fabricated metal products	5.6
63	351	Engines, turbines, and generators	7.6
64	352	Farm machinery	4.5
65	3531, 3532, and 3533	Construction, mining, and oilfield machinery	5.1
66	3534, 3535, 3536, and 3537	Material handling equipment	6.9
67	354	Metalworking machinery	6.9
68	355	Special industry machinery	5.7
69	356	General industrial machinery	7.5
70	359	Machine shop products	7.8
71	3573 and 3574	Computers and peripheral equipment	13.7
72	357 except 3573 and 3574	Typewriters and other office machines	11.4
73	358	Service industry machinery	6.9
74	361	Electrical transmission equipment	7.2
75	362	Electrical industrial apparatus	8.2
76	363	Household appliances	5.0
77	364	Electric lighting and wiring	7.2
79	3661	Telephone and telegraph apparatus	8.8
80	3662	Other electronic communication equipment	5.3
81	367	Electronic components	8.1
82	369	Other electrical machinery	5.7
83	371	Motor vehicles	4.0
84	372	Aircraft	7.8
85	373	Ship and boat building and repair	9.2
86	374 and 375	Railroad and other transportation equipment	7.8
87	379	Miscellaneous transportation equipment	7.5
88	381, 382, and 387	Scientific and controlling instruments	6.2
89	384	Medical and dental instruments	6.4
90	383 and 385	Optical and opthalmic equipment	4.8
91	386	Photographic equipment and supplies	8.4
92	39	Miscellaneous manufactured products	4.3
95	42 and 473	Truck transportation	5.0
97	45	Air transportation	10.2
98	46, 47 except 473 and 474	Other transportation	5.4
99	48 except 483	Communications except radio and TV	7.6
101	491 and part 493	Electric utilities	7.3
104	50	Wholesale trade	5.3
105	52, 53, 54, 55, 56, 57, 58, and 59	Retail trade	4.5
106	60, 61, 62, and 67	Finance	6.5
108	Not comparable	Owner occupied dwelling	4.8

Economic growth sector	SIC Nos.	Title of sector	Projected real rate of growth
109	65, 66	Other real estate	5.2
110	70	Hotels and lodging places	5.6
112	73 except 731	Miscellaneous business services	9.1
114	81 and 89 except 892	Miscellaneous professional services	8.3
115	75	Automobile repair	4.3
117	79	Other amusements	4.0
118	80 except 806	Health services, except hospitals	6.3
119	806	Hospitals	7.5
120	82	Educational services	5.2
121	84, 86, and 892	Nonprofit organizations	4.7
122	Not comparable	Post office	6.9
124	do	Other Federal enterprises	4.5
125	do	State and local government enterprises	5.5

Appendix B. Industries With Projected Real Rate of Growth of 4 Percent or Better, 1980–85

Economic growth sector	SIC Nos.	Title of sector	Projected real rate of growth
7	103–109 except 106	Other nonferrous metal ore mining	6.5
8	11, 12	Coal mining	5.8
35	281, 286, and 289	Chemical products	4.2
37	2821, 2822	Plastic materials and synthetic rubber	4.3
39	283	Drugs	4.8
40	284	Cleaning and toilet preparations	4.6
44	307	Plastic products	5.5
52	3334	Primary aluminum	5.2
55	3352	Aluminum rolling and drawing	5.3
63	351	Engines, turbines, and generators	4.9
66	3534, 3535, 3536, 3537	Material handling equipment	5.1
69	356	General industrial machinery	4.3
71	3573 and 3574	Computers and peripheral equipment	6.4
72	357 except 3573 and 3574	Typewriter and other office machines	4.6
73	358	Service industry machines	4.4
74	361	Electric transmission equipment	4.6
75	362	Electrical industrial apparatus	4.0
76	363	Household appliances	4.0
77	364	Electric lighting and wiring	5.2
79	3661	Telephone and telegraph apparatus	5.7
80	3662	Other electronic communication equipment	4.2
81	367	Electronic components	5.8
82	369	Other electrical machinery	5.3
89	384	Medical and dental instruments	5.5
90	383 and 385	Optical and opthalmic equipment	4.0
91	386	Photographic equipment and supplies	7.2
97	45	Air transportation	7.1
99	48 except 483	Communications except radio and TV	5.4
101	491 and part 493	Electric utilities	5.6
106	60, 61, 62, and 67	Finance	4.4
108	Not comparable	Owner occupied dwelling	4.4
112	73 except 731	Miscellaneous business services	5.6
114	81 and 89 except 892	Miscellaneous professional services	5.0
119	806	Hospitals	5.5
122	Not comparable	Post office	4.1

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