S. 1726, SMALL BUSINESS ECONOMIC POLICY AND ADVOCACY REORGANIZATION ACT OF 1977

JOINT HEARINGS

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT REGULATION AND SMALL BUSINESS ADVOCACY

OF THE

SELECT COMMITTEE ON SMALL BUSINESS

AND THE

SUBCOMMITTEE ON ECONOMIC GROWTH AND STABILIZATION

OF THE

JOINT ECONOMIC COMMITTEE
UNITED STATES SENATE

NINETY-FIFTH CONGRESS

FIRST SESSION

ON

S. 1726

SMALL BUSINESS ECONOMIC POLICY AND ADVOCACY REORGANIZATION ACT OF 1977

JUNE 29, JULY 21, AND NOVEMBER 21, 1977

Printed for the use of the Select Committee on Small Business and the Joint Economic Committee

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CONTENTS

EXHIBITS

APPENDIX

HEARING DATES

S. 1726, SMALL BUSINESS ECONOMIC POLICY AND ADVOCACY REORGANIZATION ACT OF 1977

WEDNESDAY, JUNE 29, 1977

U.S. SENATE, SUBCOMMITTEE ON GOVERNMENT REGULATION AND SMALL BUSINESS ADVOCACY OF THE SELECT COMMITTEE ON SMALL BUSINESS AND THE SUBCOMMITTEE ON ECONOMIC GROWTH AND STABILIZATION OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittees met, pursuant to notice, at 10 a.m., in room 424, Russell Senate Office Building, Hon. Thomas J. McIntyre, and Hon. Hubert H. Humphrey, chairmen, presiding.

Present: Senators Humphrey, McIntyre, and McClure.

STATEMENT OF HON. HUBERT H. HUMPHREY, A U.S. SENATOR FROM THE STATE OF MINNESOTA

Senator HUMPHREY. We will open the hearing of our respective subcommittees chaired by Senator McIntyre and myself to listen to our witnesses.

I consider it a great honor to share, on behalf of the Joint Economic Committee, the chairmanship of this hearing with my distinguished colleague, Senator McIntyre.

The bill that we are considering this morning, S. 1726, the Small Business Economic Policy and Advocacy Reorganization Act of 1977, is in my judgment the most important small business legislation in recent years. I am not saying this out of any pride of partial authorship. Taken in its entirety the measure is an amalgam of proposals developed by Senator McIntyre, myself and others who are committed to strengthening the small business community.

Rather this legislation is important because it represents what I consider to be a successful effort to forge these ideas into a comprehensive proposal that raises consideration of SBA and small business needs to the highest levels of program and policy development in the Government and gives the SBA the additional tools it must have to fully respond to small business requirements. I think it goes without saying this statement indicates that I have long felt that the Federal Government has not given adequate attention to the rather unique needs of small business. All of our tax laws and public policy laws are based on business. That generally means the larger businesses which have greater access to our capital markets, that have a competitive advantage and many other advantages.

There are two chief components of the proposed legislation. It would establish a Division of Advocacy and Economic Research and

Analysis within SBA to represent and promote the interests of small business among all Federal instrumentalities that affect small business in significant ways. Thus, an important step will be taken to fully coordinate the activities of SBA within the family of major Federal departments and agencies. As a result, the quasi-orphan status of SBA that exists despite the immense importance of small business to our economy would at last be ended.

Second, the bill would establish a small business economic policy under which the administration would be required to annually assess the investment and other substantive needs of small business as a major component in the fiscal and monetary policy and program planning and develop specific proposals to meet these needs.

In addition to the legislation itself this hearing is important for another reason. As far as I know this is the first time that members of the Joint Economic Committee have participated in joint hearings to consider legislation which addresses the Joint Economic Committee policy of strengthening the small business sector of our economy. In this respect the hearing is extremely gratifying to me. I hope that the precedent we have established here this morning will be repeated many times in the future with other committees of the Congress.

With Senator McIntyre and other members of the Joint Economic Committee and the Select Committee on Small Business, I am looking forward this morning to the testimony of our distinguished witnesses.

STATEMENT OF HON. THOMAS J. McINTYRE, A U.S. SENATOR FROM THE STATE OF NEW HAMPSHIRE

Senator McIntyre. Thank you, Mr. Chairman.

It is a distinct honor for me to join with Senator Humphrey in cochairing this morning's hearing on S. 1726, the "Small Business Economic Policy and Advocacy Reorganization Act of 1977." The most able Senator from Minnesota at one time served on the Select Committee on Small Business and has been a long time champion, as you all know, and supporter of small business.

Since coming to the Senate in 1963, it has been my privilege to serve on two commitees dealing with small business—the Small Business Subcommittee of the Banking, Housing, and Urban Affairs Committee and the Select Committee on Small Business. As a member of both of those committees, I have chaired dozens of hearings dealing with an incredible array of problems and issues confronting the small business community. If I had to pick one recurring theme that pervaded all of those hearings, it was the lack of any hard, meaningful small business data that could be used to measure and quantify the particular problem being addressed. Countless witnesses and recognized experts have been able to demonstrate, for example, that smaller concerns have extraordinary difficulties in raising sufficient debt and equity capital. But in the final analysis, no government department, agency, or private sector group has been able to accurately translate into exact dollar amounts this capital short-fall or state in precise terms the number of independent businessmen affected.

I could go on for the remainder of the morning citing instances where statistical data was not available or was found wanting when we were trying to assess legislation or regulations.

Suffice it to say, that the time has come where we can no longer tolerate this "seat-of-the-pants" analysis. The bill before us today represents what I believe to be a landmark piece of legislation for small business in that it finally provides the executive branch, Congress, SBA, and the small business groups with the tools to effectively, efficiently, and thoroughly analyze all aspects of the current status of our Nation's small and independent concerns. In addition, it puts all elements of the Federal Government on notice that the economic well being of this economic sector is one of our country's top priorities.

The President, members of the Cabinet, other high economic policymakers and data gathering agencies are directed to give the millions of small- and medium-sized concerns the time and attention they deserve and which is so long overdue.

Today we will hear from several witnesses. To help expedite the hearing and at the same time, to assure that their views will be given thorough consideration by both committees, we have requested the gentlemen appearing today to participate in one of two panels. At this time I would ask the following members of the first panel to come forward:

Mr. Mike McKevitt, Washington Counsel, National Federation of Independent Business; Mr. Herbert Krasnow, president, National Association of Small Business Investment Cos.; Mr. Herbert Liebenson, executive vice president, National Small Business Association; Mr. Leo McDonough, executive vice president, Smaller Manufacturers Council; and Mr. Roger Travis, president, SBANE, the Smaller Business Association of New England. Mr. Lewis Shattuck, executive vice president, will accompany Mr. Travis.

This is our first panel. If I have overlooked any associates, would you please introduce them for the record when it comes your time to testify.

If it is agreeable with my colleague, we will call on the panel to testify briefly in the order in which we called them—that would be McKevitt, Krasnow, Liebenson, McDonough, and Travis. I have no idea how long your statements are, gentlemen, but you must make them concise. We have about 1½ hours and both Senator Humphrey and I would like to ask questions. Your statements, of course, will appear in their entirety in the record. With that, we recognize Mr. McKevitt.

STATEMENT OF JAMES D. "MIKE" McKEVITT, WASHINGTON COUNSEL, NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Mr. McKevitt. Thank you, Senator McIntyre, Mr. Chairman.

First of all, I would like to request that my statement be placed in the record. I will make brief remarks, highlighting the statement itself and the feelings of the National Federation of Independent Business.

Above all I would like to say that this is substantive legislation and good legislation. I think that it is particularly nice to comment on this legislation while the chips are really down in the small business corner. My compliments to both of you. You both have been good friends of ours for a long time.

I would like to hit on the good points of the bill. I think, first of all, that while it is not cabinet status per se, the fact that the bill elevates the Small Business Administrator to executive level one is going to give him a lot more clout in the White House. I have seen the psychological effects of status elevation in the past in previous administrations and I am sure the chairman has as well, even much more so than I. I think this will be a big step forward for the Small Business Administration to have this elevation in status given to the Small Business Administrator.

I think we do need a Small Business Economic Council. I think it is going to take more than an advocate to really pound home the message of small business. It needs the firepower to bring in the different cabinet people with the Small Business Administrator chairing this council to give small business the clout it should have. Considering the fact that 56 percent of the private work force today is employed by small business, I believe that is a significant enough reason to have a Small Business Economic Council.

So far as the credit information is concerned, in a recent survey of our membership—which now exceeds one-half million—we have found that 82 percent of them have to rely on banks for capital, and oftentimes they borrow more than once during the year. So there is obviously a great need for credit information, and I think the reporting requirements in this bill would be beneficial. However, we do meet this suggestion with mixed emotions.

In light of the concern about paperwork expressed by our membership and by small business in general, we wonder about the reaction you might have if you are going to require that every bank has to report on all the different loans it makes. Possibly as alternatives, you might want to consider either a random sampling or a requirement that they report every other year, to avoid the intensive paperwork that you would have under the particular provisions now in the bill.

Senator McIntyre. That is a good point, Mike. Every once in a while on the Paperwork Commission, we will say to these very good bureaucrats: "Why are you asking for reports four times a year? How about twice a year? How about once a year?" Anything to relieve this mass of strangulation in triplicate or whatever they call it out there in Chicago. So I agree that we should not increase the paperwork burden for small business.

Mr. McKevitt. I think we could get good profiles by random sampling rather than requiring 100-percent reporting.

The next thing we had a question about—what is meant by medium size business and why is that in the bill?

We are also concerned about the credit allocation and economic planning language. There has been a great deal of concern by our membership in the past about credit allocation and long-range economic planning. So we must note our concern on this point.

Finally, on the advocate itself. I think Walter Stults put it well in the hearing just before this one—your best advocates really are your business association groups and active Members of the House and Senate who are the bird dogs. They will always be your best advocates of small business. If we are going to have an advocate in SBA, I think the advocate should be independent and he should serve, possibly, a set term. He ought to be addressing himself primarily to the substantive issues of inflation, of taxes, of matters which are everyday problems to small business, and he or she should have the freedom within their own power to do it.

That is a summary of the National Federation of Independent Businesses' sentiments.

Senator McINTYRE. Would you have a tenure of 3 years without any responsibility to the President?

How are you going to make this advocate independent? Supposing he is not for the Consumer Protection Agency and the President has been very strong for it? Will he be able to say that small business is not for this and still hold his job?

Mr. McKEVITT. Yes.

Senator McINTYRE. Should he be able to make such a statement?

Mr. McKEVITT. Yes.

Senator McINTYRE. But he will not get reappointed.

Mr. McKEVITT. That is alright.

Senator McINTYRE. Thank you.

[The prepared statement of Mr. McKevitt follows:]

NFIB National Federation of Independent Business

STATEMENT OF

JAMES D. "MIKE" McKEVITT

Washington Counsel
National Federation of Independent Business

BEFORE: SUBCOMMITTEE ON ECONOMIC GROWTH AND STABILIZATION OF THE JOINT ECONOMIC COMMITTEE

SUBCOMMITTEE ON GOVERNMENT REGULATION AND SMALL BUSINESS ADVOCACY OF THE SENATE SELECT COMMITTEE ON SMALL BUSINESS

SUBJECT: SMALL BUSINESS INVESTMENT POLICY AND ADVOCACY REORGANIZATION ACT OF 1977

DATE: June 29, 1977

Mr. Chairman, as Washington Counsel for the National Federation of Independent Business (NFIB), I am pleased to appear before you today to indicate NFIB's overall support of the Small Business Investment Policy and Advocacy Reorganization Act of 1977.

On behalf of our 510,000 small and independent member firms, I would like to express NFIB's deep appreciation to the Subcommittees for their efforts to try and insure the well being of small business.

There is no need for me to comment in detail upon the particular problems that small businessmen and women encounter in attempting to establish or maintain their business enterprises. (See Table 1). You are well versed in these matters. Unless something is done soon to relieve the burdens of inflation, taxation and government regulation, and to ease the access to available credit at reasonable interest

QUESTION: What is the single most important problem facing your business today?

TABLE 1

MOST IMPORTANT PROBLEM	1976								1977			
	JAN		APRIL		JULY		OCT		JAN		APRIL	
	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%	Rank	%
Taxes	2	17%	2	21%	2	22%	2	20%	2	21%	2	21%
Inflation	1	28	1	25	1	25	1	24	1	24	1	28
Inadequate Demand for Product	7	5	7	4	8	3	6	5	8	4	8	3
Interest Rates & Financing	5	8	5	6	5	7	5	7	7	5	7	5
Minimum Wage Laws, Cost of Labor	6	6	5	6	6	6	5	7	5	7	6	6
Other Government Regulations, Red Tape	3	13	3	16	3	14	5	7	3	12	3	12
Competition from Large Business	4	10	4	9	4	9	3	13	4	10	4	9
Quality of Labor	6	6	6			5	4	10	6	6	5	7
Shortage of Fuels, Materials or Goods	8	1	8	1	9	1	7	*	9	2	9	1
Other; No Answer		6		7		8		7		9		8
Total		100%		100%		100%		100%		100%		100%

* Less than 0.5%

Source: <u>NFIB Quarterly Economic Report for Small Business</u>, (eds.) Bailey, Richard M., and Dunkelberg, William C., (National Federation of Independent Business: San Mateo, Cal.), April 1977.

rates, small business will continue to struggle. 1/

A healthy, thriving small business sector is vital to the nation's economy, particularly in the critical area of job creation. Presently, small business accounts for 56% of the nation's private work force. Labor intensive rather than capital intensive, a rise in the profits of a small business translates immediately into an increase in employment.

As Professor George A. Doyle said in his recent study on small business: "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 vi[illegible]y of small business." 2/

The Small Business Investment Policy and Advocacy Reorganization Act of 1977 contains several proposals similar to those that NFIB has been recommending to Congress for years. For this reason, we are supportive of the bill in general and will work to aid in its enactment.

There are, however, two points about which NFIB must express reservations. When testifying on the SBA's advocacy program before the Senate Small Business Committee last year, NFIB expressed the view that "Advocacy will be the watchword of the future and that

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1/ Only 41 percent of small business reported higher net earnings for calendar year 1976 than in calendar year 1975. Thirty-one percent reported lower net earnings over the same period. See: NFIB Quarterly Economic Report for Small Business, (eds.) Bailey, Richard M., and Dunkelberg, William C., (National Federation of Independent Business: San Mateo, Cal.), April, 1977.

2/ Doyle, George A., "Foundations for a National Policy to Preserve Private Enterprise in the 1980's", prepared for: Subcommittee on Economic Growth and Stabilization of the Joint Economic Committee, April 8, 1977, p.2.

the Small Business Administration has no problem that will be more important to the small business community." This view has not changed; a strong advocacy program within the SBA should have top priority. Without it, small business will continue to lack the representation within the Federal government and before Congress which it merits.

For this reason, NFIB is very pleased to see included, under Title I of the bill, a detailed proposal to create an Advocacy and Economic Research and Analysis Division within SBA. Such a Division, if properly staffed and funded, has the potential of accomplishing, for the first time since the SBA was established, the original intent of the Sm[illegible]iness Act, that is, to "encourage and develop...the actual a[illegible]tial capabilities of small business" and to "aid, counsel, assist and protect the interests of small business concerns."

NFIB can attest to the fact that there is now a lack of statistical information on small business within the agencies and departments of the Federal government (or in other places for that matter). And much of that existing data is either not published or not published in useable forms. But, we are all aware that it is extraordinarily difficult to identify specific problems, determine their pervasiveness, and draft reasonable solutions without it. While case studies, in the form of letters relating personal experiences, are fine as illustrative material, they are no substitute for numbers properly analyzed. All too often, NFIB has been forced to come to the Congress arguing a case using "our best judgment", "members tell us", or "ball park figures". That makes us very uncomfortable as we are certain it does the Congress. In fact, it has all too often been the sympathetic consideration of the Congress rather than any statistical argument that has carried the day for small business.

Title I contains a comprehensive delineation of specific duties that are to be performed by the Associate Administrator and his staff on a continuing basis. Many of these duties, including studies on various topics such as the impact of taxation or the cost of government regulation, will, if conscientiously performed, result in a more favorable estimation of SBA's worth, both in and out of government, as well as enable the Advocate and other groups to plead the case of small business more effectively. Clearly, Title I is intended to make ssible for SBA to be an activist Agency, and NFIB supports this concept fully.

There is, however, what NFIB would consider a flaw in the structure of the Advocacy Division as established in the bill. While the reports containing the findings and recommendations of the Division would not have to be submitted to anyone outside of SBA before being delivered to the Congress, the President, and the Council, the Associate Administrator of the Division would be clearly in the chain of command under the SBA administrator and, therefore, subject to the Administrator.

We believe this will hamper the efforts of the Advocate in protecting the interests of small business. If we are to insure that the Advocate will be an independent representative of small business, reflecting its interests and priorities instead of the Administration's, the head of the Advocacy Division must not be subject to control by the SBA Administrator. While we have no reason to believe that there will develop an adversary relationship between the two, we must realistically assume the potential for a conflict on some specific issues. After all, the Administrator is a political appointee who will be expected to support the Administration's position. And the Adminstration's position will not always be the same as small business'.

NFIB's fears are not groundless. We have seen evidence of just such a conflict over the Agency for Consumer Advocacy. Earlier this month, SBA sent a letter to all Members of Congress indicating the Agency's support of S. 1262 and H.R. 6805 "consistent with the President's position on this matter". But NFIB is in possession of a memo clearly demonstrating the Advocacy Office's differing view of these bills.

The position taken by [illegible] Agency for Consumer Advocacy is not the point. The point is that the Agency adopted the Administration's position when the Office of Advocacy did not feel that position was in the best interests of small business. It could happen in any Administration, with any Administrator, over any issue.

Our concern for the independence of the Advocate is muted in determining SBA internal policy and programs. Any recommendations made by the Advocate in this area should be subject to approval by the Administrator, in keeping with his role as head of the Agency. But any studies and resultant recommendations with regard to non-SBA matters -- regulatory and legislative -- should be made independently by the Advocate, in keeping with <u>his</u> role as counsel and partner to small business.

NFIB urges the Committees to reconsider the proper role of the SBA Advocate and restructure his position in the Agency so at to remove any chance that he or she will be influenced by political considerations.

The Declaration of Small Business Investment Policy in Title II is our second concern. Although we are not certain of the intent of this language, we find striking similarities between the language in this section and the language normally used to describe credit allocation programs and long-range national economic planning policies. We would hope that these are not the tools intended to safeguard the interests of small business, because small business wants no part of them.

NFIB has polled its membership to determine their views on economic planning. On both occasions, the results revealed a decidedly negative attitude towards such planning. The response to credit allocation was even more striking. We asked whether the Federal Reserve Board should have the authority to allocate credit on a priority basis, making it clear to our members that small business would be among the sectors given top priority. Despite the competitive edge such priority would give to small business, our membership opposed the proposal.

These votes clearly reflect small business disinterest in government policies that interfere with the normal course of competition in the marketplace, even if those policies would be of benefit to small business.

Aside from these two points of concern, NFIB finds much in this bill to support wholeheartedly. For example, the elevation of the

SBA Administrator to Cabinet-level status is, in our opinion, a key element in making government more responsive to small business. I have already discussed the importance of an effective Advocate in monitoring the actions of Congress and the agencies, and in measuring the impact on small business of the various regulatory and legislative proposals. Equally important, however, is an Administrator who is accepted as a peer by top-level advisors and department heads, who has easy access to the President, and who sits on the Domestic Council and other similar policy-planning bodies. With the Cabinet-level status, the SBA Administrator would have a chance not heretofore possible to help determine domestic policy, and to influence those decisions made at the highest levels of the Executive Branch which impact small business and the nation. More importantly, he would finally be in a position to increase the level of awareness among his colleagues in the Cabinet as to the problems, needs, and interests of small business.

Further, the establishment of the Small Business Economic Council will reinforce the Administrator's role as a primary decision-maker. Such a Council would require that key members of the government, such as the Secretaries of the Treasury, Commerce, Labor, Agriculture, the SEC, and the FTC, and the Chairmen of the CEA and the Federal Reserve Board meet with the Administrator solely to discuss small business concerns. The Council would give the Administrator much-needed close contact with the President's chief economic interests of small business. Cabinet rank for the SBA Adminstrator and the creation of the Council will go far towards insuring that small business is never again overlooked by the Federal government.

98-762 O - 78 - 2

Finally, Title VI, Small Business Credit Information, involves that traditional conflict between paperwork and information. As probably the nation's leading organized advocate of paperwork reduction, we find ourselves in a rather delicate position on this matter. The key factor in our view is "need for the information" and in this instance we see a need.

The Senate Small Business Committee has in recent times made an attempt to obtain information similar to that mandated by Title VI from the Federal Reserve on a voluntary basis. It was not successful. While the Committee did not make a cause celebre over the issue, it became clear the Federal Reserve was not about to move.

Why is this information i[illegible]ant? Virtually all small business financing comes from the r[illegible]s banking system. NFIB data indicates that 82% of small firms borrowing last year, borrowed from banks.[3/] We also know approximately two of three small businesses borrowed money last year, with half the borrowers receiving loans of $25,000 or less. Many firms are repeat borrowers in the sense that they borrow more than one time in any one year.[4/]

Non-bank sources of loanable funds for small businesses are strictly secondary and we must recognize them as such. While they are

3/ Other loan sources included: "Friends, Relatives" - 9%, "Finance Company" - 3%, "Insurance Company" - 3% and "Other" - 10%. (Totals do not add to 100% because respondent could check more than one loan source). See: <u>NFIB Financial Profile of Small Business</u>, (eds.) Bailey, Richard M. and Dunkelberg, William C., (National Federation of Independent Business: San Mateo, Cal.) forthcoming.

4/ <u>NFIB Quarterly Economic Report for Small Business</u>, op. cit.

important, and could and should be expanded, we cannot know the wisdom of the proposals to accomplish it without knowing the existing supply of capital directed to small business and the demand. Quite frankly, we don't now know a great deal about either.

But, NFIB is concerned that the specific language of the bill might require unnecessary paperwork through the detailed gross sales and assets classifications found in the bill. We further are not certain that the data from a random sample of banks might not accomplish the desired objective equally as well. In our view, therefore, the specificity of Title VI may be counterproductive and the necessary detail might be more appropriate in report language.

Mr. Chairman, NFIB appreciates the opportunity to present its views on the Small Business Investment Policy and Advocacy Reorganization Act of 1977 and we hope they are helpful to you.

Senator McIntyre. Mr. Krasnow, if you would proceed, please.

STATEMENT OF HERBERT KRASNOW, PRESIDENT, NATIONAL ASSOCIATION OF SMALL BUSINESS INVESTMENT COMPANIES, ACCOMPANIED BY WALTER STULTS, EXECUTIVE VICE PRESIDENT

Mr. Krasnow. Senator Humphrey, Senator McIntyre. My name is Herb Krasnow. I am president of the National Association of Small Business Investment Companies. It is a volunteer position. Walter Stults serves as our executive vice president.

During the past year, both as the president of our trade association where we have done a thorough analysis of what we think the needs are within venture capital and functioning on a task force within the Small Business Administration on venture and equity capital for small business—the Chairman was Bill Casey—it was very clear to me that the majority of the problems faced by small business lie not within the purview of the Small Business Administration as an agency, but lie with the Congress, lie with the Treasury, lie with the Securities and Exchange Commission. It is very clear that S. 1726 is excellent legislation. We very much want it to happen. It is similarly clear that it is not a panacea; it cannot be. It strikes me that advocacy within an agency is just part of the problem, part of the answer.

We basically are confronted, we think, with something which is much more immediate. In supplementing my remarks, I would like the task force report to go into the record. I would like our summary of NASBIC recommendations to go into the record as well as those of the National Venture Capital Association, which is a sister organization of venture capital groups.

There is a question of emphasis. Clearly the concentration of power, the concentration of money, of national resources, trained manpower, all are more and more going into large business. Small business is being impoverished. It is being put into more and more of a small area of our society. Clearly from a social viewpoint, this is disadvantageous.

We have a situation that we all know from our guts and we do not need numbers, that the vitality of the United States lies in substantial part in the entrepreneurial spirit of the small business community. It must be fostered.

I submit to you that in the reports that we have made part of the record, included in large part in other such reports, including the report that was discussed earlier this morning, are some of the most important goals and requirements of the small business community. The most important job that we have is to gain an awareness of these problems and of the goals and continue to function within our trade associations, within the Congress, within the administration to foster them into gaining those goals.

Thank you.

Senator McIntyre. Thank you, Mr. Krasnow.

[The prepared statements of Mr. Krasnow and Mr. Stults follow:]

NASBIC

NATIONAL ASSOCIATION OF SMALL BUSINESS INVESTMENT COMPANIES

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June 29, 1977

STATEMENT OF

HERBERT KRASNOW, PRESIDENT

NATIONAL ASSOCIATION OF SMALL BUSINESS INVESTMENT COMPANIES

Before the

JOINT ECONOMIC COMMITTEE

and the

SENATE SMALL BUSINESS COMMITTEE

RE: S.1726, the Small Business Economic Policy Report Act of 1977

MR. CHAIRMAN AND MEMBERS OF THE COMBINED COMMITTEES:

I am Herbert Krasnow, President of the National Association of Small Business Investment Companies whose 325 members represent over two-thirds of all the licensed SBICs and MESBICs and about 90% of the assets committed to our industry. In my private role, I have served for the past 15 years as the founder and President of Intercoastal Capital Corporation, a medium-sized SBIC located in New York City. With me today is Walter Stults, NASBIC's Executive Vice President.

On behalf of the SBIC industry, I wish to thank Senators Humphrey and McIntyre for taking the lead in drafting this imaginative and innovative legislation.

We believe that its enactment would result in a much more logical and consistent Federal policy toward the needs and the potentials of the independent sector of the U.S. economy. Just as the Full Employment Act of 1946 focused the attention of the Executive and Legislative Branches of the Government on a comprehensive overview of the American economy, I believe this legislation would bring the same valuable results to Federal Government relations with small business.

With your permission, I would like to comment upon several specific provisions of S.1726 as they appear in the bill and then speak more generally on the needs of small business, as I see them today.

Section 101 contains one item of particular interest to the SBIC industry: the provision establishing an Associate Administrator for Investment whose sole concern would be the SBIC program. We strongly support this paragraph, because we have felt the negative impact since 1972 when the Associate Administrator for Investment (established in 1958) was given additional responsibilities which rendered him unable to devote sufficient attention to the Investment Division.

Section 103 deals with the authorization for an Associate Administrator for Advocacy and Economic Research and Analysis. NASBIC supports this up-grading of the role of the Small Business Administration in formulating and maintaining an economic data base covering small and medium-sized businesses. All of us have been frustrated by the lack of clear information about the numbers surrounding the "small business problem". Without better statistics, no one can determine the scope of the problem. Without better statistics on a continuing basis, no one can decide whether or not present programs are effective. We also feel that the mandate for this official to analyze all Federal legislation and regulation to understand its impact upon the independent sector could be most worth while.

Title II, in effect, places in the Small Business Act the national policy goals stated in the Small Business Investment Act of 1958. We applaud this proposal, as well as the clear commitment of the Federal Government to policies and programs which will utilize private sector mechanisms for channeling the all-important flow of equity and venture capital to new and growing businesses.

Incidentally, I would recommend that the existing National SBIC Advisory Committee, established by law in 1967, be utilized by the Associate Administrator for Advocacy and Economic Research and Analysis and by the Small Business Economic Council whenever either of those offices is studying equity and venture capital.

Title III of S.1726 provides for the preparation and publication of an annual Small Business Economic Policy Report by the President. This Report would be submitted to Congress at the same time as the general Economic Report. As I see it, the Small Business Economic Policy Report would supplement the overall Report and should serve as a solid foundation upon which the Administration and the Congress could build specific legislatiive and regulatory actions. During the 31 years of the life of the Joint Economic Committee and the 27-year existence of the Small Business Committee, no such comprehensive Report has ever been compiled. It is surely time to undertake this sort of a continuing analysis.

Title IV of the legislation before you would establish a Small Business Economic Council headed by the SBA Administrator who would be joined by the Secretaries of Treasury, Commerce, Labor, and Agriculture, as well as by the heads of the Federal Reserve System, the Securities and Exchange Commission, the Federal Trade Commission, and the Council of Economic Advisers. NASBIC supports this proposal, but I must voice one reservation: I hope that the establishment of this Council will not result in the exclusion of the SBA Administrator from other top-level White House policy groups. Let me be specific: every small business group hailed President Ford's decision to make SBA Administrator Kobelinski a member of his Economic Policy Board; that gave him a voice in formulating overall economic advice for the President. It would not be a gain for small business if the President assigned the SBA chief solely to the Small Business Economic Council -- and left him out of the major decisions. I am afraid I have sometimes felt that the very existence of SBA has provided an excuse for the other parts of the Executive Branch to shirk any responsibility for considering the role of independent business when running their own agencies.

I must admit that I could not fathom the import of Title V when I read the text of S.1726. It was only after a few phone calls that I learned that it involved a raising of the post of the Administrator of SBA to Cabinet rank. I'm in favor of that change. As a matter of fact, NASBIC has called for the entire SBA to become a Cabinet Department, and we shall work for that larger goal, along with the other members of COSIBA. In the meantime, though, I support Title V as an interim step.

Title VI of the bill directs the bank regulatory authorities to collect data on the volume of commercial bank credit made available to businesses, broken down by assets and by sales volume of borrowers. I believe this information would be essential to those who have the mandate to set economic policy for the small and medium-size sector. Currently, most business and financial data are aggregated and that conceals far more than it reveals. I cannot say that the categories listed in the bill are the most appropriate ones, but I endorse the idea of a continuing compilation of the amount of bank loans and credits going to smaller firms.

Mr. Chairman, that concludes my summation of NASBIC positions on the six major sections of S.1726. If I may, I would like now to expand on the general topic before you today -- the vitality of the independent sector in the U.S. economy.

During the past year, a number of groups have been engaged in sweeping studies of the status of small business. One was the SBA Task Force on Venture and Equity Capital for Small Business, a blue-ribbon panel of private citizens representing commercial and investment banking, academia, insurance, venture capital, SBICs, and small businesses. The SBA Task Force was appointed last July and filed its Report in January 1977. I would urge that the Report be made a part of the hearing record.

My own Association has devoted a major share of its efforts over the past eight months to a comprehensive survey of the current status of the SBIC industry, and to a listing of legislative and regulatory changes we require if SBICs are to become more effective in channeling additional dollars to new and growing businesses. I ask that our report also be made a part of your record.

The National Venture Capital Association is another organization which has stepped back to look at the small business scene in 1977 and looked forward to decide what actions should be taken to augment the flow of equity dollars to the independent sector. I would suggest that your Committees review the recommendations made by NVCA.

Finally, the Council of Small and Independent Business Associations (COSIBA) has drafted its tax legislation for 1977. The four provisions of the COSIBA bill would enable small and growing firms to retain more of their earnings for growth and would make investment in independent businesses far more attractive. Conversely, the COSIBA bill would remove a major incentive toward merger and concentration which now is a part of the Internal Revenue Code. Again, I ask that a summary of this legislation be included in your hearing record.

SUMMARY

Once again, I wish to congratulate and thank the members of these two Committees for their initiative in designing S.1726. I believe it represents a major step forward for small and medium-sized businesses and I am certain it will greatly strengthen the Small Business Administration in meeting its crucial responsibilities.

For much too long, we Americans have been bemused by the power of "bigness" -- whether it be big business, big labor, or big government. The past decade has demonstrated that size alone is not enough to solve our problems -- or to improve the quality of American life. Those of us who manage SBICs, however, have witnessed a more exciting sort of power: the ability of an entrepreneur to provide and sell a new product or a new service; his ability to transform a new technology into a useful product; his ability to employ countless workers where no jobs existed before; his ability to compete against the corporate giants and prevail by providing better goods at a lower price. I maintain that is the very essence of the free enterprise system. All Federal actions should be taken to buttress the ability of the new and the small to compete; all impediments to the free workings of our competitive system should be removed.

Thank you.

NASBIC

NATIONAL ASSOCIATION OF SMALL BUSINESS INVESTMENT COMPANIES

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WASHINGTON, D. C. 20005

June 29, 1977

STATEMENT OF

WALTER B. STULTS, EXECUTIVE VICE PRESIDENT

NATIONAL ASSOCIATION OF SMALL BUSINESS INVESTMENT COMPANIES

Before the

JOINT ECONOMIC COMMITTEE

and the

SENATE SMALL BUSINESS COMMITTEE

MR. CHAIRMAN AND MEMBERS OF THE COMBINED COMMITTEES:

Thank you for this opportunity to comment briefly upon the report submitted to Congress by the Chief Counsel for Advocacy of the Small Business Administration, pursuant to Title II of Public Law 94-305. These are my personal reactions to the Report, not the official view of NASBIC.

First of all, the Report is probably most useful as a litany of 145 legislative and regulatory recommendations gleaned from a number of sources. Most of us could add to that listing, but at least we can look back to the 145 proposals during the months and years to come to determine how well, or how badly, we have fared in taking action on those individual recommendations.

Naturally, I am disappointed that the Report does not contain more original research material which the rest of us could utilize in coming up with our own ideas for helping small business. The Report pinpoints the lack of a data base as the primary short-fall and I would surely agree with that conclusion. Yet the Report devotes less than five of its 101 pages to this area and appears to leave any answer to the development of data by a private organization, Dun & Bradstreet.

Not surprisingly, the Report strongly urges a larger and more powerful Office of Advocacy with the establishment also of Advocacy offices in the field. I would be cautious about adding too many bodies; advocating Advocacy is not exactly what small business needs. Furthermore, I would recommend that the Office of Advocacy not become involved in counseling individual small businesses. Such a mandate would require thousands of employees to work with the millions of small businesses.

Since my time is limited, I shall close with one final personal observation: I hope that the Senate and the House Small Business Committees do not overlook the fact that we consider the two Committees as the chief advocates for small business. Congressional Committees alone have the clout to influence the Executive Branch; SBA doesn't. Congress alone can pass laws; SBA can't. Congressional Committees can hold hearings and issue reports focusing attention on anti-competitive laws, regulations, and policies; SBA can't. The two Small Business Committees have sizable and highly professional staffs. If the Committees set appropriate priorities, I believe they can accomplish much.

In sum, then, DON'T ABDICATE TO THE ADVOCATE.

REPORT
of the
SBA TASK FORCE
on
VENTURE AND EQUITY CAPITAL
for
SMALL BUSINESS

U.S. Small Business Administration

January 1977

FOREWORD

In July 1976, Mitchell P. Kobelinski, Administrator of the U.S. Small Business Administration (SBA), appointed a Task Force on Venture and Equity Capital for Small Business to assess the financing problems facing the small businessman today and to recommend solutions. The Task Force was made up of 15 people actively involved in managing, financing or advising small businesses. It is grateful for assistance provided by officials from the SBA, the SEC, the Treasury and Labor Departments, and private financial institutions.

The Task Force met several times as a full group and more frequently in smaller subcommittees. Early in the discussions it became apparent that the scope of the study had to go beyond just the provision of venture capital to very small businesses, because of the interrelated nature of all forms of capital required by business.

The Task Force believes the implementation of the study's recommendations can make a vital contribution to America's free enterprise system. If the recommendations included in the Report are favorably acted upon by the Administration and the Congress, it is the opinion of the Task Force that critically needed new venture and equity capital will flow to the small business sector of our economy, which in turn will produce substantial increases in jobs, tax revenues and productivity.

CONTENTS

SUMMARY OF SPECIFIC RECOMMENDATIONS MADE BY THE TASK FORCE

Tax Laws and Regulations

- - - Increase the corporate surtax exemption from the present level of $50,000 up to $100,000;
- - - Allow greater flexibility in depreciating the first $200,000 of assets;
- - - Permit investors in qualified small businesses to defer the tax on capital gains if the proceeds of the sale of a profitable small business investment are reinvested within a specified time in other qualified small business investments;
- - - Increase the deduction against ordinary income of capital losses in a small business investment made under Section 1244 of the Internal Revenue Code from $25,000 in annual deduction to $50,000, and increase the limit on an offering from $500,000 to $1,000,000 and on issuer size from $1,000,000 to $2,000,000 in equity capital;
- - - Permit underwriters of the securities of smaller businesses to deduct a loss reserve against the risks inherent in the underwriting and carrying of such securities;
- - - Revise methods by which revenue impact of tax changes are estimated to reflect revenue gains from the business use of tax savings and the stimulus to capital formation that tax incentives provide.

Small Business Administration (SBA)

- - - Provide that some portion of the guaranteed borrowing available to SBICs take the form of debt with the interest partially subsidized, if the funds are used to make equity investments;
- - - Permit SBICs a deduction from ordinary income for loss reserves on both the equity and debt portions of their portfolios;
- - - Immediately make a substantial increase in the size standards for SBIC investments and also provide for either an annual revision of these standards or index them according to broadly accepted price indicators;

98-762 O - 78 - 3

- - - SBA should require and encourage commercial banks to assume a larger portion of the risk in SBA loans and change its guarantee fee from a one-time fee of 1% of the amount of the guaranteed debt to an annual fee which more nearly reflects the value and cost of SBA's guarantee;
- - - Substantially expand SBA's Secondary Market Program by creation of a "Certificate" system for the sale of SBA-guaranteed loans.

Institutional Investors/Employee Retirement Income Security Act (ERISA)

- - - Amend ERISA to declare a policy that pension funds may invest in a broad spectrum of American companies within the "prudent man" rule and that it applies to the total portfolio rather than any individual investment. Also create a "basket" of 5% of the assets of any plan within which investment managers can invest according to standards of prudence and liquidity appropriate to higher risk small business investments;
- - - The development of professionally managed pools of capital should be encouraged so that pension fund managers, otherwise constrained by time or expertise, may participate in the investment in new ventures and in growing smaller companies. These special funds should be specifically exempted from the provisions of the Investment Company Act of 1940;
- - - In cooperation with the SEC and other regulatory bodies, exempt the illiquid securities of small companies from "mark-to market" or " fair value" accounting treatment.

Securities Laws and Regulations (SEC)

- - - Increase the small offering exemption from $500,000 to $3,000,000;
- - - Enact the limited offering exemption as proposed in the American Law Institute project to codify the securities laws;
- - - Retain and simplify Rule 146;
- - - Amend Rule 144 to provide that the existing quantitative limits apply for only a three-month period rather than a six-month period. In addition, change those limits to one percent of outstanding shares or the average weekly volume, whichever is higher instead of whichever is lower;
- - - Develop procedures under which solicitation, with appropriate compensation to develop a market, may be undertaken if buyers are provided with copies of financial data and other disclosures regularly filed with the SEC along with a suplemental statement on mode of offering, identity of underwriters, price of securities offered, and information needed to update the data on file with the SEC.

INTRODUCTION

Small businesses comprise 97 percent of all unincorporated and incorporated businesses in the United States. More than half of all business receipts are generated by their operations. Perhaps more important, they employ more than half the U.S. business work force.

It is a matter of acute concern that, in the face of clearly emerging needs and the documented benefits to the United States economy, a set of impediments have developed that are preventing smaller businesses from attracting the capital without which they cannot perform their traditional function of infusing innovation and new competition into the economy. Unless these impediments are overcome, the ability of the economy to compete in the world and meet the needs of the American public will be seriously eroded.

It is alarming that venture and expansion capital for new and growing small businesses has become almost invisible in America today. In 1972 there were 418 underwritings for companies with a net worth of less than $5,000,000. In 1975 there were four such underwritings. The 1972 offerings raised $918 million. The 1975 offerings brought in $16 million. Over that same period of time, smaller offerings under the Securities and Exchange Commission's (SEC's) Regulation A fell from $256 million to $49 million and many of them were unsuccessful. While this catastrophic decline was occurring, new money raised for all corporations in the public security markets increased almost 50 percent from $28 billion to over $41 billion.

A public policy that discourages the public from investing approximately $1 billion a year of its savings in economic innovation, growth, and the creation of jobs while it encourages the public to risk $17 billion a year in Government-sponsored lotteries, requires close and serious reexamination.

Impediments to Small Business Growth

In this context, the Task Force sees in the American business and financial scene today the following characteristics:

1. A public policy that tilts sharply towards encouraging consumption and discouraging savings and investment.

2. An increasing and dangerously high ratio of debt to equity arising in part from artificial tax advantages extended to debt financing.

3. Distinct impediments to raising equity and other forms of risk capital.

4. Savings gravitating towards larger institutions that are discouraged from investing those savings in smaller and new businesses.

5. Well-intentioned efforts to protect investors which inadvertently place small businesses at a disadvantage in competing for available funds.

6. Attrition and concentration in the network of financial institutions and firms that has served our economic needs well by mobilizing capital.

A recent study by the Massachusetts Institute of Technology Development Foundation has arresting data on the importance of new companies and new technologies to property and jobs in America. It compares the performance of six mature companies, five innovative companies, and five young high-technology companies. From 1969 to 1974, the average annual contributions of these companies in jobs and revenues shaped up as follows:

Type of Companies	Sales Growth	Job Growth
Mature	11.4%	0.6%
Innovative	13.2%	4.3%
Young High Technology	42.5%	40.7%

Although these young companies are not only growing faster but actually creating more new jobs and tax revenues than the giants of American industry, we see increasing impediments to this same opportunity for other new companies.

Recent economic trends have caused all investors -- institutional, large nonfinancial companies, venture capitalists, individuals and local bankers -- to become more conservative in their investment policy. Recent legislation and regulation, however well intentioned, has added to that conservatism by cutting incentives to take risks. Savings and other financial resources, so desperately needed by small companies to finance their growth, have become concentrated in larger financial institutions. For example:

- - - Since 1962, deposits in the ten largest banks have increased from 20 to 33 percent of all deposits.

- - - Pension funds assets have tripled since 1962 and it is estimated that by 1985 more than half of all equity capital will be in the hands of pension fund managers.

- - - Mutual funds assets have doubled in the same time period.

- - - Institutions now account for 70 percent of the volume of trading on the New York Stock Exchange (NYSE).

As assets have concentrated, access to them has become more difficult, particularly for small businesses. In the past 5 years, the number of registered securities broker/dealer firms has declined 35 percent, and the number of registered representatives has declined as well. The Task Force has found that this shrinkage of the securities industry has compounded the problem of providing smaller companies with access to capital. Large institutional investors handling pension funds, wary of standards set forth in the 1974 Employee Retirement Income Security Act (ERISA), are concentrating their funds in larger companies with proven earnings records to avoid possible lawsuits and liabilities under ERISA.

Individual investors, once a vital source of funds for new businesses and liquidity for early investors, have been so hurt in recent bear markets that they are reluctant or unable to provide risk funds again. In addition, the incentive for individuals to risk capital in equities has been drastically reduced by a capital gains tax rate that today can run from 70 to 100 percent more than the maximum rate that prevailed as recently as 1970.

Compliance with Government regulations -- tax returns, registration statements, ERISA reporting requirements, and a great variety of reports and surveys -- constitutes a heavy burden for the small businessman. Although highly commendable efforts to lighten this load are under way, the small business today is in grave danger of smothering under the weight -- and cost -- of repetitive paperwork.

One of the more serious problems is t he skyrocketing cost of entering the public market to seek new sources of financing. An analysis of six of the smaller offerings made in 1976 by companies having assets of less than $5 million shows the average cost of registration is $122, 350, an automatic and, in some cases, insurmountable roadblock for companies interested in entering the public market.

The Life Cycle of Growing Businesses and Its Financing

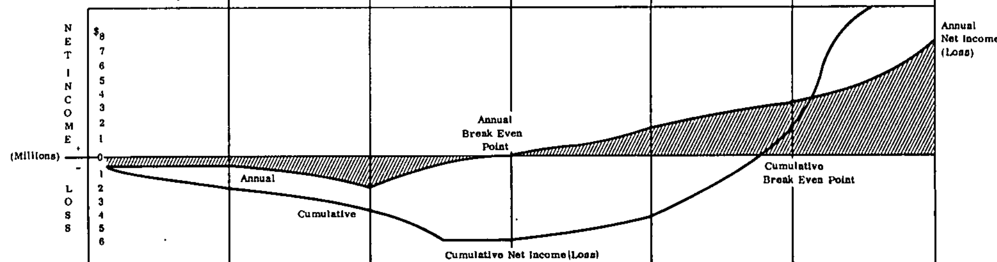
The result of all these trends has been to make economic growth for smaller companies increasingly difficult. The chart on the next page illustrates the stages a company must go through to achieve maturity as a corporate entity.

The cycle of a business enterprise requires different types of capital at each stage of its life. The highly developed U.S. marketplace has spawned investors for each of these many stages. The result can be imagined as a financial pipeline along which successful companies move from start-up to maturity.

If this pipeline flows smoothly, all types of investment capital can function. If it clogs at any point, capital dries up all along the pipeline. Facilitating the turnover of initial investments to more conservative investors is critical to unblocking the flow of initial higher risk investments in smaller businesses. In fact, the Task Force believes that creating better prospects of liquidity for early investors will, in itself,

LIFE CYCLE OF A NEW ENTERPRISE
MODEL OF A GROWING AND SUCCESSFUL COMPANY
1975-1976 FINANCIAL MARKET CONDITIONS

Phase: / Activity Level: / Revenues in Millions	0 R&D -None-	1 Start-Up Up to $2.0	2 Early Growth $2 - 10	3 Accelerating Growth $10-25	4 Sustaining Growth $25-40	5 Maturity $40 and up



	0	1	2	3	4	5
I Company Characteristics:						
Capitalization	$5,000-1,000,000	$500,000-2,500,000	$2 million - 6 million	$6 million - 15,000	$15 million - 30 million	$30 million +
Length of Phase (Years)	1-5	1-3	2-3	3-4	2-5	-
Management and Organization	Founder; No Organization	Founder & Associates; Very loose organization	Founder or Professional Manager; Emerging Formal Organization	Founder or Professional Manager; Formal Organization	Professional Managers; Complex Organization	Multi-layered Complex Management Organization
"Equity" Financings						
Number	2-3	1-3	2-3	1	1-2	Ongoing
Average Size	$100,000	$750,000	$1,500,000	$7,500,000	$15,000,000	(Various)
(Nature)	(private)	(private)	(private)	(public or senior private)	(Insurance Co. and other long-term capital).	
II Applicable Govt. Regulations						
Tax Rate				←	→	
Depreciation Allowance	←	—	—	—	—	→
Sub-Chapter "S"	←	→				
IRS: Rule 1244	←	→				
SEC: Rule 144				←	—	→
SEC: Rule 146		←	—	—	—	→
Regulation "A"		←	→			
SEC: 1933 Act				←	—	→
III Principal Financing Sources						
Private						
Personal Investment	←	→				
Individual Investment	←	—	→			
Investment Firms (SBIC's etc.)		←	—	—	→	
Commercial Bank - Personal	←	—	→			
Commercial Bank - Corporate			←	—	—	→
Insurance Companies					←	→
Public Financing				←	—	→

restore the flow of equity investment in the early stages of business life. Hence the Task Force focused on institutional investors and the public stock market, in addition to other sources of risk capital, internal financing and long-term debt financing.

Traditionally, businesses have used a mixture of internal and external financing for their needs. Small businesses cannot grow very fast if they have to finance themselves solely out of their earnings. In most cases external sources must provide the financing for significant growth.

As shown on the chart, however, a hypothetical company moving through the system must reach a revenue level of up to $10 million before public financing becomes even remotely possible. Moreover, it is not until a business reaches revenues of $25 to $40 million that all sources of public and private funding become, in some measure, available.

Though Government agencies provide a great deal of assistance to small businesses through agencies such as the Small Business Administration (SBA), there are legislative limitations on this agency's programs that prevent them from being completely responsive to the small businessman's needs for equity capital. Because private financial resources are at times unavailable, the small businessman is often faced either with stagnation or the sale of all or part of his company.

In addressing the financial needs of small businesses and the impediments to meeting them, it soon becomes apparent that the problem is different for:

a. the many small businesses that are local in character or so family owned and managed that they would be unlikely to have or want access to the public securities markets; and

b. those businesses that can develop so that they will need access to public financing.

There are different remedies called for with respect to these two broad categories of smaller businesses.

There is a cycle of financial events and opportunities into which new and growing businesses have to fit themselves to finance their growth and expansion. This cycle starts off with the ability to save and the will to commit those savings in order to start a small business. Here, if public policy is to reflect the contribution new and small business can make to the national welfare, our tax system has to encourage necessary savings and the commitment of these savings to new and small businesses.

Then, after a new business is launched, the tax system should permit it to generate sufficient internal capital so that a growing equity and credit base will enable it to meet growth requirements. This can be done with some deferral of tax payments; allowing small businesses greater flexibility in charging off the assets needed to do its business; and an increase to reflect inflation in the amounts to which small business tax treatment now applies. This will provide greater revenues for the Government in the future as small businesses use this increase in internal financing to provide additional jobs and greater taxable wages and profits.

From among the new and small businesses that grow as a result of these tax revisions, a few will show a potential for generating jobs and profits that are sufficient to attract funds from private, public and institutional investors. These businesses should be able to compete for these funds on equal terms with older, larger and more established businesses. Savings will not be invested in these new and growing enterprises unless the investors can efficiently convert their investment to cash over time without undue penalty. The seed money needs of these innovative and growth-oriented businesses used to be met by knowledgeable investors found in towns and cities all over America. In the last fifteen years, a significant portion of this activity has become institutionalized and professionalized in enterprises having risk money together with experience and skill in identifying unusual business opportunities in technological developments and emerging needs.

Today however, surveys of the investing activity of leading professional venture capitalists, having total assets estimated at $1.7 billion and investing in excess of $100 million per year in venture capital situations, show an increasing proportion of their funds going to established companies. In 1975 only five percent of new investments went to start-ups of new ventures and two percent to first-round financings.

This represents a sharp reduction from previous years. Most venture capital firms have adopted a policy of staying away from start-ups and have put their available capital in safer and more liquid investments. The Task Force believes this steady shift towards a more conservative investment policy comes from perceived difficulty in recycling investment funds as restrictions on the access of small and growing business to the public securities markets has become more costly and difficult.

COMPANIES WITHOUT ACCESS TO PUBLIC SECURITIES MARKETS

The very small business, usually local in character, is likely to be launched on the personal savings of family and friends by an entrepreneur interested in full ownership and attracted to the prospects of financial reward.

His primary financial advisor will usually be his local banker, who provides advice, counsel and, more importantly, short-term credit for his generally undercapitalized enterprise. Local bankers are likely to go as far as conventional economic wisdom and prudent banking standards permit in granting loans on the basis of confidence and character. Certainly the banker cannot be adequately compensated for making this type of loan because of the risk and servicing involved. He, and the entrepreneur, are taking calculated risks, hoping for greater rewards -- increased deposits and profits -- in the future.

With these loans and private resources, the entrepreneur begins his business with a reasonable relationship between debt and equity capital. If the business prospers, he approaches his banker for funds to purchase additional inventory or to handle his multiplying accounts receivable. He continually borrows short term, being fully convinced that he will have funds to repay within the 30-day term of the loan. The banker, pleased with this progress, continues to advance funds, all in short-term notes renewed and rewritten at regular intervals. This satisfies the bank's need to adjust loan interest rates quickly and to show liquidity on its books.

As this small business grows, however, the availability of this type of financing fades away as its dangers emerge. Short-term indebtedness goes up and retained earnings are unable to grow as fast as the business. Paradoxically, the more profitable the business is, the worse its financial statement looks because of the high ratio of debt to equity.

As internal financing becomes increasingly difficult, the entrepreneur's external source of financing, his banker, may begin to run into loan limit problems. Moreover, as more and more local banks are absorbed by large banks, the entrepreneur may find himself faced with a more impersonal and cautious branch manager, who may not want these small business risks.

The entrepreneur begins to realize the value of long-term financing. He turns to the government for help, in most cases to the SBA. He finds that this agency's programs of direct and guaranteed loans, and equity financing through SBA-licensed Small Business Investment Companies (SBICs), may be able to provide necessary assistance. Yet this assistance, too, has its limits.

Tax Revisions to Facilitate Internal Financing and Attract Capital

The fact is that for those businesses not likely to require or want to raise money from the public, capital growth needs must come from a combination of internal cash flow and from borrowing. To make it possible for many thousands of small businesses to realize their potential in growth and jobs, reform in the tax structure is essential.

The most direct and effective step that can help small business is to bring the $50,000 of corporation earnings now taxed at a lower rate in line with inflation and the escalation of risks and higher costs in starting and carrying on business. Consequently, the Task Force recommends the corporate tax rates be modified so that the first $100,000 of corporate taxable income should be taxed at lower rates, as follows:

First $50,000	-	20 percent
Second $50,000	-	22 percent
Excess over $100,000	-	48 percent

Allowing these small businesses to use a larger portion of their first $100,000 of earnings to grow will produce additional revenue and jobs. The Government will benefit from additional taxes and a reduction in welfare and other unemployment costs in the future.

Allowing small businesses greater flexibility in writing off the first $200,000 of depreciable assets is another step that should be taken to increase the internal financing that is so critical to businesses in their early years.

The higher capital gains tax rate has altered the risk-reward relationship for investors. This is likely to have its greatest impact on equity investment in small businesses where capital is already scarce and the risk of loss is greatest. This was recognized by Congress in 1958 with the enactment of Section 1244 of the Internal Revenue Code that allows limited deduction of loss in a small business investment against ordinary income. To reflect inflation and increased capital costs in new businesses, the limitations surrounding this provision should be increased so that deduction of $50,000 instead of $25,000 is permitted a taxpayer in any one year. The limit on issuer equity capital and size of the financing necessary to qualify should be increased respectively from $1,000,000 to $2,000,000 and from $500,000 to $1,000,000.

The capital gains tax has become so high that it no longer serves as an incentive to provide long-term investment capital. Deferring that tax as long as these funds remain invested in small business can provide a major incentive to attract the individual investor back to investing in small companies. The Task Force recommends that investors in qualified small businesses should be permitted to defer the tax on capital gains if the proceeds of a profitable sale are reinvested in another qualified small business within a specified time period. There is ample precedent for this kind of deferral in home sales, condemnations and retirement plan distributions. Since small businesses are potentially the most rapidly growing part of the equity investment spectrum, the ultimate tax revenues can be significantly higher, more than offsetting the cost of deferring revenues.

These tax revisions will result in a reduction of some tax revenue and deferral of other revenue. The Task Force takes issue with the method currently used in the Treasury's forecasts of the revenue impact of tax legislation. These revenue estimates reflect only the reduction in tax collections from tax revisions without any offsetting allowance for income which will result from retaining and using the revenue reductions in business activity. Nor does it reflect the stimulus to capital formation and economic activity which greater incentives will provide. The Task Force believes that a more accurate and balanced method of evaluating the impact of proposed changes is essential to developing sounder tax policy. It recommends that, at the earliest possible date, the new Secretary of the Treasury review the methods now used to forecast the revenue loss from tax changes.

SBA Assistance in Long-Term Borrowing

The tax revisions discussed above will allow small companies to generate more substantial cash flows internally and, thus, attract greater financing from their banks. Beyond that, if small businesses are to be restored to their full role in contributing to national economic growth and generating jobs, the financing role of SBA should be strengthened. Therefore, the Task Force believes it important that SBA programs be put on a more self-sustaining and flexible basis.

The SBA is to be commended for steadily shifting its emphasis from direct loans to the guarantee of bank financing. In this way SBA has increasingly utilized the more intimate knowledge of local businesses and local economic risks and opportunities and the greater ability to supervise loans which local banks almost invariably have. At the same time it has provided small businesses with long-term financing that local banks, subject as they are to the requirements of regulatory agencies to keep their assets liquid and maturities short, have not been able to provide.

The SBA is also to be commended for helping local banks to bring institutional funds into small business financing by instituting its Secondary Market Program. Under this program, banks making SBA-guaranteed loans can now sell them to other investors to improve the banks' liquidity and bring new funds into local financing by offering Government-guaranteed, good yield investments to institutional and other investors. Since the program's inception through September 1976, more than $406 million of these loans have been sold to investors who would find it difficult to lend directly to small businesses. This successful Secondary Markets Program should be substantially expanded. The SBA-proposed "Certificate" system would transform the guaranteed portions of SBA loans into freely transferable market securities. This would tap additional institutional investor sources of capital, remove bankers' reservations about liquidity and reduce bank examiners' concerns over long-term loans in banks' portfolios. In order to ensure full utilization of these new resources, a comprehensive public information program aimed at small businessmen should be instituted.

The Task Force believes that SBA can strengthen its ability to contribute to the financing needs of small business by placing its operations on a more business-like basis in two very important respects:

1. Requiring and encouraging commercial banks to assume a larger share of the risk in the long-term financing that SBA facilitates through its guarantee. For example, the SBA might require banks to retain 15% instead of 10% of the risk in these loans and use a sliding guarantee fee to induce banks to take an even larger portion of the risk.

2. In extending a seven-year guarantee for a one-time fee of one percent SBA is not being adequately compensated. Additionally, there is little or no incentive for either the borrower or the lender to do without the guarantee. A basic guarantee fee of one-half to one percent a year would still be a bargain to most small businesses. An increase in the fee would also place some limitation on the demand for SBA's guarantee and more adequately offset the losses SBA sustains in extending its guarantee.

The Task Force recognizes that these steps will increase the cost of SBA financing. However, the availability of financing is more important than such a modest increase in cost. These steps will bring SBA activities closer to a self-sustaining basis. This should encourage the Congress and the Office of Management and Budget to increase the SBA guaranty authority as small businesses and local banks show a readiness to share more of the risk and pay a more realistic price for SBA-assisted financing.

Strengthening the Small Business Investment Company (SBIC)

SBICs are an important source of long-term debt financing and equity and venture capital for small business.

Although SBICs provide a significant amount of pure equity financing, there has been a tendency for them to increase their holdings in loans and other debt instruments of small businesses. The major incentive for the creation and operation of SBICs is the availability of long-term Government-guaranteed loans that require very modest equity and provide attractive investment leverage to those supplying equity capital for an SBIC.

This leverage has from time to time been increased by law. To meet the interest cost of these increased borrowings, SBIC investments have tended heavily toward interest bearing debt securities, rather than common stock. This has a tendency to add to the debt burdens of the smaller business rather than providing the permanent capital that this size of business so badly needs.

To resolve this problem, the Task Force recommends that some portion of the Government loans providing SBIC leverage be available in the form of debt, on which interest is partially subsidized. This would relieve the pressure on SBICs cash flow and enable them to make more pure equity investments.

Another disincentive for SBICs to take risk is the tax treatment of loss reserves. Currently, SBICs may establish a loss reserve for only those investments which are in the form of debt securities. The Task Force recommends that SBICs be authorized to deduct loss reserves from ordinary income on both the equity and debt portions of their portfolios in order to encourage more equity investments.

SBA has partially adjusted for inflation by increasing its size standards for SBIC investments. However, these adjustments tend to lag behind the realities of the marketplace. Therefore, the Task Force recommends that SBA adjust its size standards for SBICs annually or that these standards be measured against broadly accepted price indexes.

COMPANIES SEEKING PUBLIC CAPITAL

Small businessmen whose enterprises survive and thrive may find it necessary to seek external financing from investors having more substantial and varied capital resources than commercial banks and the SBA. There is a new set of obstacles on this road to economic growth.

The access of small companies to public markets, particularly in the early 1950's, encouraged the formation of venture capital -- money that was available for innovation and small business growth in the hope that some of the funds invested could be recovered within two to five years.

Venture capitalists, however, like all investors, found that the years following 1969 were difficult ones. They were forced to cut back on investments in many new ventures, because without a lively secondary market for resale of these securities, underwritings do not take place. Without underwritings, there are no investments, and the economy suffers. The table below illustrates the precipitate decline in offerings and money raised for companies having net worth of $5 million or less.

Year	No. of Offerings	Total Dollar Amount (in millions)
1969	548	$1,457.7
1970	209	383.7
1971	224	551.5
1972	418	918.2
1973	69	137.5
1974	8	13.1
1975	4	16.2

The first stages of market recovery in 1975-1976 have not been strong enough to rebuild confidence, particularly that of individual investors, in the new issues market.

Making Institutional Funds More Available to Small Business

Institutionalization of the stock market has meant that the small businessman must appeal to a professional investor who has a large amount of money and limited time to analyze potential investments. Increasingly, a major source of capital in America is the money in pension and other employee trusts. Fiduciary standards created by ERISA, however, have isolated about $200 billion of money in these trusts from all investments other than large blue chip, and fixed income securities. Attorneys advising trust officers have interpreted ERISA regulations conservatively, although they do not differ significantly from commonly practiced standards of fiduciary responsibility. As a result, trustees are reluctant to invest in companies without strong earnings records. Most pension trustees find it neither economic or prudent to invest in companies without a capitalization large enough to give investors liquidity. It appears that the market value of a firm must be over one hundred million dollars to interest pension funds managers.

ERISA should be amended in two important respects:

1. To expressly declare a policy of allowing pension funds to invest in a broad spectrum of American companies by clarifying ERISA's "prudent man" standard so that it is clearly applicable to the total portfolio of pension fund investments rather than individual investments, and

2. To relieve pension fund managers of ERISA restrictions in investing up to five percent of pension fund assets in companies having less than $25 million in net worth and larger companies having limited marketability for their securities.

These modifications should be designed to encourage the development of professionally managed pools of capital to assume responsibility for segments of the portfolio that pension fund managers do not have the time or experience to effectively invest in new ventures and growing companies. The SEC should exempt these special funds from the time-consuming and cumbersome requirements of the Investment Company Act of 1940.

The current interpretation of Financial Accounting Standard Boards regulations has led to substantial short-term profit and loss impact on portfolios. These standards require portfolio managers to value these holdings of unregistered securities and report the resulting portfolio changes as profit or loss, even though no transactions take place. These fluctuations in both valuation and profit and loss are arbitrary and time consuming. Requiring "fair value" accounting creates the onerous task of frequently evaluating the current fair value of investments in small company securities. Most institutions avoid this by simply staying with only large, marketable equity securities or high quality debt securities. It would be consistent with the principle of materiality to waive the requirement for fair value accounting for investments made within the five percent "basket" provision we have recommended.

Small Business Access to the Public Securities Markets

The small businessman will find more and more securities firms disappearing with changes that have taken place in brokerage economics, Fixed commission rates have been eliminated and rates are governed by competitive and free market forces. Principal beneficiaries of this change have been institutional investors, not individual investors.

All these forces have substantially dried up access to the securities markets for small businesses. There are fewer regional securities firms, fewer registered representatives, fewer trading desks and research facilities.

Today, most underwriting is by the "majors", and these "majors" will not generally underwrite companies with annual earnings of less than $2 million. The few remaining strong regional brokers are working almost exclusively with firms whose earnings are between $1 million and $2 million.

To keep small firms with growth potential from being shut out of the public securities market the SEC created Regulation A (based on the small offering exemption in the Securities Act of 1933). This facilitates securities offerings of $500,000 and less by exempting them from the costly and time-consuming undertaking of full registration. This is not much capital for a growing company in the light of today's needs and the value of today's dollar. The Task Force commends SEC Chairman Roderick Hills for recommending that the Regulation A exemption be extended to offerings up to $2 million. However, it is impressed by the need for the underwriting of most Regulation A

98-762 O - 78 - 4

offerings as shown by the SEC's finding that, during the period 1972 to 1974, in 546 Regulation A filings only 35% of the shares offered were actually sold. Since few firms in the contracted securities industry will underwrite an issue of less than $3,000,0000 today and firms which do handle small issues are anxious to take advantage of the savings in time and cost which Regulation A makes available, the Task Force believes the limit should be increased to $3 million.

Congress also provided a private offering exemption in enacting the Securities Act of 1933. Administrative and court interpretations have so narrowed the scope of this exemption that investors in very small financings have been able to change their minds and get their money back simply because the offering had not been registered. The buyer of stock who is defrauded has been provided with an effective remedy by the SEC through its development of Rule 10b(5). Requiring a small business to register a limited financing under pain of having to return the proceeds in the absence of any fraud was never intended and Congress should take legislative action to restore the private offering exemption.

The SEC developed Rule 146 to provide a safe harbor for private offerings that claim the private offering exemption and do not register. The SEC is to be commended for an imaginative effort to clear up the difficulties created by the attrition of the statutory private offering exemption. However, this Rule will necessarily be cumbersome, complicated and burdensome until Congress acts to restore the original intent of the private offering exemption. Meanwhile, there are modifications in Rule 146 which can be helpful and the Task Force recommends Rule 146 be modified in two respects:

1. In the "information to be provided" provision insert the words "if material" to modify the information required in the offering circular; and

2. Add a provision, along the lines of that provided in Rule 240, that failure to furnish information or an inability to sustain the burden of proof with respect to other offerees will not permit a buyer who has been properly informed to demand recision.

The limitations that the SEC has developed on the secondary sale of securities are probably more damaging to small business financing in the public securities markets than the high cost of registration and the near disappearance of the private offering exemption. If the kind of risk money that goes into new and growing businesses cannot be readily recycled it is usually not invested. It is the inability to readily convert some of the profits on successful investments back into cash that has driven professional venture capitalists away from start-ups towards companies with proven earning records. Furthermore, this leads to the liquidation of investments through large corporate takeovers instead of by sales in the public securities markets.

Congress, in enacting the Securities Act of 1933, required registration of securities only of issuers, underwriters and dealers. Anyone else was to be free to sell without registration. Until the late sixties, it was generally considered that holding a security for two years established that it had not been purchased for resale as an underwriter and could be sold without registration. During the late sixties and early seventies, considerable uncertainty developed about restrictions on resale of securities and in 1972, the SEC issued Rule 144.

Rule 144 has been successful in bringing clarity and certainty to the requirements for the resale of securities purchased without registration. However, it has, in the view of the Task Force, created unnecessary and unjustified restrictions on the private resale of unregistered shares which contribute substantially to clogging the flow of capital to smaller businesses.

Where Rule 144 is harmful is in its effort to protect the market from selling pressure through quantitative limitations on the shares which may be sold in any six-month period. This quantitative limitation has a whole series of consequences that impede venture investing, are counterproductive to investor protection and promote concentration. The limitations on moving out of a risk investment cause venture capitalists to go in for smaller percentages and in lesser amounts. The restricted pace at which they are able to liquidate their investment contributes substantially to the trend to stay away from young companies and to restrict venture capital to companies which have matured or seem to be on the verge of maturing. When they do have a successful investment, the difficulty of recycling their investment through private sales gives an edge to the large company that can take over the smaller company in one bite. This, in turn, reduces competition and promotes concentration.

Moreover, as long as there are restrictions on compensation and other selling efforts, it is difficult to see why any quantitative limitation is required. The seller's interest in not driving down the price of the shares he wants to sell can be relied on to limit the shares he offers. Certainly there is no evidence to justify a limitation which extends for six months and there is ample evidence that the present maximum is usually absorbed in a matter of weeks or days, when there is any real market at all.

The Task Force therefore recommends that as a first step Rule 144 be amended so that existing quantitative limitations apply for only a three-month period instead of six months and that the limit be set at one percent of outstanding shares or the average weekly volume over a four-week period, whichever is higher instead of whichever is lower.

The Task Force is pleased to learn that SEC Chairman Hills has initiated an economic analysis to reevaluate the need and justification for a quantitative limit on resales of securities that have not been registered. It hopes that the quantitative limit will be eliminated or enlarged further if economic analysis shows that there is little or no justification for it.

The Task Force also recognizes that many small businesses do not enjoy an active market for their shares. Rule 144's prohibition against solicitation requires that there be a reasonably active market in a security if substantial amounts are to be sold. Thus, reduction or removal of the limit on shares offered will be only marginally beneficial to investors in many small businesses because of the limitations on solicitation coupled with a relatively thin market.

The Task Force therefore hopes that the SEC, and the experienced and knowledgeable Disclosure Committee it has designated under the chairmanship of A. A. Sommers, develop procedures under which solicitation and compensation required to develop a market will be permitted. The Task Force believes that active selling should be permitted when buyers are provided with copies of the financial data and other disclosures regularly filed with the Commission and a supplemental statement on the mode of offering, the identity of any brokers involved, the prices at which the securities are to be offered and any information necessary to update the data on file with the Commission.

Acquisitions and Concentration

The Federal Trade Commission's 1976 report on mergers and acquisitions states:

> "As in the previous three years, acquired firms that fell into the smallest asset size class accounted for the highest proportion of recorded acquisitions. Acquisitions of firms in the under $1.0 million and unknown asset size class represented 935, or 76.1 percent of the total number of recorded completed and pending acquisitions. For many of the acquired companies in this category, asset figures were unavailable -- most likely because the acquired company was quite small. The $1.0 - $9.9 million asset size class had the second highest proportion of acquired companies (11.5 percent)."

As we have already developed, limitations on the ability of private investors in successful small businesses to sell their shares to other investors have resulted in large companies being able to entirely buy out successful small companies at a discounted price because the business and its individual owners have little alternative in meeting their financing and liquidity needs. This is, we believe, the major force increasing concentration and big corporation bureaucracy and diminishing competition in the American economy today.

We recognize that mergers are a legitimate means of developing liquidity. Frequently, a growing business needs the capital and management expertise of a larger partner for continued growth. On the other hand, many mergers in the past five years have been "shotgun weddings" because of an environment that offered the small businessman no alternative methods of acquiring capital and liquidity.

Recently, larger companies have begun selling and restructuring peripheral portions of their operations as smaller, free-standing businesses. Freer availability of risk capital to encourage divestitures of this kind can revitalize these smaller operations and provide new, challenging opportunities for both technological and personal advancement. It can also inject new forces of competition which will benefit all who participate in our economy as consumers, producers and investors.

RECOMMENDATIONS FOR FUTURE ACTION

The recommendations of this Task Force offer only partial solutions to the problems of equity and venture capital for small businesses. No solutions remain adequate for very long. Problems multiply as society becomes more complex. There is a need to deal with small businesses problems on an ongoing basis. But there are no marble palaces in Washington for small business nor are there many champions whose voices are heeded. A Task Force such as this can only provide a snapshot of the conditions which its individual members experience and observe. It should submit its report, make its recommendations, and then go out of existence. Small businesses, however, need strong ongoing advocacy aimed at creating the optimum environment for their growth. It is the considered view of the Task Force that this role should be lodged in the Office of the Administrator of the SBA.

The SBA is a small, independent Federal agency, and SBA Administrators until very recently did not sit as a member of the various advisory bodies Presidents have used in coordinating economic policies. Yet this agency could be the principal voice of half of the nation's business community. The Task Force believes the SBA Administrator should be charged with an active role on behalf of small business in a number of areas:

- The SBA should expand its role as a catalyst and advocate within the government for changes reflecting the concerns of small businesses. These concerns are fragmented among many agencies and action on them often appears at random, too little or too late. The SBA should not only act to coordinate the Federal Government's activities relating to small business, but also to serve as an intermediary between various government units and private groups representing small businesses and their sources of financing.

- The planning and research activities of the SBA should be strengthened and its area of interest extended beyond its SBIC and 7(a) Bank Loan Guaranty program to include the general health of the public and venture capital market as well. These studies should be directed to such specific matters as the competitive impact of option trading on market trading in shares of smaller companies and its effect -- if any -- on the new issue market in these shares.

As a final note, the Task Force believes the government can play a vital role in stimulating the creation of new products that can be produced and marketed by small business. Too often an invention developed with government support has become the government's invention and not the inventors. Also too often, worthwhile technology developed by the government for special purposes such as defense or space has not been commercially developed. SBA's interest in this area could stimulate the economy, and result in increased jobs and tax revenues.

If small businesses are to continue as a vital force in today's economy, their interest and requirements must be considered and advocated vigorously. The Task Force believes that the steps outlined here can significantly increase the contributions which these enterprises can make to the U.S. economy.

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"TO REVITALIZE SMALL BUSINESS"

SUMMARY OF NASBIC RECOMMENDATIONS

I. INCREASING SBIC PROFITABILITY

A. Provide lower-cost leverage; 3% cost of money.
B. Defer taxes on capital gains when reinvested.
C. Allow pass-through of earnings for all SBICs.
D. Provide statutory loss reserve including equities.

II. PROVIDING START-UP CAPITAL FOR NEW BUSINESSES

Permit SBA to share risk of start-ups through a guarantee.

III. IMPROVING FLEXIBILITY FOR SBICs

A. Liberalize SBA size standards significantly.
B. Recognize non-cash gains for leverage and loan limits.
C. Amend control regulation; okay 50-50 stock split.
D. Count capital notes as part of SBIC private capital.
E. Give the SBIC program an Associate Administrator at SBA.
F. Permit investments in Subchapter S firms by SBICs.
G. Exempt public SBICs from Investment Company Act of 1940.
H. Liberalize SEC's Rule 144.
I. Liberalize SEC's Rule 146.

IV. GIVING A BETTER BREAK TO SMALL BUSINESS GENERALLY

A. Pass the COSIBA tax bill: graduated corporate rates; simplified depreciation; job creation credit and others.
B. Encourage investment in business through better capital gains tax treatment.
C. Permit small firms to issue qualified stock options.
D. Increase Regulation A size limitation.
E. Give pension fund managers greater latitude under ERISA.
F. Elevate small business to Cabinet status.

"TO REVITALIZE SMALL BUSINESS"

Irving Kristol spoke to the hearts of 10-million American entrepreneurs last Fall when he wrote in the Wall Street Journal that "a whole new class of forgotten men has emerged -- the small businessmen". Professor Kristol granted that "small business is of lesser economic significance than it used to be, but its economic role is still terribly important" and "small business preeminently is the private sector." He concluded that the survival of small business in the United States, despite its crucial role in innovation and job creation, is much in doubt today "and much that is precious to the American way of life will perish" if the independent sector dies.

Viewed solely as a series of statistics, small business remains a major factor in our economy. There are almost 10-million of us who generate about 43% of the total Gross National Product and employ 55% of the business work force. On the other hand, the predominance of major corporations has increased tremendously over the past four or five decades. The Fortune 500 are the firms which hold the bulk of all manufacturing assets and which almost exclusively can tap the public securities markets and the growing resources of institutional lenders and investors. With heavy tax burdens and an inability to raise external funds, small and medium size businesses find it almost impossible to grow. Furthermore, they cannot innovate with those new products and services which would keep our economy truly competitive.

Almost nineteen years ago, Congress passed the Small Business Investment Act which contained this statement: "It is declared to be the policy of the Congress and the purpose of this Act to improve and stimulate the national economy in general and the small business segment thereof in particular by establishing a program to stimulate and supplement the flow of private equity capital and long-term funds which small business concerns need for the sound financing of their business operations and for their growth, expansion and modernization..."

The first SBICs were licensed by the Small Business Administration in March 1959. Currently, 275 SBICs are in operation with private capital of almost $425-million and assets approximating $1-billion. During the past 18 years, SBICs have disbursed almost $3-billion to some 50,000 new and growing small businesses.

Taken alone, those numbers are rather impressive for such a pioneering industry, but they must be viewed in a broader perspective. Let's contrast those figures with the dollars raised by small business which went public for the first time in 1969. In that year alone, some 700 businesses with net worth under $5-million sold public offerings of stock for the first time and raised $1.4-billion -- that's almost half as much as SBICs have disbursed throughout the history of the program. Of course, the "hot new issues" market folded in the mid-1970's and in 1975, only 4 small businesses were able to go public and they raised a total of $16-million. With an annual disbursement rate of under $200-million, SBICs were not able to pick up the slack caused by the end of the public issues market -- let alone fill the other categories of the "equity gap".

NASBIC is convinced that this is the year for a thorough analysis of the current health of the independent sector of the American free enterprise system -- and that the vigor of the venture capital and SBIC industries is completely intertwined with the vital signs of the small business community.

During the past year, several significant studies bearing upon the vitality of small business were completed. The Council of Small and Independent Business Associations (COSIBA) designed and drafted a comprehensive Federal tax bill which would dramatically bolster the survival and growth potential of independent business. At the same time, a Task Force on Equity and Venture Capital appointed by the Administrator of SBA issued a dramatic report containing recommendations in that area. Also during 1976, the Secretary of the Treasury appointed an Advisory Committee on Small Business Economic Policy which agreed on a wide-ranging series of proposals to strengthen smaller firms. Finally, the National Venture Capital Association issued a White Paper entitled "Emerging Innovative Companies -- an Endangered Species." These are several of the blocks upon which this study is built.

Herbert Krasnow was elected NASBIC President on November 3, 1976; he immediately called upon the Association's Board of Governors to suggest changes in the design and operations of the SBIC program which would make it more effective in channeling additional billions of dollars to hundreds of thousands of new and growing businesses.

The NASBIC Board of Governors and its Executive Committee have now concluded the first phase of their survey and, in this paper, introduce their proposals for strengthening the SBIC industry.

ASSUMPTIONS

We start with two basic assumptions, but the two are interrelated. First of all, we are convinced that American business in 1977 confronts an "equity gap". Smaller firms this year, as always, are last in line when scarce equity capital is doled out, so any general shortage impacts most heavily on the new and the small. We know that present SBICs cannot meet all the requirements for venture capital and long-term loans. Furthermore, we are certain that no adequate non-SBIC sources of such dollars exist to augment SBIC funding. The public securities markets are all but closed to small issues; insurance companies and other institutional sources of capital and credit can seldom be tapped by the owner-managers of independent businesses. The SBA bank guaranteed program is an important asset for small business, but it does not attack the equity capital shortage.

For all these reasons, and others, we must conclude that SBIC resources are insufficient to meet the demand posed by qualified companies. If that is the case, why has supply not increased enough to meet the demand? This brings us to NASBIC's second assumption: present SBICs have not been profitable enough to attract the capital and the loans they need to grow -- nor has the record of profitability been sufficient to bring enough new SBICs into the program.

These then, are the basic assumptions upon which our proposals are based: (1) the equity gap remains, so the SBIC program must be larger, but (2) it has not demonstrated rates of profit which would bring more private dollars and more companies into the industry.

I. INCREASING SBIC PROFITABILITY

During the history of the program, some SBICs have been able to compile outstanding performance records with superlative realized earnings or annual gains in net asset values. On the other hand, the overall industry record has been far less satisfactory. SBA issues an annual compilation of SBIC financial statements and the red-ink years have outnumbered those where profitability was the norm. Furthermore, in today's world, quick capital gains appear to be only a fond memory. Few small or medium sized firms are able to go public -- and even when they do, the venture capitalists which backed them can seldom sell their shares. In addition, the merger fever has abated, so the fast-growing innovative firm no longer can sell out at 100 times earnings to the hot conglomerate.

So -- it's back to fundamentals for SBIC managers; they, too, must try to cover their expenses and make their earnings on the spread between their cost of money and the price they charge for it.

It should be noted at this point that SBIC activities have resulted in a significant profit for the Federal Government. Uncle Sam's return on its investments in the SBIC program has been far better than have been the profits garnered by SBIC shareholders themselves.

During the past 10 years, SBICs have been paying between 7% and 9% for the leverage they obtain from the Small Business Administration. With that basic cost added to the licensee's expenses and reserves, it's apparent there is little room for profit. With full recognition of that fundamental fact, NASBIC makes this first, and most important recommendation:

A. The Federal Government should partially offset the cost of leverage, so SBICs will not have to pay more than 3% annual interest for new leverage.

For every leveraged SBIC, the cost it must pay for its borrowings is the highest expense item on its P&L. If these borrowed funds were less costly, the SBIC will surely be able to show a better profit picture. Moreover, it would be able to make many loans and investments which are not feasible today with the significantly higher cost of money.

If the Small Business Investment Act is amended to permit this subsidized leverage for regular SBICs, the Federal Government will bear a cost which is not directly offset by SBICs On the other hand, that expense will be more than repaid by the additional taxes paid by the small businesses which receive the SBIC loans and investments and by the thousands of new employees added by SBIC portfolio companies. Official SBA surveys have proven that the Federal Government obtains tremendous dividends from the current operations of the SBIC program; even with the initial cost of subsidized leverage, the Government will receive millions of added dollars in taxes from the accelerated and expanded pace of SBIC activity under the new plan.

We believe the program for subsidized leverage should be in addition to the current SBA-Federal Financing Bank funding plan, rather than a substitute for it. The SBIC industry remembers all too well the chaos created by the unavailability of leverage during the first 12 years of the program when SBA and SBICs depended upon directly appropriated funding.

B. Defer capital gains taxes when proceeds of the sale of stock issued by a small business are reinvested in an eligible small business concern.

The greatest moment in the life of a venture capitalist comes when he is able to generate hard dollars through the sale of his long-held stock (usually about 10 years) of a successful portfolio company. That's the culmination of rigorous analysis of a promising investment opportunity, proper structuring and pricing, continuous counseling, and an imaginative exit technique on the part of the SBIC manager or other investor. Less exciting, though, is the heavy burden of Federal and State taxation which will take away about 50% of the capital gain so generated. There's a contradiction in this situation: the Federal Government has established and encouraged the SBIC program as a matter of public policy to provide capital to small business, but the same Government decimates the flow of such funds through the imposition of onerous taxation.

Undoubtedly, one of the worst threats to the continuation of the free enterprise system is contained in the Internal Revenue Code.

Our tax law permits tax-free reorganizations which provide an irresistible incentive for the owners of a successful small business concern to sell out to a major corporation, since there is no immediate tax consequence of such a merger, so long as they take the stock of the big business in return. This provision of the Code lessens competition and compromises the free market system.

To offset this serious danger, NASBIC strongly urges that the tax law be made at least neutral. We propose an amendment to the Code which would encourage further investment in other small businesses. Taxation of capital gains arising from the sale of stock in a business firm which was small when the security was acquired, would be deferred when the proceeds of that sale were reinvested in a small business concern within a two-year period. There is a clear precedent for this amendment, both in the current corporate reorganization section and in the deferral of taxes on the sale of a residence.

C. Allow all SBICs to pass through their earnings to their shareholders without the imposition of a corporate tax.

It is our goal to attract different types of investors to the SBIC program. To those who are particularly interested in capital appreciation through the growth of the SBIC, the capital gains provision outlined above is especially attractive. Other investors, though, have the need or desire for current income, so they would be more likely to invest in SBICs which pay regular dividends. At the present time, publicly-owned SBICs which are registered under the Investment Company Act of 1940 may avoid corporate taxes on their earnings so long as they pass through at least 90% of their profits to their shareholders. This authority has proven to be most valuable to several of the public SBICs which have increased their private capitalizations regularly over the life of the program.

We believe that all SBICs should be given this authority whether or not they are publicly-owned. Although this position may appear at first blush to contradict our goal of bringing more capital to the program (since earnings will be distributed, not retained), we are certain that the payment of regular dividends will indeed attract many millions of dollars of new capital to those SBICs which are primarily income-oriented and, thus, able to pay such dividends to their shareholders. Present SBICs will get the new capital they need to grow and new SBICs will be formed, we are sure, if the pass-through provision is approved.

D. Provide a statutory loss reserve of 10% for SBICs based upon equities, as well as debt securities.

No matter how we redesign the SBIC program, one constant will remain: the high level of risk involved in providing financial assistance to new and small businesses. Over the past 18 years, SBICs have grown more skillful in screening out the doomed investments and in protecting themselves against losses, but every SBIC will inevitably have to swallow its share of complete or partial losses. At present, the Internal Revenue Code permits an SBIC to set up a reserve for bad debts based upon its experience, but this authorization is seriously deficient in two respects: first, for an SBIC, the past is no certain guide to the future. An SBIC may be fortunate enough to have minimal losses for 10 or 12 years and then it may have two or three deals go sour in a very short period. We believe it would make good business sense for the SBIC to set aside a reserve to take care of such unexpected losses. The second problem with the current law is that it allows for losses only on loans and not on investments, even though the latter are ordinarily far more risky. The NASBIC proposal then, would have the law permit any SBIC to establish a reserve against losses in an amount up to 10% of its total portfolio, both loans and investments. Here again, the change would encourage further equity investments.

These four specific recommendations would make a significant contribution to the profitability of SBICs and we are certain they would encourage hundreds of millions of additional dollars to come into the SBIC program, both into existing licensees and into new ones. The major beneficiaries of these changes, however, would be: (1) new and growing small businesses; (2) the Federal Government which would reap greatly expanded taxes from the small businesses assisted by SBICs and from the new workers employed by those growing firms; and, (3) the economy which would receive new products and services at lower prices through increased competition.

II. PROVIDING START-UP CAPITAL FOR NEW BUSINESSES

If venture capital is in short supply for growing businesses, it is all but non-existent for new concerns. Of course, the savings of the would-be entrepreneur and his family can be invested today, as always, but in almost every field of endeavor, the ante for getting into operation is far higher than it used to be. Henry Ford may have started an automobile company in his garage, but today's innovator can seldom take the boot-strap route.

More typical in 1977 is the record of such firms as Cray Research, Amdahl Computer, or Federal Express. For these businesses to proceed from concept to market required tens of millions of dollars provided by many institutional venture capitalists. We are aware of these three companies, because they are the striking examples of high stakes start-ups which were funded and are now in business. On the other hand, no one knows the names of the thousands of equally innovative entrepreneurs who possessed similar expertise, but whose dreams never proceeded beyond the drawing boards.

The still-birth of these companies is a vital factor in our national economy. They could have brought new products or new services to the United States. They would have produced greater competition and lower prices; and they would certainly have generated meaningful jobs for thousands of our citizens who are now unemployed or under-employed at the present time. A study undertaken for the Department of Commerce by the M.I.T. Development Fund gives dramatic proof of the benefits generated by new, high-technology firms. The M.I.T. survey focused on six mature companies; five innovative companies; and five young, high-technology firms. Here is the average annual record of each group for the five years between 1969 and 1974: (1) the mature companies showed an annual sales growth of 11.4%, but those sales increases were accomplished with an average growth in employment of only 0.6%; (2) the successful, innovative firms grew slightly faster, or 13.2% a year during the period; (3) BUT, for the new high technology firms, the average annual sales growth was 42.5% and the increase in employment averaged 40.7% each year. Quite obviously, the United States has a major stake in the formation of such firms.

Although SBICs have financed a number of start-ups each year, they are finding it increasingly difficult to justify the higher risk, the greater costs, and the lengthy locked-in period which inevitably accompany investments in new businesses. For all those reasons, NASBIC makes the following recommendation:

> <u>The Federal Government should share in the higher risks associated with start-up investments. In such situations, the Government should guarantee 75% of the losses incurred by SBICs on start-up situations.</u>

We are certain that this risk-sharing will encourage SBICs to devote a higher percentage of their assets to the formation of new business. At the present time, the risk-reward ratio is so unfavorable that SBIC management can justify only a very few start-up investments. The proposed 75% guarantee will alter the risk-reward ratio sufficiently to convince SBICs to disburse a larger percentage of their dollars in the form of true equity for start-up. On the other hand, enough of the SBIC's investment will remain at risk to ensure that it will bend every effort to keep the new business solvent. Incidentally, it should be noted that the guarantee will not reimburse SBICs for the added costs associated with start-up investments.

It would not be difficult to define a "start-up" business for purposes of this proposal. NASBIC makes these suggested criteria: (1) any firm (or related enterprise performing similar activity) which has not been in existence for more than one year; OR (2) any firm which has been in existence for less than five years and meets these two criteria: (a) never had annual revenues in excess of $250,000 and (b) never has had a profit; OR (3) any firm which is determined as a "start-up" by the Small Business Administration.

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We believe that this rather dramatic change in the SBIC format is fully justified by the significant role that new businesses have played in the American economy -- and can play in the future. This sharing of risks will bring new products, new services, new employment, and new processes to the Nation; it will increase competition and lower prices. It represents a high-priority investment in the future of our free enterprise system.

III. FLEXIBILITY FOR SBICS

In its review of the present design of the SBIC program, the Association identified nine specific statutory and regulatory changes which would significantly assist licensees in providing more financial assistance to more small business concerns. None of these proposed amendments to laws or regulations are new (we have pressed for all of them for a number of years) and none would require any expenditures or increased obligations by the Federal Government. None alone would dramatically augment the size or activity of the SBIC industry, but together they would result in the channeling of additional millions of dollars annually to thousands of new and growing independent businesses.

The first five proposals are directed at the Small Business Administration and we believe none of the changes should present any great difficulty for the policy makers at that Agency.

A. SBA should promulgate liberalized size standards for firms to become eligible for SBIC assistance.

Despite all the changes in the real world, SBA size standards are little changed from the formulas set 18 years ago. In the early 1960's, thousands of new and small businesses were able to go to Wall Street for additional capital; today, that path is closed for all but the largest and most profitable companies. Nonetheless, the SBA size standards would lead one to believe that nothing has changed. Eighteen years ago, the costs for getting into business -- or the expenditures required for a firm to expand from a local to a national market -- were far lower than they are today. Throughout this period, the American economy has proceeded much farther down the road toward concentration of sales, assets, and economic power. In 1977, there is a well-defined and broad "no-man's-land" where businesses are too big to receive SBIC help, but still much too small to obtain capital from the public or from other institutional sources.

For all of these reasons, NASBIC proposes the following changes in the SBA size standards for SBIC financing purposes:

1. The financial size standards should be raised to $15-million in assets, $7.5-million of net worth, and an average annual pretax profit for the past two years of $2-million.

2. The employment criteria should be doubled.

3. The gross revenues tests for specific industries should be reexamined and revised upward to a level appropriate to today's economic conditions.

4. SBA should create a mechanism for regularly reviewing the SBIC size standards to compensate for inflationary and economic changes.

5. SBA should establish size criteria for new industries on a timely basis.

B. SBA should recognize non-cash gains as earnings of SBICs.

In the days of a hot over-the-counter stock market, SBICs were usually able to sell off the stock they held in successful portfolio companies. That is seldom possible today, and the SBIC often sells that appreciated stock to the business itself or some other purchaser who will give a note for a part of the purchase price. Tax law recognizes such a sale as a taxable event; CPAs recognize that sale as giving rise to a gain by the SBIC; only SBA pretends that nothing happens until the SBIC has cash in hand.

NASBIC believes that SBA's position is erroneous. We understand that SBA is wary of sham transactions where co-conspirators fix inflated prices on small business securities and try to defraud the Government. NASBIC cannot guarantee that unscrupulous people will never try this ruse, but we feel strongly that regulations should be based upon the strength of rational economic policy, rather than solely upon the fear of fraud. Furthermore, we point out that any such deceit already falls under the Federal criminal code. In addition, non-cash gains would not be recognized by SBA until they are specifically certified by an independent accountant.

After studying this subject at length, NASBIC recommends that only debt instruments should be eligible to be recognized for SBA purposes as non-cash gains. The fluctuation of equity prices would raise additional problems.

This revision in present SBA policies is important; the recognition of non-cash gains would bring more money into the SBIC program; it would qualify for additional leverage, and would increase the legal lending limit of all SBICs having such gains.

C. SBA should amend its control regulation.

On at least four occasions during the past 18 years, SBA has revised its regulation dealing with the presumption of control by an SBIC over a portfolio company. At the present time, when the

SBIC and the owner-manager each own 50% of the voting stock, SBA considers that the SBIC is presumed to have "control"; in earlier years, such a stand-off was not considered control.

This is a particularly important matter for SBICs which specialize in providing venture capital to new small businesses. In such cases, the SBIC ordinarily provides the bulk of the financing and believes that its interests would be best protected by a 50-50 stock ownership. NASBIC seeks a full SBA review of the present policy and points out that such an amendment to the present regulations would encourage more investments of the very type which SBA itself is seeking.

D. SBA should permit SBICs to augment their private capital structure through the sale of capital notes.

At present, SBICs are allowed to include as private capital only funds raised through the sale of stock. We are certain that some individuals and institutions would be willing to commit dollars to SBICs, but would prefer to purchase SBIC capital notes, rather than stock. Other financial institutions have increased their size through the sale of such notes, and we believe that SBICs should also be given that authority. Under appropriate conditions, subordinated funds raised by SBICs in this manner should qualify for leverage and should be considered in the calculation of a licensee's legal loan limit.

E. Give the SBIC program an Associate Administrator at SBA.

From 1958 through 1972, the SBA official responsible for SBICs was the Associate Administrator for Investment; his duties encompassed only the SBIC and development company programs. Since 1972, that Associate Administrator has been known as the Associate Administrator for Finance and Investment and has been assigned the duties of heading up all of SBA's varied financial assistance programs -- which differ greatly from the SBIC concept. This downgrading of SBICs at SBA has been reflected in the lower priority given urgently-needed revisions in the laws, regulations, and policies relating to our program. NASBIC strongly endorses the assignment of an Associate Administrator responsible only for SBICs; we know that such an official will enable our industry to serve better the small business community.

F. SBICs should be able to invest in Subchapter S firms.

For at least a dozen years, NASBIC has sought statutory authority for SBICs to invest in Subchapter S firms. Now small businesses electing Subchapter S treatment lose that break when an SBIC (or any investor not an individual) purchases its stock. We have found no opposition to the idea, since it would make more firms eligible for help from SBICs. On the other hand, neither Congress nor the Administration has given a high enough priority to the concept to obtain its passage. They should this year. If SBICs could be shareholders in a Subchapter S corporation, this would redound to the benefit of many small businesses, and would contribute to the health of the SBIC industry as well.

G. Exempt publicly-owned SBICs from the Investment Company Act of 1940.

At one time, there were some 50 SBICs registered under the Investment Company Act of 1940 and these publicly-owned SBICs accounted for the great majority of all private dollars committed to the industry. In 1977, only 14 publicly-traded SBICs are still in business and their private capital is a small fraction of the 1963 total.

NASBIC has spent many thousands of hours and many thousands of dollars trying to gain administrative relief from the '40 Act which would allow venture capital oriented SBICs to operate effectively and efficiently under SEC regulations. We are convinced that no meaningful relief is coming from the Commission, so we strongly urge Congress to exempt publicly-owned SBICs from the strictures of the Investment Company Act of 1940 and combine all necessary regulation of SBICs under SBA.

H. Liberalize Rule 144, so SBICs will be able to cash in on their winners.

Rule 144 is another obstacle to the SBIC-venture capital industry. With the virtual shut-down of the new issues market, most SBICs are able to realize capital gains only through sales of the stock of successful portfolio companies under Rule 144. The current version of that Rule is seriously deficient for SBICs and should be amended in two important respects: first, the volume limitation should be doubled, so SBICs will be able to sell up to 1% of the outstanding stock of the issuer in a three-month, rather than six-month period. The second change would free for sale all the unregistered stock of a qualifying company after the SBIC or venture capital company had held it for five years.

I. Amend Rule 146 so it will be more useful to small firms making private offerings.

The SEC's Rule 146 spelled out the conditions under which a business could sell unregistered stock by utilizing specific criteria of a private offering placement. Although the Rule has clarified a number of points, it has several weaknesses which vitiate its usefulness to small business. NASBIC has recently written the Commission urging amendments to the Rule which would make it more valuable.

IV. GIVING A BETTER BREAK TO SMALL BUSINESS GENERALLY

Up to this point, we have concentrated on those items which would directly benefit the profitability and the operating effectiveness of the SBICs themselves. In this final section of our report, we shall propose a number of recommendations (largely of changes in various laws) which will greatly strengthen the independent sector of our economy -- and buttress the position of individual small business concerns.

A. Congress should pass the COSIBA Tax Bill.

The Council of Small and Independent Business Associations has drafted a comprehensive tax bill which would significantly lessen the adverse impact of present Federal tax laws on new and small businesses. NASBIC reaffirms its support for all 18 of the provisions of the COSIBA bill, but wishes at this time to stress the particular importance of three features of that measure: (1) the job creation credit which would encourage smaller firms to employ additional workers through a tax credit; (2) a graduated corporate income tax structure which would permit smaller firms to retain a larger portion of their earnings for reinvestment in the business; and (3) a liberalized and simplified depreciation schedule which could be utilized by smaller companies.

B. Present capital gains taxation removes much of the incentive to invest. The trend must be reversed.

The COSIBA tax bill contains a section revising current capital gains taxes, but we believe this item is so important it should be mentioned separately. During the past several years, Congress has skewed the tax laws even more strongly in favor of consumption and borrowing, and against savings and investment. The Nation will inevitably suffer from this short-sighted action, since our productive plant is significantly older than that of other industrialized countries. In addition, the new provisions of law (e.g., the tax on preference income) remove much of the incentive for persons to invest in any business, but particularly in riskier small companies. NASBIC places a high priority on statutory changes which would encourage citizens to invest their dollars in the modernization and expansion of the American industrial plant and in the greater utilization of technological innovation.

C. Executives of small businesses should be allowed qualified stock options.

Under the guise of "loophole-closing", recent amendments to the Internal Revenue Code have removed the attractiveness of restricted stock options for managers of new and small businesses.

In the past, a small firm could offer stock options as a positive incentive for highly-qualified executives to leave a big, successful corporation. If the small business prospered, the options would appreciate in value and the executive's gamble would have paid off. Today, the Federal tax system eliminates the option inducement at the same time that the 50% ceiling on taxes on earned income provides further inducement for the successful business manager to stick with the big business which is able to pay high salaries and to reject the alternative of working for a smaller firm.

We believe the Tax Code should give recognition to the realities of economic life and that it should be amended to allow rational human beings to cast their lot with new and small businesses -- not merely with giant corporations or secure bureaucracies.

D. Regulation A should be extended to cover larger public stock offerings.

Even though SEC's Reg A simplified offering registration is not widely utilized these days, we believe it would be worth while to increase the present dollar limitation of $500,000 up to $3,000,000. It is possible that the increase would make the concept useful to more small businesses.

E. Pension fund managers must be given more latitude and more protection.

The recently-passed Employment Retirement Income Security Act (ERISA) accelerated the movement of pension fund investments into the securities of only the very largest blue chip corporations. The law and recent judicial decisions force all but the bravest pension fund managers to disdain stocks or obligations of smaller firms -- or shares of venture capital pools investing in smaller companies. ERISA should be amended to clarify the right of such managers to invest in a broader number of companies, and the law would also create a "basket" of 5% of the assets of pension funds which could be invested in a higher-risk securities, including SBICs or other venture capital pools.

F. Small Business should be elevated to Cabinet status.

America's 10-million small businesses account for 43% of the Nation's Gross National Product and almost 55% of all private sector employment. Those are big numbers indeed, but the Federal Government has never fully recognized the extent to which its actions throttle the vigor of the independent sector. In 1953, Congress evidenced its concern about the health of new and growing companies when it established the Small Business Administration as an independent agency within the Executive Branch. Over the past 24 years, SBA has been delegated additional powers and additional responsibilities, but it has been asked to accomplish its mandate largely without any increment in employment and without any political muscle provided by the White House.

There has long been a Department of Commerce, a Department of Agriculture, and a Department of Labor; we believe strongly that the time has come for a Department of Independent Business. Job creation, productivity, innovation, competition -- all these topics are at the jugular of our political and economic life and small business plays the crucial role in each field.

SUMMARY

In this paper, we have attempted to integrate a series of recommendations which would reinvigorate the free enterprise system in the United States. Quite naturally, we have focused on the specific needs and opportunities of the SBIC industry -- that's what we know best. Every yardstick proves that the SBIC program has been a boon to tens of thousands of small businesses and a most successful investment for the Federal Government. We believe that our proposals will expand the industry's positive achievements.

In addition, we have made several recommendations aimed directly at small businesses themselves. SBICs can never succeed if the paths of opportunity are barred to smaller firms -- nor can the American way of life survive when the only competitors are big business, big labor, and big government.

Senator McINTYRE. Mr. Liebenson.

STATEMENT OF HERBERT LIEBENSON, EXECUTIVE VICE PRESIDENT, NATIONAL SMALL BUSINESS ASSOCIATION

Mr. LIEBENSON. My name is Herbert Liebenson. I am vice president for governmental affairs of the National Small Business Association.

In recent studies of the FTC/SEC Quarterly Reports, made by our organization, we were amazed to find the differences in impact between the large and small firms during periods of business downturn or recession. Basically, small firms began a downturn from 6 months to 1½ years prior to any measurable effect on the larger firms. During the period of time from 1952 to 1974, the differences between the highest and lowest point of small business activity fluctuated 44 percent, while during the same period of time, larger firms moved between 14 percent and 17 percent. This has suggested the need for a statistical series of Small Business Economic Indicators which would make it possible to identify a downturn in the economy at its earliest stage and plans could be implemented to reduce downward pressures much earlier—from 6 months to 1 year earlier—than if we looked at the present series of economic indicators.

What we are suggesting is that the small business community be looked at as a single entity and, for the purposes of future economic growth, be separated from the large business statistical data in order that improvements can be made where and whenever necessary. The Humphrey-McIntyre bill goes a long way toward establishing and creating necessary information that will lead to earlier adoption of policies to implement small business programs for investment and advocacy.

In March 1977, the New York Stock Exchange Research Department produced a report on institutional holdings of New York Stock Exchange listed stocks as of 1975. It is interesting to note that over 33.6 percent of the New York Stock Exchange holdings were held by selected institutional investors. This had increased from 27.6 percent in 1970 and 18.7 percent in 1960. While the latest data is not available, we know that as a result of the ERISA legislation and the mandatory requirements for vesting, this percentage has increased measurably. Any Federal program, such as OSHA, ERISA, social security, and others, that create major paperwork burdens and mandatory standards, causes small firms to use available capital for compliance and therefore they are unable to use that same capital for investment needs of their own business. With the growth of Government and mandatory standards, there has been a decrease in the availability of capital, leading to the current shortage. One of the obvious answers to this problem is with a two-tier tax program and a two-tier policy which would allow benefits for those in small business.

The National Small Business would certainly support the establishment of a Small Business Economic Council. It is long overdue. You cannot develop constructive programs if you do not have the information upon which to build. The Council could develop the type of data needed for the above-mentioned Small Business Economic Indicators.

We also would support the raising of the Small Business Administration to Cabinet-level rank.

Under your recommendations on advocacy, small business research and analysis, again, it is long overdue. For some years the SBA did have an adequate research staff and we did get considerable information that was of benefit. We need information on small business activity and it can be given and utilized by the Congress.

In order to get this information, SBA must have access to other governmental data. They must have the authority and have the responsibility to get the data that is so essential in making policy decisions.

The statistical programs in most agencies are already in place. The adding of several questions to current mandatory forms, which will make distinctions between large and small business activities in a particular sector, is simple to accomplish and would not necessitate any additional financing.

In the past, representatives of the small business community have attempted to reduce the reporting burden on the small business community by asking that they be exempt from certain reporting forms. As a result, we do not have the basic economic data that now has proved so necessary in the making of governmental decisions. We hope this can be improved.

Thank you.

Senator McINTYRE. Thank you, Mr. Liebenson.

Before I turn to the next witness on this panel, Mr. McDonough, I wish to recognize the presence of Mr. Walter Stults, who is the executive vice president of the National Association of Small Business Investment Companies.

[The prepared statement of Mr. Liebenson follows:]

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STATEMENT OF HERBERT LIEBENSON

ON BEHALF OF

NATIONAL SMALL BUSINESS ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON ECONOMIC GROWTH AND STABILIZATION

JOINT ECONOMIC COMMITTEE

AND

SUBCOMMITTEE ON GOVERNMENT REGULATION AND SMALL BUSINESS ADVOCACY

SENATE SELECT COMMITTEE ON SMALL BUSINESS

HOLDING HEARINGS ON

THE SMALL BUSINESS INVESTMENT POLICY AND ADVOCACY REORGANIZATION ACT OF 1977

JUNE 29, 1977

STATEMENT OF HERBERT LIEBENSON
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THE SMALL BUSINESS INVESTMENT POLICY AND ADVOCACY REORGANIZATION ACT OF 1977
JUNE 29, 1977

Mr. Chairman:

My name is Herbert Liebenson. I am Vice President for Governmental Affairs of the National Small Business Association. NSB's membership represents 1,000 of the 1,200 Standard Industrial Classifications.

In recent studies of the FTC/SEC Quarterly Reports, the National Small Business Association was amazed to find the differences in impact between large and small business during periods of business downturn or recession. Basically, small firms began a downturn from six months to a year and a half prior to any measurable effect on the larger firms. During the period of time from 1952 to 1974, the differences between the highest and lowest point of small business activity fluctuated 44%, while during the same period of time larger firms moved between 14% and 17%. This has suggested the need for a statistical series of Small Business Economic Indicators which would make it possible to identify a downturn in the economy at its earliest stage and plans could be implemented to reduce downward pressures much earlier (from six months to one year) than if we looked at the present series of economic indicators.

What we are suggesting is that the small business community be looked at as a single entity and, for the purposes of future economic growth, be separated from the large business statistical data in order that improvements can be made where and whenever necessary. The Humphrey-McIntyre bill goes a long way toward establishing and creating necessary information that will lead to earlier adoption of policies to implement small business programs for investment and advocacy.

Investment Policy

In March 1977 the New York Stock Exchange Research Department produced a report on institutional holdings of NYSE listed stocks-1975. It is interesting to note that over 33.6% of the NYSE holdings were held by selected institutional investors. This had increased from 27.6% in 1970 and 18.7% in 1960. While the latest data is not available, as a result of the ERISA legislation and the mandatory requirements for vesting, this percentage has increased. Any Federal program, such as OSHA, ERISA, Social Security, and others, that create major paperwork burdens and mandatory standards, causes small firms to use available capital for compliance and therefore they are unable to use that same capital for investment needs of their own business. With the growth of government and mandatory standards, there has been a decrease in the availability of capital, leading to the current shortage. One of the obvious answers to this problem is with a two-tier tax program and a two-tier policy which would allow benefits for those in small business.

Establish Small Business Economic Council

National Small Business would certainly support the establishment of a Small Business Economic Council. This is long overdue. You cannot develop constructive programs if you do not have the information upon which to build. The Council could develop the type of data needed for the above-mentioned Small Business Economic Indicators.

Cabinet Level Rank

National Small Business would support the elevating of the Small Business Administrator to an Executive level which is equivalent to Cabinet level rank. This is a program that is long overdue.

Division of Advocacy, Economic Research and Analysis

Unless the SBA has full authority to request agencies of government to obtain information for them relating to small business activity in their governmental agency's areas of responsibility, the data, so essential to making decisions on behalf of small business, can not be obtained. The statistical programs in most agencies are already in place. The adding of several questions to current mandatory forms, which will make distinctions between large and small business activities in a particular sector, is simple to accomplish and would not necessitate any additional financing.

In the past, representatives of the small business community have attempted to reduce the reporting burden on the small business community by asking that they be exempt from certain reporting forms. As a result, we do not have the basic economic data that now has proved so necessary in the making of governmental decisions. We hope this can be improved.

Thank you.

Senator McIntyre. We will now hear from Mr. McDonough, executive vice president, Smaller Manufacturers Council.

STATEMENT OF LEO R. McDONOUGH, EXECUTIVE VICE PRESIDENT, SMALLER MANUFACTURERS COUNCIL

Mr. McDonough. Thank you, Mr. Chairman.

I have submitted a statement and also a copy of the magazine with our report from, what we call, the Washington Presentation that was presented here in May, a combination of SBANE, COSE, IBAW, and a group from Syracuse, the initials I am sure you are familiar with. If you are not, they are the Smaller Business Association of New England, the Council of Small Enterprises—Cleveland, and the Independent Business Association of Wisconsin—Milwaukee.

Rather than go through the complete statement I think I would rather just touch on a few of the points and it is pretty difficult to follow this group when you are trying to come up with something new. It is almost like telling an old priest a new sin. After McKevitt and Stults and the rest of them talk, you have just about covered the small business waterfront as thoroughly as you can cover it.

The one thing we have found out every time we come to Washington to talk about the different needs of small business, people ask us for data. They want to know, where are you coming from, where is your information. Frankly, we are not in a position to develop much of the information that is expected of us, and I see an opportunity in your bill to develop this information, make it available and perhaps be able to make it available even for us to lean on when we need it to support some of the problems that we are trying to cope with.

Another thing that I agree with in the report is raising the SBA Administrator to a Cabinet-level post. Not only would it give him more clout and more respect in his position, I think it might even give him a little bit more independence where he could speak his piece when he should be speaking to small business not for the Administration. I do not care what the Administration may be, I still say that he has to be independent. He has to be able to tell what our problems are so that he can get them across.

Another point that I would like to address myself to would be the fact that many, many times great bills are designed and thought up here, both in the Senate and the House. The ideas behind them are fantastic. On OSHA, for instance, nobody wants to work in an unsafe condition, especially a small businessman because in most instances you will find a small businessman is the president of the company working right alongside doing the same job as many of his own employees, breathing the same air, working the same machines.

When we asked for a little bit of common sense, I have to say that—thank God, we are beginning to see daylight. We have met with Eula Bingham. We have heard some great comments recently. We feel that the trend is coming along the lines of what we have been asking for all along—the commonsense approach to some of the things that are happening to us.

But I guess the point I am trying to make is—OSHA was a great idea. There is no question about it. Nobody wants an unsafe working place. ERISA was a great idea because nobody wants to see the workingman lose his pension. But somewhere between the time that you pass a law and it gets interpreted, we get killed. And I mean we get slaughtered. I had a discussion with Congressman Al Ullman on ERISA right after it was passed. He went on to explain that it was a great bill, it was a great idea, and I said, yes, sir, but I have a pile of papers on my desk on forms that we have to fill in, and I have to tell about pensions, I have to tell about vacations, I have to tell about this, about everything connected with the fringe-benefit program, and he said impossible. And I said, I am sorry, sir, but those are the forms that we got. This is ERISA.

Senator McINTYRE. Let me ask you—are you feeling any relief in this area at all? Are your accountants reporting any relief in this area?

Mr. McDONOUGH. In ERISA, so far, no; the talk is yes, they are going to try to. In OSHA, yes; we are beginning to hear some very good comments that they are going to get down to the blood and guts of it.

Senator McINTYRE. I just want to tell you that I am on the Federal Paperwork Commission and I oversight that whole thing. Senator Humphrey and Senator McClure also can tell you that this is a very popular measure, moving very fast.

We in the Congress dumped the ERISA law on the bureaucrats and gave them something like 28 days to come up with regulations implementing the act. The bureaucrats over at the Labor Department had no familiarity with the problem. ERISA is a classic example in congressional muddling and making a terrible problem out of what was a very good piece of legislation.

Mr. McDONOUGH. I agree totally, sir. I have a pension plan in my office with four employees, it was only a year old, and it cost $300 to get a few words changed in it to get it updated. Now multiply that by some of the other companies with many, many, many employees, you get a slight idea of some of the fees that have been paid by small business to try to keep themselves up to date with ERISA.

Senator McINTYRE. I think 100 or less employees are now exempt.

Mr. LIEBENSON. May I say there is some progress being made along those lines. The National Small Business Association had a meeting with representatives of the Department of Labor and IRS on reviewing the 5500-K form that is now out for public comment and I think within the next 15 days they are due to come out with final regulations which will relieve much of the burden.

Mr. McDONOUGH. To summarize, I think, the only thing I would like to add would be to thank you tremendously for the opportunity. We have asked for many years to be used as a sounding board. We think that the trade associations who deal with the problems day-in-and-day-out are in a position to get the answers to you, either through our own offices or through our own presidents. We are very happy to have the opportunity to come down and pass it on to you.

Thank you.

Senator McINTYRE. Thank you.

[The prepared statement of Mr. McDonough follows:]

STATEMENT BY: LEO R. MCDONOUGH
EXECUTIVE VICE PRESIDENT
SMALLER MANUFACTURERS COUNCIL
PITTSBURGH, PENNSYLVANIA

JUNE 29, 1977

BEFORE: THE JOINT HEARING OF THE
JOINT ECONOMIC COMMITTEE SUBCOMMITTEE ON
ECONOMIC GROWTH AND STABILIZATION
AND
THE SENATE SELECT COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON GOVERNMENT REGULATION AND
SMALL BUSINESS ADVOCACY

THE SMALLER MANUFACTURERS COUNCIL IS GRATEFUL FOR THIS OPPORTUNITY TODAY TO TESTIFY BEFORE THE JOINT HEARING OF THE JOINT ECONOMIC COMMITTEE SUBCOMMITTEE ON ECONOMIC GROWTH AND STABILIZATION AND THE SENATE SELECT COMMITTEE ON SMALL BUSINESS SUBCOMMITTEE ON GOVERNMENT REGULATION AND SMALL BUSINESS ADVOCACY.

WE FIRMLY BELIEVE THE SMALL BUSINESS INVESTMENT POLICY AND ADVOCACY REORGANIZATION ACT OF 1977 IS ESSENTIAL TO SMALL BUSINESS.

I AM LEO MCDONOUGH, EXECUTIVE VICE PRESIDENT OF THE SMALLER MANUFACTURERS COUNCIL, A TRADE ASSOCIATION OF SOME 725 MEMBER COMPANIES IN SOUTHWESTERN PENNSYLVANIA, NORTHERN WEST VIRGINIA AND EASTERN OHIO. ALL OF OUR COMPANIES HAVE UNDER 500 EMPLOYEES, BUT THE GREAT MAJORITY HAVE LESS THAN 100 EMPLOYEES. STILL, COLLECTIVELY, OUR COMPANIES EMPLOY MORE THAN 50,000 PERSONS AND HAVE WELL OVER A BILLION DOLLARS IN SALES A YEAR.

WE SPECIFICALLY ENDORSE EACH OF THE GOALS OF THE ACT UNDER CONSIDERATION. THIS IS NOT A NEW POSITION ON OUR PART — WE HAVE SUPPORTED THE URGED ESTABLISHMENT OF MANY OF THE ACT'S PROPOSALS FOR SEVERAL YEARS. WE AND OTHER SMALL BUSINESS GROUPS WERE SUCCESSFUL IN 1974 IN PROPOSING AND GETTING PASSED INTO LAW A BILL ESTABLISHING THE OFFICE OF CHIEF COUNSEL FOR ADVOCACY IN THE SMALL BUSINESS ADMINISTRATION. WITHIN ITS LIMITS, THIS OFFICE HAS PROVED TO BE VERY VALUABLE AND HELPFUL TO SMALL BUSINESS AND ESTABLISHING A DIVISION OF ADVOCACY, ECONOMIC RESEARCH AND ANALYSIS WITHIN THE SBA COULD ONLY LEAD TO STRENGTHENING OF THIS OFFICE AS THE "VOICE OF SMALL BUSINESS" IN DEALING WITH THE MULTITUDE OF GOVERNMENTAL AGENCIES, AS WAS THE INTENT WHEN THE SBA WAS ESTABLISHED IN 1953.

ANYONE WHO HAS SCRATCHED THE SURFACE IN SEEKING INFORMATION ABOUT SMALL BUSINESS IN THE UNITED STATES KNOWS THAT SMALL BUSINESS EMPLOYS 56% OF THE PRIVATE-SECTOR

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EMPLOYMENT, HAS 48% OF THE BUSINESS OUTPUT, PROVIDES 43% OF THE GROSS NATIONAL PRODUCT AND WELL OVER HALF OF THE IMPORTANT INDUSTRIAL INVENTIONS AND INNOVATIONS.

THIS IS OBVIOUSLY A BIG GROUP WE'RE TALKING ABOUT BUT, BECAUSE ITS INDIVIDUAL MEMBERS ARE SMALL AND QUITE OFTEN WITHOUT A "VOICE" ITS NEEDS HAVE ALL TOO OFTEN BEEN FORGOTTEN. AND NOT ONLY ITS NEEDS -- CONGRESS HAS SENT US IN RECENT YEARS A DREADFUL AMOUNT OF WORK TO DO, ALL, LET ME ADD, FOR ADMIRABLE PURPOSES, BUT OSHA, ERISA AND ENVIRONMENTAL LEGISLATION HAS ALMOST OVERWHELMED US IN A SEA OF PAPER. THROW THE ENERGY CRISIS IN ON TOP OF THAT, GENTLEMEN, AND THE SURVIVAL OF SMALL BUSINESS IN RECENT YEARS IS INDEED A TRIBUTE TO THE DETERMINATION OF SMALL BUSINESS OPERATORS. SMALL BUSINESS FAVORS SAFETY; IT FAVORS SECURE PENSION PLANS; IT'S FOR A CLEAN ENVIRONMENT. BUT THE ACTIONS IN WASHINGTON AND PLACES LIKE HARRISBURG RESULT IN MAKE-WORK PROJECTS FOR A SMALL BUSINESS PERSON WHO IS ALREADY PRESIDENT, TREASURER, PURCHASING AGENT, SALESMAN, ENGINEER AND PLANT SUPERINTENDENT ALL WRAPPED INTO ONE.

WE SEE THE SMALL BUSINESS INVESTMENT POLICY AND ADVOCACY REORGANIZATION ACT OF 1977 AS A VEHICLE FOR RESTORING SOME SORT OF ORDER TO GOVERNMENTAL DEALINGS WITH SMALL BUSINESS. THE GOVERNMENT KNOWS WE'RE OUT THERE, BUT IT DOESN'T SEEM TO CONSIDER US WHEN THE ROLL CALLS ARE MADE. THERE IS A CHANGE COMING AND I WOULD BE REMISS IN NOT MENTIONING IT. PRESIDENT CARTER HAS ALREADY HAD US TO A MEETING AT THE WHITE HOUSE AND HAS DIRECTED THE ADMINISTRATION AGENCIES TO CONSULT WITH SMALL BUSINESS. WE HAVE MET IN RECENT WEEKS WITH THE TOP PEOPLE IN OMB, TREASURY, COMMERCE, LABOR (OSHA) AND, OF COURSE, THE SBA. THESE ARE WORK SESSIONS, NOT COURTESY SESSIONS.

THE SMALL BUSINESS COMMITTEES OF THE CONGRESS HAVE BEEN HELPFUL TO US AND WE, HOPEFULLY, HAVE BEEN HELPFUL TO THEM IN CARRYING OUT THEIR DUTIES.

SMALL BUSINESS IS NOT SEEKING A HANDOUT OR SPECIAL PROTECTION IN ITS DEALINGS WITH THE FEDERAL GOVERNMENT. WHAT IT NEEDS IS A FAIR OPPORTUNITY TO OPERATE IN THE COMPETITIVE SYSTEM.

THE ACT YOU ARE CONSIDERING WOULD SEEM TO GO A LONG WAY TOWARDS THAT END. BY RAISING THE SBA ADMINISTRATOR TO A CABINET LEVEL EQUIVILENT, THE CONGRESS WOULD BE

RECOGNIZING THAT, SINCE 95% OF THE BUSINESSES IN THE NATION ARE SMALL BUSINESS, SMALL BUSINESS IS A MAJOR FACTOR IN OUR COUNTRY.

COLLECTING DATA FROM THE BANKS ON SMALL BUSINESS LOANS WILL, I'M SURE, PROVIDE SOME EYE-OPENING INFORMATION TO THE FEDERAL GOVERNMENT.

IN CONCLUSION, WE FULLY SUPPORT THE REORGANIZATION ACT AND THANK THE SUBCOMMITTEES FOR THEIR INTEREST AND CONCERN WITH SMALL BUSINESS. WE ARE SURE YOUR WORK HERE TODAY WILL BE APPRECIATED BY THE SMALL BUSINESS COMMUNITY BECAUSE IT WILL GIVE US THAT FAIR OPPORTUNITY TO OPERATE IN THE AMERICAN ECONOMIC SYSTEM, THE BEST IN THE WORLD.

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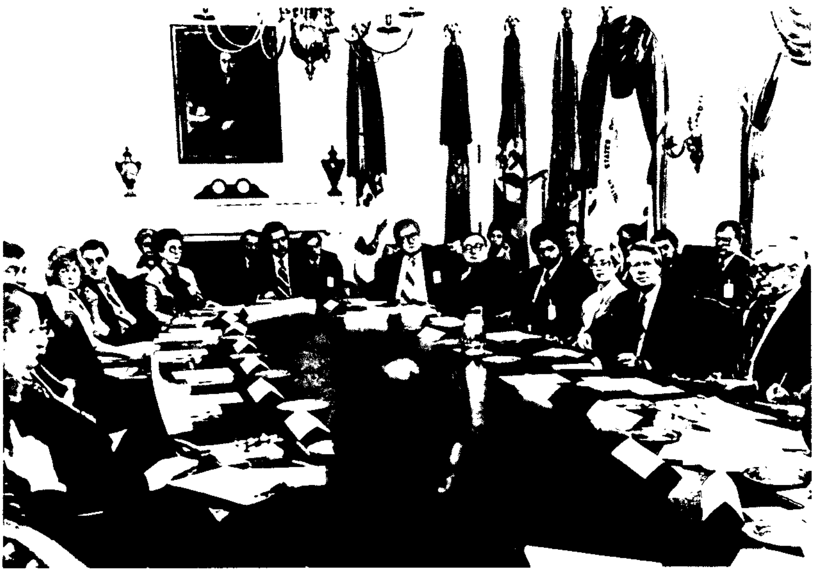
SMC THE SMALLER MANUFACTURER



Smaller Manufacturers Council

339 Blvd. of the Allies
Pittsburgh, Pennsylvania 15222
Telephone 412/391-1622

SMC

An Invitation

To: Small Manufacturers Who Are Not Members of the SMC

From: Alex T. Kindling, President of the SMC

This issue of The Smaller Manufacturer highlights one of the most important of SMC activities—Government Relations. Our efforts in Government Relations over the years have given small business a voice in government, both Federal and State, and the results of this activity have shown up in recent years with the reduction of the State's Corporate Net Income Tax rate and an increase in the surtax exemption on the Federal level from $25,000 to 50,000.

The SMC has representatives on advisory groups of the U.S. Small Business Administration, the U. S. Treasury, and the U.S. House and Senate Small Business Committees.

In the last two years, members of the Smaller Manufacturers Council have been named "Small Business Person of the Year" in Pennsylvania, Delaware, Maryland, Virginia, West Virginia, and the District of Columbia.

The SMC is active in the interests of small business in many other areas than Government Relations. Our organization has 16 active committees in the areas of company services, membership, communications, and organization development, in addition to Government Relations.

We conduct an annual Wage & Fringe Benefit Survey, an annual Small Business Problems Conference, Quarterly Business Surveys, publish this magazine and a monthly newsletter, and every two years publish a Classified Directory of Products and Services which lists all our members and is distributed to all purchasing executives in the area.

We invite you to inquire about membership in the SMC. An application is on the back of this invitation. If you have any questions, call me at my office (824-6400) or contact Leo McDonough, our Executive Vice President, at the Council office (391-1622).

Your decision to join the Smaller Manufacturers Council will aid in promoting a better business climate for all of small business. We look forward to having you join our growing organization.

THE SMALLER MANUFACTURER

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Advertising Manager
MARTY WOLFSON: Graphics Editor

CONTENTS Page

REMARKS AND COMMENTS:

SMC's active role in the field of Government Relations is emphasized in this issue because of the enormous activity in that program in recent weeks.

First, we have pictures of **SMC President Alex T. Kindling** and **Ralph W. Murray, General Chairman of Government Relations,** at their meeting with President Carter at the White House on March 29. The story of the meeting and their testimony was reported in the May issue. For the pictures, see page 11.

* * * *

Next we record the tremendous honor given to **Past President Harry G. Austin, Jr.,** in being awarded the Pennsylvania Small Business Person of the Year title by the Small Business Administration. Mr. Austin was also named the Small Business Person of the Year for the SBA region of Delaware, Virginia, West Virginia, Maryland, Pennsylvania, and the District of Columbia and was one of 10 finalists for U.S. Small Business Person of the Year. For this turn to page 12.

* * * *

The third activity is our annual trip to Washington in mid-May where we joined with four other small business groups for the Small Business Presentation to Congress. A group of 55 SMC members and similar-sized delegations from the other organizations emphasized the small business viewpoint to the Congressional leaders in the fields of surtax exemption, revised depreciation rules, and deferment of capital gains if reinvestment in small business is made in a specified time.

The complete text of the Washington Presentation begins on page 6.

This was undoubtedly our most successful and best organized trip to Washington. Washington Presentation **Chairman George Saxon** had his teams organized well in advance and they spent the day visiting the offices of their assigned Congressmen and staff members. These visits followed showing of the video-taped Presentation to Congressmen at breakfast and to Senators at lunch.

Members of each of the five small business organizations (from Pittsburgh, Boston, Cleveland, Milwaukee and Syracuse) took part in the video tape and SMC was well represented by **Past President Austin,** speaking on capital gains, and **Winston Lord and his mother, Christine,** of W. W. Lord Manufacturing speaking on depreciation. Mr. Lord's responding in sign language to questions on depreciation was truly a moving experience.

—**Leo R. McDonough**

CONGRESS GIVES SMALL BUSINESS WARM RECEPTION

SMC President Alex T. Kindling, left, talks with U.S. Sen. Gaylord Nelson (D-Wis.), chairman of the Senate Small Business Committee, at the social hour.

George Saxon (Condenser Cleaners Mfg. Co.), left, chairman of the SMC Washington Presentation, and Edward P. Puza (APS Industries, Inc.), right, discuss the Presentation with U.S. Rep. William Moorhead (D-Pittsburgh).

Ralph W. Murray (IDL, Inc.), left, SMC General Chairman of Government Relations, and Mrs. Roseann Austin pose with Congressman Moorhead.

Fifty-three SMC members took the 1977 small business message to Congress May 18 and the warm reception by the Senators and Congressmen indicated the Federal Government is listening.

Leading the SMC delegation were President Alex T. Kindling, Ralph W. Murray, General Chairman of Government Relations, and George Saxon, Chairman of Federal Government Relations.

The main thrust of the Washington Presentation was capital formation, with emphasis on raising the surtax exemption, revised depreciation rules, and changes in the capital gains regulations to allow deferment of capital gains taxes if the money received is re-invested in small business.

A video-tape presentation—including Past President Harry G. Austin, Jr., James Austin Co. and Winston Lord, and Christine Lord of W. W. Lord Manufacturing—was the highlight of the message to Congress. It was backed up with a detailed printed booklet.

Five small business groups cooperated in the Presentation, an addition of one over previous years. The five were SMC, the Smaller Business Association of New England (SBANE), the Council of Smaller Enterprises (COSE) from Cleveland, the Independent Business Association (IBAW) of Milwaukee, and the new group, the Small Business Council (SBC) of Syracuse.

The complete presentation is presented in this issue.

Congresswoman Margaret Heckler (R-Mass.) makes a point while talking with SMC President Alex T. Kindling. A month after the 1974 Small Business Presentation in which an office of Chief Counsel for Advocacy in the Small Business Administration was called for, Congresswoman Heckler introduced a bill creating the office and it passed the Congress and was signed by President Ford.

G. Robert Cox (J. P. Devine Co.), left, and Earl Latterman (Tygart Industries), right, talk with U.S. Sen. Thomas McIntyre (D-N.H.) during the social hour.

Herbert Sprira, right, counsel for the Senate Small Business Committee, and Mrs. Sprira were greeted at the social hour by President Kindling.

President Kindling, Barrie Gibbs (Gibbs Corporation), center, and William Truxal (Penn State Tool & Die) rehash the day's activities on Capitol Hill.

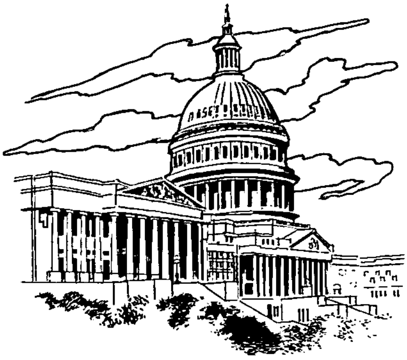
R. F. Davis (Woodings-Verona Tool Works), left, and Carl Binder (Evans City Machine & Tool) relax at the end of a busy day.

Joann Price, legislative assistant to U.S. Sen. Richard Schweiker (R-Pa.) visits with President Kindling.

Ronald Tostevin (Glass Beads Co.), right, was host to U.S. Rep. Gus Yatron (D-Reading) at the breakfast for congressmen.

Past President Harry G. Austin, Jr., center, Mrs. Austin and R. C. Myers (Robinson Industries, Inc.) are shown at the breakfast in the Rayburn House Office Building.

(Cont. on page 24)



1977 SMALL BUSINESS WASHINGTON PRESENTATION

WASHINGTON PRESENTATION BACKGROUND

Over 30 years ago, the Small Business Washington Presentation began under the auspices of the Smaller Business Association of New England, Inc. (SBANE). Four years ago we were joined by the Independent Business Association of Wisconsin (IBAW), the Smaller Manufacturers Council (SMC) of Pittsburgh, Pa., and three years ago, the Council of Smaller Enterprises (COSE) of Cleveland, Ohio. This year, the Small Business Council of Syracuse, New York, is joining the small business coalition of grassroots organizations.

Over the years this Small Business Washington Presentation has led to significant legislative accomplishments on behalf of small business. For instance, the 1974 Presentation proposed that the Small Business Administration create an Office of Advocacy. Through the efforts of Congresswoman Margaret M. Heckler, Congress established a Chief Counsel for Advocacy within this agency. Last year's Presentation offered 18 specific proposals that address the tax inequities confronting small business. Congress has responded since with revisions in the estate and gift tax areas and for the first time, a job tax credit. Recommendations in all three of these areas were contained in the 1976 Washington Presentation.

The theme of this year's Presentation is "Capital Formation = Job Creation." It is based upon the findings of the special study by a Task Force on Venture and Equity Capital, conducted by the SBA during the past year and released in January, 1977.

Small business has always received a warm welcome on Capitol Hill. The Presentation's purpose is to translate this cordial reception into action, by articulating the concerns and problems of small business to our national lawmakers. We thank the Senate and House Small Business Committees and staffs for making it possible for the five organizations to give this presentation.

CAPITAL FORMATION = JOB CREATION SBA TASK FORCE ON VENTURE AND EQUITY CAPITAL

Growth requires money.
Small businesses can't get money for growth.
So small businesses can't grow.
Instead, they die.

It's as simple and distressing as that. Thanks to some profound changes in the nation's overall capital markets, small business faces a capital shortage estimated at $8 billion a year.[1] Venture capital, start-up capital, expansion capital—they are largely unavailable to small businesses anymore.

Factors behind the capital shortage are extremely complex, as the SBA Task Force on Venture and Equity Capital for Small Business, January 1977, found out after an intensive study headed by former SEC Chairman William J. Casey. The results, however, are starkly simple:

- In 1975, only four underwritings of new stock were successful for small businesses. They raised a total of $16.2 million. Eight years earlier, there were 548 offerings, raising $1.5 billion.
- Offerings under Regulation A plummeted to $49 million in 1975 from $256 million in 1972, and many of the offerings were unsuccessful. Meantime, large corporations were raising $41 billion in the public securities market—up 50% from 1972.
- A new company nowadays must reach an annual sales level of $10 million before it can even think of public financing. It must attain annual revenues of $25 million before the full range of capital-formation tools are available to it.
- Even the venture capitalists who specialize in high-risk investments are turning away from small business. In 1975, only 5% of venture-capitalists' investments were in start-ups of new ventures, and a paltry 2% went to first-round financings. Instead, venture capital is flowing to established companies, which don't face the severe capital-formation problems being encountered by small businesses.
- In the meantime, new businesses are failing at an alarming rate: 80% die within a decade.
- And the survivors don't fare much better. The alarming merger trend and concentration of assets in large corporations have come mainly at the expense of small businesses. Acquisitions of small companies account for 87% of recently completed and pending acquisitions. Many have been "shotgun weddings" brought about by the inability of small business investors to sell their shares to other investors. Instead, large corporations are the only available buyers—and they buy at discounted prices.

The problem is capital formation. Small businesses can't get enough new capital. What they do get can't be recycled effectively to benefit new ventures. Traditional capital markets have frozen out small companies even when they show high likelihood of success.

How can small businesses find the funding they need to survive? Last year, the Small Business Coalition recommended 18 changes in the tax code that would address the problem. Sixteen of these points eventually were packaged in the Nelson-Evins

Tax Reform Bill. Congress offered to act especially in the area of estate and gift taxes and in job-creation.

At the same time, the Small Business Administration launched an important study of capital formation in the small business sector. The SBA Task Force was charged with producing a program to encourage capital formation for small businesses.

The Coalition is grateful for the far-reaching work done by the SBA Task Force. Their proposals deserve careful study. To facilitate that study, the Washington Presentation of 1977 focuses on the SBA report. We will attempt to elaborate on the Task Force's basic findings and to explain its specific proposals.

The 15-member SBA Task Force began work last summer amid signs of crisis in the small business sector. No longer was there room for skepticism about small business' pleas for help. These weren't wealthy entrepreneurs crying "Wolf" in order to get wealthier. These were struggling businesses barely able to stay afloat in the face of tax inequities and inadequate capital. This was a crisis crippling the sector that provides 56% of private-sector employment, 48% of business output, 43% of Gross National Product and over half of important industrial inventions and innovations.

Charged with investigating the crisis and recommending solutions, the SBA group started out with a narrow focus on venture capital for very small businesses. But it quickly became apparent that the capital-crunch was far more pervasive than that. So the Task Force took a broad look at what ails the small business sector.

Six months later, the SBA Task Force had reached this startling conclusion:

> "a set of impediments have developed that are preventing smaller businesses from attracting the capital without which they cannot perform their traditional function of infusing innovation and new competition into the economy."

Subtle but profound changes in U.S. capital markets have made venture and expansion capital for small businesses "almost invisible in America today," the Task Force said.

Government policy "discourages the public" from investing in smaller businesses "while it encourages the public to risk $17 billion a year in Government-sponsored lotteries."

IMPEDIMENTS

The Task Force identified "six impedi-ments to small business growth." They are:

1. A public policy that tilts sharply towards encouraging consumption and discouraging savings and investment.

Capital requirements are met by private-sector saving. A study last year estimated private saving will fall $500 billion short of capital requirements between now and 1985.[2] The capital drought will hurt large businesses, as well as small, but the impact will be most severe in the small business sector.

2. An increasing and dangerously high ratio of debt to equity, arising in part from artificial tax advantages extended to debt financing.

New companies traditionally start out using debt and hope to work their way to equity financing, which enables them to build permanent capital. There has been a breakdown, however, at the point where transition from debt to equity traditionally has been made. For example, Small Business Investment Companies have been among the first sources of equity financing for a growing concern. Nowadays, however, the SBICs operate under Federal rules that favor investments via debt securities, rather than pure equity. Deprived of this former source of equity financing, the growing concern approaches another key growth step, long-term bank financing, with an unattractive balance sheet showing an overload of debt. The high debt ratio scares off conservative investors like banks. And the noose draws tighter.

3. Distinct impediments to raising equity and other forms of risk capital.

Individual investors who used to keep an eye out for promising new ventures got burned in the recent bear market and have pulled back from risk-taking. Meantime, capital gains tax rates have nearly doubled since 1970, drastically reducing the incentive for individuals to invest in high-risk equities.

The cost of entering the public securities market is enormous. The Task Force analyzed six small offerings made in 1976 and found that the average cost of registration alone was $122,350 per offering. That, the Task Force concluded, is an "insurmountable roadblock" for many small companies. On top of registration costs there are the mountains of government-related paperwork that are merely a nuisance to large companies but a back-breaking burden to thinly-staffed small companies.

4. Savings are gravitating toward larger institutions, which are discouraged from investing these savings in smaller and new businesses.

Large banks, mutual funds and pensions dominate today's investment activity. The 10 largest banks control 33% of all bank deposits, up from 20% in 1962. Pension fund assets have tripled since 1962. By 1985, it's estimated pension fund managers will control over half of all equity capital. Mutual fund assets have doubled since 1962. Altogether, institutions account for 70% of trading volume on the New York Stock Exchange.

As new saving takes place, it tends to flow into these lower-risk institutions. They, in turn, channel the money into lower-risk, established investments. Small business, meanwhile, remains on the outside looking in, as savings become increasingly concentrated in markets from which small concerns are frozen out.

5. Well-intentioned efforts to protect investors inadvertantly place small businesses at a disadvantage in competing for available funds.

High-risk ventures once accounted for a small but important portion of institutional investments. These special allotments were the life-blood for many new and smaller companies. Nowadays, however, institutions shy away from even token activity in high-risk investments. The 1974 Employee Retirement Income Security Act, for example, contains standards that turn out to be a disincentive for risk. As pension fund managers are interpreting the standards, investments must be solely in larger companies with proven earnings records. This succeeds in reducing lawsuits and liabilities, thus protecting the fund managers' flank. But it also shuts off another spigot that had been sending capital into the small business sector.

6. Attrition and concentration in the network of financial institutions and firms work against capital-formation in the small business sector.

The securities industry is shrinking. The number of registered securities broker/dealer firms dropped 35% over the past five years. The number of registered representatives shrank, too. This shrinkage makes access to capital even more difficult for smaller businesses than before. Major brokerage houses, which now handle most underwriting, generally won't touch a new offering unless the company has annual earnings of over $2 million. Some of the few remaining regional houses will go below that level, but they're still insisting on at least $1 million annual earnings. Such cut-off points eliminate the great majority of smaller businesses, not to mention companies still in the research, start-up or early growth stages, where profitability is still a few years down the road.

LIFE CYCLE OF A GROWING BUSINESS

To get inside the capital-formation problem, the SBA Task Force analyzed the "life cycle" of a growing business. The findings are extremely important, because they reveal how complex capital-formation has become in our sophisticated economy. Moreover, the Task Force found that to get the capital-formation system back into sync will require a series of remedies just as complex as the system itself.

Most people figure a new company will flourish if its product is sound and its management wise. The financial realities turn out to be quite different. Access to capital is the crux. The soundest product and wisest managers can't do a thing without capital.

Business growth occurs in a series of stages. At each stage, different types of capital are needed and different specialized sources of capital must be approached. Orderly movement through the growth cycle requires adequate financing at each stage. A breakdown at any one stage disrupts the others.

A new enterprise typically is born in the entrepreneur's own checkbook, augmented by a few small outside investments by family and friends. As the venture moves from research to start-up, the owner's checkbook goes dry. Friends and relatives start running low. At this stage, the own-

FOOTNOTES

1. Treasury Small Business Advisory Committee on Economic Policy, Report of Recommendations to the Secretary of the Treasury, December 1976, page 5.
2. Testimony by Norman B. Ture, consulting economist, before the Select Committee on Small Business, September 23, 1975.

er's mid-morning coffee breaks with Banker Brown start to pay off. Based on his knowledge of the owner and his venture, the local banker starts making short-term loans to help build inventory and to handle multiplying accounts receivable.

Such friends-and-neighbors financing can only carry a company so far. Around start-up time, the owner starts looking outside his immediate circle. Investment firms such as Small Business Investment Companies get interested. If start-up is successful, the owner moves higher up the bank ladder and secures his first long-term corporate loan.

As growth reaches the $10 million annual revenue level, the owner and his increasingly professional management team start considering public financing. If the initial equity offering succeeds, then sustained growth is possible and long-term capital is sought from major institutions. Around $40 million in annual revenue, the company reaches maturity and has available to it the full variety of capital-formation tools.

The SBA Task Force likened this capital flow to a pipeline. If the flow is smooth, all types of investment capital can function. Company A taps a specific capital pool for as long as necessary and then moves on to the next, thus releasing those first funds for use by the next company to come along. If a clog develops at any point, however, capital dries up all along the pipeline. Savings that can't be pulled out of one venture won't be available for another.

As the SBA Task Force found out, clogs exist at every stage in the pipeline. A consumption-minded economy has trimmed savings generally. Tax laws penalize the investor who liquidates a new-venture investment, even if he re-invests the funds in another new venture. The small but vital corps of individuals who thrived on high-risk ventures is a shrinking force. Institutions have the money now, and they're increasingly prone to conservative investment practices. Most venture capitalists have adopted a policy of staying away from start-up ventures. The public securities market remains an illusive dream for virtually all small businesses.

In other words, the capital pipeline is practically dry, as far as small business is concerned. Recycling of investment funds, on which the whole pipeline depends, isn't occurring. Instead, capital remains trapped as the company stagnates and dies, or the owner gets frustrated and sells out to a larger concern, or the owner dies and his company gets consumed by estate taxes. As new capital sources come along, they see this unattractive scenario and simply skip the small business sector altogether in favor of safer ground.

TASK FORCE RECOMMENDATIONS

What is to be done? The first thing, the SBA Task Force says, is to forget any thoughts of simple solutions. The remedies will need to be as specific and sophisticated as the problems. What the SBA group did was to identify specific remedies for each stage in the capital-formation pipeline. The Task Force further recognized that there are two broad categories of small business: those that are local and probably will never need access to public financing, and those that can develop to the point where public financing will be necessary. Different remedies apply to each category.

Following are specific recommendations made by the SBA Task Force, with elaboration from their findings and from other documents. In general terms, Recommendations 1-11 apply mostly to small companies that aren't seeking access to public financing. They seek to facilitate development of internal capital, to attract institutional capital and to improve the Small Business Administration's role in long-term borrowing.

Recommendations 14-21 concern companies seeking access to public captial. These recommendations seek to make institutional funds more readily available and to improve small business' access to public securities markets.

Recommendations 12 and 13 concern the SBA's role as advocate and the development of University Business Development Centers. The Small Business Coalition believes these two recommendations also deserve consideration.

▪ Concerning tax laws and IRS regulations:

1. Increase the corporate surtax exemption from the present level of $50,000 to $100,000.

During the vital years of research, start-up and early growth, capital must come from internal cash flow and from borrowing. Congress recognized this in principle 39 years ago when it exempted a company's first $25,000 in earnings from the full 48% tax rate. Congress raised the exemption to $50,000 two years ago, when it became clear that 429% of inflation since 1938 had made the $25,000 all but irrelevant.

The exemption still isn't adequate for modern needs, especially in view of clogs elsewhere in the capital pipeline, according to the SBA Task Force. They recommend this schedule:

- First $50,000 ....20%
- Second $50,000 ....22%
- Excess over $100,000 ..48%

Allowing small business to use a larger portion of their first $100,000 of earnings would be "the most direct and effective step that can help small business," the SBA Task Force says. The benefits would be passed on immediately in the form of new jobs and, before long, additional tax revenues for government and lower welfare and unemployment costs. Small businesses grow by hiring people. Large corporations grow by buying machines and reducing employment.

N.B. The Washington Presentation Coalition recommends a surtax exemption of $150,000. Inflation has accelerated since 1975, when the surtax matter first was raised. The Wholesale Price Index now is 474% higher than it was in 1938. (The rise as of 1975 was 429%.) The SBA Task Force's recommended $100,000 exemption would be outdated before it went into effect.

2. Allow greater flexibility in depreciating the first $200,000 of assets.

Writing off depreciable assets is an important method small business can use to improve cash flow. Several suggestions have been made for increasing flexibility in depreciation. The Treasury Small Business Advisory Committee recommended to the Secretary in December that any amount up to 100% of an asset value could be written off in the year of acquisition. This, in effect, is a tax deferral and does not effect over the long run the amount of tax paid. The limitation would be $200,000 a year.

3. Permit investors in qualified small businesses to defer the tax on capital gains if the proceeds of the sale on a profitable small business investment are reinvested within a specified time in other qualified small business investments.

There has been a 70% to 100% increase in capital gains tax rates over the past ten years. Because the capital gains tax at its higher limit approaches the tax on "earned" income, the once lower capital gains tax is "so high that it no longer serves as an incentive to provide long-term investment capital." Allowing investors to defer the tax if they keep recycling their investment would attract many individual investors back to the small business sector. The SBA Task Force pointed out precedents for such deferral in home sales, condemnation proceedings and retirement plan distributions. In terms of tax revenues, the initial cost of deferral would be more than offset by higher tax revenues paid by new and growing companies. "Small business is potentially the most rapidly growing part of the equity investment spectrum," the Task Force says.

4. Liberalize certain limits of Section 1244 of the Internal Revenue Code.

This section was enacted in 1958 to encourage the flow of new funds into small business. It provides that certain losses on small business investments can be treated as ordinary losses, not capital losses, for tax purposes. This larger tax offset makes the high risk of small business investment less of a disincentive. The limits set in 1958, however, have been overtaken by inflation and by sharply increased capital costs. The Task Force recommends that a taxpayer be permitted to deduct $50,000 in Section 1244 tax loss in any one year, up from $25,000. Two key criteria for qualifying under Section 1244 should be doubled, too, thus broadening availability of this investment incentive. The limit of issuer equity capital should be raised to $2 million from $1 million, and the size limit of eligible financing should be doubled to $1 million.

A Library of Congress analyst advised Congress last year that amending Section 1244 in this way "would greatly facilitate" the ability of small businesses to attract equity capital, which is what small businesses need most.

5. Permit underwriters of the securities of small business to deduct a loss reserve against the risks inherent in the underwriting and carrying of such securities.

This change could help reserve the flight of underwriters away from small business offerings. Admittedly, the risks are high in small business securities. Also, the secondary market has been weak since 1969. Consequently, initial offerings aren't attractive, to investors or to underwriters. This recommendation approaches the problem from the underwriter's point of view, by offering a tax incentive for handling small business offerings.

6. Revise methods by which revenue impact of tax changes is estimated to reflect revenue gains from the business use of tax savings and the stimulus to capital formation that tax incentives provide.

The SBA Task Force criticizes the method currently used by the Treasury to forecast the revenue impact of tax legislation. The Treasury only calculates the reduction in tax collections. It fails to consider how a tax measure would spur business activity, and thereby increase taxable income. Nor does the Treasury's method reflect the stimulus to capital formation and economic activity that tax incentives would provide. The Task Force urges the Treasury to review its revenue-impact methods and develop "a more accurate and balanced method."

▪ Concerning the Small Business Administration:

7. Provide that some portion of the guaranteed borrowing available to SBICs take the form of debt with the interest partially subsidized if the funds are used to make equity investments.

Small Business Investment Companies are an important source of long-term debt financing and equity and venture capital for small business. SBICs secure long-term government-guaranteed loans and then invest in small businesses. Lately, the SBICs have swung away from equity investments and toward debt instruments. This reflects the increased costs at which SBICs obtain their funds. The swing adds to the debt burdens of small businesses, rather than providing badly needed permanent capital.

If the interest on loans made to SBICs were partially subsidized, the SBICs wouldn't be under such cash-flow pressure to recoup the interest cost through high-yield debt investments. Instead, they would be able to make the equity investments that may be lower-yield to the SBIC but are badly needed by small businesses for permanent capital.

8. Permit SBICs a deduction from ordinary income for loss reserves on both the equity and debt portions of their portfolios.

At present, SBICs may establish loss reserves only for investments made in debt securities. The Task Force would broaden that to include loss reserves for equity investments, too. This would encourage more equity investments.

9. Immediately make a substantial increase in the size standards for SBIC investments and also provide for either an annual revision of these standards or index them according to broadly accepted price indicators.

This is simply a matter of keeping up with inflation. Size standards used as criteria for SBIC investments tend to lag behind realities of the marketplace. Some adjustments are needed immediately, and a method for continuing revision needs to be developed. The Task Force suggests either a plan for annual revision or an indexing method that would peg the standards according to inflation-tracking price indices.

10. The SBA should require and encourage commercial banks to assume a larger portion of the risk in SBA loans and change its guarantee fee from a one-time fee of 1% of the amount of the guaranteed debt to an annual fee which more nearly reflects the value and cost of the SBA's guarantee.

The Task Force recognizes a need to strengthen the financing role of the SBA, especially by putting its programs on a more self-sustaining and flexible basis. One laudable move already has been a shift in SBA emphasis from direct loans to the guarantee of bank financing. This has put loan management in the hands of local bankers, who know the customer more intimately and can supervise the loans more carefully. The government guarantee enables the local banks to extend long-term financing to risky ventures and still stay within regulatory requirements.

The recommendations would place SBA loan-guarantee operations on a more business-like basis. The commercial banks would take a larger portion of the risk and would more adequately compensate the SBA for its guarantee. The recommendations might well induce borrowers or lenders to do without the guarantee, thus reducing the cost of the borrowing to the small business.

11. Substantially expand SBA's Secondary Market Program by creation of a "Certificate" system for the sale of SBA-guaranteed loans.

Under the Secondary Market Program, banks making SBA-guaranteed loans can sell them to other investors. This improves the banks' liquidity and also increases the potential pool for small business loans by making government-guaranteed, high-yield loans available to institutions and other investors. The program has worked well so far and should be substantially expanded.

A "Certificate" system would transform the guaranteed portions of SBA loans into freely transferable market securities. This would tap additional sources of capital, remove bankers' reservations about liquidity and ease bank examiners' worries over long-term loans in bank portfolios.

The Task Force urges the SBA to launch a comprehensive public information program to make small businessmen more aware of the Secondary Market Program.

12. The SBA should expand its role as a catalyst and advocate within the government for changes reflecting the concerns of small businesses.

A prime role for the SBA is that of initiator. Rather than putting out brush fires, the agency should get involved in the implementation of new regulations before they're issued. The SBA should analyze the impact changes that government policy will have on small business. Concerns of the small business sector often seem fragmented among several agencies. The SBA should coordinate them and act as the small business community's principal voice within government.

13. Support development of University Business Development Centers, S.972.

These centers coordinate services of several government agencies for the benefit of small business. Potential entrepreneurs can get assistance in analyzing personal skills, evaluating business plans, employing technology, locating capital and obtaining further training. The centers use university facilities and faculty. S.972 would create 15 Small Business Development Centers at colleges and universities throughout the country. The program is similar to the Agricultural Extension Service for farmers.

▪ Concerning institutional investors, ERISA:

14. Amend the Employee Retirement Income Security Act to encourage high-risk investments by pension funds.

Fiduciary standards created by ERISA have locked pension funds into blue-chip investments and fixed-income securities. The pension funds control $200 billion but don't feel free to invest any of it in the high-risk small business sector. That's because fund lawyers so far have naturally and correctly interpreted ERISA regulations conservatively. To avoid liability and protect investors' liquidity, the funds are reluctant to invest in companies without strong earnings records and capitalization of over $100 million.

One key obstacle is ERISA's so-called "prudent man" standard, which establishes normal prudence as a test of fund manager decisions. So far, funds have applied the "prudent man" rule to each individual investment.

Instead, the Task Force wants it expressly stated that the "prudent man" standard applies to the portfolio as a whole. Within the standard, the policy should be to invest in a broad spectrum of companies.

In addition, the Task Force recommends that up to 5% of a fund's assets, can be set aside in a special "basket" for higher-risk investments in companies whose net worth is below $25 million or whose securities have limited marketability.

15. The development of professionally managed pools of capital should be encouraged so that pension fund managers, otherwise constrained by time and expertise, may participate in the investment in new ventures and growing small companies.

Because pension fund managers have limited time to analyze potential investments, they tend toward safe, more readily evaluated investments. A specially managed pool would get around this lack of time and experience and enable pension funds to effectively invest in potentially rewarding but admittedly high-risk investments.

The Task Force recommends that the Securities and Exchange Commission exempt these special pools from the "time-consuming and cumbersome requirements of the Investment Company Act of 1940."

16. In cooperation with the SEC and other regulatory bodies, exempt the illiquid securities of small companies from the "market-to-market" or "fair value" accounting treatment.

As portfolio managers now interpret accounting rules, they must frequently value their holdings of unregistered securities and report changes in value, even though no transactions take place. The result is substantial short-term profit and loss impact. But the Task Force views the fluctuations as arbitrary and time consuming. Most institutions avoid the whole matter by sticking to safe investments in large concerns. The Task Force recommends that fair value accounting be waived for investments made within the 5% "basket" provision. (See Recommendation 14.)

• Concerning securities laws and regulations:

17. Increase the small offering exemption from $500,000 to $3 million.

To keep small ventures from being shut out of public securities market entirely, the SEC created "Regulation A." It facilitates offerings of less than $500,000 by exempting them from the costly and time consuming process of fulll registration. The limit of $500,000, however, provides insufficient capital for a growing concern in today's business world. Moreover, most Regulation A offerings need to be underwritten. The SEC calculated that only 35% of Regulation A shares offered in 1972-74 actually were sold. Underwriters won't touch an offering of less than $3 million.

For both reasons, the SBA Task Force recommends the $500,000 limit on Regulation A be substantially increased to $3 million.

18. Enact the limited offering exemption as proposed in the American Law Institute project to codify securities laws.

Also exempted from costly regulation procedures are certain private offerings. However, recent administrative and court decisions have undercut this useful exemption. The decisions seek to protect investors from fraud, by enabling them to demand return of their money simply because the stock was unregistered. Such protection from fraud already exists under Rule 10b (5).

The chief effect of the decisions has been to subvert the original purpose of the private offering exemption, which was to facilitate very small financings. Congress should restore the full breadth of the private offering exemption.

19. Retain and simplify Rule 146.

The SEC issued Rule 146 in 1974 in an attempt to provide a safe harbor for private offerings that claim the private offering exemption and do not register. The SEC was seeking to clear up difficulties caused by the administrative and court decisions cited in Recommendation 18. Rule 146 specifies criteria for qualifying for the private offering exemption. It requires that the issuer exercise "reasonable care" to insure that buyers have sufficient knowledge and experience to evaluate the offer. And the rule indicates the kind of information that should be provided to potential buyers.

The Task Force would amend the rule so that only material information would need to be provided, rather than the mountain of data that the Rule now seems to require. Also, the Task Force wants it made clear that a buyer who has been properly informed cannot later demand a refund simply because the stock was unregistered.

20. Amend Rule 144 to make volume and time limits less restrictive and thereby facilitate small offerings.

Rule 144 governs the resale of accurities purchased by investors in transactions exempt from registration. The Rule seeks to insure that such offerings don't become simply a conduit for sale of unregistered, not-fully-disclosed securities to the public. Thus, a purchaser must hold the securities for at least two years. When he decides to sell, he may sell in any six-month period no more than 1% of the total shares outstanding or an amount equal to average weekly trading volume, whichever is lesser, in the case of an exchange-listed stock. For an over-the-counter security, the limit in six months is 1% of total shares outstanding.

As applied, Rule 144 has proved to be overly restrictive. Venture capitalists say the severe limits impair investors' ability to liquidate investments and thus free up capital for other investments.

The Task Force recommends, as a first step, that the time limit be shortened to three months, rather than six months, and that the limit on volume be set at 1% of outstanding shares or the average weekly volume over a four-week period, whichever is higher instead of whichever is lower.

Eventually, the Task Force would like the quantitative limits eliminated altogether or at least enlarged further. The Task Force applauds the SEC for initiating a re-evaluation of the need and justification for the limits on resale of unregistered securities.

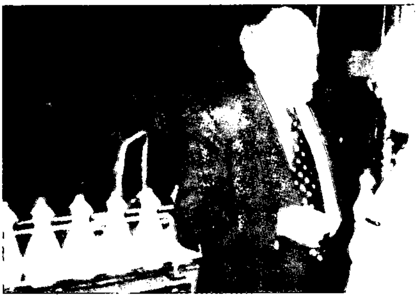
21. Develop procedures under which small companies could develop and promote a good market for their stocks.

Rule 144 currently prohibits solicitation. This works against small-company issues, which need to be promoted in order to attract a sufficient market. The Task Force recommends that, under SEC supervision, small companies be allowed to engage in the active selling necessary to develop a market for their securities.

SMC MEMBERS FILM PARTS OF D.C. PRESENTATION

Members of each of the five groups involved in the 1977 Small Business Presentation to Congress took part in the video tape portion of the presentation. Here at W. W. Lord Manufacturing, Mars, Executive Vice President Leo R. McDonough, left, introduces Winston Lord, president of the company, and Christine Lord. Winston replied to a question on depreciation in sign language.

In the plant of Asbury Industries, Inc., Murrysville, Edward Asbury, right, answers a question on the surtax exemption from Leo McDonough.



Near a bottling line in his plant in Mars, Harry G. Austin, Jr., left, James Austin Co., talks with Leo McDonough about capital formation.

SMC GOES TO THE WHITE HOUSE

SMC President Alex T. Kindling speaks on government procurement revisions at the White House meeting. Government Relations General Chairman Ralph W. Murray, who spoke to the group of White House staff members and Administration leaders on the Occupational Safety & Health Act, is seated at left under the mantel.

President Kindling answers a question at the White House meeting.

HEINZ PRAISES DEDICATION OF SMC MEMBERS

U.S. Sen. H. John Heinz, III, in a statement printed in the May 23 Congressional Record, gave high praise to the Smaller Manufacturers Council.

The statement, which included the main points of the printed Small Business Presentation, noted: "The week of May 22-28 is National Small Business Week, a time to pay well-deserved tribute to the people who make the country move—our small businessmen and women.

"It is easy enough to pay tribute on this occasion and I hope most of us will do so. It is more of a challenge, though, to take a careful look at the problems of small business today and what needs to be done to solve them."

Pointing out that the SMC and four other small business groups had been in Washington May 18 for the annual Presentation, Heinz said:

"The Smaller Manufacturers Council is an organization I have come to admire and respect for its members' hard work and dedication, both to their own businesses and to furthering the interests of all small businesses, and I have great confidence in any study SMC has been a part of."

COVER:

President Carter, right, listens to one of the presentations at the Small Business Meeting in the White House Cabinet Room March 29. SMC President Alex T. Kindling is fourth to the left of the President and SMC Government Relations General Chairman Ralph W. Murray is on President Kindling's right.

HARRY AUSTIN WINS STATE, REGIONAL HONORS

A. Vernon Weaver, left, Administrator of the U.S. Small Business Administration, presented an award to Harry G. Austin, Jr., and his wife, Roseann, for Mr. Austin's being named Pennsylvania's Small Business Person of the Year. The award was made in Washington during Small Business Week, May 22-28.

SMC President Alex T. Kindling adds his congratulations to Harry Austin as Executive Vice President Leo McDonough, toastmaster at the luncheon, looks on.

A happy Harry Austin receives congratulations from Vance Smith, SMC director and president of Bakerstown Container Corp.

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William T. Gennetti, right, acting general counsel of the U.S. Small Business Administration, presents the Small Business Person of the Year award to Harry G. Austin, Jr., president of James Austin Co., Mars, and immediate past president of the SMC. Past President Austin received both the state of Pennsylvania award and the award for the five-state region of the SBA, including Pennsylvania, Delaware, Virginia, Maryland, West Virginia, and the District of Columbia.

Harry Austin responds to the award, presented at a joint Pittsburgh Rotary Club-SBA luncheon attended by over 300.

Mr. Gennetti congratulates Mr. Austin.

FOOD FOR THOUGHT

"The man who is worthy of being a leader of men will never complain of the stupidity of his helpers, of the ingratitude of mankind, nor of the inappreciation of the public. These things all are a part of the great game of life, and to meet them and not go down before them in discouragement and defeat is the final proof of power."

SMC SPONSERS FIRST CMU AWARD FOR "ENTREPRENEUR"

"Entrepreneur of the Year" award winner Sarosh D. Kumana (left) is congratulated by Smaller Manufacturers Council President Alexander Kindling (center) and Arnold R. Weber, (right), dean of Carnegie-Mellon University's Graduate School of Industrial Administration.

A second-year masters student at Carnegie-Mellon University's Graduate School of Industrial Administration (GSIA) has been named the first recipient of GSIA's "Entrepreneur of the Year" award, sponsored by the Smaller Manufacturers Council.

The award, including a $200 prize, was presented at CMU May 3 to Sarosh D. Kumana of Bombay, India, by Alexander Kindling, President of the Smaller Manufacturers Council and of the Atomatic Manufacturing Company.

An honors graduate of the University of Bombay, Kumana received his masters degree in industrial administration on May 16.

Among his entrepreneurial projects is a study promoting the feasibility of manufacturing ethyl alcohol from waste by-products of the forest products industry. "Until recently it was not economic to convert the wood residue left after the pulping process into usable chemicals," Kumana said.

"The key to the project lay in identifying the economic opportunity provided by the rising prices of petroleum and natural gas from which ethyl alcohol is otherwise derived." He adds that his project is environmentally sound, using a biological process to convert waste products and pollutants into usable chemicals.

While at GSIA, Kumana has also been a consultant to the Small Business Administration, helping to establish cost control, inventory control and management information systems for three small businesses located in the Pittsburgh area. In the summers of 1974 and 1975 he was assistant to the corporate planning manager of Ellerman Lines, Ltd., London, where his responsibilities included screening and evaluating proposed investments.

The "Entrepreneur of the Year" award was established to emphasize the contributions entrepreneurs have made to the U.S. economy and to encourage GSIA students to consider entrepreneurial careers. It will be awarded annually to a member of GSIA's graduating class who has demonstrated the managerial skills needed to successfully launch a new business venture.

"Some of this country's largest corporations were once a gleam in the mind's eye of an entrepreneur," said GSIA Dean Arnold Weber. "We want to encourage the entrepreneur's characteristic leadership, innovative spark, and ability to take carefully-considered risks in all GSIA students."

Leland C. Brown, Jr.

LELAND BROWN NAMED TO SMC BOARD OF DIRECTORS

Leland C. Brown, Jr., president of United States Products Co., has been elected to the Board of Directors of the Smaller Manufacturers Council.

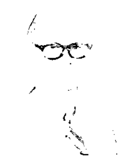
He replaces SMC President Alex T. Kindling as a director and will serve the year and a half remaining in President Kindling's term. President Kindling's term as president ends October 1 and then, as a past president, he becomes an ex-officio member of the board for three years.

Director Brown, who has been very active in SMC Government Relations, is a 1961 graduate of the University of Pittsburgh. He worked in various sales, marketing, and acquisitional capacities for various corporations before founding his own company in 1969. He purchased United States Products Co. in 1975.

In addition to his SMC activities, he is a member of the Abrasive Engineering Society and the National Association of Manufacturers and is Scoutmaster of Troop 152 at the Fox Chapel Presbyterian Church and a coach in the Kerr Athletic Association and the Millvale Baseball League.

SMC PERSONALITIES IN THE NEWS

Joseph N. Yorke, former vice-president finance of H. K. Porter Company, Inc., has been elected President and Chief Executive Officer, and a Director of The Pannier Corporation. The Pannier Corporation, located on the North Side, Pittsburgh, Pa., is a leading manufacturer of marking devices and identification equipment. **Ralph A. Pannier** continues in his present position as Chairman of the Board of Directors.



Yorke

The J. S. McCormick Co., Pittsburgh, Pa., announces the election of **Curtin E. Schafer, Jr.** as vice president, sales and **Robert W. Fulton** as vice president, manufacturing. Schafer, a graduate of Pennsylvania State University has been sales engineer in the Chicago district and general sales manager. Fulton attended Carnegie-Mellon University and previously was research director and director of manufacturing. The McCormick Co., celebrating its 107th anniversary this year, has plants at 25th Street & A.V.R.R. in the City's Strip District, Allen Park, Michigan, and Boyers, Pa., manufacturing foundry facings, sand binders and additives, refractories and industrial carbons.

W. W. Jones has been appointed vice president, sales, for Giltspur Exhibits/Chicago, exhibit designers and builders. Jones has transferred from Giltspur Exhibits/Pittsburgh (formerly GRS&W) where he has been an account executive since 1954, servicing major accounts. He was named a vice president in Pittsburgh in 1964 and to the Board of Directors in 1965. A graduate of Ohio State University in 1946, Jones served over two years in the U.S. Army Air Corps as a second lieutenant in the 8th Air Force.

BUYERS SERVICE DIRECTORY

$18 per year for first listing,
$12 per year for each additional listing

*SMC MEMBER

152 Precedes Pittsburgh Zip Codes

ABRASIVE BELTS		
*Schaffner Manufacturing Co., Inc.	21 Herron Ave., Emsworth, 02	761-9902
ABRASIVE BLASTING		
*Metal Service Company— Div. of H. W. McLaughlin Co.	131-133 Freeport Road, 15	781-8611
ABRASIVE GRINDING AND CUT OFF EQUIPMENT		
*Kruman Equipment Company	3002 Penn Avenue, 01	261-4847
The Gage Company	3000 Liberty Avenue, 01	471-6600
ABRASIVE PRODUCTS		
The Gage Company	3000 Liberty Avenue, 01	471-6600
*Schaffner Manufacturing Co., Inc.	21 Herron Ave., Emsworth, 02	761-9902
ACOUSTICAL TREATMENT		
*CID Associates, Inc.	P.O. Box 10, Allison Park, 15101	961-0367
ADHESIVES		
*Ball Chemical Company	1486 Butler Plank Road, Glenshaw, Pa. 15116	961-0123
*Dacar Chemical Company	1007 McCartney Street, 02	921-3620
The Gage Company	3000 Liberty Avenue, 01	471-6600
ADVERTISING		
Alex DeGurian Advertising, Inc.	500 Penn Center, 35	243-7666
Creative Service Agency	Box 158, Valencia, 16059	412/586-7776
Dudreck, DePaul, Ficco & Morgan Inc.	400 Penn Center Blvd., 35	242-2580
Garland Way Advertising, Inc.	601 Grant Street, 19	391-3133
General Press Corp.	350 E. 7th Avenue, Tarentum, Pa. 15084	224-3500
David Hawbaker & Associates	9001 Jenkins Arcade, 22	281-7574
George Hill Co.	2 Gateway Center, 22	471-3700
W. S. Hill Company	610 Smithfield Street, 22	261-0240
Lesko, Inc.	3 Gateway Center, 22	566-1680
PMS Advertising Agency, Inc.	239 Fourth Avenue, 22	281-4145
Stevenson, Inc., Robert L.	16th fl., 301 Fifth Ave. Bldg., 22	281-4901
ADVERTISING SPECIALTIES		
*Allegheny Plastics, Inc.	Thorn Run Road, Coraopolis, Pa. 15108	771-3910
ALUMINUM DIE CAST PRODUCTS		
*Pittsburgh Die & Casting Company	7503 Ardmore Street, 18	271-5422
ALUMINUM FENCING TIE (Wire and Fencing, Hog Rings)		
*Wylie Center Industries Inc.	3228 Penn Avenue; 01	471-6933-34
ALUMINUM NAILS		
*Wylie Center Industries Inc.	3228 Penn Avenue, 01	471-6933-34
ALUMINUM SERVICE CENTER		
*Lockhart Iron & Steel Co.	P.O. Box 1165, 30	771-2600
ALUMINUM WELDING		
*Triangle Welding Company	2306 Penn Avenue, 22	261-6679
ANALYTICAL AND QUALITY CONTROL LABORATORIES		
*Microbac Laboratories, Inc.	4580 McKnight Road, 37	931-5851
ANODIZING (Aluminum)		
*Rockwood Mfg. Company	Rockwood, Pa. 15557	814/926-2026
APPRAISALS		
Industrial Appraisal Company	222 Blvd. of the Allies, 22	471-2566
*Kruman Equipment Company	3002 Penn Avenue, 01	261-4847
ARTISTS AND DESIGNERS FOR THE GRAPHIC ARTS		
Creative Service Agency	Box 158, Valencia, 16059	412/586 7776
*Miller Screen & Design, Inc.	Mars Valencia Road, Box 506, Mars, 16046	625-1870
Pitt Studios, Inc.	Four Gateway Center, 22	261-0460
ASBESTOS		
The Gage Company	3000 Liberty Avenue, 01	471-6600
ASBESTOS (Rope, Cloth, Millboard, Packings)		
F. B. Wright Co. of Pittsburgh	98 Vanadium Road, Bridgeville, Pa. 15017	344-6600
AUDIOVISUALS		
The Magic Lantern	925 Penn Avenue, 22	391-4625
BARRELS		
*Bakerstown Container Corp.	Box 51, Bakerstown, Pa.	443-7255
BEARINGS (Manufacturer and Distributor)		
*Bearing Service Company	500 Dargan Street, 24	621-7300
BINS		
*Fey Steel Company, Inc.	Box 477, Mars, 16046	625-1551
*Pearson Manufacturing Co.	550 Butler St., 23	782-1551
BLACK LINE PRINTS		
Modern Reproductions	129 First Avenue, 22	281-6655
BLANCHARD GRINDING		
*Able Tool Co.	Box 40A RD#1, Trafford, 15085	863-2508-9
BOILER REPAIRS		
*Pearson Manufacturing Co.	550 Butler St., 23	782-1551
BOLTS		
*Baden Steelbar and Bolt Corp.	R3, Sewickley, Pa. 15143	761-5400
BORING MILLS (Large Vertical)		
*J. P. Devine Manufacturing Company	49th St. and A.V.R.R., 01	682-5740
*Independent Mining & Mfg. Company	P.O. Box 854, Connellsville, 15425	628-1031
BOXES—Wood		
*Overend & Krill Lumber, Inc.	634 Washington Road, 28	561-7121
*Rochester Box & Lumber Company	Delaware Avenue, Rochester, Pa. 15074	775-0279
BRAKES		
*Limpco Mfg., Inc.	Box 550, Greensburg, Pa. 15601	271-3521
BRAKES, BENDING AND PRESS		
Demmler, Inc.	550 Butler Street, Etna, 23	781 5577
Howard Meinhardt Company	3rd and Praeger Streets, 15	781 3327
BROCHURES—WRITING		
Creative Service Agency	Box 158, Valencia, 16059	412/586 7776
BUFFING COMPOSITIONS		
*Schaffner Manufacturing Co., Inc.	21 Herron Avenue, Emsworth, 02	761 9902
BUFFING WHEELS		
*Schaffner Manufacturing Co., Inc.	21 Herron Avenue, Emsworth, 02	761 9902
BUILDING MATERIALS		
*West Elizabeth Lumber Company	Fifth St., West Elizabeth, 15088	462 9330
*Zeigler Lumber & Supply Company	265 N. Duquesne Avenue, Duquesne, 15110	462-8800, 466-0133
BULLETIN AND CATALOG PREPARATION		
Creative Service Agency	Box 158, Valencia, 16059	412/586-7776
Dudreck, DePaul, Ficco & Morgan Inc.	400 Penn Center Blvd., 35	242 2580
David Hawbaker & Associates	9001 Jenkins Arcade, 22	281 7574
Stevenson, Inc., Robert L.	16th fl., 301 Fifth Ave. Bldg., 22	281 4901
BUSINESS FORMS		
*C. Edwin Hultman Company	140 Bradford Avenue, 05	922 2415
*The Eagle Printery Inc.	P O Box 271, Butler, Pa. 16001	287 0754
CARBIDE DIES		
*Dura-Metal Products Corp.	1022 E. Smithfield Street, McKeesport, Pa. 15135	751-3480
CASTINGS		
*Alloy Bronze Casting Company	2930 Penn Avenue, 01	471-6832
*Cadman Manufacturing Co., A. W.	2816 Smallman Street, 22	281 6683
Centre Foundry & Machine Co.	Box 4068 Warwood, Wheeling, W. Va. 26003	304/277-3600
*Latrobe Die-Casting Company	Box 149, Latrobe, Pa. 15601	539-1651
*Limpco Mfg., Inc.	Box 550, Greensburg, Pa. 15601	271 3521
*Pittsburgh Brass Mfg. Co.	3155 Penn Ave., 01	281-8761
*Pittsburgh Cast Products Corp.	2441 Waverly St., Swissvale, 18	271-0130
*Ringsdorff Corporation	P O. Box 220, East McKeesport, Pa. 15035	247-1500
*Washington Mould, Machine & Foundry Company	Box 518, Washington, 15301	412/225 7700
CATALOGS		
*Advertisers Associates, Inc.	1627 Penn Avenue, 22	281-6144
Creative Service Agency	Box 158, Valencia, 16059	412/586-7776
*Graphics Typography, Inc.	121 Ninth Street, 22	391 7714
Henry Printing Co., Chas. M.	P.O. Box 68, Greensburg, 15601	834 7600
CEMENT (Acid-Proof—Electrical Assembling)		
*Sauereisen Cements Company	RIDC Industrial Park, Blawnox, 38	781-2323
CHAIN		
*Amick Associates, Inc.	Box 529, Carnegie, 15106	923-1212
CHECKS AND TAGS		
*Bunting Stamp Co., Inc.	312 Blvd. of the Allies, 22	281-5416
*Pannier Corporation, The	207 Sandusky Street, 12	321-5185
CHEESECLOTH		
*Armstrong Sanitary Wipers Co.	1243 Spring Garden Ave., 12	321-7113
*Scheinman-Neaman Co.	2900 Liberty Avenue, 01	566 2430
CHEMICAL CONTRACT PACKAGING		
*Elco Mfg. Company	111 Third Street, 15	782 1850
CHEMICALS		
Neville Chemical Company	Pittsburgh, Pa. 25	331-4200
CHUTES		
*Pearson Manufacturing Co.	550 Butler St., 23	782-1551
CLEANING COMPOUNDS		
*Elco Mfg. Company	111 Third Street, 15	782 1850
*Russell Standard Corp.	2 Prestley Rd., Bridgeville, 15017	563-4500
CLUTCHES		
*Limpco Mfg., Inc.	Box 550, Greensburg, Pa. 15601	271 3521
COATED ABRASIVES		
*Schaffner Manufacturing Co., Inc.	21 Herron Ave., Emsworth, 02	761-9902
COATINGS (Plastic)		
*Allegheny Plastics, Inc.	Thorn Run Road, Coraopolis, Pa. 15108	771-3910
COATINGS (Protective)		
*Metal Service Company— Div. of H. W. McLaughlin Co.	131-133 Freeport Road, 15	781-8611
COMPRESSORS, AIR		
*Airtek, Inc.	415 Lincoln Hwy. East, Irwin, Pa. 15642	351-3037
*Hankison Corporation	1000 Philadelphia Street, Canonsburg, Pa. 15317	563-3337
*Kruman Equipment Company	3002 Penn Avenue, 01	261-4847
The Gage Company	3000 Liberty Avenue, 01	471-6600
COMPUTER ROOMS		
*CID Associates, Inc.	P.O. Box 10, Allison Park, 15101	961-0367
CONSULTING		
American Systems Corp.	1944 Oliver Bldg., Mellon Sq., 22	765-3533
Ganong Management Consultants	701 Investment Building, 22	471-3514
CONTRACT PACKAGING		
*Elco Mfg. Company	111 Third Street, 15	782-1850

4/77

CONTRACT PAINTING		
*Wyble Center Industries Inc.	3228 Penn Avenue, 01	471-6933-34
CONTROLS		
*Braunlich Roessle Company	3117 Penn Avenue, 01	471-6995
CONVEYORS		
*Fey Steel Company, Inc.	Box 477, Mars, 16046	625-1551
*Pearson Manufacturing Co.	550 Butler St., 23	782-1551
COPPER PRODUCTS		
*Cadman Manufacturing Co., A. W.	2816 Smallman Street, 22	281-6683
*Ringsdorf Corporation	P.O. Box 220, East McKeesport, Pa. 15035	247-1500
CORROSION RESISTANT COATINGS		
*Ball Chemical Company	1486 Butler Plank Road, Glenshaw, Pa. 15116	961-0123
COUPLINGS		
*Braunlich-Roessle Company	3117 Penn Avenue, 01	471-6995
COVERALLS		
*Iron City Uniform and Towel Service, Inc.	6640 Frankstown Ave., 06	661-2001
*Penn Overall Companies	135—40th Street, 01	687-3100
*Ruby's Uniform Rental	4137 Wm. Penn Highway, Monroeville, 15146	531-5400
*Scheinman-Neaman Co.	2900 Liberty Avenue, 01	566-2430
CRANES		
*Braunlich Roessle Company	3117 Penn Avenue, 01	471-6995
The Gage Company	3000 Liberty Avenue, 01	471-6600
*Ringsdorff Corporation	P.O. Box 220, East McKeesport, Pa. 15035	247-1500
*Wemco Crane & Mfg.	Campbell's Run Rd., 05	412/923-1855
CRANE REPAIRS		
*Globe Electric Repair Co.	23rd Street, 15	781-2677
CRATES AND BOXES		
*D & L Manufacturing Corporation	Route No. 6, Somerset, Pa. 15501	814/445-9531
*Overend & Krill Lumber, Inc.	634 Washington Rd., 28	561-7121-2-3
*Rochester Box & Lumber Co.	Delaware Avenue, Rochester, Pa. 15074	775-0279
*West Elizabeth Lumber Company	Fifth St., West Elizabeth, 15088	462-9330
DATA PROCESSING SERVICES		
American Systems Corp.	1944 Oliver Bldg., Mellon Sq., 22	765-3533
DECONTAMINATION OF TOXIC MATERIALS		
Applied Health Physics, Inc.	P.O. Box 197, Bethel Park, 15102	563-2242
DEHYDRATORS, COMPRESSED AIR/GAS		
*Hankison Corporation	1000 Philadelphia Street, Canonsburg, Pa. 15317	563-3337
DIES		
*Pannier Corporation, The	207 Sandusky Street, 12	321-5185
DIE CASTINGS		
*Latrobe Die-Casting Company	Box 149, Latrobe, Pa. 15650	539-1651
DIE CASTINGS—ALUMINUM AND ZINC		
*Pittsburgh Die & Casting Company	7503 Ardmore Street, 18	271-5422
DISPLAYS AND EXHIBITS		
*Creative Productions	47 Melwood Avenue, 13	621-9443
*Giltspur Exhibits/Pittsburgh	5875 Centre Avenue, 06	362-1400
*Pride Wire Products Co.	49th Street & A.V.R.R., 01	621-8845
DOORS—Rolling Metal		
Nassau Corp. of Pittsburgh	Superior St., Carnegie, 15106	923-1344
DRYERS		
*J. P. Devine Manufacturing Company	49th St. and A.V.R.R., 01	682-5740
*Hankison Corporation	1000 Philadelphia Street, Canonsburg, Pa. 15317	563-3337
*Kruman Equipment Company	3002 Penn Avenue, 01	261-4847
The Gage Company	3000 Liberty Avenue, 01	471-6600
DUPLICATING		
Modern Reproductions	129 First Avenue, 22	281-6655
DUSTERS—LINT FREE—TREATED		
*Armstrong Sanitary Wipers Co.	1243 Spring Garden Ave., 12	321-7113
DUST MOPS AND CLOTHS (Chemically Treated)		
*Iron City Uniform and Towel Service, Inc.	6640 Frankstown Avenue, 06	661-2001
*Penn Overall Companies	135—40th Street, 01	687-3100
*Ruby's Uniform Rental	4137 Wm. Penn Highway, Monroeville, 15146	531-5400
ELECTRICAL EQUIPMENT		
*Braunlich-Roessle Company	3117 Penn Avenue, 01	471-6995
*Ringsdorff Corporation	P.O. Box 220, East McKeesport, Pa. 15035	247-1500
ELECTRIC HOISTS		
*Braunlich-Roessle Company	3117 Penn Avenue, 01	471-6995
The Gage Company	3000 Liberty Avenue, 01	471-6600
ELECTRICAL INSULATING MATERIALS (i.e., Varnishes, Encapsulants Coatings)		
*Ball Chemical Company	1486 Butler Plank Road, Glenshaw, Pa. 15116	961-0123
ELECTRICAL REPAIRS		
*Braunlich-Roessle Company	3117 Penn Avenue, 01	471-6995
*Globe Electric Repair Co.	23rd Street, 15	781-2677
*Wemco Crane & Mfg.	Campbell's Run Rd., 05	412/923-1855
EMBOSSING		
*Pannier Corporation, The	207 Sandusky Street, 12	321-5185
EMPLOYMENT CONTRACTS—TEMPORARY		
Bailey Office Services	Rm. 3018, 525 Wm. Penn Pl., 19	471-9250
Crown Services	100 Fifth Avenue, 22	281-3303
Liken Employment, Inc.	524 Penn Avenue, Fort Pitt Federal Bldg., 22	391-1866
ENGRAVING		
*Bunting Stamp Co., Inc.	312 Blvd. of the Allies, 22	281-5416
*Cunningham Company, M. E.	Rochester Road, Ingomar, 15127	931-1335
*Pannier Corporation, The	207 Sandusky Street, 12	321-5185
EXPORT BOXES AND CRATES		
*Overend & Krill Lumber, Inc.	634 Washington Rd., 28	561-7121-2-3
FABRICATORS		
*Acee Co., Inc., M. P.	Natrona, Pa. 15065	224-3010
*B & G Fabricating, Inc.	P. O. Box 511, Hammond & Gregg Sts., Carnegie, Pa. 15106	412/923-1460
*Allied Welding and Fabricating Co.	32—39th Street, 01.	682-0441
*Architectural Metals Corp.	360 Euclid Ave., Canonsburg, Pa. 15317	563-2300 & 745-6600
*Asbury Industries, Inc.	4351 Wm. Penn Highway, Murrysville, Pa. 15668	327-3500
*Campbell Industries, Inc.	10 Chadwick St., Sewickley, 15143	761-3844
*J. P. Devine Manufacturing Company	49th and A.V.R.R., 01	682-5740
FABRICATORS—Continued		
*Fey Steel Company, Inc.	Box 477, Mars, 16046	625-1551
*Independent Mining & Mfg. Company	P.O. Box 854, Connellsville, 15425	628-1031
*Industrial Machine, Inc.	P.O. Box 156, Zelienople, 16063	452-7731
*R.O.P.S. Inc.	6465 Hamilton Ave., 06	661-9200
*Triangle Welding Company	2306 Penn Avenue, 22	261-6679
Whitaker Metal Products Company	1453 River Rd., Whitaker, 15120	461-5929
FABRICATION		
*Architectural Metals Corp.	360 Euclid Avenue, Canonsburg, 15317	563-2300/745-6600
*Cran-Tec Inc.	R. D. #4, Mars, 16046	776-1511
*Independent Mining & Mfg. Company	P.O. Box 854, Connellsville, 15425	628-1031
*Wemco Crane & Mfg	Campbell's Run Rd., 05	412/923-1855
FABRICATORS (Plastic)		
*Allegheny Plastics, Inc.	Thorn Run Road, Coraopolis, Pa. 15108	771-3910
FELTS—PRESSED—WOVEN		
*Armstrong Sanitary Wipers Co.	1243 Spring Garden Avenue, 12	321-7113
FILTER BAGS (Cleaned and Repaired)		
*Penn Overall Companies	135—40th Street, 01	687-3100
FILTERS		
*Hankison Corporation	1000 Philadelphia Street, Canonsburg, Pa. 15317	563-3337
FLAME HARDENING		
*Pennsylvania Flame Hardening Co., Inc.	P.O. Box 146, Rt. 588 West, Zelienople, Pa. 16063	452-8750
FLAME SPRAY		
*M. P. Acee Co.	Natrona, Pa. 15065	224-3010
FLAPWHEELS (Coated Abrasive)		
*Schaffner Manufacturing Co., Inc.	21 Herron Ave., Emsworth, 02	761-9902
FLEXIBLE FOAMS—Fabricator and Manufacturer		
*Latrobe Foams Co., Inc.	South Chestnut St., P. O. Box 42 Derry, Pa. 15627	412/694-2654
FLOORING		
*Allegheny Installations	Box 29, Rt. 8, Allison Park, 15101	961-0690
FOUNDRIES		
*Cadman Manufacturing Co., A. W.	2816 Smallman Street, 22	281-6683
Centre Foundry & Machine Co.	Box 4068, Warwood, Wheeling, W. Va. 26003	304/277-3600
*Pittsburgh Brass Mfg. Co.	3155 Penn Ave., 01	281-8761
*Washington Mould, Machine & Foundry Company	Box 518, Washington, 15301	412/225-7700
GALVANIZING		
*Hanlon-Gregory Industries	5515 Butler Street, 01	781-3900
GARMENTS (Washable and Dry Cleaned Uniforms)		
*Iron City Uniform and Towel Service, Inc.	6640 Frankstown Avenue, 06	661-2001
*Penn Overall Companies	135—40th Street, 01	687-3100
*Ruby's Uniform Rental	4137 Wm. Penn Highway, Monroeville, 15146	531-5400
GASKETS (Special-rings and Full Face—All Materials)		
F. B. Wright Co. of Pittsburgh	98 Vanadium Road, Bridgeville, Pa. 15017	344-6600
GEARS		
*Henderson Gear Corp.	Venetia Rd., Venetia, 15367	941-7900
GLASS CONTAINERS		
*Glenshaw Glass Company, Inc.	1101 William Flinn Highway, Glenshaw, Pa. 15116	961-0200
GRAPHIC ARTS SERVICES		
Applied Science Associates, Inc.	P.O. Box 158, Valencia, 16059	586-7771
GRAPHITE PRODUCTS		
*Ringsdorff Corporation	P.O. Box 220, East McKeesport, Pa. 15035	247-1500
GRATING—TREADS		
*Hanlon-Gregory Industries	5515 Butler Street, 01	781-3900
GRINDING		
*Cromie Machine and Tool Co., Inc.	4800 Harrison Street, 01	683-4086
*Dura-Metal Products Corp.	1022 E. Smithfield Street, McKeesport, Pa. 15135	751-3480
Whitaker Metal Products Company	1453 River Rd., Whitaker, 15120	461-5929
GRIT BLASTING AND SHOT		
*Metal Service Company—Div. of H. W. McLaughlin Co.	131-133 Freeport Road, 15	781-8611
HARDWOODS (Kiln Dried)		
*West Elizabeth Lumber Company	Fifth St., West Elizabeth, 15088	462-9330
*Zeigler Lumber & Supply Company	265 N. Duquesne Avenue, Duquesne, 15110	462-8880, 466-0133
HEAT EXCHANGERS AND CONDENSERS		
*Hankison Corporation	1000 Philadelphia Street, Canonsburg, Pa. 15317	563-3337
HEAT EXCHANGER & CONDENSER REPAIRS		
*Pearson Manufacturing Co.	550 Butler St., 23	782-1551
HEAT TREATING		
*Pennsylvania Flame Hardening Co., Inc.	P.O. Box 146, Rt. 588 West, Zelienople, Pa. 16063	452-8750
*Pittsburgh Commercial Heat Treating Co.	49th Street and A.V.R.R., 01	682-6277
HYDRAULIC POWER EQUIPMENT		
*Airtek, Inc.	415 Lincoln Hwy. East, Irwin, Pa. 15642	351-3837
*Weinman Pump and Supply Co., The	RIDC Park, Box 11403, 38	782-3747
IDENTIFICATION BADGES		
*BAW Company	8057 Mt. Carmel Road, Verona, Pa. 15147	363-3000
INDUSTRIAL FILMS		
Dudreck, DePaul, Ficco & Morgan Inc.	400 Penn Center Blvd., 35	242-2580
INDUSTRIAL RUBBER TYPE AND DIES		
*Pannier Corporation, The	207 Sandusky Street, 12	321-5185
IN-PLANT OFFICES		
*CID Associates, Inc.	P.O. Box 10, Allison Park, 15101	961-0367
INSULATION (Foamed Plastic)		
*Decar Chemical Co.	1007 McCartney Street, 20	921-3620
INTERNATIONAL FREIGHT FORWARDER		
Traffic Dispatch International, Inc.	4898 Campbells Run Road, 05	923-1992
JANITOR SUPPLIES		
*Pittsburgh Blind Assoc.	300 S. Craig Street, 13	682-5600
JOB SHOP METAL		
*Independent Mining & Mfg. Company	P.O. Box 854, Connellsville, 15425	628-1031
JOB SHOP METAL FABRICATION		
*Acee Co., Inc., M. P.	Natrona, Pa. 15065	224-3010
*Architectural Metals Corp.	360 Euclid Avenue, Canonsburg, 15317	563-2300/745-6600
*Hall Industries	201 East Carson Street, 19	481-1100
*Industrial Machine, Inc.	P.O. Box 156, Zelienople, 16063	452-7731

LABELS		
Henry Printing Co., Chas. M.	P.O. Box 68, Greensburg, 15601	834 7600
LABORATORY INSTRUMENTS AND SUPPLIES		
Burrell Corporation	2223 Fifth Avenue, 19	471-2527
LACQUERS		
*Ball Chemical Company	1486 Butler Plank Road, Glenshaw, Pa. 15116	961 0123
LATHE WORK		
*Cromie Machine and Tool Co., Inc.	4800 Harrison Street, 01	683-4086
LEASING		
LMV Leasing, Inc.	1000 RIDC Plaza, 38	782-6200
McKnight Siebert Leasing, Inc.	4981 McKnight Rd., 37 931-5801	366-4300
LIGHT FABRICATING		
*Kutz Engineering, Inc.	4000 Windgap Avenue, 04	771-4161
LINEN RENTAL		
*Penn Overall Companies	135—40th Street, 01	687 3100
LITHOGRAPHY		
*Advertisers Associates, Inc.	1627 Penn Avenue, 22	281 6144
*Beacon Printing Company, Inc.	350 Stevenson Boulevard, New Kensington, Pa. 15068	337 4511
General Press Corp.	350 E. 7th Avenue, Tarentum, Pa. 15084	224 3500
*C. Edwin Hultman Company	140 Bradford Avenue, 05	922 2415
*The Caslon Press, Inc.	601 E. General Robinson St., 12	321-1031
LUMBER		
*Overend & Krill Lumber, Inc.	634 Washington Road, 28	561-7121
*West Elizabeth Lumber Company	Fifth St., West Elizabeth, 15088	462 9330
*Zeigler Lumber & Supply Company	265 N. Duquesne Avenue, Duquesne, 15110	462-8800, 466 0133
MACHINE SHOP		
*Acee Co., Inc., M. P.	Natrona, Pa. 15065	224-3010
*Campbell Industries, Inc.	10 Chadwick St., Sewickley, 15143	741-7820
*Clifton Automatic	217 219 West 11th Street, Erie, Pa. 16501	814/452 2228
*Cromie Machine and Tool Co., Inc.	4800 Harrison Street, 01	683-4086
*J. P. Devine Manufacturing Company	49th and A.V.R.R., 01	682 5740
*Dura-Metal Products Corp.	1022 E. Smithfield Street, McKeesport, Pa. 15135	751-3480
*Independent Mining & Mfg. Company	P.O. Box 854, Connellsville, 15425	628-1031
*Industrial Machine, Inc.	P.O. Box 156, Zelienople, 16063	452-7731
*Kutz Engineering, Inc.	4000 Windgap Avenue, 04	771-4161
*Pittsburgh Brass Mfg. Co.	R.D. 6, P.O. Box 387A, Irwin, Pa. 15642	863-0550
*Wemco Crane & Mfg.	Campbell's Run Rd., 05	412/923-1855
*Washington Mould, Machine & Foundry Company	Box 518, Washington, 15301	412/225-7700
Whitaker Metal Products Company	1453 River Rd., Whitaker, 15120	461-5929
MACHINE SHOP (Plastic)		
*Allegheny Plastics, Inc.	Thorn Run Road, Coraopolis, Pa. 15108	771-3910
MACHINED PARTS		
*Dura-Metal Products Corp.	1022 E. Smithfield Street, McKeesport, Pa. 15135	751-3480
*Hall Industries	201 East Carson Street, 19	481-1100
*Industrial Machine, Inc.	P.O. Box 156, Zelienople, 16063	452 7731
*Pittsburgh Brass Mfg. Co.	R.D. 6, P.O. Box 387A, Irwin, Pa. 15642	863-0550
MACHINERY		
Demmler, Inc.	550 Butler Street, Etna, 23	781-5577
Howard Meinhardt Company	3rd and Praeger Streets, 15	781-3327
*Kruman Equipment Company	3002 Penn Avenue, 01	261-4847
*Lang Machinery Corporation	14th Street and Duss Avenue, Ambridge, Pa. 15003	266-8510
The Gage Company	3000 Liberty Avenue, 01	471-6600
Tri-State Machinery Company	535 McNeilly Road, 26	344 6500
MAILING		
*Advertisers Associates, Inc.	1627 Penn Avenue, 22	281-6144
MANUAL WRITING		
Applied Science Associates, Inc.	P.O. Box 158, Valencia, 16059	586 7771
MARKET RESEARCH		
Guide-Post Research, Inc.	301 Fifth Ave. Bldg., 22	281-6332
MARKING DEVICES		
*Cunningham Company, M. E.	Rochester Rd., Ingomar, 15127	931-1335
*Pannier Corporation, The	207 Sandusky Street, 12	321-5185
MARKING MACHINES		
*Cunningham Company, M. E.	Rochester Rd., Ingomar, 15127	931-1335
*Pannier Corporation, The	207 Sandusky Street, 12	321 5185
MASONRY RESTORATION & WATERPROOFING		
Jos. J. Graciano Corp.	7925 Hill Avenue, 21	242 5700
MATERIAL HANDLING EQUIPMENT		
*Braunlich-Roessle Company	3117 Penn Avenue, 01	471-6995
MATS (Chemically Treated)		
*Iron City Uniform and Towel Service, Inc.	6640 Frankstown Avenue, 06	661-2001
*Penn Overall Companies	135—40th Street, 01	687-3100
*Ruby's Uniform Rental	4137 Wm. Penn Highway, Monroeville, 15146	531-5400
METAL CABINETS		
*Architectural Metals Corp.	360 Euclid Avenue, Canonsburg, 15317	563-2300/745-6600
METAL FINISHING EQUIPMENT AND SUPPLIES		
*Schaffner Manufacturing Co., Inc.	21 Herron Ave., Emsworth, 02	761 9902
METAL FORMING		
*R O.P.S. Inc.	6465 Hamilton Ave., 06	661 9200
METALLIZING		
*Braunlich-Roessle Company	3117 Penn Avenue, 01	471-6995
METAL SPINNING		
*E. H. Schwab Co., Inc.	1281 Lower Rodi Road, Turtle Creek, Pa. 15145	823 5003
MILLWORK		
*West Elizabeth Lumber Company	Fifth St., West Elizabeth, 15088	462 9330
*Zeigler Lumber & Supply Company	265 N. Duquesne Avenue, Duquesne, 15110	462-8800, 466 0133
MOTION PICTURE PRODUCTIONS		
*Latent Image, Inc., The	247 Fort Pitt Blvd., 22	261 5589
The Magic Lantern	925 Penn Avenue, 22	391 4625
MOTOR AND GENERATOR BRUSHES (All Types)		
*Braunlich Roessle Company	3117 Penn Avenue, 01	471 6995
MOVABLE PARTITIONS		
*CID Associates, Inc.	P.O. Box 10, Allison Park, 15101	961 0367
MOVING AND STORAGE		
Werner Donaldson	1018 Western Avenue, 33	321 0500
NAMEPLATES		
*Bunting Stamp Co., Inc.	312 Blvd. of the Allies, 22	281-5416
NAMEPLATES, METAL; SIGNS, ETC.		
*Keystone Casing Supply, Inc.	P.O. Box 527, Carnegie, 15106	923-1640
*Pannier Corporation, The	207 Sandusky Street, 12	321 5185
NUMBERING MACHINES		
*Pannier Corporation, The	207 Sandusky Street, 12	321-5185
OFFICE FURNITURE		
*Haskell of Pittsburgh, Inc.	P O. Box 5273, 06	828-6000
OFFICE MACHINES (Sales, Rental and Service)		
American Typewriter Co.	333 Third Avenue, 22	261 1019
OFFICE SUPPLIES/RIBBONS, CARBON PAPER, SPIRIT DUPLICATING MASTERS		
*Codo Manufacturing Corporation—A Bemis Company	Leetsdale, 15056	766-1155
Pittsburgh Sales Office	875 Greentree Road, 15020	921 4800
PACKAGING		
*Pittsburgh Blind Assoc.	300 S. Craig Street, 13	682-5600
PAINT MANUFACTURERS		
*Ball Chemical Company	1486 Butler Plank Road, Glenshaw, Pa. 15116	961-0123
Pruett Schaffer Chemical Co.	Tabor Street, 04	771-2000
*Watson Standard Co.	P.O. Box 11250, 38	362-8300
PALLETS—Wood		
*D & L Manufacturing Corporation	Route No. 6, Somerset, Pa. 15501	814/445-9531
*Overend & Krill Lumber, Inc.	634 Washington Road, 28	561-7121
PATTERNS (Metal and Wood)		
*Able Pattern Company	Casey Industrial Center, Freeport Road, 15	781-8778
PAVEMENT SEALERS		
*Russell Standard Corp.	2 Prestley Rd., Bridgeville, 15017	563-4500
PEST CONTROL—Products and Services		
*Elco Mfg. Company	111 Third Street, 15	782-1850
PHOTOGRAPHER, COMMERCIAL		
Church, A. (M.Photog.)	502 W. North Avenue, 12	321-2700
W. J. Exler	402 S. Aiken Avenue, 32	682-4268
PHOTOGRAPHERS, PHOTO ENLARGEMENT		
Jay-Bee Studios	284 Morewood Avenue, 13	681-6607
PHOTOGRAPHERS, PHOTO-MURALS		
Jay Bee Studios	284 Morewood Avenue, 13	681-6607
PHOTOGRAPHY, INDUSTRIAL		
Church, A. (M.Photog.)	502 W. North Avenue, 12	321-2700
PHOTOSTATS		
Modern Reproductions	129 First Avenue, 22	281-6655
PICKLING, OILING AND PAINTING		
*Hanlon-Gregory Industries	5515 Butler Street, 01	781-3900
PIPE SUPPORTS AND HANGERS		
*Cran-Tec Inc.	R. D. #4, Mars, 16046	776-1511
The Robinson Manufacturing Company	49th Street & A V R.R., 01	621-8845
PLASTIC COATINGS		
*Tri-State Plastics, Inc.	Stoops Ferry Road, Coraopolis, Pa. 15108	262-1600
PLASTICS—FABRICATION, FORMING, MACHINING, MOULDING		
*Allegheny Plastics, Inc.	Thorn Run Road, Coraopolis, Pa. 15108	771-3910
*Paragon Plastics Industries, Inc.	800 Anderson Street, New Kensington, 15068	337-6522
*Solidur Plastics Inc.	150 Plum Industrial Court, 39	325-3100
*Tri-State Plastics, Inc.	Stoops Ferry Road, Coraopolis, Pa. 15108	262-1600
PLASTIC PIPING PRODUCTS		
*Cran-Tec Inc.	R. D. #4, Mars, 16046	776-1511
PLASTICS—LETTERS, SHEETS CLEAR AND COLORED		
*Pioneer Neon Supply	3524 Charlotte St., 01	687-2300
PLASTICS (Polyethylene Film, Plexiglass, U.H.M.W. Nylon, Teflon)		
F. B. Wright Co. of Pittsburgh	98 Vanadium Road, Bridgeville, Pa. 15017	344-6600
*Solidur Plastics Inc.	150 Plum Industrial Court, 39	325 3100
PLASTICS—Sheet Acetate Fabrication		
*BAW Company	8057 Mt. Carmel Road, Verona, Pa. 15147	363-3000
PLASTIC PRINTING AND LAMINATING		
*Allegheny Plastics, Inc.	Thorn Run Road, Coraopolis, Pa. 15108	771-3910
PLYWOOD		
*West Elizabeth Lumber Company	Fifth St., West Elizabeth, 15088	462-9330
*Zeigler Lumber & Supply Company	265 N. Duquesne Avenue, Duquesne, 15110	462-8800, 466-0133
POLISHING AND BUFFING SUPPLIES		
*Schaffner Manufacturing Co., Inc.	21 Herron Ave., Emsworth, 02	761 9902
POLISHING MATERIALS		
*Armstrong Sanitary Wipers Co.	1243 Spring Garden Avenue, 12	321 7113
PRECIPITATORS		
*Universal Air Precipitator Corp.	1500 McCully Road, Monroeville, Pa. 15146	351-3326
PRESS BRAKE BENDING		
*Architectural Metals Corp.	360 Euclid Avenue, Canonsburg, 15317	563-2300/745-6600
*Pearson Manufacturing Co.	550 Butler St., 23	782 1551
*R.O P.S. Inc.	6465 Hamilton Ave., 06	661-9200
PRESSED METAL PARTS		
*McDowell Manufacturing Company	Oklahoma Road, DuBois, 15801	371-6550
PRESSURE VESSELS		
*B & G Fabricating, Inc.	P. O. Box 511, Hammond & Gregg Sts., Carnegie, Pa. 15106	412/923-1460
PRICE LISTS		
*Advertisers Associates, Inc.	1627 Penn Avenue, 22	281-6144
General Press Corp.	350 E. 7th Avenue, Tarentum, Pa. 15084	224 3500
PRINTING		
*Advertisers Associates, Inc.	1627 Penn Avenue, 22	281-6144
*Beacon Printing Company, Inc.	350 Stevenson Boulevard, New Kensington, Pa 15068	337 4511
Creative Service Agency	Box 158, Valencia, 16059	412/586 7776
General Press Corp.	350 E 7th Avenue, Tarentum, Pa. 15084	224 3500
Henry Printing Co., Chas M.	P O Box 68, Greensburg, 15601	834 7600
*C Edwin Hultman Company	140 Bradford Avenue, 05	922 2415
*Shemco Printing and Copy Centers	321 Blvd of the Allies, 22	391 2508
*Shemco Printing and Copy Centers	180 South Main St., Washington, Pa. 15301	228 3210
*Shemco Printing and Copy Centers	115 W Jefferson Street, Butler, Pa. 16001	283 3959
*The Caslon Press, Inc	601 E. General Robinson St., 12	321 1031

PROCESS INDUSTRIES EQUIPMENT—MIXING EQUIPMENT DRYERS		
*Hankison Corporation	1000 Philadelphia Street, Canonsburg, Pa. 15317	563-3337
PROCESS INDUSTRIES EQUIPMENT (Plastic)		
*Allegheny Plastics, Inc.	Thorn Run Road, Coraopolis, Pa. 15108	771-3910
PRODUCERS AND CONSULTANTS		
The Magic Lantern	925 Penn Avenue, 22	391-4625
PRODUCT CATALOGS		
Creative Service Agency	Box 158, Valencia, 16059	412/586-7776
General Press Corp.	350 E. 7th Avenue, Tarentum, Pa. 15084	224-3500
*The Caslon Press, Inc.	601 E. General Robinson St., 12	321-1031
PUBLICITY AND PUBLIC RELATIONS		
Creative Service Agency	Box 158, Valencia, 16059	412/586-7776
Dudreck, DePaul, Ficco & Morgan Inc.	400 Penn Center Blvd., 35	242 2500
David Hawbaker & Associates	9001 Jenkins Arcade, 22	261-7574
Lesko, Inc.	3 Gateway Center, 22	566-1660
PUMPS		
*Megator Corp.	136 Gamma Drive, 38	963-9200
The Gage Company	3000 Liberty Avenue, 01	471-6600
*Weinman Pump and Supply Co., The	RIDC Park, Box 1403, 38	782-3747
RADIATION APPLICATION AND SAFETY		
Applied Health Physics, Inc.	P.O. Box 197, Bethel Park, 15102	563-2242
RADIATION LEASING, SALES, SERVICE		
Applied Health Physics, Inc.	P.O. Box 197, Bethel Park, 15102	563-2242
RAISED ACCESS FLOORS		
*CID Associates, Inc.	P.O. Box 10, Allison Park, 15101	961-0367
REELS—WOOD and PLYWOOD		
*Overend & Krill Lumber, Inc.	634 Washington Rd., 28	561-7121-2-3
REFRACTORY MATERIAL		
*H. R. Curry Company	1023 Main Street, 15	781-4038
RIVETING (Heavy Industrial Equipment)		
*Independent Mining & Mfg. Company	P.O. Box 854, Connellsville, 15425	628-1031
ROLL FORMING (All Metals)		
Demmler, Inc.	550 Butler Street, Etna, 23	781-5577
*Universal Metal Moulding Company	727 Allegheny Avenue, Oakmont, Pa. 15139	661-1874
ROOF COATINGS		
*Russell Standard Corp.	2 Prestley Rd., Bridgeville, 15017	563-4500
RUBBER		
The Gage Company	3000 Liberty Avenue, 01	471-6600
RUBBER (Hose, Rainwear, Boots, O-rings, Sheet Rubber)		
F. B. Wright Co. of Pittsburgh	98 Vanadium Road, Bridgeville, Pa. 15017	344-6600
RUBBER PRINTING DIES, CORRUGATED CONTAINERS		
*Pannier Corporation, The	207 Sandusky Street, 12	321-5185
RUBBER STAMPS		
*Bunting Stamp Co., Inc.	312 Blvd. of the Allies, 22	281-5416
*Pannier Corporation, The	207 Sandusky Street, 12	321-5185
RUSTPROOFING PRODUCTS (Automotive Equipment and Structural Metals)		
*Russell Standard Corp.	2 Prestley Rd., Bridgeville, 15017	563-4500
SAFETY AUDITS (OSHA AND NRC)		
Applied Health Physics, Inc.	P.O. Box 197, Bethel Park, 15102	563-2242
SAFETY CLOTHING AND EQUIPMENT		
*Safety First Supply Company	526 Island Avenue, McKees Rocks, Pa. 15136	331-3200
SAFETY CLOTHING (Rental)		
*Penn Overall Companies	135—40th Street, 01	687-3100
*Ruby's Uniform Rental	4137 Wm. Penn Highway, Monroeville, 15146	531-5400
SAFETY EQUIPMENT AND INDUSTRIAL GLOVES		
Twyman-Templeton Co.	1150 Harvard Road, Monroeville, Pa. 15146	373-1858
SALVAGE AND RECLAMATION		
U.S. Industrial Glove (Div./Penn Overall Companies)	135—40th Street, 01	687-3100
SAND BLASTING		
*Braunlich-Roessle Company	3117 Penn Avenue, 01	471-6995
*Metal Service Company— Div. of H. W. McLaughlin Co.	131-133 Freeport Road, 15	781-8611
SAND BLASTING EQUIPMENT		
*Kruman Equipment Company	3002 Penn Avenue, 01	261-4847
SAWING		
*Kutz Engineering, Inc.	4000 Windgap Avenue, 04	771-4161
SCRAP		
I. Richman & Co., Inc.	P.O. Box 232, Washington, Pa. 15301	343-1100
SCREW MACHINE PRODUCTS—AUTOMATIC		
*Hall Industries	201 East Carson Street, 19	481-1100
SHEAR KNIVES		
*American Shear Knife Company	P.O. Box 355, Homestead, 15120	461-4110
SHEARS, SQUARING AND SLITTING		
Demmler, Inc.	550 Butler Street, Etna, 23	781-5577
Howard Meinhardt Company	3rd and Praeger Streets, 15	781-3327
SHIPPING TAGS (Metal)		
*Pannier Corporation, The	207 Sandusky Street, 12	321-5185
SILICON CARBIDE		
*American Metallurgical Products Co., Inc.	9800 McKnight Road, 37	931-5040
SILK SCREENS AND SCREEN PROCESSING		
*Miller Screen & Design, Inc.	Mars-Valencia Road, Box 506, Mars, Pa. 16046	625-1870
SLINGS AND ACCESSORIES		
*Amick Associates, Inc.	Box 529, Carnegie, 15106	923-1212
Pennsylvania Sling Company	501 McNeilly Road, 26	343-5000
SLITTER KNIVES		
*American Shear Knife Company	P.O. Box 355, Homestead, 15120	461-4110
SOLDER LEAD AND BABBITT		
Pittsburgh Smelting & Refining Co.	100 West Elizabeth Street, 07	421-2434
SOLVENTS		
Neville Chemical Company	Pittsburgh, Pa. 25	331-4200
SOUND SURVEYS		
*CID Associates, Inc.	P.O. Box 10, Allison Park, 15101	961-0367
SPOTWELDING		
*Architectural Metals Corp.	360 Euclid Avenue, Canonsburg, 15317	563-2300/745-6600
SPRINGS		
*Diamond Wire Spring Co.	1901 Babcock Blvd., 09	821-2703
SPRINGS (Belleville Disc)		
*Key Bellevilles, Inc.	RFD #2, Box 191-C, Leechburg, Pa. 15656	295-5111
STAINLESS STEEL NAILS		
*Wylie Center Industries Inc.	3228 Penn Avenue, 01	471-6933-34
STAMPINGS		
*Acme Stamping & Wire Forming Co.	201 209 Corliss Street, 20	771 5720
*McDowell Manufacturing Company	Oklahoma Rd., DuBois, 15801	371 6550
*Ringsdorff Corporation	P.O. Box 220, East McKeesport, Pa. 15035	247 1500
STEEL CASTINGS		
*McConway and Torley Corp.	Forty Eighth Street, 01	682-4700
STEEL FORMING (Heavy Plate)		
*Asbury Industries, Inc.	4351 Wm. Penn Hwy., Murrysville, Pa. 15668	327 3500
*Independent Mining & Mfg. Company	P.O. Box 854, Connellsville, 15425	628 1031
STEEL MILL EQUIPMENT (Plastic)		
*Allegheny Plastics, Inc.	Thorn Run Road, Coraopolis, Pa. 15108	771 3910
STEEL SERVICE CENTERS		
*Lockhart Iron & Steel Co.	P.O. Box 1165, 30	771 2600
I. Richman & Co., Inc.	P.O. Box 232, Washington, 15301	343 1100
*New Ken Steel Company, Inc.	P.O. Box 430, New Kensington, Pa. 15068	412/339 3591
*The Levinson Steel Co.	S. 20th and Wharton Sts., 03	431-3200
STEEL STAMPS		
*Cunningham Company, M. E.	Rochester Rd., Ingomar, 15127	931 1335
*Pannier Corporation, The	207 Sandusky Street, 12	321 5185
STEEL STAMPS AND DIES		
*Bunting Stamp Co., Inc.	312 Blvd. of the Allies, 22	281 5416
*Pannier Corporation, The	207 Sandusky Street, 12	321-5185
STENCILS (And Inks and Brushes)		
*Pannier Corporation, The	207 Sandusky Street, 12	321 5185
SUB CONTRACT-REPETITIVE LIGHT ASSEMBLY WORK		
*Pittsburgh Blind Assoc.	300 S. Craig Street, 13	682-5600
TADPOLE TAPES (Asbestos, Inconel Mesh Cores)		
F. B. Wright Co. of Pittsburgh	98 Vanadium Road, Bridgeville, Pa. 15017	344-6600
TANKS		
*Allegheny Plastics, Inc.	Thorn Run Road, Coraopolis, Pa. 15108	771-3910
*Pearson Manufacturing Co.	550 Butler St., 23	782-1551
TECHNICAL WRITING SERVICES		
Applied Science Associates, Inc.	P.O. Box 158, Valencia, 16059	586-7771
TELEPHONE ANSWERING EQUIPMENT		
*Minatronics Corporation	1420 Western Avenue, 33	321-2088
TESTING LABORATORIES		
*Microbac Laboratories	4800 McKnight Road, 37	931-5851
TEXTILE		
*Armstrong Sanitary Wipers Co.	1243 Spring Garden Ave., 12	321-7113
*Scheinman-Neaman Co.	2900 Liberty Avenue, 01	566-2430
TRANSLATIONS (Business & Technical; Spanish, Portuguese, French)		
Dalmolin	R. D. 2, Elm Drive, Canonsburg, Pa. 15317	746-3066
TRAPS, COMPRESSED AIR/GAS CONDENSATE		
*Hankison Corporation	1000 Philadelphia Street, Canonsburg, Pa. 15317	563-3337
TYPESETTING—(Photo Composition)		
*Graphics Typography, Inc.	121 Ninth Street, 22	391-7714
UNIFORMS—Dress Type (Blazers)		
*Ruby's Uniform Rental	4137 Wm. Penn Highway, Monroeville, Pa. 15146	531-5400
UNIFORMS (Washable and Dry Cleaned)		
*Iron City Uniform and Towel Service, Inc.	6640 Frankstown Avenue, 06	661-2001
*Penn Overall Companies	135—40th Street, 01	687-3100
*Ruby's Uniform Rental	4137 Wm. Penn Highway, Monroeville, Pa. 15146	531-5400
WATER ANALYSIS		
*Microbac Laboratories	4800 McKnight Road, 37	931-5851
WATER TREATMENTS		
*Dacar Chemical Co.	1007 McCartney Street, 20	921-3620
WATERPROOFING PRODUCTS		
*Russell Standard Corp.	2 Prestley Rd., Bridgeville, 15017	563-4500
WELDING		
*Allied Welding and Fabricating Co.	32—39th Street, 01	682-0441
*Architectural Metals Corp.	360 Euclid Avenue, Canonsburg, 15317	563-2300/745-6600
*Asbury Industries, Inc.	4351 Wm. Penn Highway, Murrysville, Pa. 15668	327-3500
*R.O.P.S. Inc.	6465 Hamilton Ave., 06	661-9200
*Triangle Welding Company	2306 Penn Avenue, 22	261-6679
WELDING (Aluminum—Bronze—Copper)		
*Independent Mining & Mfg. Company	P.O. Box 854, Connellsville, 15425	628-1031
WELDING EQUIPMENT, RENTALS AND SUPPLIES		
*Weber Welding Supplies	3220 Smallman Street, 01	281-1835
*Weld Tooling Corporation	3001 West Carson Street, 04	331 1776
WELDING SUPPLIES		
*Weber Welding Supplies	3220 Smallman Street, 01	281-1835
*Weld Tooling Corporation	3001 West Carson Street, 04	331-1776
WELDMENTS		
*Industrial Machine, Inc.	P.O. Box 156, Zelienople, 16063	452-7731
WELDMENTS—Aluminum and Steel		
*Independent Mining & Mfg. Company	P.O. Box 854, Connellsville, 15425	628-1031
*Pearson Manufacturing Co.	550 Butler St., 23	782-1551
WIPING CLOTHS		
*Armstrong Sanitary Wipers Co.	1243 Spring Garden Ave., 12	321-7113
*Iron City Uniform and Towel Service, Inc.	6640 Frankstown Avenue, 06	661-2001
*Penn Overall Companies	135—40th Street, 01	687-3100
*Ruby's Uniform Rental	4137 Wm. Penn Highway, Monroeville, Pa. 15146	531-5400
*Scheinman-Neaman Co.	2900 Liberty Avenue, 01	566-2430
WIRE FORMS		
*Acme Stamping & Wire Forming Co.	201-209 Corliss Street, 20	771-5720
*Pride Wire Products Co.	49th Street & A.V.R.R., 01	621-8845
WIRE FORMS AND LEAF SPRINGS		
*Pittsburgh Wire Form & Mfg. Co.	49th Street and A.V.R.R., 01	681-7812
WIRE ROPE		
*Amick Associates, Inc.	Box 529, Carnegie, 15106	923-1212
WOOD PRESERVING		
*Elco Mfg. Company	111 Third Street, 15	782-1850
*West Elizabeth Lumber Company	Fifth St., West Elizabeth, 15088	462-9330
ZINC COATINGS (To Prevent Corrosion)		
*Ball Chemical Company	1486 Butler Plank Road, Glenshaw, Pa. 15116	961-0123
*Hanlon-Gregory Industries	5515 Butler Street, 01	781-3900
ZINC DIE CAST PRODUCTS		
*Pittsburgh Die & Casting Company	7503 Ardmore Street, 18	271-5422

Eklund **Wisbon**

Howard B. Eklund has been elected executive vice president of Safety First Industries, Inc., McKees Rocks, Pa. He will continue to serve as treasurer for the corporation and as a member of the Board of Directors. Safety First Industries, Inc. is the parent company for Pennsylvania Sling Company; Safety First Supply Company; and Safety Clothing & Equipment Co. At the same time **James F. Wisbon** was elected vice president and general manager of the Safety First Supply Company division, also based at McKees Rocks, Pa. Wisbon was previously vice president-sales.

Eugene W. Merry, president of Mine Safety Appliances Company, has been elected chief executive officer of the company. He succeeds **John T. Ryan, Jr.**, who continues as chairman, a title he has held since 1963. Merry and Ryan have spent their entire business careers with MSA, the world's largest manufacturer of industrial safety equipment. After graduation from Harvard College and then Harvard Business School, Merry served in various capacities at MSA including export sales, production scheduling and control, purchasing, marketing research, sales planning and general administration. He was elected a vice president in 1957, executive vice president in 1960, a director in 1963 and president in 1966.

Haskell of Pittsburgh, Inc., has appointed **Ted Ehrlich**, vice president of sales and marketing, according to Edward N. Haskell, president. Haskell said, "This rounds out our management team of three vice presidents in the basic areas of manufacturing and engineering, finance and administration, and sales and marketing." Ehrlich is responsible for all marketing and sales functions including marketing planning, advertising, promotion, sales management and administration, and customer service. Ehrlich joined Haskell after seven years with Polaroid Corporation, where he had various sales and marketing responsibilities in the Business Products Division. He has a B.S. degree in Marketing from Penn State University and has done work towards his MBA.

Ehrlich

David M. Roderick, president of U. S. Steel Corp., has been elected president of the Pittsburgh Symphony Society succeeding John E. Angle. Roderick was named to the Board in 1974, and successfully headed the 1976 Sustaining Fund Campaign which, for the first time in history, collected more than $1 million to support the Symphony and Heinz Hall for the Performing Arts. The theater and concert hall is owned and operated by the Symphony. Roderick takes command of Pittsburgh's most prominent performing arts institution during its 50th Anniversary season and Andre Previn's first year as new music director. Angle will continue to be affiliated with the Symphony as chairman of the board of directors, a position that was reestablished by the board. As chairman Angle will assist the president in developing policies that will assure the continued excellence of the Symphony.

BILLY CARTER'S GAS STATION HAS RUN-IN WITH OSHA

WASHINGTON—Another small businessman has had an encounter with the Occupational Safety and Health Administration. But this time it is Billy Carter, the President's brother.

The agency said it inspected Billy Carter's service station in Plains, Ga., on April 14 after receiving a letter complaint from a Columbus, Ohio, resident who enclosed two photos showing "junk and scrap" around the station.

After the inspection, the station was cited for nine nonserious violations of the federal job-safety and health law, including an undercharged fire extinguisher, failure to have hand-power tools properly grounded, an uncovered grinder and failure to display an OSHA Poster. "We gave him a poster," a spokesman said.

The inspection, which didn't result in any fines or penalties, was "as routine as routine can be," the spokesman said. He said Mr. Carter wasn't at the station when the inspection was made.

(Wall Street Journal)

MAJOR ENERGY STUDY SEEKS ALTERNATIVES TO PREVENT FUTURE CRISIS

A major study of public policy alternatives which could help prevent a future energy crisis in Allegheny County has been initiated by the Carnegie-Mellon Institute of Research (CMIR).

The objectives of the study are: to explain the causes of last winter's energy crisis, to determine the options for changes in fuel utilization in the event of shortages next winter, and to determine the options for long-range utilization and conservation of energy in Allegheny County.

Areas of investigation will include: analyses of problems associated with the supply of natural gas, the availability of alternative fuels, transport and storage of fuels, the impact of laws and regulations, environmental health implications and the role of energy conservation.

The study will be conducted by faculty members from CMIR, Carnegie-Mellon University and the University of Pittsburgh, in cooperation with representatives of government, industry and labor.

Dr. Sam Doctors, professor of business administration at the University of Pittsburgh, will serve as the project director.

In explaining the reasons for the study, CMIR President Theodore S. Hermann cited the "critical need" to determine the causes and effects of last winter's energy shortage.

"The public deserves a full and credible explanation of last year's crisis," he said. "And a comprehensive understanding of last winter's problems is urgently needed if a similar situation is to be avoided or minimized next winter."


Hermann

Dr. Hermann also pointed out that a longer-range policy alternative plan is needed from which an evaluation can be made of the effects on Allegheny County of changes in national energy policies and energy legislation.

"It is imperative that an energy intensive community such as ours fully understands the effects of national fuel policies and energy conservation programs on our industries, employment, environment and the community in general," he said.

"This is especially critical for the smaller businesses and manufacturers," Dr. Hermann added. "These firms are responsible for 30 to 40 percent of the energy consumption in the county, yet they have far less resources and flexibility to convert to alternate fuels. For this reason, many of the recommendations of the study will be tailored to the needs of the smaller manufacturers."

Dr. Hermann also noted that this study does not duplicate or conflict with other energy projects currently being carried out in the county.

"The results of this study will be of use to many of the other projects, such as Project "Pacesetter," and they will be made available to them," he said.

County Commissioner James Flaherty has pledged the county's cooperation in the project, and stated his belief that the study is "important to the entire county."

"Last winter's energy shortage had a dramatic impact on the economy and well-being of Allegheny County," he said. "Government, business, labor, schools and the general public suffered in varying degrees and it is most heartening to see all these groups join together to seek solutions to the county's energy problems."

The study will be conducted over a two-year period, with recommendation for next winter ready by this September. The long range recommendations will be developed in the ensuing 18 months. A series of public seminars is planned to communicate the results of the study to the general public.

The study is estimated to cost in excess of $500,000, and a grant for $200,000 in support of the project has already been received from the Sarah Scaife Foundation. The remainder of the funds will be obtained from other community sources and from federal and state agencies.

SMC GROUP STUDIES PUBLIC SCHOOLS OVT

The SMC-OVT subcommittee, formed by SMC President Alex T. Kindling, seated at left, is shown at its organizational meeting. Standing, from left, are SMC Executive Vice President Leo R. McDonough; Joseph F. Pfenninger, SMC Administrative Vice President; Dr. David Orr of Orr Marketing Planning; and Past SMC President Wm. H. Braunlich, Jr. Seated are Lois Hlavac, Business Education, Board of Education, and Robert G. Lamping, Director, Occupational, Vocational, and Technical Education (OVT).

By R. G. LAMPING
Director, OVT,
Pittsburgh Public Schools

The Smaller Manufacturers Council has taken an active role as a member of the Pittsburgh Public Schools Advisory Council. The Council is made up of members of business, labor, and industry, which has as one of its tasks the review of the Occupational, Vocational, and Technical (OVT) Education Programs.

Your President, Alex Kindling, is chairman of a subcommittee to review current OVT Programs and will recommend changes warranted, after a review of the labor market needs of the tri-state area.

Alex has convened a committee composed of Past President William H. Braunlich, Jr.; Joseph F. Pfenninger, SMC administrative vice president; Leo R. McDonough, SMC executive vice president; David Orr of Orr Marketing Planning, and Ronald Porter, director of Personnel, TV Station WIIC, Channel 11.

On April 21, 1977, the staff of the division of OVT of the Pittsburgh Public Schools met with the committee and reviewed programs and placement of vocational students. The committee is reviewing this information and is expected to make recommendations shortly.

This is a unique opportunity for SMC to provide a leadership role in counseling the school district in its mission to train students for jobs in business and industry. Any given day will find 6,000 Pittsburgh Public School students enrolled in training vital to the economic welfare of the Pittsburgh community.

The SMC is in an excellent position to hire these students, who, upon completing two years of training, are ready for work. There is a continuous supply of well trained students, in 65 different occupations, from machinists to office employees to practical nursing, and the Pittsburgh Public Schools is ready and able to supply your needs.

The Pittsburgh Public Schools has

made a substantial commitment to provide vocational education and have a continuous supply of students who have the skills needed in business and industry.

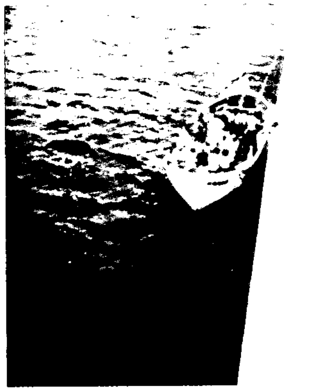
If you are in need of a well-trained employee, contact the Student Placement Office of the Pittsburgh Public Schools at 635 Ridge Avenue, Pittsburgh, Pa. 15212, or telephone 321-4934. Don't hesitate—if you are in need of a full-time, part-time, summer employee, or a cooperative work-experience student.

The SMC has taken an active interest in OVT education for this is one method of providing a steady supply of trained entry workers for our varied industries. If you have a need for employees, keep this phone number available and you will be participating in a good team effort.

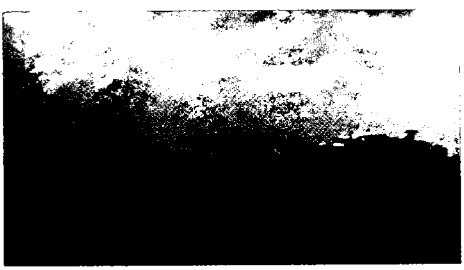
If you are interested in taking an active role in working with the Pittsburgh Schools as a speaker, future employer, or as an advisor, please contact the SMC office, 391-1622.

SMC CRUISE TOURS CARIBBEAN

Vincent Van Balen, Pittsburgh Die & Casting Co., one of the 46 SMC members on the 1977 Winter Planning Trip, checks the repeater compass on the wing of the bridge of the MS Southward as the ship cruises toward Cozumel, Mexico.



At Grand Cayman Island, British West Indies, the ship's life boats were used, along with tenders, to take passengers ashore for lunch on the beach.



The MS Southward, right, rides at anchor in Cozumel with the Russian cruise ship Ivan Franko nearby. Another Russian ship, the Odessa, cruised into Cozumel as the Southward left.

Carl Johnson, II-VI, Inc., tests a musical instrument picked up in the islands to the amusement of Mrs. James Osbourne.

Crystal clear water, white sand, and beautiful weather greeted the Southward passengers at Grand Cayman.

Four hours of deep-sea fishing off Ocho Rios resulted in these two dolphins, caught by Charlotte Mikosky, left, and Bette Asbury, both of Asbury Industries. The Southward is in the background.

The third port for the Southward was Ocho Rios, Jamaica. After leaving Ocho Rios, SMC members got together for a farewell party. From left are Carolyn Johnson, II-VI, Inc.; Ed Asbury, Asbury Industries; Kathy Gibbs, Gibbs Co.; and standing, Larry Och, Maintenance Welding.

Mr. and Mrs. Bruce Leslie, left, Thermox, Inc., and Barrie Gibbs, Gibbs Co., enjoy the last night out on the cruise.

Harry G. Austin, Jr., left, James Austin Co., and Vance Smith, Bakerstown Container Corp., try out the shuffleboard on a top deck of the MS Southward.

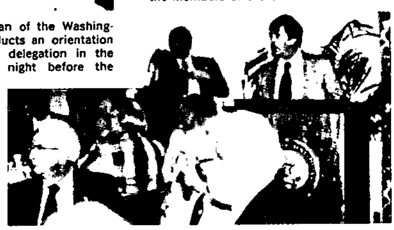
Bette Asbury, left, Asbury Industries, and Georgette Och, Maintenance Welding, chat during the farewell party.

CONGRESS GIVES SMALL BUSINESS WARM RECEPTION

U.S. Rep. Neal Smith (D-Iowa), chairman of the House Small Business Committee, thanks the five small business delegations for bringing the Presentation to Washington.

James D. "Mike" McKevitt and Lin McFarlin of the National Federation of Independent Business watch the Presentation to the members of the U.S. Senate at lunch.

George Saxon, chairman of the Washington Presentation, conducts an orientation meeting for the SMC delegation in the Watergate Hotel the night before the Presentation.



Roger E. Travis, president of the Smaller Business Association of New England, greets the congressmen and the small business delegations at breakfast.

Waiting for the bus to take them to Capitol Hill are these members of the SMC delegation, from left, Carl Johnson (II-VI, Inc.), H. Edward Cable (Weld Tooling Corp.), Harry G. Austin, Jr. (James Austin Co.), Robert D. Sweet, Jr. (Creative Pultrusions, Inc.), Lewis J. Scheinman (Scheinman-Neaman Co.), David Evans (Creative Pultrusions, Inc.), Loyal D. Stewart (Clifton Automatic), and R. F. Davis (Woodings-Verona Tool Works).

OPPORTUNITIES

PERSONS AVAILABLE

• Seeking position emphasizing sales and marketing; West Virginia University journalism and communications major; experience in telephone appointments; sales training; summer work as machinist, laborer, assistant, serviceman. SMC Box IS.

• Information systems secretary with experience in coordinating and preparing project cost and schedule control reports for management review, creating visual displays for promotional presentations, working with vendors and users, performing secretarial functions of maintaining filing system, making travel arrangements and serving as receptionist; customer service secretary, handling customer inquiries, quotations, complaints, telephone and personal sales and service. SMC Box IT.

• Branch coordinator, traveling throughout U.S. to all branches as trouble shooter, estimating and negotiating, hiring and training office personnel, assisting branch managers on cost reductions, methods, project evaluation, material flow improvements, reviewing marketing and promotional materials; branch accountant and office manager; executive secretary, bookkeeper. SMC Box IU.

• 28 years experience in production, sales; specialties include administration, planning and management, training, teaching, organization, communication; 16 years in steel industry. SMC Box HA.

GRIFFIN HEADS SBA ADVISORS

B. Ernest Griffin, chairman of the board of SAV-A-STOP, Inc., a wholesale merchandise distributor headquartered in Jacksonville, Florida, has been appointed chairman of the U.S. Small Business Administration's National Advisory Council by SBA Administrator A. Vernon Weaver.

Griffin succeeds Bernard Browning, president and chairman of the board of General Business Services, Washington, D. C.

The Council is comprised of business, financial, professional and academic leaders who serve as a link between the small business community and the Small Business Administration. The Council provides the agency with data and information on the problems and needs of small business and makes recommendations for improving the delivery of SBA services to small business as well as suggesting new national policies and programs.

PENN'S SOUTHWEST NAMED 'MARKETER'

Penn's Southwest Association has been named 1976 Marketer of the Year by the Pittsburgh Chapter of the American Marketing Association.

The award was presented in recognition of the Penn's Southwest Association national and international marketing programs in the field of regional economic development.

Since 1973, Penn's Southwest programs have resulted in the placement of 61 companies and 9,000 new job opportunities in the nine-county region of Southwestern Pennsylvania.

In 1976, Penn's Southwest scored one of the major business development coups in the nation, as Volkswagen Corporation announced plans to establish its first U.S. auto assembly plant in Westmoreland County, near Pittsburgh. The announcement culminated three-and-a-half years of negotiation between Penn's Southwest, Volkswagen, Chrysler Corporation (which owned the never-used plant purchased by VW) and State Government officials (who arranged financing). Ultimately, the plant will employ 5,500 people and could generate an additional 14,000 "spin-off" jobs among various VW suppliers.

Jay D. Aldridge, Penn's Southwest Association executive director, and Richard K. Means, president and chief executive officer of the Oliver Tyrone Corporation who serves as a Penn's Southwest trustee, accepted the award at the AMA chapter's monthly meeting May 25.

The award citation, which commends the Association's "outstanding marketing performance," states in part: "The high standards in marketing exemplified by (Penn's Southwest Association) serves to enhance and publicize the image of the City of Pittsburgh's marketing professionals. The Board of Directors, therefore, gratefully acknowledges this noteworthy marketing performance which, in the finest tradition, mirrors the association's avowed obligation to stimulate professional interaction within the Pittsburgh area marketing community."

Penn's Southwest Association was founded in 1972 to provide up-to-date economic development information on Southwestern Pennsylvania, as well as to conduct an active international marketing program. A non-profit organization, it is supported by contributions from regional business, union, county government and foundation sources.

SME CERTIFICATION EXAMS IN DECEMBER

Saturday, December 3, 1977, is the date for the next qualifying exams for Certified Manufacturing Engineer and Certified Manufacturing Technologist, the Society of Manufacturing Engineers has announced. The written examinations will be given at various locations in the United States and Canada. Application forms for either exam may be secured from SME Headquarters, 20501 Ford Road, P. O. Box 930, Dearborn, Michigan 48128 (Telephone 313/271-1500), according to Certification Manager William J. Yeates. The registration deadline is October 1, 1977.

Since the program's inception in January, 1972, more than 13,000 engineers, supervisors, technicians and technologists have been certified. The purpose of certification is to formally recognize manufacturing personnel—with or without formal university degrees—for their proven on-the-job expertise and to keep them current on new technology.

According to Yeates, more than 60 per cent of those who have been certified possess degrees. "Obviously, these graduate engineers have opted for Certification because of the program's career advantages and its emphasis on continuing education."

The program also has been well received by industry, said Clinton O. Larson, SME's Certification Committee Chairman. Larson explained that many companies encourage certification through their own continuing education programs.

The exams for Certified Manufacturing Engineer are open to any person who has at least 10 years of "responsible and meaningful" manufacturing engineering experience in at least one of 12 manufacturing specialty areas. The examination fees are $65, and $50 to SME members.

The technologist exams are offered to persons who have at least three years of manufacturing experience and work under the supervision of a skilled craftsman or engineer. The exam fees are $50, and $35 to SME members.

Applicants for either examination are provided with pertinent study guides and materials.

"Certification does not conflict in any way with the licensing of engineers," Larson said. "Licensing is the right and responsibility of each state and represents a legal license to practice. SME certification is recognition of the manufacturing engineer's or technologist's dedication to continuing education, and his desire to keep his technical competence and abilities updated."

NOTES OF INTEREST TO SMC MEMBERS

CALENDAR OF COMING EVENTS

July 8 . . . . SMC Night With the Pirates (vs. Philadelphia)

July 12 . . . . Board Meeting, Churchill Valley C. C.

July 25 . . . . SMC Golf Outing, Oakmont Country Club

August 15 . . . . SMC Golf Outing, Butler Country Club

September 12 . . . . SMC President's Golf Outing and Tournament, Churchill Valley C. C.

September 30 . . . . . . Annual Banquet & Membership Meeting, Churchill Valley Country Club

TWO UNIVERSITIES HONORED BY SBA

Duquesne and Penn State Universities have been selected to receive the Small Business Administration, Region III, Small Business Institute Award for their outstanding performance and contribution to this Agency's Small Business Institute Program.

The Award covers five states—Pennsylvania, Delaware, West Virginia, Maryland, Virginia, and the District of Columbia.

SBI is a nationwide SBA program of management counseling to selected small businesses utilizing faculty and students of top graduate and undergraduate schools of business throughout the country. Nearly 400 schools participate in this unique counseling program directed at the small business community.

Program Directors Arthur G. Wentz and John W. Works of Duquesne and Program Director Donald Hambrick of Penn State will be recognized by individual awards as well as the individual students comprising the counseling teams at both schools for their outstanding work.

Duquesne and Penn State Universities will now compete with schools throughout the Nation for the National Small Business Institute Award.

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THE SMALLER MANUFACTURER

EFFECTIVE JUNE, 1977

GENERAL INFORMATION:

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Insertion Orders: Must be received by the 1st of month preceding publication.
Page Size: 8½"x11"—Three columns per page. Column Widths: One—2¼"; Two—4¾"; Three—7¼".
Halftones: 133 to 150 line screen.
Services: Art and typography available at advertiser's expense.
Commission: 15% to recognized agencies on space only.
Terms: 30 days net.

PUBLISHING AND CLOSING DATES:

THE SMALLER MANUFACTURER Magazine is published on the 1st day of the month for which it is dated. All space reservation and all copy is due on the 1st day of the month preceding date of publication. Advertising copy and related material should be directed to the advertising manager of THE SMALLER MANUFACTURER Magazine, 339 Boulevard of the Allies, Pittsburgh, Pa. 15222.

PRINTING INFORMATION:

THE SMALLER MANUFACTURER Magazine is offset printed and saddle wire staple bound; 133 to 150 line screen halftones accepted.
Preferred order of advertising copy and art submitted for publication:

A. Complete artwork.
B. Brightype negatives or positives.
C. Film negative of complete advertisement, actual size with halftones screened and stripped into position.
D. Film positive of complete advertisement, actual size with halftones screened and stripped into position.
E. Scotchprint from existing plate, actual size and clean.
F. Cronarpress film of existing plate.
G. Engravings or electros.
H. Rough layout with copy and glossy prints.

Typesetting, conversions, and camera and stripping required when material is furnished as described in A, G, H, (above) will be billed at cost to the advertiser.

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EFFECTIVE JUNE, 1977

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½ Page	4¾"x7½" 7¼"x4⅞"	163.00	142.00	132.00
⅓ Page	2¼"x10" 4¾"x4⅞"	98.00	91.00	80.00
¼ Page	2¼"x7½" 4¾"x3⅝"	80.00	71.00	66.00
⅙ Page	2¼"x4⅞" 4¾"x2⅜"	52.00	46.00	42.00
⅛ Page	2¼"x3½"	47.00	42.00	37.00
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Senator McIntyre. Our final witness on this panel is Mr. Roger Travis, who will be speaking for SBANE, a very fine small business association in New England. Lewis Shattuck, who is executive vice president, is also present. Roger.

STATEMENT OF ROGER E. TRAVIS, PRESIDENT, SMALLER BUSINESS ASSOCIATION OF NEW ENGLAND, INC.

Mr. Travis. Thank you for the nice comments about SBANE.

Senator McIntyre. I meant them. [Laughter.]

Mr. Travis. We strongly—SBANE—strongly supports S. 1726 and we feel that it is a bill that is long overdue.

I would just like to touch on four key points and our feelings on them.

1. Establishment of a small business investment policy. We feel this is very much needed and by requiring the President to focus on this particular issue, I think we will finally get economic data to be able to make intelligent decisions which will be able to flow capital to small businesses as they need it. Right now there is a very uneven flow and availability is very bad. I think by establishing a small business investment policy it will provide a more even rate.

2. On establishing the small business economic council. Once again we are very much in favor of this because the SBA, despite many things that are said about them, are out there all alone. They need some help and we feel that a board such as this, an economic council which has some top people on it will provide clout to the SBA and give them some necessary support to be able to do the job. We feel that is very important.

3. In the area of raising the level of the Small Business Administrator. All of the groups have been on record for a long time in favor of raising the Administrator to Cabinet-level status. We think this is a step in the right direction. If nothing else we feel that the SBA Administrator should be a member of the executive committee. That is the most important function in the country. Small business is a very, very crucial factor in the economy and, there, we feel, he should be right next to the President as far as getting input and representing the voice of small business. We feel it is very, very necessary.

Finally, in the area of advocacy and economic research and analysis. SBANE felt parental guidance toward this since 1974 and along with the other regional associations introduced the legislation and presented it in a Washington presentation which created the Office of Advocacy.

As I have testified earlier, I think the most important thing that can happen with the role of the advocate is that they establish priorities and objectives, and establish a small business research data base so that they have economic data to work with, and be able to have some inputs, some facts and figures to really, truly serve as an advocate. We would also like to see the advocate studying each piece of legislation as it comes along and feel very strongly that an impact statement as to the effect of such legislation on small business is very, very much needed; this is where the advocate could play a very, very good role.

We will enter our comments in detail for the record and thank you for the opportunity to present our views.

Senator McINTYRE. Thank you, Mr. Travis.

[The prepared statement of Mr. Travis follows:]

SBANE

SMALLER BUSINESS ASSOCIATION OF NEW ENGLAND, INC.

STATEMENT OF

ROGER E. TRAVIS, PRESIDENT

MEDI, INC., HOLBROOK, MASSACHUSETTS

AND PRESIDENT OF THE

SMALLER BUSINESS ASSOCIATION OF NEW ENGLAND, INC.

BEFORE THE

CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

SUB-COMMITTEE ON ECONOMIC GROWTH AND STABILIZATION

AND THE

SUB-COMMITTEE ON GOVERNMENT REGULATION

AND SMALL BUSINESS ADVOCACY

OF THE SENATE SELECT COMMITTEE ON SMALL BUSINESS

ON

SMALL BUSINESS INVESTMENT POLICY AND ADVOCACY REORGANIZATION ACT OF 1977

WEDNESDAY, JUNE 29, 1977

69 HICKORY DRIVE • WALTHAM, MASSACHUSETTS, 02154 • (617) 890-9070

Mr. Chairmen:

SBANE represents over 1,300 smaller businesses throughout the six New England States. The Association is characterized by active membership participation and involvement. This involvement is motivated largely because small business is finally realizing the strength and effectiveness of unified and concerted action as opposed to solitary efforts.

We strongly support the Small Business Investment Policy and Advocacy Reorganization Act of 1977. This bill significantly increases the stature of small business and will contribute substantially to the well-being of this vital sector of the economy. Our analysis of the legislation by section:

I ESTABLISH A SMALL BUSINESS INVESTMENT POLICY.

This recommendation strikes at the core of the major weakness in formulating small business policy which is a lack of current, accurate data on the small business community. By requiring the President to submit an investment policy report, the Administration and the Congress would, for the first time, be able to head-off the unhealthy flow of availability of funds into the small business community. One of the past difficulties in establishing on-going economic policy to improve the small business sector has been a lack of detailed information on government policy and programs, and how they effect small business capital investment requirements.

II ESTABLISH THE SMALL BUSINESS ECONOMIC COUNCIL.

Again, this recommendation would appear to address itself to justify a long-standing need in the small business community, and bring attention to the problems of small business on a sustained basis by members of the Executive Branch at the very highest level. It has been our experience that although key members of the Executive Agencies are highly favorable to small business, policy is often formulated without study or input from the small business sector. All too often small business is afforded highly favorable lip service without consideration when meaningful policies are conceived. The Council's responsibility of providing the SBA with data is absolutely necessary in an era when every decision is based on heavy input of research. The most beneficial results of the Small Business Council, composed of such high-ranking officials, will be to provide the SBA with clout necessary to respond to the needs of small business. Presently, the SBA is often a lonely voice seeking to assist the small business community but without the leverage and weight necessary to be responsive to changing needs and problems.

III RAISE POSITION OF SMALL BUSINESS ADMINISTRATOR.

SBANE and all of the other members of the Council of Small and Independent Business Associations (COSIBA) have been on record for some time in favor of elevating the Administrator to cabinet level rank. Two years ago, it was our recommendation that the Administrator become a member of the Economic Policy Board. President Ford adopted this recommendation and the Administrator was made a member of the Economic Policy Board. However, he was not included on the

Executive Committee where most of the economic policy decisions are made. Small business is the most potent force in the American economy. It is, therefore, inconceivable that this crucial sector should have no voice at the highest level of the Executive Branch in the formulation of policy.

IV ESTABLISH THE DIVISION OF ADVOCACY, ECONOMIC RESEARCH AND ANALYSIS.

As a result of the recommendation in the Washington Presentation of 1974, by SBANE and three other regional associations, the Office of Advocacy was established at the SBA. Therefore, we look upon the Office of Advocacy with a certain amount of parental pride.

Currently, the Office of Advocacy lacks a clear and concise system of priorities and objectives. To make matters worse, the Office was combined with the Office of Public Information, and it has taken on a public relations role when it should be safeguarding the interests of small business in the law-making and regulatory-writing process.

The SBA also reorganized the Office of Advocacy, Planning and Research separating the advocacy and research responsibilities. Advocacy needs facts and research data in order to back-up effective reform in the bureaucracy. We would strongly suggest that the research and advocacy be combined again.

With the current staff of less than 40 people, it is impossible to keep track of the proliferation of regulations affecting small business and the hundreds of legislative bills in the Congress that will surely affect small business. The Office of Advocacy should start by establishing priorities and bringing itself to the attention of a few key agencies.

The Office too often is involved in "brush-fire" actions of a defensive nature when it should be an initiator in establishing policy in upcoming regulations and legislation. We would define initiative advocacy as monitoring new legislation and regulations and seeking input from the small business world on the effects of this legislation and regulatory activity. We would also propose that all future legislation include a requirement for an Impact Statement prepared by the SBA Office of Advocacy which would indicate the probable effect of such legislation on small business in the financial, operational and record-keeping perspectives. This statement should encompass current legislation before the Congress and also regulations developed by the Executive Agencies.

In numerous presentations by associations, and in surveys and government studies, these main points continuously come to the forefront regarding the needs of an adequate advocacy program:

1. Small business has been unrepresented in the formation of regulations.
2. SBA should act as an advocate for small business before regulatory agencies.
3. The Office of Advocacy should be responsible for developing impact analyses of proposed regulations and legislation.
4. A Small Business Advisory Committee, at a top level in the agency structure, should be established at each regulatory agency.

We believe combining Advocacy with economic research analysis is a very wise and prudent recommendation and support it completely.

V REQUIRE THE FEDERAL DEPOSIT INSURANCE CORPORATION AND OTHER FEDERAL BANK REGULATORY AGENCIES TO COLLECT CERTAIN DATA.

This recommendation will go a long way to eliminate the massive void I addressed earlier in the ability of the government to have more precise and timely information regarding the small business community and its financial needs. The only way government and the private sector can hope to make accurate and meaningful decisions about small business is to have the statistical data or ammunition so necessary in the decision-making process.

We again lend our support to this legislation and commend the Committee for its accurate assessment of current weaknesses in the government decision-making process of these carefully formulated recommendations to overcome these current deficiencies.

Thank you, Mr. Chairmen.

Senator McINTYRE. I yield now to the Chairman.

Senator HUMPHREY. I want to especially thank the witnesses this morning for their cooperation in abbreviating their statements and also for the quality of their statements.

May I acknowledge the presence of Senator McClure who is a member of the Joint Economic Committee. We are very pleased to have you here, Jim.

Senator McCLURE. Thank you.

Senator HUMPHREY. I have very few questions.

I want to address my first question to our first witness—Mr. Mike McKevitt.

First of all, Mr. McKevitt, I want to express our thanks to you for the overall support by you and your organization for S. 1726 as expressed in your comments. I recognize that you have some concerns about certain parts of the legislation and I just want to ask a question or two about it.

In looking at your statement here and in discussing title II of the bill, you say that your organization is—and think I am correct—"disinterested in Government policies that interfere with the normal course of competition in the marketplace, even if those policies would be of benefit to small business."

That is a generalized statement and I guess that anyone who is in business may feel the same way—that you do not want to have policies that impede you or impair your activities. I thought some clarification might be helpful.

Are you saying that you are opposed to the creation of the Small Business Economic Policy as proposed in legislation aimed at promoting increased private sector investment in small business through the establishment of appropriate incentives by Government? Are you saying in effect that nothing should be done by Government to encourage the greater flow of investment funds toward small business than is now the case? I think we have got to get down to specifics.

Mr. McKEVITT. No, sir. Our concern arises from the terminology of credit allocation and long range economic planning in the bill. What we want is a clarification of the purpose of that language in there. So far as the basic thrust of this section is concerned, we have no objection.

Senator HUMPHREY. Now, that comes to the second part of my question to you, sir. Are you worried about the matter of credit allocation? As you say here, "although we are not certain of the intent of this language,"—speaking of title II—"we find striking similarities between the language of this section and the language normally used to describe credit allocation programs and long-range national economic planning policies. We hope that these are not tools intended to safeguard the interests of small business because small business wants no part of it."

The legislation does not prescribe credit allocation, but it does try to get economic data that can tell us just how the credit is being allocated, and I think, if I have learned anything at all in my years in Congress, it is when it comes to credit allocation, small business is on the low end of the totem pole. Someway, somehow, small business is going to have a reasonable showing in the American economic competitive scene.

There has got to be a better flow of credit to small business. Particularly when you have, for example, the Federal Reserve Board raising its discount rate, tightening up on credit, raising its interest rates, the prime rate. I think that that was a very serious blow to the solvency of literally hundreds of thousands of small businesses.

I know, for example, what happened in the construction business. It was mass murder to the contractors. Absolutely by Government policy—Government in the sense of the Federal Reserve Board which sometimes acts like it is a private fraternity. They went ahead and laid on interest policies and credit policies that destroyed the economic viability of literally thousands of independent business people in this country, the contractors.

I was interested to note that the executive vice president of McGraw-Hill in a letter to Arthur Burns laid it out cold and told him exactly what was happening in this vast sector of American enterprise, much of it small business. It was a disaster. What we are trying to do in this economic policy section of the bill is to prevent that from happening. I do not think it should be noted or should be ascertained or stated that we are prescribing a particular kind of credit allocation, but I think independent small business better be looking at what the Federal Reserve Board does, what the actions are in the Treasury Department and other departments of the Government when it comes to the use of credit. Because credit is the name of the game. It is the supply of money that you have that really makes the difference. If you cannot get the money at rates of interest and in amounts equal to that available to larger combines, you are dead.

It is like a person who is anemic trying to be in a mile race with another person who is really strong and full of health. You can run pretty well for about half of the mile and then you start petering out.

I am somewhat puzzled by this because I think you can see the need for responsible businessmen to be able to analyze their markets, make efforts to anticipate future changes both good and bad, and prepare to meet them. Surely no business can succeed over a time without doing this effectively.

By the way, the people who allocate credit today in this economy and the people who do the most to force planning in our economy are the banks.

You know you ought to take this up to the City Bank of New York. I was just out in my hometown where I grew up. We were going to expand a business. A small loan—I am being very frank—$35,000. That is a little loan in this small town bank. Do you know what I had to do to get that loan? I had to fill out as many forms as you are filling out. Don't you think I did not. We have lived in that town and they know us. But the banker did not know us because they move in and come out like migrants. They wanted to know everything about us. They wanted to know about our prospects, how we look down the road. We had to give them everything, our accounts receivable, our accounts payable, our cash flow. We had to give them everything that we had in order to get a little stinking loan for a business that has collateral that is 15 times, 20 times the amount of the loan. That is alright. They have a fiduciary responsibility, the banker does, and he must fulfill it. He's entitled to the information.

When a bank loans some money overseas, one of these big banks, do you know what they require of a business or a government overseas? They require them to give them their 3 to 5 year plan of economic projection. The World Bank requires it. The Asian Development Bank requires it. The Inter-American Development Bank requires it. The Chase Manhattan Bank requires it. I hope they do. The loans that worry me more than anything else are the short-term loans they are making on energy to the less developed countries. I might say, as you draw down that capital, and they have got $58 billion worth of it drawn down right now that is our money. It has been loaned to people who are poor credit risks. Arthur Burns, Federal Reserve Board Chairman, has already cited this problem. I brought it to his attention one day. I got more calls from New York than I ever had in my life because I pointed out that I thought there was serious danger in what was going on. Mr. Burns makes it very clear as he has in every instance, that the first duty of the Federal Reserve is to make sure that the banks are bailed out. When they got in trouble on their REIT's, what did they do when the Federal Reserve wanted to come in on it? They asked the banks to give them a plan to get themselves back on their feet. So I just thought I'd mention planning.

The thing that bothers me about some of our business organizations—when they ever hear anything about the possibility of exercising foresight, looking ahead as to what might be expected of the economy, what plans we have, they see red spots right away. Yet there is not a business firm that does not plan that is worth a hoot. Any man who would put his money into a business that does not plan ought to have his head examined. He is a case for a mental institution. So I just thought I would bring this up to you because I constantly get this from business groups. There is no forced planning in this bill at all. But there is data gathering which provides an opportunity to look at the facts. And it does require that each year there shall be a special report relating to the needs of small business. Then we call on the Administration to back up those recommendations. That is all. There is nothing mandatory. You understand that, Mr. McKevitt?

Mr. McKEVITT. Mr. Chairman, may I reply?

Senator HUMPHREY. Yes.

Mr. McKEVITT. First of all, I would not be worth my salt if I did not raise the thought that was in our members minds.

2. I appreciate the fact that you addressed yourself to it right off the bat.

3. You have clarified it, and I want to thank you very much for doing your homework and being so candid to reply as you have.

Senator HUMPHREY. Thank you very, very much. I want to assure you that I am not the kind of a man who wants to see any kind of legislation here that is going to tell you how to do things. I think what we need to do is provide you with facts by the Government so that you can make your plans, and so that you can respond to the requests.

On page 9 of your statement, you say that your own data indicates that 82 percent of small firms borrowing last year borrow from banks. You go on to admit that your organization does not know a great deal about the supply of capital to small business by banks and other sources. Then on page 10 of your statement you propose reducing the bill's requirements for reporting bank loans made to business to the level of a random sample to avoid unnecessary paperwork.

Now, looking at that random sample I wonder whether or not it is going to present the SBA or anyone else interested in this subject with a complete picture of the flow of bank credit for small, medium, and large businesses. In other words, we need to know who is getting what and under what terms.

Furthermore, all that is being advocated in the bill is the expansion of the quarterly call reports that virtually every commercial bank has to make either to the Comptroller of the Currency or to the State Banking Agencies or to the Federal Reserve on their activities. We are not asking for any new reports, merely an expansion of the quarterly call report that the bank is already making, but making it with more precise information as to the flow of credit, who gets what and under what terms. Then you people in the independent small business community have a way of being able to target in on what your needs are and what is really happening to you. So I want to make it clear again what the purpose was.

Now, I think that you raise a valid point about how much paperwork this is going to require and whether it is excessive.

Mr. McKEVITT. Thank you, Mr. Chairman.

We would like to have that information, as would the committee. Our concern is that it not become a burdensome paperwork problem.

Senator HUMPHREY. You have got such a good friend in the chairman, a member of the Paperwork Committee, and I am sure you will have some help.

Mr. Chairman, I am not going to take any more time here because I want to divide up the time.

Senator McINTYRE. Senator McClure?

Senator McCLURE. Thank you very much.

I am almost compelled to ask a whole list of questions and I know I do not have the time to do that so I will pick and choose among them.

On this last point—I understand your concern about having to fill out more and more report forms. I do not know how many forms you fill out. What proportion of your managerial time is spent just filling out forms and providing information to some Government agency?

Mr. McKEVITT. I will volunteer some information on that, Senator McClure.

One of our recent surveys showed that a lot of our members, in dealing with different Federal, State, and local agencies, including paperwork, visitations, and what-have-you, spent anywhere from one-half to 1 day a week.

Senator McCLURE. One-half to 1 day a week?

Mr. McKEVITT. Yes.

Senator McCLURE. That in many instances is nonproductive.

Mr. McKEVITT. Yes.

Senator McCLURE. Not totally so.

Mr. McKEVITT. I do not want to throw the baby out with the bath, but yes, sir, there is abuse of it. There are points like——

Senator McCLURE. I remember one businessman telling me that he was not going to fill out a form even though there was a $500 fine for a penalty. They do not call it a fine for a simple penalty for refusing to fill out the form because it cost him more to fill out the form than to pay the $500. That form as a matter of fact was 63 feet long. It was a computer printout. I said I do not believe it. And he produced it and strung it around his office to show me. [Laughter.]

Sixty-three feet of form required by the Government.

Senator HUMPHREY. That is what happens when you get computers.

Senator McCLURE. Well it is not just computers. It is what happens when you get Congressmen. [Laughter.]

I will include both the Members of the other body and this body who have good ideas and, Mr. McDonough, I think you made that point. The idea is good and sound but somewhere between the expression of the idea and the implementation of the idea, something goes wrong, and then you end up with a form that is 63 pages long with businessmen spending one-half to 1 day a week just to provide information to some agency of Government. The 1968 Gun Control Act that required a report on every sale of 22-caliber ammunition, and the reports were so voluminous they would fill this room and nobody could get any information out of it at all because there was too much information. I suspect the random sample question in regard to committee reporting may be more accurate in long run and more useable because it is. Then the complete report might be required which might innundate us with information rather than giving it to us in useable form. That is something upon which we should work.

Senator HUMPHREY. That report, however, is one that is already required, quarterly reports, are required by the banking agencies. The only question is the detail of the report, the flow of capital.

Senator McCLURE. Yes; and I would say to my friend from Minnesota that that 63 pages of form had a lot of detail in it.

Senator HUMPHREY. By the way, Senator, I think you should know that I saw what the Ethics Committee of the U.S. Senate has for us to fill out. It is a fact that we are caught in the bind if something goes wrong. I am not for all of this. I do not like all of these forms. I am a normal citizen. If something goes wrong in the headlines of a newspaper—Nursing Home Cheats or Doctor Frauds Medicaid—WHAMO. Go see your editor. Tell him that you do not want any more forms. Because the first time an editorial appears around here, Congress falls dead. One editorial will shock this Congress more than an atom bomb did to Nagasaki. They run like sheep when you get an editorial that says something is wrong.

Senator McCLURE. Which may be more of an indictment of the Congress. [Laughter.]

Senator HUMPHREY. Well, I will tell you what it is. It is an indictment of the Congress that it is fearful of the public.

Senator McCLURE. I do not disagree with that statement, but I think it underscores part of the problem and part of the reason that the business community reacts as they do when you see more reporting requirements in any law regardless of the motivation.

But let me focus one moment on one issue. Mr. McDonough, you mentioned OSHA as being a good idea gone wrong and that you have some confidence that this may be turning around—perhaps more hope than confidence, I am not sure.

Mr. Travis, I think you made a point on page 3 of your statement in regard to the burden of paperwork. How do you reduce the burden of paperwork? You have indicated however, and you, Mike, in your statement on page 9 made some reference to the burden of paperwork.

I think you made some suggestion that we ought to have the advocacy role expressed in this bill to determine the cost of regulatory action of Government, and yet just yesterday on the floor of the Senate I offered an amendment which would require the Government to continue doing what they are doing on the cost of OSHA regulations, and the Senate turned it down. So apparently the Senate is on record now as saying that the Administration is free to stop considering the cost of OSHA regulations in its formulations. I do not know if any of you care to comment on that particular——

Mr. McDONOUGH. The only comment I would like to make on OSHA is that when OSHA first passed it just went through and all of a sudden we had OSHA. That is an indictment on us perhaps in our job, but that is exactly the way it happened.

At that time, as soon as we began to understand the implications of what was happening, we immediately started talking to, in my instance my Congressman, and I said, can't we use some commonsense on OSHA. Can't we have an inspection first time in, no fine, let the Federal Inspector be the person who comes in and interprets it. Instead of giving that small businessman, who already is doing 10 jobs, a booklet like this and say we want you to read it, we want you to understand it, and we want to make sure that your plant complies with everything in that book. It is a total impossibility for that man to keep doing his job and to do this.

So, let us go back to OSHA. If OSHA had been passed just the way it was, with all the same regulations. The only difference—that the inspector would go in and inspect the plant. He has now been trained by the Federal Government to interpret that book. They hired him and that is his job. He has to go in. If he had gone in and inspected that plant and said, OK, we found this many things wrong. We are going to come back in 2 or 3 weeks and if these things are not corrected, we are going to triple the fine. I do not think you would have heard a murmur out of small business or anybody else. And I do not think we would have had the trouble that we have had, the suspicions, the rotten things. If you want some horror stories about OSHA, some of them are unbelievable.

Senator McCLURE. If they were not so serious, they would be amusing.

Mr. McDONOUGH. Some of them are too horrible for that, because what is happening, sir, is in one instance, one of my members, a case with an internal family problem. The boyfriend has turned the man into OSHA and now he is using OSHA as the whipping boy—a true story. And you would not believe the kind of aggravation this man is going through because OSHA is coming down on him so often it is unbelievable, because this kid who was trying to get even with what would have been his father-in-law is using OSHA as a whipping boy. [Laughter.]

It happened, believe me.

I had a young man in my office the other day, who I had helped get him his job with one of my member companies. He has been laid off because of some slowdown in production and what have you. He came into my office and he has changed so drastically in the last 1½ years since I got him the job, and his words to me were—I have been unemployed for *x*-number of weeks. I said, "Why didn't you go over and talk to so-and-so, I know they are doing some hiring." He said, "Oh, no, I have checks coming for 8 more weeks. At the end of that time I am going back to x-company and I am going to tell them either they put me back on or I am calling OSHA because I know some things in there that could cause them trouble." That is a 21-year-old young man who is going to use OSHA as a whipping boy against a company. That is the kind of thing that, again, I want to reiterate after talking to Ms. Bingham and a few other people connected with OSHA; we are beginning to feel that some commonsense is going to be applied.

Senator McClure. Without getting off into OSHA, too long to criticize OSHA except as an illustration of difficulty, are there other comments?

Mr. Travis. Yes, Senator, to comment on paperwork. The reason we feel the advocacy position is such a strong position, and we refer to an impact statement ahead of time, is we feel that the advocate is in a role where, when new legislation is coming out, if foresight is used and legislation is reviewed and we look ahead, the advocate can say this is going to be the impact on small business. If we do and look at this ahead of time, we can avoid many of these problems. We feel that is where the advocate could be very strong so that we do not create another OSHA or ERISA. This could all be stopped if we look at things ahead of time and say, what will the true impact be for paperwork and small business, and so forth.

Senator McClure. Just a couple more questions because I know we have other witnesses and I do not want to prolong this, but there are a couple of rather fundamental ones that I think need to be explored.

Mr. Liebenson, I am sure you are aware that Congress passed legislation in 1975 calling for a National Small Business Economic Report to be compiled and reported by the SBA. To date that report has not been forthcoming. Do you have any thoughts as to whether or not you believe that SBA is capable of compiling such a report and any thoughts about its accuracy or pertinence?

Mr. Liebenson. All I do know is that they do have some inhouse capability. They have some fine economists. They have also lost in the past few years—by retirement or other reasons—some top people and this may be the reason for the delay. Losing a lot of their top people and their not having adequate staffing, of course, would be reason for the report not coming out. But let us put it this way, the staff has not been directed to work on this particular report. I do not know the status on it.

Senator McClure. Let me ask this rather general question. No, I will submit some questions to you which you might like to answer in writing rather than taking the time of the committee to do it all this morning.

I am concerned about the divisions between small business and business as a whole. Small business is, by all odds, the larger segment in terms of numbers and in terms of jobs, and yet many of our business policies devised by Government are directed toward the large businesses of this country. I assume that is why we want to see the SBA Administrator elevated to Cabinet level and sitting in on the Economic Council rather than having met with representation in hands of the organizations or entities that seem to have more concern for the problems of large business.

Could you delineate the peculiarities, the peculiar problems that small businesses face, that large businesses do not, to justify that separate attention?

Mr. LIEBENSON. I would like to make a general statement. Most of the economic policies in this country for the past 15 or 20 years have been basically determined by the major corporations and the major unions. In part, this has been a fault of the small business community because it does not have the expertise within an organized segment to match what the larger companies can produce or what the unions can produce. There would be few small firms, as an example, that would have an expert who spends his time in the field of social security. The larger companies do because it relates to their costs. The large business organizations do because it relates to their membership interests. The unions do because, again, that relates to their membership interests. And, therefore, they have the time, the money, and are articulate in terms of producing the kind of expert witnesses that the Congress wants. Small business has not been able to do that until fairly recently. Now we are getting to be able to do that.

Mr. MCKEVITT. I would like to just comment briefly. I do not mean to oversimplify, but, in some respects, there are two different breeds of cat—one is inclined to be more bureaucratic and one is inclined to be more of an entrepreneur. One is inclined to charge off the cost of hiring more experts to cope with ever-growing numbers of regulations and the other one has to live with it without hiring experts or by working with other small businesses in the area. I think small businesses are oftentimes the victims of the numbers game. It is sometimes easier to pick on the little guy than it is the big.

Mr. MCDONOUGH. I would like to throw in two thoughts. No. 1—big business is our best customer. So there is no way I am going to throw stones at big business.

No. 2—they can get money cheaper than we can get money. They have better sources and more sources to get it.

Probably No. 3—to go back to my example of OSHA again—when that book came down, they have got 15 or 20 different departments with 35, 40, 50 different people in each department. They can break it out by legal, they can break it out by their safety, and everything else. My man has to read it himself and keep on running a business at the same time. So we are not asking to take anything away from big business. What we are asking is to take into account where the differences are and then sort of even it up a little bit so we get some sort of a chance where we can break even.

Mr. KRASNOW. Senator, we have a problem of awareness many, many times. One of the elements in our program has to do with the tax-free exchange—the mergers and acquisitions that we know are so prevalent on the American scene.

There really has not been too much talk about the concentration of power, the concentration of resources that has been brought about by these tax-free exchanges under section 368 of the Internal Revenue Code. The fact of the matter is that, inadvertently, it is the most important single piece of legislation which destroys small business. Because when the small businessman reaches a point where he has to pass that business to a child, to a group of employees, to a competitor, to another businessman or possibly to a large public company, he faces the fact that with the tax-free exchange, he gets 100-percent dollars. He gets common stock of a company to go into the bank and borrow on. He can do many things with it. If he wants to turn over that same company to his employees who have maybe given 20 to 30 years of their lives or children or another independent businessman, with capital gains of 35 percent, with the preference tax adding there, too, and State and city taxes in many cases. He has 50-cent dollars when he gets them and these same groups do not have the money. It has to be cash and deferred payments. So when we talk about the differences between small and big business, it is not antagonism. It is awareness. It is very, very important that we begin to communicate—we, in the small business community—to the Congress our concerns as to what is happening. I think that is being done now.

I really feel that we are going to be paying more and more attention to the glaring inequities because none of us in this country really wants to see a country that is only big banking and big labor and big business and big government. We want the entrepreneurial spirit, the independent sector. I submit to you that what I have just talked about is one of the most important reasons why we are losing strength in the small business sector. We have a program that basically may well slow that down.

Senator McClure. Thank you very much.

Senator Humphrey. I want to add that I think you put your finger on one of the most important problems. There is an awareness in Congress about them. I think that is one of the big problems.

The other one I come back to is the paperwork. God only knows, I do not like it. I am responsible for a small business and we have a lot of paperwork. We have had more trouble with OSHA than you have, my friend. I will just tell you that. I have also told some of my colleagues about it.

I want you to be as concerned about the flow of credit as you are the flow of paperwork. Because, let me tell you something, when Walgreen Drug Co. can borrow money at 1½ percent less than Humphrey's Drug Co. can, we cannot win, my friend. Because the net margin that we have on most items is less than that. We cannot win. So you have got two things here—mergers tax free at 100 cents on the dollar. If you have to sell out or transfer to children or your employees, you get about 50 cents on the dollar. That is a serious problem. The other one is the flow of credit.

We are not asking independent businessmen in this bill to perform more paperwork. The bank has got the computers. The bank has to file the quarterly call report already. All we are saying to the bank is, we would like a little better information as to when somebody comes in and wants to borrow $100,000 or $1 million for a small business: What is the rate, what are the terms, how many of those loans are you making compared with somebody else? Pretty soon we will start getting data and we will quit guessing. We will quit demagoging about this thing and we will have the facts up to date. We do not have the facts. It is just like talking about how much oil we have got. We do not know how much oil we have got.

We directed the oil companies 3 years ago to report how much oil we have. Nobody really knows. We were told there was a shortage of natural gas here and there was a big headline here the other day that they discovered so much natural gas in Canada they do not know what to do with it. [Laughter.]

It is a fact.

So we do not have data and that is what I am getting at. Before you can make a judgment you have to have information. Quite frankly we do not have the information and that is my opinion.

Senator McIntyre. Mr. Chairman, for the last 1½ years I have been looking a little closer, I think, than most Senators do at paperwork. There are just a couple of things I would like to tell you about it.

All paperwork is not bad. This is a Nation of 220 million people and we need a lot of information. But an insatiable desire for information. The principal culprit is the Congress of the United States, aided and abetted by our bureaucrats. I say this again in the best way because these are dedicated people.

Please notice, if you will, the question of the need for information. We do need information. If you will turn to page 15 of this bill, you will see where the call report goes to every bank that is insured by the Federal Government. This bill is asking for more information, the very information that you referred to. On page 2 of the call report, schedule A, line 5—all commercial and industrial loans made by the bank in the last quarter must be reported.

Nevertheless, the sponsors of the bill need a breakout of what kind of credit is being made available for small business use as opposed to the giant concerns. On page 15 of the bill, we begin to set criteria—borrowers having, at the time of application of the loan, assets of—less than $100,000; $100,000 or more, but less than $500,000. Additional categories follow.

The big question over the Paperwork Commission—what is bad information and what is necessary. It is hard to tell the difference sometimes.

Let me ask one question so we can move on to our next panel. I want to direct this question to two of the panel members.

It is my understanding that virtually all of the data SBA will need to establish its economic analysis unit must come from the departments and agencies represented on the Council. The bill directs that the Council is "to facilitate the making available pertinent data and information requested by the Administrator."

Is this directive strong enough from your experience? Would you change the language in any way? Do you think these departments will or can supply this information?

You have had experience in dealing with them. Walter, have you got some quick thoughts on this? We would appreciate it if you do.

Mr. Stults. Well, the language is certainly strong. Just as the language is strong in the public law last year that asked SBA to send up that economic report. It said SBA shall spend $1 million on it. The Appropriations Committee never gave SBA $1 million. So you can pass this law that says the SBEC shall get a data base. Your colleagues on the Appropriations Committee shall say to BLS that OASI and everybody else—we are not going to give you any money for that data base. That is not very good, I guess. I do not know how you are going to straighten this language without knocking out the Appropriations Committee.

Senator McINTYRE. We have a suggestion made by staff that SBA could help out a data gathering agency by virtue of the $4.5 million we added to SBA's 1978 and 1979 authorization for economic research and analysis.

Mr. STULTS. Authorization—they have not got it.

Senator McINTYRE. The Senate Appropriations Committee agreed on it.

Mr. STULTS. They have? OK, good.

Senator McINTYRE. That may be one way that we can say we will underwrite it.

Mr. STULTS. Fine, perfect, perfect.

Mr. LIEBENSON. I do not believe that it will be too much trouble for the other agency to accumulate the information necessary. They have got existing forms that go to everybody. As an example, if you added in the field of unemployment, if you were to add one additional question to the form that is filled out by people making applications for unemployment compensation—the size of firm that you worked for—we would get an idea where the unemployment is taking place by size of firm and it would indicate whether or not we need other incentives in the employment field such as the job creation tax credit, whether or not we may want to adapt in the future the percentage of allowance to encourage future employment.

One question added to that form could give us an awful lot of information to tell us what is happening in terms of unemployment in the economy and where it is occurring in terms of size of firm and what industries.

Senator McCLURE. Mr. Chairman, I would like to just observe that that 63-foot form that I referred to earlier was built just by each person adding just one more question.

Senator McINTYRE. Gentlemen, time is against us. On behalf of the Joint Economic Committee and the Small Business Committee, we want to thank you for your able testimony this morning.

[Subsequent information was received and follows:]

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

June 30, 1977

Mr. Mike McKevitt
Washington Counsel
National Federation of
Independent Business
490 L'Enfant Plaza
Suite 3206
Washington, D.C. 20004

Dear Mr. McKevitt:

Senator James A. McClure has requested that the enclosed questions be sent to you. Your answers will be included in the record of the hearings on the Small Business Investment Policy and Advocacy Reorganization Act of 1977 which were held yesterday.

We would appreciate your reply as soon as possible in order to insert the answers in the final transcript.

Thank you for your attention to this matter.

Sincerely,

John R. Stark
Executive Director

Enclosure

JRS:bb

1. If you could rewrite S. 1726, how would you structure the advocacy role? Where would you put the reporting function? Do you think that Congress ought to employ its own advocate?

2. I understand that many small businesses are turning to finance companies for loans. Is this true? Although small in amount so far, why are any small firms doing this, in view of the higher borrowing costs involved? Aren't commercial banks ready and eager to lend to small businesses at the present time?

3. Have you made any assessment of the impact of Carter's energy proposals on small business?

4. Do you have figures on the investment cost per job for small business, compared to large business in the same industry?

5. Is a statement of Federal policy to promote investment in small business as contained in the "Small Business Investment Policy and Advocacy Reorganization Act of 1977, sufficient, or do we need specific programs and machinery?

6. Would you prefer more government intervention in our economy, aimed at aiding small business, or less government intervention and fewer government programs, even though designed to aid small business?

NATIONAL FEDERATION OF INDEPENDENT BUSINESS
490 L'Enfant Plaza East, S.W. / Suite 3206 / Washington, D.C. 20024 / (202) 554-9000
HOME OFFICE: SAN MATEO, CALIFORNIA: LEGISLATIVE OFFICE: WASHINGTON, D. C.
WILSON S. JOHNSON, President

JAMES D. "Mike" McKEVITT
Washington Counsel

July 29, 1977

Mr. John R. Stark
Executive Director
Joint Economic Committee
G-133 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. Stark:

Enclosed are the answers to the six additional questions requested of me by Senator James A. McClure to be included in the record of the hearings on the Small Business Investment Policy and Advocacy Reorganization Act of 1977 which were held late June.

If there are any further questions, please don't hesitate to contact me again.

With best wishes,

Sincerely,

Mike

James D. "Mike" McKevitt

JDM:caw
Enclosure

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1. NFIB believes Title I of S. 1726 should be rewritten to establish an independent Advocacy Division within SBA for the reasons presented in our testimony. All findings and recommendations (reporting) eminating from the Division would, therefore, by definition be independent.

We would also place the primary research function within the Advocacy Division to ensure that the support needed to make findings and recommendations be mobilized in a manner to reflect the priorities of the Advocate. Unless the research function is controlled by the Advocate, he fails to have total independence. If others could channel resources and priorities to projects that are of marginal utility to the Advocate, his function would be undermined.

Congress does not need to create its own Advocate, since two natural Advocates -- the Senate and the House Small Business Committees -- already exist. Through oversight of SBA activities and drafting of legislation to assist small business, the Committees can be the Congressional watchdogs over small business interests. Congressional advocacy would, however, be facilitated by the passage of legislation such as that recently introduced by Congressman Caldwell Butler, H.R. 7739, which would assist these Committees by requiring small business economic impact statements be filed on various proposed rulemakings.

2. The NFIB Financial Profile of Small Business indicates approximately 3% of all small firms borrowed from a finance company last year.1/ But we have no longitudinal data to determine whether that percentage is part of a trend, and further, the 3% constitutes such a small number of respondents, we were unable to cross-tabulate it with other financial characteristics to derive a profile of the firm that borrows from a finance company. Aside from the number borrowing from this source, the only other datum on this subject we can provide with reasonable certainty is that these loans are generally less than $25,000.

While NFIB assumes small businesses borrow from finance companies only when they cannot borrow elsewhere, the essential question is "why can't they borrow elsewhere?" Is it because sources of cheaper money are not available or because the borrowing firms is a relatively high risk? On these questions we can only speculate.

Commercial banks are unquestionably the major source of loanable funds for small business; no other source is even close. Every day

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1/ <u>NFIB Financial Profile of Small Business</u>, (eds.) Bailey, Richard M., and Dunkelberg, William C., (National Federation of Independent Business: San Mateo, Cal.), forthcoming.

commercial banks are granting thousands of loans to small firms throughout the country. But NFIB has little idea of the amounts being loaned, the terms of those loans, or the demand not met.

Many commercial banks are "ready and eager" to lend to small business at the present time. In fact, those who claim the banking industry is totally unresponsive to small business fail to recognize the contribution commercial banks make to the nation's small enterprise. Even during the "money shortage" of 1974, nearly half of the NFIB membership continue to "borrow frequently". (See Table 1).

The Impact on Small Business of Government Regulations that Force Technological Change confirms small business reliance on commercial banks to fill their credit needs.2/ Please note in Chart 1 and 2, taken from the aforementioned study, the heavy dependence on commercial banks to finance the relatively large single investments made necessary by government regulations.

However, there is another side of the question which is not as positive. While lacking specifics, we do know that in periods of tight credit, small businesses are among the first to feel the impact. No less than The New York Stock Exchange has made this observation. Outlining the current "savings gap", The Exchange reports that as credit availability declines, lenders increasingly place their money in larger and safer borrowers with whom they have long-standing customer arrangements.3/

We also know that the terms of financing an investment are less favorable for small firms than larger ones. Part of this unquestionably results from the method of financing, however, we believe that even equivalent bank loans carry less favorable terms for a small business. Following is a table outlining the impact on cash flow of typical large business and small business financing arrangements. (See Table 2).

Finally, there is an unmet need for capital within the nation's small business community. NFIB asked a portion of its membership this past January whether they desired to expand and what would be an incentive for expansion. Of the 60% desiring expansion, 42% stated greater access to loanable funds (distinguished from interest rates) would be an incentive. Of the 36% desiring to remain about the current size, 11% believed greater access to loanable funds would serve as an incentive to expand. While far more small firms responded that greater business volume and decreased Federal taxes would be an incentive (indicating the need of small firms to internally generate capital), the large number who feel a need for greater access to loanable funds demonstrate a shortage of capital for small business does exist.

2/ The Impact on Small Business Concerns of Government Regulations that Force Technological Change, Small Business Administration, prepared by Charleswater Associates, Inc.; Boston, Mass., September, 1975, p. 142.

3/ The Capital Needs and Savings Potential of the U.S. Economy: Projections Through 1985, The New York Stock Exchange, Inc., September, 1974.

Table 1

EASE IN BORROWING OF SMALL BUSINESS

"Frequent Borrowers"+	Easier than Last Quarter	Same as Last Quarter	Harder than Last Quarter	Borrow Infrequently	N/A Undecided
Oct. 1973	1%	26%	13%	52%	8%
Jan. 1974	1%	29%	9%	53%	8%
April 1974	1%	31%	7%	53%	8%
July 1974	*	28%	16%	50%	6%
Oct. 1974	*	22%	19%	44%	15%
Jan. 1975	2%	25%	12%	48%	13%
April 1975	5%	28%	7%	44%	16%
July 1975	4%	29%	6%	44%	17%
Oct. 1975	2%	28%	8%	51%	11%
Jan. 1976	3%	29%	5%	50%	13%
April 1976	4%	28%	5%	47%	16%
July 1976	3%	29%	5%	48%	15%
Oct. 1976	2%	29%	6%	48%	15%
Jan. 1977	5%	29%	4%	49%	13%
April 1977	4%	31%	4%	49%	12%

+ "Frequent Borrower" is defined as one who borrows at least once every quarter.

* Less than 1%.

Source: NFIB Quarterly Economic Report for Small Business; National Federation of Independent Business, April, 1977.

Table 2

COMPARISON OF DEBT COSTS
FOR SMALL AND LARGE FIRMS

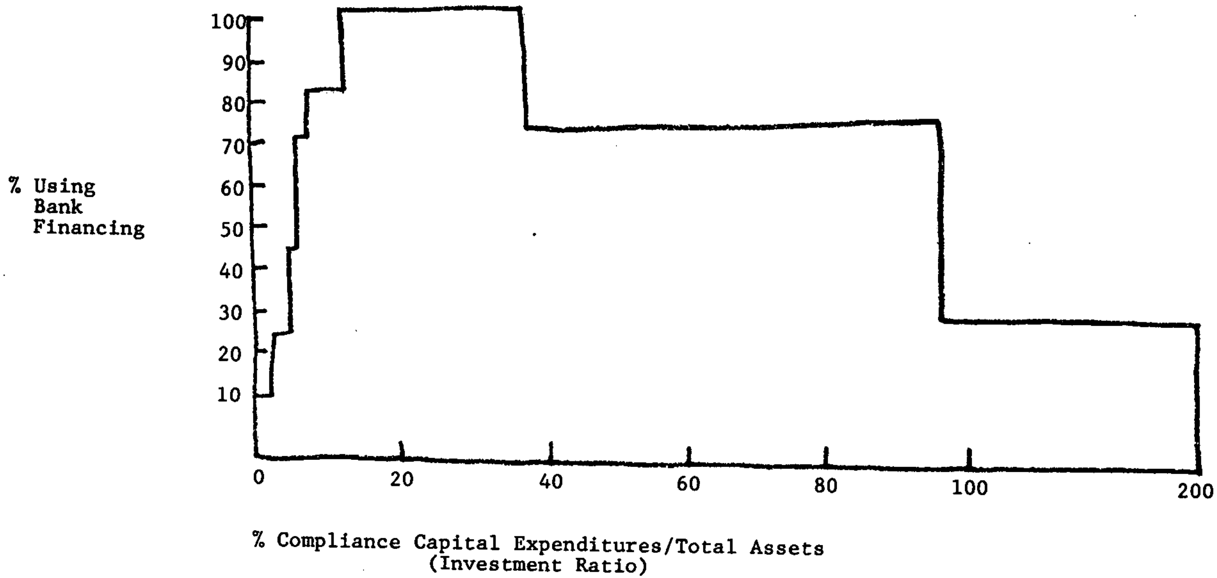
Size Co.	Amount Borrowed	Term/Type	Rate	Prin. & Int./Yr.	Factor*
Large	$1,000,000	20 yrs. Bond	7 1/4%	$ 96,240	1.00
Large	$1,000,000	11 yrs. Term Loan	9%	$146,950	1.53
Small	$1,000,000	7 yrs. Term Loan	10%	$205,410	2.13
Small	$1,000,000	5 yrs. Term Loan	12%	$277,410	2.88

* Factor utilizes the most favorable debt arrangement, i.e., 20 year bond @ 7 1/4% as a base and compares other financing arrangements to it. For example, a small firm with a 5 year term loan at 12% has an equivalent cash drain at 2.88 times that of the base.

Source: The Impact on Small Business Concerns of Government Regulations that Force Technological Change, Small Business Administration, September, 1975.

Chart 1

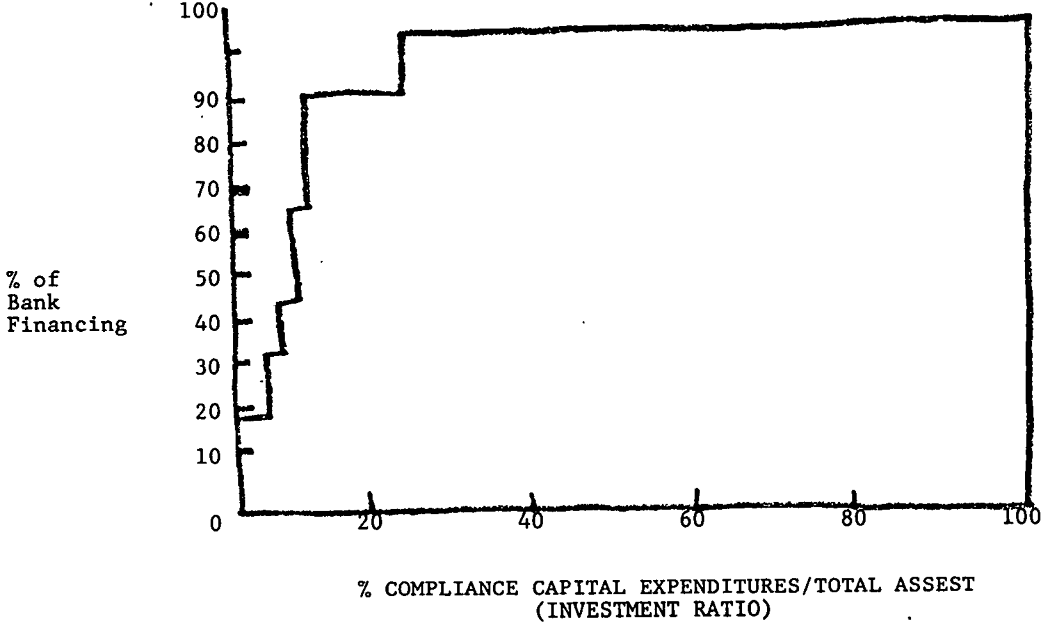
SMALL BUSINESS FINANCING OF 1972-1974
COMPLIANCE EXPENDITURES AS A FUNCTION
OF INVESTMENT RATIO



Source: <u>The Impact on Small Business Concerns of Government Regulations that Force Technological Change</u>, Small Business Administration, September, 1975.

Chart 2

SMALL BUSINESS FINANCING OF 1975-1977
COMPLIANCE EXPENDITURES



Source: The Impact of Small Business Concerns of Government Regulations that Force Technological Change, Small Business Administration, September, 1975.

3. NFIB has attempted to make some assessment of President Carter's energy proposals on small business. But, quite frankly, we don't feel the dollar impact estimates are sufficiently reliable to convey them even on an informal basis. The lack of any model and sufficent data as well as too many questionable assumptions made our task an impossible one.

Enclosed please find copies of NFIB's Fifth Quarterly Energy Report for Small Business[4/] and our testimony before the Subcommittee on Energy, Environment, Safety and Research of the House Small Business Committee on the President's proposals. The latter only in a very general way analyzes the impact. The most significant portions are those describing provisions which do not directly impact small business, or which impact us in a favorable manner.

4. No, we do not have figures comparing the investment cost per job in small businesses to the investment cost per job in large businesses assuming both businesses perform similar tasks.

The Small Business Administration does publish the average number of loan dollars per employee for each of their programs. For the 7(a) program, far and away SBA's largest, there was a total of 22,001 loans (in 1976) involving firms employing 265,305 people, and amounting to $1,922,780,000 for an average number of loan dollars per employee of $7,247. This figure does not necessarily represent new jobs created; it could also represent jobs saved. However, we could reasonably estimate it takes a $7,250 investment in small business per "job opportunity".

SBA is just beginning to break these figures out on a sector by sector basis.

We have heard the Department of Commerce utilize the figure of $30,000 per job created. But we have made several attempts through Commerce to document the figure and learn the method of its derivation, without success.

The American Council for Capital Formation estimates the average investment per new job in manufacturing firms to be about $45,000.

5. Rather than create at this time any new specific programs to promote small business investment, we recommend that Congress first concentrate on clearing up those problems which are now contributing to the lack of investment. For example, ERISA in practice virtually prohibits pension funds from being invested in small firms, and tax policy prevents them from generating and retaining the necessary capital to operate and expand. Once reforms in these and other areas are enacted and further data is collected, Congress will better be able to evaluate small business investment, decide whether additional programs are needed, and, if so, what kinds of programs would be most effective.

4/ NFIB Financial Profile of Small Business, (eds.) Bailey, Richard M., and Dunkelber , William C., (National Federation of Independent Business: San Mateo, Cal.), May, 1977.

6. As a general rule, NFIB and small business would prefer less government intervention and fewer government programs even if direct small business assistance programs were proportionally reduced. But, we would strenously object should small business direct assistance programs be among a select few targeted for reduction. The major exception is in the area of antitrust where we feel more vigorous and consistent enforcement is absolutely essential.

Our rationale for this view is that government intervention and programs, in general handicap the operation of all small business; government small business assistance programs help a limited number. Such reasoning is the basis for NFIB making a strong and effective Office of Advocacy our No. 1 SBA priority at the expense of more well-known and more costly SBA programs. We believe it will impact virtually the entire small business community while other programs can barely scratch the surface.

The major exception made for antitrust is based on the belief that the rules governing competition must be fully and effectively enforced. For small business, this is critical. Our interest lies not in sheltered markets, compensatory programs, or various allocations. We want to compete. But small business cannot compete if powerful entities are unfairly permitted to make up the competitive rules as they proceed.

In this regard, NFIB has no specific proposals now. But we would hope to be able to provide some suggestions in the next year or two.

Congress of the United States
JOINT ECONOMIC COMMITTEE
(CREATED PURSUANT TO SEC. 5(a) OF PUBLIC LAW 304, 79TH CONGRESS)
WASHINGTON, D.C. 20510

June 30, 1977

Mr. Herb Liebenson
National Small Business
Association
1225 - 19th Street, N.W.
Washington, D.C. 20036

Dear Mr. Liebenson:

Senator James A. McClure has requested that the enclosed questions be sent to you. Your answers will be included in the record of the hearings on the Small Business Investment Policy and Advocacy Reorganization Act of 1977 which were held yesterday.

We would appreciate your reply as soon as possible in order to insert the answers in the final transcript.

Thank you for your attention to this matter.

Sincerely,

John R. Stark
Executive Director

Enclosure

JRS:bb

1. You point out that small firm downturns precede a general recession by six months to a year and a half, and also that their cyclical decline is steeper than for large business. Why is this? Also, have you made any study of the recession impacts on smaller communities, not dominated by a large business establishment, or establishments?

2. I understand that many small businesses are turning to finance companies for loans. Is this true? Although small in amount so far, why are any small firms doing this, in view of the higher borrowing costs involved? Aren't commercial banks ready and eager to lend to small businesses at the present time?

3. Have you made any assessment of the impact of Carter's energy proposals on small business?

4. Do you have figures on the investment cost per job for small business, compared to large business in the same industry?

5. Is a statement of Federal policy to promote investment in small business as contained in the "Small Business Investment Policy and Advocacy Reorganization Act of 1977, sufficient, or do we need specific programs and machinery?

6. Would you prefer more government intervention in our economy, aimed at aiding small business, or less government intervention and fewer government programs, even though designed to aid small business?

RESPONSE TO QUESTIONS SUBMITTED TO HERBERT LIEBENSON, NATIONAL SMALL BUSINESS ASSOCIATION, BY SENATOR JAMES A. McCLURE.

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1. Small businesses are usually a single-product industry. If they are suppliers to the larger corporations, they will be the first to feel the effect of any downturn because of the cancellation of orders by the larger firms. If orders are cancelled, there is often a resulting increase in unemployment in the smaller firms. If the small firm is in a community, whether a large or small community, it obviously has an impact on the economy of that community especially where there are not enough large firms to re-employ workers let go by the smaller company.

2. I do not have any knowledge of whether or not small firms are turning to finance companies for loans. I might, however, suspect that, if this is taking place, smaller firms have been denied loans by commercial banks, the Small Business Administration, or other lenders. As you are aware, the interest rates in most finance companies are higher than those of the commercial banks.

3. I am sorry we do not have any assessment at this time of the impact of President Carter's energy proposals on small business.

4. While some studies are available on the investment cost per job for some industries, I have not seen a break-out in terms of large or small. I might suspect that an industry buying equipment would have the same cost whether it is large or small.

5. It is hard to anticipate the effectiveness of any legislation passed by Congress. However, I believe that if the Small Business Administration is given sufficient authority to carry out its responsibilities under the Small Business Investment Policy and Advocacy Reorganization Act of 1977, it could accomplish the objectives of the authors of the bill.

6. One of the problems of determining whether or not there is a need for more government intervention in our economy on behalf of small business is the fact that we do not have sufficient information to tell us how small business is doing at a particular point in time. Statistics are available on a quarterly basis so a trend can be developed for the larger firms. As indicated in our testimony, we feel there is a great need to establish a special indicator for small business economic activity. Once we have the information, I think we can more intelligently determine the proper role for the Federal government.

Senator McIntyre. We call as our next witnesses, a panel consisting of Dr. Berkeley Burrell, president, National Business League; Prof. George A. Doyle, chairman, economics and foreign relations department, Assumption College; Mr. Hugh B. O'Malley, general counsel, Small Business Service Bureau; and Dr. Richard L. Lesher, president, Chamber of Commerce of the United States.

Senator Humphrey. Gentlemen, we will proceed in order. I think the best way to do it is that each of you will go down the line with your statement and at the end, the time we have we will use for questioning.

We will start with Dr. Berkeley Burrell, president of the National Business League.

STATEMENT OF DR. BERKELEY G. BURRELL, PRESIDENT, NATIONAL BUSINESS LEAGUE

Dr. Burrell. Thank you, Senator.

It is always a pleasure to appear before you. I have been coming a long time particularly on those problems of minority business.

I am appearing today as president of the National Business League and chairman of its National Council for Policy Review.

NBL is a national minority multibusiness and trade association with some 120 chartered chapters in 37 States and the District of Columbia. It represents the interests of minority small business and has approximately 10,000 member affiliates. Additionally, its National Council for Policy Review is comprised of most of the country's major minority business, trade and professional associations. Structurally, the council is the policy arm of the organization and constitutes the only established organ within the minority business community which coalesces and represents its divergent elements. A roster of member organizations is attached to my prepared statement which you will have in the record.

I think I will just deviate a little bit from the statement that I have written.

Senator Humphrey. We are including all statements in their entirety in the record, of course.

Dr. Burrell. I appreciate that.

I would hasten to say that it gives me an opportunity to expand on my comments a little bit to the degree that I can set the stage for the kind of bill that has been presented by you and to applaud that. Certainly to say that we support it in its entirety. It is needed mainly because the American business system in this country like most of our Nation's systems and institutions are under extreme attack by a number of people, whether we are talking about our educational institutions, the family or whatnot. When you get to the American business system, it is perhaps the most loved by many, admired by many and hated by just an enormous number of people. Mainly because it exludes people like minority business people.

As I go from college to college, lecturing on some of my visits I learn that people accuse me of defending an antiquated system called the American business system, and I am not as alarmed by having people to laugh at me for being a defender of the system as I am the fact that they are sometimes white, 'breaded youngsters, sometimes Ph. D.'s whose father must have been captains of industry, otherwise they could not have afforded the kind of education that gave them a masters or business or doctors degree. To hear them state that the American business system stinks, does not work, mainly because it has not worked for minorities like myself, I think that is getting to be a frightening kind of experience. Particularly when you add that to minorities who did not like the system in the first place and has demonstrated by the rise of 1968.

Those two elements coming together might mean that the American business system is going to suffer some adjustments. If it does, what a shame that would be. It is the envy of the free world as I see it. It is the ray of light, the beacon of hope. Whatever we might say about the American business system, particularly the small business person who represents the vanguard of that kind of an enterprise system and particularly hope for the people that I represent.

It does not have many advocates. This bill does at least make one small step toward trying to get some advocates in position within the Small Business Administration. To say simply that there is a policy that somehow protects business and a tax policy that will affect corporations, will trickle down to small business—that is a mistake. I have often asked Congressman Ullman, why do we not have a Small Business Subcommittee within the House Ways and Means Committee, and he says, well, it will trickle down, Burkeley, do not worry, everything is going to be alright. I am not convinced that that is the way it is going to happen to all. I think that we have to have small business policy.

That is not enough for me either. Because there is just as wide a division between small business and minority business as there is between small business and American business. So I am here today to make certain that what we are trying to do is to strengthen the minority business system to the extent that it can also be a participant in the free enterprise system of America. That is not necessarily true. People are beginning to get tired of me talking about minority business, but it is important, because we are still excluded and we still look at the small business community as the "Good Ole Boys' Club" and we are just not in it to the extent that we ought to be. So that means then that we need to be given an opportunity to participate and every time we get a chance to strengthen the possibilities then we are here to do that.

I would rather wait for some questions.

Senator HUMPHREY. Thank you, Dr. Burrell. Thank you very, very much.

Good testimony for the business enterprise system for our country.

[The prepared statement of Dr. Burrell follows:]

STATEMENT

BY

DR. BERKELEY G. BURRELL

PRESIDENT

NATIONAL BUSINESS LEAGUE

THE SUBCOMMITTEE ON ECONOMIC GROWTH AND
STABILIZATION OF THE JOINT ECONOMIC COMMITTEE

AND

THE SUBCOMMITTEE ON GOVERNMENT REGULATION AND
SMALL BUSINESS ADVOCACY OF THE SENATE SELECT COMMITTEE
ON SMALL BUSINESS

RUSSELL SENATE OFFICE BUILDING

JUNE 29, 1977

While this text forms the basis for Dr. Burrell's remarks, it should be used with the understanding that paragraphs of it may have been omitted in the oral presentation and, by the same token, other remarks may have been made orally which do not appear in this text.

Mr. Chairman, Members of the Committee: My name is Berkeley G. Burrell. I am appearing today as President of the National Business League (NBL) and Chairman of its National Council for Policy Review (NCPR). As you may know, the NBL is a national minority multi-business, trade and professional association with some 120 chartered chapters in 37 states and the District of Columbia. It represents the interests of minority small business, and has approximately 10,000 member affiliates. Additionally, its National Council for Policy Review is comprised of most of the country's major minority business, trade and professional associations. Structurally, the NCPR is the policy arm of the organization, and constitutes the only established organ within the minority business community which coalesces and represents its divergent elements. A roster of member organizations is attached to my prepared statement.

Mr. Chairman, I appreciate the opportunity to address this Committee today and to comment briefly on the Small Business Investment Policy and Advocacy Reorganization Act of 1977. Based on our initial review of this bill, the National Business League can generally support the policy declarations and over-all thrust of this proposed legislation. We are aware, of course, that this bill is essentially a policy statement. Yet, it touches upon two of the fundamental issues confronting the small business community and its relationship to the Federal Government: investment and advocacy. Strengthening the role of the Small

Business Administration, and elevating its Administrator to Cabinet rank are certainly moves in the right direction. If the issue of investment capital for small businesses were a one-time, atypical affair, perhaps we would be less inclined to state the obvious. Yet, in truth, the availability and cost of capital have been traditional nemeses for small and minority enterprises. And the role of the Federal Government in addressing the financial needs of this sector has been less than inspiring.

It has been clear to those of us in the field, that the uncoordinated efforts of various Federal programs only underscore the need for a coherent Federal policy in this area. Such a policy must necessarily include the development and maintenance of pertinent data that can form the basis for future strategies. The vitality of the small business community is central to the stability of our national economy as well as to improvements in its rate of productivity growth. Thus it would seem that national policies should place particular emphasis on strengthening the role of small businesses in the fabric of our national economic life. More precisely, we must stimulate or revitalize those sectors that can contribute measurably to national productivity growth. The small business community is such a sector. Small business constitutes more than 96% of all American business firms, accounts for 55 % of the nation's private, non-farm employment and produces 48% of the gross business product. Small businesses sustain the economy of small communities and help support and diversify the economy of larger cities. Their existence encourages hundreds of thousands of Americans to start new businesses each year, which is vital to a healthy economy and to the preservation of the free enterprise system.

While discussing the necessity of small business generally, we cannot fail to emphasize the importance of continued development of minority business. In this vein, I can tell you that one of the keys to increased productivity growth is minority business and economic development. To be sure, our Gross National Product is deprived of billions of dollars annually as an acknowledged consequence of the underdevelopment of Black and other minority communities. Since full utilization of our economic resources is one of the essential ingredients for a sustainable rate of growth, the under-utilization of resources in the minority community -- particularly in the minority business sector -- is at variance with the needs of the nation.

Mr. Chairman, 64% of all minority business firms are concentrated in retail trade and selected services; 94% operate as sole proprietorships, and most are located in depressed inner-city communities where over-all unemployment frequently doubles the national average, and unemployment among teenagers often exceeds 40%. High crime rates become a way of life here. Further, thousands of these businesses were established during the 1970 recession. And as you recall, our recovery from that recession was both anemic and incomplete.

Thus, as difficult as it is for most other small firms to attract capital, minority firms, owing in part to their location, find traditional sources of capital all but non-existent. Since 1965, the capital needs of these businesses have been partially met by the Small Business Administration. SBA has become the primary mechanism for making Government funds available to small firms at reasonable rates. This Federal initiative has come to be viewed as both a blessing and a curse: A blessing because it served to increase the flow of capital to small firms; A curse because SBA has often been forced to function with inadequate manpower and finances in the face of proliferous responsibilities. Additionally, investment capital has not been available to small minority firms through the regular money markets, nor in sufficient quantity through MESBIC's or SBIC's.

To illustrate the depth of capital shortage in the minority business sector, consider this: by the year 2,000, it is estimated that majority business will accumulate, on its own momentum, nearly $5.2 trillion in business receipts. Parity receipts for minority business should then be $950 billion. Yet, for minority business firms to achieve business parity by the end of this century requires an investment of more than $440 billion in minority business enterprises. That figure is 63 times the combined gross business receipts of all Black-owned firms in the country. In its entire history, the Small Business Administration has approved loans, in all categories, totaling less less than $24 billion. That is roughly five per cent of the investment capital needed to elevate minority firms to a level of parity within this millennium. Clearly, the magnitude of the capital shortage in our sector is staggering.

Since it has long been recognized that the Federal Government plays an important role in stimulating economic activity, a defined policy outlining Government's role in stimulating investment and other capital resources for the small and minority community is both appropriate and desirable. We view the bill before this Committee as a significant step in the right direction. However, because of the special problems of minority firms, we believe that the proposed annual Small Business Investment Policy report, which the President would be required to issue, should contain an assessment of the unique problems of minority firms in meeting their investment needs and appropriate recommendations to address them.

Further, in establishing a Small Business Economic Council, this bill omits two important elements. The first is the absence from the Council of any representatives from the small business community. This is a serious omission in my judgment. The small business community, particularly through its many trade associations, is especially well-suited to provide the necessary expertise and opinions on issues and procedures that would be the subject of Council deliberations. Far too often in the past, agencies of our Government have developed solutions first, then worked backwards to find a problem that fits the solution. The involvement of the small business community in the early stages of this process can help alleviate potential problems or miscalculations.

A second omission from the Council is involvement of Government representatives with direct responsibility for minority business. As you know, the Office of Minority Business Enterprise in the Department of Commerce, is the only government agency with specific responsibility in this area. Therefore, we believe that the inclusion on the Council of the Director of OMBE is necessary to insure direct input on minority enterprise.

Finally, one of the cornerstones of this bill is the development and analysis of pertinent data on small business financial needs, and the impact of various Federal programs on the small business community. The capability and expertise is available to meet this task, and we wholeheartedly support the provisions of this bill that will, for the first time, mandate that it be exercised.

Mr. Chairman, obviously, this bill will not solve all the financial needs of small business, but it will certainly go a long way toward providing a sound and comprehensive approach to relieving small business of a serious handicap. Again, thank you for the opportunity to address you today.

RESUME
of
BERKELEY G. BURRELL

BERKELEY G. BURRELL

PERSONAL

Office

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Born in Washington, D.C., June 12, 1919
Married to the former A. Parthenia Robinson of Wilson, North Carolina
Father of one (1) son, Berkeley G., Jr.
Attended public schools and Howard University, Washington, D.C.
Veteran of World War II and Korean Conflict

BUSINESS AFFILIATIONS

President, *Merchant Prince Corporation* – a publicly held greeting card company publishing Black-oriented cards with "soul sentiments", Washington, D.C.

Co-Owner, *Burrell's Superb Cleaners,* Washington, D. C.

Partner *Graham Associates,* a land development partnership, Washington, D.C.

President, *Burrell Industries, Inc.*, a holding company, Washington, D.C.

Consultant, *Urban Affairs,* Coopers & Lybrand, Washington, D.C.

ADVISOR TO U.S. PRESIDENTS

Has served in a variety of advisory positions to five U.S. Presidents, including Presidents Eisenhower, Kennedy, Johnson, Nixon and Ford.

BUSINESS ASSOCIATIONS

President, *National Business League,* Washington, D.C.

President, *Booker T. Washington Foundation,* Washington, D.C.

Chairman, *Minority Contractors Resource Center,* Washington, D.C. Established to assist minorities to gain a greater share of $3 billion in contracts being awarded in the building of the Metropolitan Washington Subway System.

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Member, Board of Trustees, *Robert Russa Moton Foundation,* New York, New York

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Member, Board of Advisory, *Council for Financial Aid to Education, Inc.,* New York, New York

Member, Board of Trustees, *Research Foundation of Doctors' Hospital,* Washington, D.C.

Member, Board of Trustees, *Joint Council on Economic Education,* New York, New York

Board Member, *Corporation for Blacks in Public Broadcasting,* Washington, D.C.

Member, Editorial Board, *Black Forum, Inc.,* Washington, D.C.

Member, *Research Council for Small Business,* Washington, D.C.

CB Radio enthusiast known nationwide as Dr. BB. Has been in CB Radio since 1971 and has worked with national groups with a view toward the formation of a national organization that will impact on proper use, ethics and benefits that only an organized constituency can expect to attain. Member, Rooster Channel Jumpers, Nation's Capital Chapter.

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RELIGIOUS

Senior Warden, Vestry, *St. Mary's Episcopal Church,* Washington, D.C.

President, *St. Mary's Court Housing Development Corporation,* (Construction of Elderly Housing), Washington, D.C.

PUBLICATIONS

Co-author, *"Getting It Together: Black Businessmen in America"* published by Harcourt Brace Jovanovic, Inc., New York, New York 1971

Author, nationally syndicated weekly column, *"Down to Business"*

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Doctor of Arts Degree, Virginia College, Lynchburg, Virginia

Listed as one of the *"100 Most Influential Black Americans"* by Ebony Magazine, six consecutive years, 1971-1977.

Listed in *"Who's Who in America"*, 1972

DECEMBER, 1976

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Senator HUMPHREY. The next witness is Prof. George Doyle.

Dr. Doyle, I am glad to see you again.

STATEMENT OF PROF. GEORGE A. DOYLE, CHAIRMAN, ECONOMICS AND FOREIGN AFFAIRS DEPARTMENT, ASSUMPTION COLLEGE

Dr. DOYLE. Thank you, Senator, nice to see you.

I would like to say that a new national policy to preserve small business is essential if the United States is to achieve full employment in the economy of the 1980's. Small business, under existing economic and political conditions, is becoming an endangered species. We must not make the mistake of permitting it to continue to deteriorate or our economic system will have lost the spark of private enterprise.

It has become commonplace to forecast more than 5 percent unemployment and more than 5 percent inflation for some years to come. It has also become common knowledge that the rate of growth of our economy has slowed and may be below 4 percent in the 1980's. These and other underlying conditions are parts of the picture of an economy which is not providing the climate in which small business can be nurtured. Our large corporations will do well, but that is not enough to achieve full employment.

A crucial element in the future of small business will be the availability of capital. Various estimates of the requirements for capital through 1985 suggest an enormous gap developing. Some argue that achieving a Federal budget surplus would permit achieving full employment and also forestall a capital shortage. But as Federal Reserve Governor Wallich has observed, whoever relies on such a surplus has the burden of proof on himself.

The change that has taken place in our energy outlook is a leading cause of the increase in demand for capital. And there is no doubting that the energy problems must be given priority. But the other claimants for capital are also vital: Transportation systems, communications, housing, manufacturing industry, raw materials, health systems, and so on.

If we care about preserving an economic system in which we can truthfully claim there is private enterprise, then we must be willing to make resources available for small business. Instead of a ruthless struggle for capital in the future, we need to bring together public and private bodies to allocate the uses of our scarce capital resources.

The small businesses in the United States have another set of problems, those which arise from Government agencies enforcing rules and regulations implementing legislation. What has not been assessed heretofore is the impact of the whole process. If regulation is prematurely enforced, a business fails. Many times business can only bear the costs of a large firm. Government, which ought to be a source of assistance becomes a source of risk for small business.

In addition, a small business is fair game for several Government agencies. The relationship of Government and small business is extremely poor. We need a new principle in this relationship and that principle is: Only one face on Government for small business.

There is a special characteristic of this situation in New England. Here we have the oldest industrial plant in the Nation. Here is where the industrial revolution came to this country. In many towns, old mills have gone out of business or simply gone South. These buildings are spawning grounds for incubator businesses. They are the only places where many individuals can afford to launch a new enterprise—they do not cost too much. Just envision an inspector looking in on such a place—he naturally will be appalled. Now, we cannot overnight sanitize the whole United States. If we want our workplaces safe and healthful, we need to plan for the long-term, not seek to fine and punish and drive a firm out of business.

Now, let me turn to certain aspects of the proposed legislation:

1. The fundamental fact of life in the 1980's, capital availability, is focused on by the establishment of a "Small Business Investment Policy" requiring an annual report to the Congress. With the data contained in the report, Congress would be made aware of the capital needs of small business on a continuing basis.

2. The "Small Business Economic Council" would have salutary effects. It would bring together powerful segments of the Federal Government responsible for large sectors of the economy. Coordinating the plans and programs of the various branches of Government in consort with SBA is a vital part of the solution of the problems of private enterprise.

3. It is important also that the proposal accords to the head of SBA Cabinet level rank. The Cabinet is not only structured as a big-business body, but its individual members come from big business. Given the size of the American economy, this is only natural, but we need balance. It is important that the head of SBA be able to sit at the top decisionmaking table of Government.

4. Creation of the new Division of Advocacy, Economic Research and Analysis within SBA is a practical measure also. A way must be found to represent the interests of small business and to make other agencies aware of the impact of their activities upon small business.

5. Other items in the legislation are also needed, those having reference to the financial community in particular. Monetary policy should be more efficacious with the Fed represented on the Small Business Economic Council.

In recent years, we have learned how to use fiscal policy and monetary policy to influence the movement of the national economy. But we have almost been counting on invisible hands of the Adam Smith type to convey these macroeconomic policies down to all microeconomic levels. Here is where we have a gap in full employment policy: We have not had an adequate national small business policy. This new legislation will help us to develop the proper small business policy on a continuing basis and so better enable us to strive for full employment. It is a vital first step in that direction.

And, Senator, I have a request to make. I would like to ask you to include part V of my paper in the record because it maps out new strategies, and if I get the opportunity in the future I will be back with the rest of these proposals.

Senator HUMPHREY. Thank you very, very much. We will have that included. I appreciate it, Dr. Doyle.

[The prepared statement of Dr. Doyle follows:]

Statement of Professor George A. Doyle (Assumption College, Worcester, Mass.) in support of the Small Business Investment Policy and Advocacy Reorganization Act of 1977.

A new national policy to preserve small business is essential if the United States is to achieve full employment in the economy of the 1980s. Small business, under existing economic and political conditions, is becoming an endangered species. We must not make the mistake of permitting it to continue to deteriorate, or our economic system will have lost the spark of private enterprise.

It has become commonplace to forecast more than 5% unemployment and more than 5% inflation for some years to come. It has also become common knowledge that the rate of growth of our economy has slowed and may be below 4% in the 1980s. These and other underlying conditions are parts of the picture of an economy which is not providing the climate in which small business can be nurtured. Our large corporations will do well, but that is not enough to achieve full employment.

A crucial element in the future of small business will be the availability of capital. Various estimates of the requirements for capital through 1985 suggest an enormous gap developing. Some argue that achieving a federal budget surplus would permit achieving full employment and also forestall a capital shortage. But as Federal Reserve Governor Wallich has observed, whoever relies on such a surplus has the burden of proof on himself.

The change that has taken place in our energy outlook is a leading cause of the increase in demand for capital. And there is no doubting that the energy problems must be given priority. But the other claimants for capital are also vital: transportation systems, communications, housing, manufacturing industry, raw materials, health systems, and so on.

If we care about preserving an economic system in which we can truthfully claim there is private enterprise, then we must be willing to make resources available for small business. Instead of a ruthless struggle for capital in the future we need to bring together public and private bodies to allocate the uses of our scarce capital resources.

The small businesses in the United States have another set of problems, those which arise from government agencies enforcing rules and regulations implementing legislation. What has not been assessed heretofore is the impact of the whole process. If regulation is prematurely enforced, a business fails. Many times business can only bear the costs if a large firm. Government, which ought to be a source of assistance becomes a source of risk for small business.

In addition, a small business is fair game for several government agencies. The relationship of government and small business is extremely poor. We need a new principle in this relationship and that principle is: Only one face on government for small business!

There is a special characteristic of this situation in New England. Here we have the oldest industrial plant in the nation. Here is where the industrial revolution came to this country. In many towns, old mills have gone out of business or simply gone South. These buildings are spawning grounds for Incubator Businesses. They are the only places where many individuals can afford to launch a new enterprise -- they don't cost too much. Just envision an inspector looking in on such a place -- he naturally will be appalled. Now, we cannot overnight sanitize the whole United States. If we want our work places safe and healthful, we need to plan for the long-term, not seek to fine and punish and drive a firm out of business.

Now, let me turn to certain aspects of the proposed legislation:

1. The fundamental fact of life in the 1980s, capital availability, is focussed on by the establishment of a Small Business Investment Policy requiring an annual report to the Congress. With the data contained in the report, Congress would be made aware of the capital needs of small business on a continuing basis.

2. The Small Business Economic Council would have salutary effects. It would bring together powerful segments of the federal government responsible for large sectors of the economy. Coordinating the plans and programs of the various branches of government in consort with SBA is a vital part of the solution of the problems of private enterprise.

3. It is important also that the proposal accords to the head of SBA Cabinet level rank. The Cabinet is not only structured as a big-business body, but its individual members come from big business. Given the size of the American economy, this is only natural, but we need balance. It is important that the head of SBA be able to sit at the top decision-making table of Government.

4. Creation of the new Division of Advocacy, Economic Research and Analysis within SBA is a practical measure to include. A way must be found to represent the interests of small business and to make other agencies of government aware of the impact of their activities upon small business, and this Division provides such a vehicle.

5. Other items in the legislation are also needed, those having reference to the financial community in particular. The reports required of the FDIC and other agencies by size of business will give us a clearer picture of capital distribution. This practice will make it possible to monitor what is actually happening to small business as it seeks to obtain credit. Monetary policy should be more efficacious with the Fed represented on the Small Business Economic Council.

In recent years, we have learned how to use Fiscal Policy and Monetary Policy to influence the movement of the National Economy. But we have almost been counting on Invisible Hands of the Adam Smith type to convey these Macroeconomic policies down to all Microeconomic levels. Here is where we have a gap in Full Employment Policy: we have not had an adequate National

Small Business Policy. This new legislation will help us to develop the proper small business policy on a continuing basis and so better enable us to strive for full employment. It is a vital first step in that direction.

Senator HUMPHREY. Mr. Hugh B. O'Malley?

STATEMENT OF HUGH B. O'MALLEY, GENERAL COUNSEL, SMALL BUSINESS SERVICE BUREAU

Mr. O'MALLEY. Good morning, Senator, it is a pleasure to be here, Mr. Chairman, and Senator McClure.

The first thing I would like to say is that I do think it is very significant to observe what we have here today which you referred to in your opening remarks—namely, the first situation in which the Joint Economic Committee and the Small Business Committee has set as a joint committee.

After hearing some of the remarks today, I hope that the next joint committee we have is the Small Business Committee sitting with the Appropriations Committee. I think that would help alleviate some of our problems.

I would also like to point out in an offhand way, one immediate recommendation that I have for amending title V, section 502 of the act. Under this provision, on page 10, in section 502, it states section 5314 of title V, United States Code is amended by striking paragraph 14. In the version of the United States Code that I looked at, section 14, paragraph 14, is the Deputy Administrator of Veterans Affairs. I think he might be a little bit alarmed if suddenly he found out that his position had been eliminated by striking paragraph 14 where he is included. I think it should be paragraph 13, at least from the version of the United States Code that I saw.

Senator HUMPHREY. You better check that out.

We make more than our fair share of technical errors. At the end of the day when we pass the legislation, we generally salvage the situation by permitting the clerk to make those corrections that are necessary.

Mr. O'MALLEY. But, I would like to in a more serious vain point out that you made the remarks earlier, Senator Humphrey, that in many respects the Small Business Administration has been treated as an orphan. I think this is very true from what I have seen.

I do not necessarily fault the SBA for that. I just think that they are limited in terms of what their statutory role is and in terms of the appropriations that are made available to them. However, if the SBA is an orphan, what is the small business person?

One of the major problems that I see for the small business person is that his voice is not heard in a realistic fashion. It is perhaps heard before the Congress, but before the bureaucrats who probably have more of an influence on the small business person than the Congress may have by his voice, still it is not being heard and easily not being carried out by many of the Government agencies that are being established.

I look upon the act that we have before us today as a beginning or a first step toward creating more sensitivity, both within the Congress and within the executive department as to what the needs of the small business person are.

I think that one of the more significant aspects of the act, as our organizations sees it as the creation of the Division of Advocacy and Economic Research and Analysis. Because we often heard figures bandied about about what a contribution a small business community has made to the economy, and while we all know that that is true, oftentimes too often that its more of a gut knowledge or feeling than anything else.

As a matter of fact, I have heard the figure that there are 13 million small businesses within the United States. It is my understanding that 10 million of those are individuals who file schedule C's on their IRS returns. Now many of them may be substantially and primarily engaged in the conduct of a small business. But my wife was a school teacher and in addition to being that she did some artwork on the side which required her to file a schedule C, and she is classified as a small business person. That probably made up 3 percent of her income for the year.

I think this is a serious problem. First of all we have to know who the small business person is before we can truly know what his needs are. By allowing the creation of data and research we will be able to achieve this goal.

In addition, I am glad to see the advocate's role being strengthened. The advocate should be appearing regularly before regulatory boards, before Congress to make the needs of the small business known.

He should also, as you pointed out, perhaps being appearing regularly before the Federal Reserve Board, because surely the banks in this country have a substantial impact upon the capital needs of small business. From my information, from my observation, the banks are not sensitive to that. Perhaps one of the reasons why the banks are not sensitive to it is because the Federal Reserve Board has fostered policies which do not take into consideration the small business person.

But along with the role of the advocate being strengthened, I think we are going to have more clout for the small business person which is very needed.

I would also support the creation of a small business investment policy because, as I mentioned earlier, the small businessman is not getting the capital he needs when he needs it. This would go, I think, a long way toward making the Federal Reserve Board and the banks of the United States more sensitive to his capital needs.

I am also happy to see that this act would require the President to submit goals concerning the small business investment policy and I believe an annual report which would report on how much capital was being made available and to establish further goals as to how capital needs of small business could be met.

The Small Business Economic Council is a very laudible idea. It will give the small business community a channel to the Cabinet which it does not presently have.

But, I would like to close out by saying this: I think that this act is simply a good first step. It is a beginning. It does not go far enough. Professor Doyle's report points out—3½ percent of the labor force in the United States is in agriculture. We have a Department of Agriculture. We have a Secretary of Agriculture. I think what we need in the longrun is a Department of Small Business and we need a person actually with Cabinet rank and status as the administrator of that Cabinet department. I think only then is the Federal Government going to be sensitized sufficiently to the needs and problems of the small business person so that those needs will be met.

Thank you, Senator.

Senator HUMPHREY. I thank you very much, Mr. O'Malley, for your very constructive suggestions.

[The prepared statement of Mr. O'Malley follows:]

Statement of
HUGH B. O'MALLEY
General Counsel
Small Business Service Bureau, Inc. and Northeast Business Group, Inc.

before
a joint hearing of
The Subcommittee on Economic Growth and Stabilization
of the Joint Economic Committee
and
The Subcommittee on Government Regulation and Small Business Advocacy
of the Senate Select Committee on Small Business

concerning
The Small Business Investment Policy and Advocacy Reorganization Act
of 1977

June 29, 1977
Room 424
Russell Senate Office Building

It is a pleasure to appear this morning before this joint hearing of the Subcommittee on Economic Growth and Stabilization of the Joint Economic Committee and the Subcommittee on Government Legislation and Small Business Advocacy of the Senate Select Committee on Small Business. I am representing Small Business Service Bureau and Northeast Business Group, two organizations with more than twenty thousand small business members in the New England states and New York.

Small Business Service Bureau and Northeast Business Group wish to express their support for the Small Business Investment Policy and Advocacy Reorganization Act of 1977. This legislation is a first step toward increasing awareness and sensitivity in the executive and legislative branches of the federal government of the significant and unique problems confronting the American small business community.

I could list for you a number of statistics demonstrating the contribution of small businesses to our economy. I could call upon you to consider the historical role of small business in the development of our national system of free enterprise. I could cite to you studies demonstrating the American public's faith in the honesty and integrity of the small business person. But I won't.

The reason I won't is that these well-used statistics are indicative of one of the most pressing problems facing those who are concerned about the survival of the small business community. That problem is one of a very real shortage of data delineating what the small business community is, what its role in the nation's economy is, and in what manner government can best serve small business.

The Small Business Investment Policy and Advocacy Reorganization Act of 1977 will provide the Small Business Administration with both the mandate and the tools to provide the executive and legislative branches with the information required to comprehend and be sensitive to small business problems such as the acquisition of venture and equity capital, unequal taxation, the impact of federal regulations and legislation and unfair methods of competition practiced by larger firms.

In addition to fostering the compilation of accurate and timely data on the nature and needs of small business, this legislation will substantially increase the impact of the Small Business Administration within the policymaking function of the executive branch. Furthermore, by requiring cooperation with the Small Business Administration on the part of federal agencies, by elevating the Small Business Administration Administrator to an Executive Level I position, by creating the Small Business Economic Council and by requiring the President to formulate a plan consistent with the Small Business Investment Policy established by this legislation, the small business community will begin to have an influence on federal policies affecting its continued existence. Such an influence does not currently exist in a meaningful way.

It would be hoped that this legislation is only a beginning.

In the future, we would expect to see the creation of a Department of Small Business and the upgrading of the Administrator to Secretary.

Only in this way will the needs of small business receive sufficient recognition to allow for the enactment and implementation of responsive government policies.

Senator HUMPHREY. Dr. Richard Lesher, president, Chamber of Commerce.

Dr. Lesher?

STATEMENT OF DR. RICHARD L. LESHER, PRESIDENT, CHAMBER OF COMMERCE OF THE UNITED STATES

Dr. LESHER. Thank you very much and good morning.

I am Dick Lesher, president of the U.S. Chamber of Commerce. With me is Duane Pearsall, who is president of the Statitrol Division of Emerson Electric Co. of Lakewood, Colo. He is also a member of the Council of Small Business of the National Chamber.

The National Chamber is a business federation of more than 64,000 business firms, over 2,500 State and local chambers of commerce, more than 1,100 trade and professional associations and more than 30 American chambers of commerce abroad.

It is important for the members of these two subcommittees to know that most business members of the National Chamber are small. Recent analyses show that more than 83 percent of our business members employ fewer than 100 persons. Almost 72 percent employ fewer than 50 persons and almost half of all our members, 46 percent, employ 20 or less people.

In short, the National Chamber does reflect the broad spectrum of American business, and most American business is indeed small.

We are very pleased to participate in this hearing process and we have, as other witnesses have done, prepared a longer statement for the record. I would just like to summarize some of the key points.

Investment is the core of national well-being, for only investment can create new jobs, new products, and new technology to keep us competitive as individual companies and as a Nation. Clearly there is a special need for attention to investment needs of small business since small business capital must be generated internally rather than through the issuance of securities. The ability to retain capital is crucial for small business.

We comment on the important role of small business in our society and in our economy. Small business is the essence of freedom for the individual who wants to be his own boss. It is the essence of freedom of choice for the consumer who wants a wide range of products and services from which to choose. It is the most likely outlet for the individual who has a new idea for a product or a service. It is a means of supplementing income for millions who hold regular jobs and can operate a production or service business on a part-time basis. Small business is the lifeblood of America.

We described several major problems of small business which are appropriate for discussion at this hearing. They include problems of financing and raising capital, problems of Government regulations and paperwork. Small businesses all too frequently lack effective management and venture capital. Having inadequate capital, then tend to rely excessively on credit. The entire business community today operates on an increasing debt-to-equity ratio and this is especially true for smaller firms with the effect of making them more vulnerable to market reverses. Add to this general problem the fact that small firms must generate most of their capital internally, which means they depend on retained earnings.

Excessive Government regulations which add to the cost and excessive taxation which drains earnings combine to produce an unintended but effective de facto Federal policy of restricting the growth of small business.

This same combination debilitates the entire business system, let me add, but its most pernicious effects fall upon those least able to fight back or to withstand adversity: Our smaller companies.

Regulation is a vital and appropriate function of Government, but it does not come free. The costs, ultimately borne by consumers, must be weighed against the benefits which consumers receive from regulation.

Polls consistently show Federal regulation at the top of small business problem lists. These companies lack the expertise to keep track of Government demands. Hiring the extra staff or professional advisors to keep them in compliance balloons their costs, but that is the easier part. The actual costs of compliance, in capital expenditures and operations, may convert a thriving company into a marginal operation. Surviving all this, the company may encounter conflicting requirements of two or more Federal agencies. In complying with one agency they may violate the rules of another. Processes similar to those urged successfully by Senator McIntyre in regard to paperwork would be effective in dealing with some of the problems of regulation.

Paperwork has a smothering effect on small business. We commend Senator McIntyre and Members of the Senate for adopting a rule under which each new proposal which involves reporting requirements be accompanied by an estimate of the potential paperwork impact.

Members from small companies tell us they are snowed under by forms and questionnaires. They have difficulty completing the forms they must execute. They have difficulty affording a staff to do the work. They live in fear that they may not be filing some required report. They question whether the detail or frequency of the reports is justified, and they question whether the information they supply is actually used.

The National Chamber has had a long-standing interest in reducing the burdens of Federal paperwork. We provided the Commission on Federal Paperwork a substantial body of data about the special problems small businesses face in complying with information requests.

Recently, at the request of President Carter, the Chamber presented 18 recommendations for reducing paperwork burdens. A copy of that report to the President is attached to the prepared testimony.

Mr. Chairman, we can only applaud the objectives enumerated in the preamble of this bill. The American small business owner is becoming an endangered species. I strongly believe that he is entitled to at least as much consideration from his Government as is the snail darter.

We have, however, some strong reservations about title I of this bill, specifically the strengthened information-gathering powers contemplated for SBA. We find the same fault with title VI. It is essential to understand that Federal paperwork is already one of the biggest problems faced by small business operators. Therefore we wonder: Will this become a solution or merely a part of a bigger problem.

What is the justification for gathering additional information? What safeguards will be taken to protect the business operator's privacy? What is being done to prevent duplication of the efforts of other information-gathering agencies?

We must have good answers for all of these questions before we can support this proposal as it now stands.

Similarly we fail to see the need for the investment incentives proposed in title II. Small business does not need incentives. The market system provides all of the incentives necessary if it is allowed to operate. That, Mr. Chairman, is the real problem. What the small business owner needs is not more incentives but rather fewer disincentives. Reduce the paperwork load. Reduce the stifling over-regulation. Cut taxes. In short—get the Government off his back.

Title III and IV are essentially designed to implement the policy proposed in title II. Since we consider title II somewhat unneeded, we obviously cannot support titles III and IV. There are better ways to meet these worthy objectives than those proposed here.

I do not want to close on a negative note. We sincerely applaud your interests in the problems of small businessmen and women. They certainly deserve sympathy, understanding, and consideration. They are today an important forgotten majority, one which is very crucial to the economy and to our way of life. But I implore you to keep in mind that the Government, itself, is the source of many of the small business owners most vexing problems. Too often the Government's efforts to help have been like those of the friendly elephant—he accidentally stepped on the quail and feels guilty. He decided to help her out by sitting on eggs to keep them warm.

Mr. Chairman, the best thing the Government can do for the small business owner is to be careful not to step on him.

Senator HUMPHREY. Thank you.

I believe we have the Small Businessman of the Year with us here, too. We welcome you, Mr. Pearsall.

STATEMENT OF DUANE D. PEARSALL, PRESIDENT, STATITROL DIVISION, EMERSON ELECTRIC CO.

Mr. PEARSALL. Thank you, Senator, it is my privilege to be here.

My name is Duane Pearsall and I am president of the Statitrol Division of Emerson Electric Co.

I want to very quickly identify that Statitrol did not receive the award of small business as being part of the Emerson Electric Co. We were quite a small business and only as of March did we become a division of Emerson.

Rather than read the report which is part of the record, I would like to only summarize that my purpose in being here is simply to testify to the fact that our company by coincidence reflects a characteristic in our economic system that identifies a circumstance where small business or the intermediate business sector is being eroded from our whole business structure.

Our company started out making smoke alarms—home smoke alarms. We were the first to introduce a low-cost unit. We were successful in encouraging code agencies to require home smoke alarms and we demonstrated the life safety characteristics of such a device.

Today there are probably 50 manufacturers of similar devices, most of them major corporations in the United States. Our other independent competitors were gradually acquired by larger businesses and we found ourselves very visible as a small company with a unique product in an explosive market.

As a result we had to elect what alternatives we had to stay in business. We had previously gone through the SBA programs of loans and I share your concern for paperwork involved in getting an SBA loan, Senator, and was disturbed to learn that your credit rating was as bad back in your State. Mine was bad, too, but with good justification. [Laughter.]

I would have to say that the paperwork involved in getting a loan through SBA was horrendous. I think they call them 502 loans—and ended up with five mortgages, one of which we held ourselves, if you can imagine such a complicated structure. But it was effective; it worked. It was expensive and a lot of paperwork. Subsequently we went into a 90 percent SBA guaranteed loan which is a more simplified form. This was some 3 years ago and the paperwork was about 6 or 8 inches deep at the final closing. That is being reduced and I commend Senator McIntyre for his efforts in paperwork reduction.

We reached a crossroads, as I started to say, on where we should go in order to stay in business. We were what you might term a medium or intermediate size company growing out of a small business category. Normally such a company would have access to public funds in the public market, but because of the impediments created through the ERISA program, not the type that have been discussed today in terms of paperwork, but because of the prudent man rule, investors are not allowed—those controlling pension funds—to invest in small businesses, as such a decision would not be a newly defined, prudent decision. As a result, the public market, for the ERISA reason, and also because of SEC 144 rules and similar regulations, is not available to intermediate growing businesses today. I think the statistics are clear in the SBA task force report, which is already submitted as a matter of record. In 1972 there were some 418 businesses that went public which acquired capital just under $1 billion—3 years later there were only 4 businesses that were able to go public acquiring capital under $16 million. Not a reduction but a precipitous dropoff in the availability of public funds to intermediate growing businesses.

Senator HUMPHREY. What was the time span?

Mr. PEARSALL. In 1972 there were 418 businesses and in 1975 there were 4. Part of that is the obvious recession; but a big part of it was the 1974 ERISA legislation which had the unintended effect of creating a major impediment to pension fund investing in small business either in the market or independently.

So our alternatives were perhaps to start an ESOT program or an ESOP. That, historically, is called a low-multiple bailout method. It is nothing new. It has been touted recently but it really is not new. Because our major stockholder was an SBIC, it was not a reasonable alternative. It would not produce the multiple on earnings necessary to relieve a major stockholder.

We looked at leveraged assets as a means of increasing debt to allow us to build machinery, to automate production to meet this major competition. This was not possible because we are fundamentally a labor-intensive company. So the remaining alternative which was the one we chose, was to become acquired by a big business, and our choice was then, which big business. We are very pleased with Emerson Electric. I do not want to reflect any negatives. They—Emerson—probably saved us from going bankrupt—not yet, but we would have progressively. The competition in smoke alarms today is fierce. It is almost going the way of the hand-held calculator. So we are a typical example of a technically oriented, growth-oriented, intermediate size business that had no alternative but to become part of big business, and we are proud of it at this point. But I look back at some of the statistics of the SBA task force which I was privileged to participate in last year. Through the SBA staff we learned that in the 20 years, from 1956 to 1975, the total invested capital in business in the United States went from 1.3—in businesses under 50 million—times the investment in businesses over 50 million to the reverse in 1975—3.1 times the capital, invested capital, is now in big business as opposed to small business.

This is not a criticism of big business, but it does demonstrate that because of the unintended effects of legislation we are institutionalizing our larger businesses by a natural effect of legislation.

Now, I agree wholewheartedly with Dr. Lesher. What my main concern is and I want to emphasize, I am a member of the Council of Small Business of the U.S. Chamber. That is an organization which has been in place just 1 year. It is made up of about 70 small businessmen that are turned-on small business people that are reacting to some of the bad effects of legislation up to now. The Chamber has responded beautifully. We are tickled to death to be part of the U.S. Chamber in making the united effort to correct some of these impediments.

My position is that this legislation looks good to me, it really does, because it improves the visibility of small business in the Congress, it establishes some clear objectives. I am not experienced in reviewing legislation, and I have learned to respect the Chamber's analysis and their depth of study of legislation and its long-range philosophical effects and tangibly predictable effects.

What I am concerned about is that this legislation may still have some unintended effects that could create problems to small business. I cannot see them, but I lean to the experience—of the Chamber—and I just add a word of caution that I would hope that this legislation, for the benefit of small business, is carefully reviewed before it is released.

I would like to add for the benefit of any later questions, my experience relates to serving on the SBA task force last year. I have been cited by OSHA twice for some of the circumstances that Mr. McDonough mentioned this morning—a disgruntled employee, been fined once for $459. We have been plagued by ERISA legislation and not only from just the paperwork. Let me give you some figures—in a company of—last year—650 employees, it cost us $13,000 to administer the paperwork of ERISA. I instructed our chief accountant to keep a separate record. Now the company absorbed that $13,000 last year, but normally a plan is structured so that those costs are deducted from the employer's contribution to the plan. That would mean that those 650 employees of which about 400 were participants in the plan would have paid $13,000 for the administration of ERISA which did not improve the employees' benefits. It impeded the employees' benefits, and I can cite two or three circumstances of that. In addition, of course they pay their taxes to support the Agency.

So with that background I just want to emphasize that it is a real pleasure and a privilege to appear. Sir, may I add that your opening remarks gave me a little thrill this morning. I appreciate those.

Senator HUMPHREY. Thank you very much.

[The prepared statement of Dr. Lesher and Mr. Pearsall follow:]

Statement of the

CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA

on: The Small Business Investment Policy & Advocacy Reorganization Act of 1977, (S. 1726)

to: Subcommittee on Economic Growth & Stabilization, Joint Economic Committee and the Subcommittee on Government Regulation & Small Business Advocacy, Senate Select Committee on Small Business

by: Dr. Richard L. Lesher & Duane D. Pearsall

date: June 29, 1977

STATEMENT
on
THE SMALL BUSINESS INVESTMENT POLICY AND
ADVOCACY REORGANIZATION ACT OF 1977 (S. 1726)
before the
SUBCOMMITTEE ON ECONOMIC GROWTH AND STABILIZATION
of the
JOINT ECONOMIC COMMITTEE
and the
SUBCOMMITTEE ON GOVERNMENT REGULATION AND SMALL BUSINESS ADVOCACY
of the
SENATE SELECT COMMITTEE ON SMALL BUSINESS
for the
CHAMBER OF COMMERCE OF THE UNITED STATES
by
Richard L. Lesher
and
Duane D. Pearsall
June 29, 1977

Mr. Chairman, my name is Richard L. Lesher. I am President of the Chamber of Commerce of the United States.

With me is Duane D. Pearsall, President of the Statitrol Division, Emerson Electric Company, of Lakewood, Colorado, and a member of The Council of Small Business of the National Chamber.

The National Chamber is a business federation of more than 64,000 business firms, over 2,500 state and local chambers of commerce, more than 1,100 trade and professional associations and more than 30 American Chambers of Commerce abroad.

It is important for the members of these two subcommittees to know that most business members of the National Chamber are small. Recent analyses show that more than 83 percent of our business members employ fewer than 100 persons. Almost 72 percent of these firms employ fewer than 50 persons and almost half of all our member companies--46 percent--employ fewer than 20 persons.

In short, the National Chamber membership reflects the broad spectrum of American business, and most business is small.

We are pleased to be invited to offer testimony on the role and status of small business in general and on the bill before you in particular.

We applaud the emphasis given investment in this hearing. Investment is at the core of national well-being, for only investment can create new jobs, new products and new technology to keep us competitive--as individual companies and as a Nation. Clearly there is a special need for attention to investment needs of small business, since so much of small business capital must be generated internally, rather than through issuance of securities. The ability to retain capital is crucial for small business.

We applaud the further exploration of the role of small business in the economy. One of the great needs of this exploration is more data, for we now have available extensive information about the relatively few large companies at the top of the size pyramid, but little reliable information on the operations of the vast majority of our companies.

We particularly applaud the emphasis on the small business problems created by government itself. Our smaller members tell us that they consider government to be their number one problem, for reasons which include regulation and paperwork imposed on them by government. The public sector is the most rapidly-growing segment of the economy, and that sector now takes more than 40 percent of national income. Privately employed individuals and companies compete for a diminishing share of the total. As a consequence, the business system does not show the vigor and the ability to provide jobs to the extent we would like; the resulting squeeze hurts the small and the weak most severely.

We are pleased that through Mr. Pearsall we can illustrate the problems of finance and investment in small companies. Such companies offer very special possibilities for future national economic growth, and we should be sensitive to those possibilities and to ways that hearings such as this can allow the companies involved and the Nation to benefit from easing some of the special conditions they must face.

We will comment briefly on all these general points and then on the content of the bill itself.

The Role of Small Business in the Economy

Small business has as great a social role as an economic role. Small business is the essence of freedom for the individual who wants to be his or her own boss. It is the essence of freedom of choice for the consumer who wants a wide range of products and services from which to choose. It is the most likely outlet for the individual who has a new idea for product or service. It is a means of supplementing income for millions who hold regular jobs and can operate a production or service business on a part-time basis.

Small business is the life-blood of America.

Small business, like medium and large business, is important to our society and to economic growth, not because of the size characteristic, but because of the different economic functions performed in each instance. Some enterprises are small because of the nature of the business. It is important, for example, that most service businesses remain small so that they can be close to their customers and know exactly what they want.

Some businesses are small just because they are new, and we can all cite the Xeroxes or Polaroids or other firms which started small and became larger. Most businesses do not grow that much, but new companies tend to grow more rapidly than mature companies. They also tend to have higher mortality rates than mature companies have.

Some companies are small because of limited market, and others because of the development of new technology. For example, the rapid growth of mini-computers has stimulated new firms in the production side of the business. The technology has made other small firms more efficient and able to operate viably with relatively limited markets.

Financing Problems of Small Business

Small businesses all too frequently lack effective management and venture capital. Having inadequate capital, they tend to rely excessively on credit. The entire business community today operates on an increasing debt-to-equity ratio, and this is especially true for smaller firms, with the effect of making them more vulnerable to market reverses.

Add to this general problem the fact that small firms must generate most of their capital internally, which means they depend on retained earnings. Excessive government regulations which add to cost and excessive taxation which drains earnings, combine to produce an unintended, but effective, de facto federal policy of restricting the growth of small business.

This same combination debilitates the entire business system, let me add, but its most pernicious effects fall upon those least able to fight back or to withstand adversity: our smaller companies.

Regulatory Burdens of Small Business

Polls consistently show federal regulation at the top of small business problem lists. These companies lack the expertise to keep track of government demands. Hiring the extra staffs or professional advisors to keep them in compliance balloons their costs, but that is the easier part. Actual costs of compliance--in capital expenditures and operations--may convert a thriving company into a marginal operation. Surviving all this, the company may encounter conflicting requirements of two, or more, federal agencies. In complying with one agency, the company violates rules of another.

What is the answer? A government that recognizes that its mandates for new procedures and equipment generate important costs. The Congress and the Administration must develop such a recognition as they write and administer laws. One way is to develop detailed impact studies of the economic consequences of each proposed regulatory program.

Regulation is a vital and appropriate function of government, but it does not come free. The costs, ultimately borne by consumers, must be weighed against the benefits which consumers receive from regulation.

Paperwork Burdens of Small Business

Federal paperwork ranks high on the list of problems our members report to us. The product of regulation and of information gathering, federal paperwork requirements appear to be another well-intentioned effort gone out of control.

Members from small companies tell us they are snowed under by forms and questionnaires. They have difficulty completing the forms they must execute; they have difficulty affording the staff to do the work; they live in fear that they may not be filing some required report; they question whether the detail or frequency of reports is justified; and they question whether the information they supply is actually used.

The National Chamber has had a long-standing interest in reducing the burdens of federal paperwork. We provided the Commission on Federal Paperwork a substantial body of data about the special problems small businesses face in complying with information requests.

Recently, at the request of President Carter, the Chamber presented 18 recommendations for reducing paperwork burdens. One recommendation was that the House of Representatives require that any bill involving reporting requirements be accompanied by a comprehensive estimate of the potential paperwork impact.

We patterned that recommendation after the rule already adopted by the Senate at the urging of Senator McIntyre, and we commend the Senator for initiating and securing adoption of this rule. It is an example of organizational and management changes necessary to achieve real progress in reducing federal paperwork. I will not dwell further on the subject here, but a copy of our report to the President is attached as an appendix to this testimony.

Comments on The Small Business Investment Policy and Advocacy Reorganization Act of 1977 (S.1726)

This legislation attempts to strengthen the Small Business Administration and the voice of small business within the Executive Branch of the federal government by several means.

Title I of the Act would amend the current law in regard to executive staffing of the Small Business Administration and would transform the existing Office of Advocacy to an Advocacy and Economic Research and Analysis Division.

The new Division would have responsibility for collecting data about small and medium-sized business and advocating the small business position before the Congress and the Executive Branch. The effective operation of this Division would provide a stronger voice for small business.

Section 103 of this title adds medium-size business to the data collection responsibility of SBA, calls for setting up a data base and analyzing proposed legislation to minimize potential harmful impact on small business.

The need for more data has been well established. There are cautions, however. Several of the analyses required in this Section will be difficult to use without comparisons with larger units of business. The criteria for defining "small" in terms of data base have not been developed, and this lack will restrict the ability of the Division to establish a data base for small business. Further, testimony in earlier hearings indicates that there is a common practice of setting up data series within Departments and Agencies to meet the objectives of those agencies, without making the data systems compatible. The new data system should be designed to avoid this shortcoming.

Title II of the Act would establish a policy that "all reasonable means" shall be used "to establish private sector incentives that will help assure that adequate capital at reasonable cost is available to all business."

The clear implication is that the private sector needs cajoling or assisting to provide for small business debt and equity capital needs.

We suggest, as we mentioned earlier in the testimony, that federal government actions are a chief cause of the shortage of capital. Some federal actions have specific anti-investment effects. For example:

--government-imposed standards and regulations raise costs to business in general and small business in particular, thereby making business less profitable and less attractive as investments;

--some government regulations, such as ERISA pension fund investment guidelines, indirectly dry up sources of investment for any but the largest, most profitable and stable companies.

--persistent federal deficits keep government borrowings high, directly competing with private businesses for the savings of American citizens; and

--inflationary effects of federal policies erode the value of the surtax exemption, to the detriment of smaller corporations.

while driving the owners of unincorporated businesses into higher tax brackets.

We suggest that a Small Business Investment Policy requires that concern for small business be made part of federal policy processes; that the Congress establish an evaluation system that could identify potential adverse effects on small business before laws such as ERISA are passed; that the Executive Office of the President needs to sensitize each Executive agency and department with a concern for small business.

For instance, an amendment to The Employment Act of 1946 showing concern for small business might be a more powerful weapon than a policy statement in the Small Business Act. Executive Orders from the White House could go a long way toward the goal of improving the treatment of small business in federal departments and agencies.

Further, it is not at all clear from the language of Section 201(f) what would be involved in "establishing private sector incentives that will help assure that adequate capital at reasonable cost is available to small business." Who will decide, and under what circumstances, what is "adequate" capital and "reasonable" cost? What factors, if any, would be taken into account that are not currently considered by the SBA or by the managements of Small Business Investment Companies?

Title III would require an annual Small Business Investment Policy report. Subsections (1) through (3) of Section 401(g) call for reporting volume of investment capital now used by small business, prospects for the future and an evaluation of federal policy as it applies to cost and availability. These subsections would provide market information helpful to all participants in the economy and are unobjectionable. Subsection (4), calling for a biennial plan recommending proposals and priorities for carrying out the Small Business Investment Policy in Section 201(f), is objectionable.

Title IV would establish a Small Business Economic Council. Such a Council might elevate the visibility of small business by altering the <u>form</u> of government policymaking, but it is not at all clear that such a change would improve the <u>substance</u> of policymaking on behalf of small business.

Changes of a more basic nature, including suggestions made earlier in this testimony, will be necessary.

Title V of the Act would elevate the Administrator of the Small Business Administration to Executive Level 1, equivalent to Cabinet rank. This elevation and the inclusion of medium-size business among SBA responsibilities in earlier titles, raise questions of the relationship of SBA and the Department of Commerce. Is the latter to serve only large businesses? Does not this proposal set up a divided constituency and service system for the business community?

The needs of small business must be represented more consistently and more broadly in economic policy deliberations throughout the federal government. As in other sections of the Act, provisions of this Title need to be clarified to avoid still more unintended effects and inadvertent conflicts.

Title VI amends the Federal Deposit Insurance Act to require collection and publication of certain data regarding loans to business. As an effort to expand the data base for considering the problems of small business, the intent of this title can be applauded--but cautions are in order.

"Credit information" has many dimensions besides those of dollar assets and dollar sales of borrowers which the title calls for. To make an evaluation of the title possible, additional information is needed. For example, what other kinds of credit information are expected to be combined with the data secured under this title? What uses will be made of the information, and by whom? And finally, since this requirement is another paperwork proposal, should it not receive the rigorous cost-benefit analysis suggested earlier for federal reporting requirements?

Mr. Chairman, these have been comments of the National Chamber on the investment needs of small business in general and on the contents of The Small Business Investment Policy and Advocacy Reorganization Act of 1977. Now Mr. Pearsall will relate his own company experience.

Financing and Capital Formation Experience of a Small Manufacturer

My name is Duane D. Pearsall. I am President of the Statitrol Division, Emerson Electric Company, Lakewood, Colorado, and a member of

The Council of Small Business of the Chamber of Commerce of the United States. Until the merger of the company with Emerson Electric in March of this year, Statitrol was an independent manufacturer of home smoke alarms and commercial smoke detectors. We were a small business, now thirteen years old, and because of our success, I was named by the Small Business Administration as Small Business Person of the Year for 1976. During the past year I have served on the Task Force on Venture and Equity Capital of the Small Business Administration, and in that capacity I recently presented remarks similar to my report today before the Committee on Small Business of the House of Representatives.

Much of my report consists of a description of the development of our company, which typifies a national problem resulting in the erosion of the numbers of intermediate-sized businesses in the United States.

Our company was formed in 1963 to manufacture a static control device intended to reduce electrostatic charges in photographic dark rooms. Using a homemade instrument to measure concentration of free ions, we accidentally discovered its sensitivity to smoke. This subsequently led to our development of a commercial ionization smoke detector. After three years of hand-to-mouth financing of the development of a technical product, always on the verge of bankruptcy, we convinced a small business investment company (SBIC), in 1966, to invest $250,000 in a seven-year term, 8 percent note with warrants to purchase options on 49 percent of our outstanding stock. I would remind the Committee that in 1966, an interest rate of 8 percent was considered exorbitant. Because of their sound financial advice and assistance, our relationships with the SBIC, Central Investment Corporation of Denver, have been excellent. It proved to be a wise investment for both parties.

Three years later in 1969, with a gradually growing sales volume, we were able to build our first plant for $92,000, with the help of a 40 percent SBA direct loan. These special SBA funds involved an extremely complicated procedure which required that we hire an attorney at a cost of $2,000 to process the paperwork. Under this program, involving a local development company program, we ended up with five mortgages on our building, one of which was issued to ourselves. This loan was subsequently replaced with a 90 percent SBA guarantee loan for a second plant expansion.

In 1971, we introduced a battery powered home smoke alarm. In 1972, almost single-handedly, with the help of a consultant, we influenced the International Conference of Building Officials, a national model building code organization, to require a home smoke alarm in new construction of one- and two-family residences and each apartment living unit. Its acceptance was followed by other model building codes, adopted by municipalities throughout the United States. In 1976 there will be over eight million such devices installed in homes with a potential savings in lives measured in the hundreds.

In late 1975, the first major U.S. corporation introduced a competitive device on national television. Although our own company has grown dramatically, our market share today is less than 10 percent. To meet national competition, it is necessary not only to add research and development staff and facilities, but also to progressively automate our production.

By mid-1976, two of our major independent competitors, who were small businesses, became acquisitions of large corporations. We became visible in the market place as the largest <u>independent</u> smoke alarm manufacturer. However, we began to experience a rapidly decreasing share of the market.

At this point, it became obvious that we could not generate capital through internal sources in sufficient quantities to meet national competition. In reviewing alternatives, our first choice was to become a public corporation. However, because of the unintended effects of ERISA combined with the effects of SEC Rule 144 and with the anticipated costs of underwriting, we could not expect an acceptable stock offering. As further consideration, our major stockholder would not be able to relieve equity due to the constraints of Rule 144.

We next considered starting an Employees' Stock Option Trust (ESOT). But on careful crutiny we found that because it represents a stock sale to employees, it would not represent a sufficient multiple on earnings to justify and would injure future possibilities of a sale. Historically, ESOT's have been valuable as a low-multiple bail-out method for a low growth company. Again, this alternative was considered unacceptable.

Other alternatives were reviewed, such as a leveraged asset method, the purchase of an existing but inactive public company, etc.

The final conclusion, and the only reasonable alternative, was to seek a merger partner. This resulted in the acquisition of Statitrol by Emerson Electric Company, St. Louis, Missouri, effective March 16, 1977. We are very pleased with our new partner and have a renewed confidence to approach the market place from a position of strength and with a new perspective.

Our experience demonstrates very clearly that the unintended effects of legislation, such as ERISA, combined with constraints of SEC, compounded by the inability to generate capital internally for growth, is forcing the elimination of most intermediate-sized, successful companies in the United States. At the same time, these effects contribute to faster growth of major corporations, tending to institutionalize the large manufacturing sector of our economy.

Supplemental Remarks

In my talks to over 3,000 small businessmen in the past year, major concerns of government intrusion involve the burden of government regulations. ERISA, for example, has created exorbitant costs in maintaining pension or profit sharing plans. Because of required outside professional help in the form of legal and accounting services, together with the enormous paperwork burden necessary to maintain their plans, smaller businesses find it more practical to cancel. Minimum annual costs to maintain the smallest plan are estimated at $2,000 to $2,500. Recently insurance firms have started marketing standard format plans, reducing the cost somewhat, but the net effect is still prohibitive. Statitrol Corporation, with an average of 650 employees, expended an estimated $13,000 in costs to maintain the simplest, most liberal form of profit sharing plan possible in 1976. Since most plans require these costs to be deducted from annual contributions, the burden of maintenance is on the employee. We find, ironically, that a typical employee is sacrificing his retirement income in order to comply with government regulations. In addition, of course, his taxes support the agency.

Another major concern of small business is the almost insurmountable problem of product liability. Many small businesses feel they are living on borrowed time because they are walking in the shadow of a product liability suit which guarantees, in most cases, absolute disaster.

My final point involves a recommendation for new legislation for the very small, or "mini" business. Since the definition of small business is necessarily complicated and encompasses some fair sized companies, there seems to be a need to identify the really small business, such as under ten employees, or with gross receipts under $500,000.

Recommendation - new legislation which will allow a precisely defined "mini" business to be exempt from regulations of independent agencies such as OSHA, EPA, ERISA, etc. Such a bill might well restore confidence among several small business owners.

It has been a privilege and an honor to appear before you today. I hope I can always be considered as a spokesman for small business. As a body, we have been the victims of unintended effects of legislation. The resultant negative effects, together with the increasing burden of government paperwork, have undermined the very foundation of our small business sector and, in so doing, has already seriously eroded the foundation of our free enterprise system.

Thank you very much.

Mr. Chairman, Mr. Pearsall and I appreciate this opportunity to explore the important issues of Small Business Investment Policy with you. We will be glad to respond to your questions and we assure you of our willingness to cooperate in future deliberations on this subject by the two committees.

Recommendations to The President of the United States for Action to Reduce the Federal Paperwork Burden

Presented
by
The Chamber of Commerce
of the
United States

March 25, 1977

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA

RICHARD L. LESHER
PRESIDENT

1615 H STREET, N.W.
WASHINGTON, D. C. 20062
202/659-6207

March 25, 1977

COPY

The President
The White House
Washington, D. C. 20500

Dear Mr. President:

I am pleased to submit to you the National Chamber's recommendations for reducing the paperwork burden created by the Federal Government, in fulfillment of your request to our chairman, Herbert S. Richey, our vice chairman, William K. Eastham and me at our meeting on February 24.

National Chamber representatives have personally invited thousands of business men and women throughout the United States -- and, in particular, our small business members through our Council of Small Business -- to submit their suggestions and comments on this problem. Our recommendations are based on their pleas, as well as on the continuing work of the National Chamber and the Commission on Federal Paperwork.

The reduction of superfluous paperwork is closely related to your other major goals of government reorganization, regulatory reform and zero-base budgeting. To a large extent, success in reducing the paperwork burden will depend on success in these areas as well. The National Chamber will strongly support your efforts to attain these highly desirable objectives.

Much has been promised over the years in each of these problem areas, but little has been accomplished. One major reason for lack of success, we believe, is that an ad hoc effort is totally inadequate. Continuous close monitoring by high level authority is necessary. It is for that reason that our report concentrates on organizational and management recommendations.

We sincerely believe that your vigorous personal leadership is the key to effective action in each of these areas.

Many of our members have sent to us and to the Federal Paperwork Commission specific examples of burdensome paperwork requirements. Because of the great volume of these submissions, we have not put them in the body of the report. We have, however, included a sample of the more interesting case histories and suggestions in an appendix.

Sincerely,

Dick Lesher

Richard L. Lesher

It will be of little avail to the people that the laws are made by men of their own choice if the laws be so voluminous that they cannot be read, or so incoherent that they cannot be understood, if they be repealed or revised before they are promulgated, or undergo such incessant changes that no man, who knows what the law is today, can guess what it will be like tomorrow.

James Madison

FOREWORD

There are three compelling reasons to rationalize and simplify federal procedures.

The first, of course, is to ease the burden of compliance for the individual citizen -- especially the small business operator. Obligations of citizenship too complex to understand, too demanding to fulfill, and too numerous to enforce must inevitably damage respect for the law. In time, the government which promulgates them will be seen as both fatuous and oppressive.

The second, which has received less attention, is that as federal regulation grows in extent and complexity, the government finds itself increasingly entangled in its own red tape. Already, examples abound of inter-agency conflicts. In the absence of decisive executive leadership such conflicts will proliferate, with a correspondingly deleterious effect on the delivery of many services, public and private. The capitalist system cannot fairly be criticized for failure to provide needed jobs and resources if that failure is traceable to government interference with the system.

The third reason -- virtually unnoticed -- is that government agencies can exercise more effective control over the private sector than they can over one another. In a confrontation with a private organization, the orders of a government agency are backed by the financial and legal resources of the state. In a confrontation with another agency, these advantages cancel out. The larger the public sector grows relative to the private sector, the less the public sector will have to act upon. Therefore, an inversely proportional decrease in public sector efficiency will accompany increases in the scope of public sector control.

Recommended Administrative Action

1. The Office of Management and Budget (OMB) should be divided into two separate suboffices: The Executive Budget Office (EBO), and the Executive Management Office (EMO), each headed by a deputy director of OMB.

The Executive Budget Office would be responsible for preparing the President's budget.

The new Executive Management Office would assist the President in applying sound management principles to the operations of the departments and agencies. The EMO would develop cost/benefit information on federal programs as a basis for selecting priorities; improve interagency and intergovernmental coordination; develop common standards for regulation, information collection and definitions; train and motivate agency executives; and control paperwork by serving as a clearinghouse for all new federal reporting requirements prior to their official promulgation.

2. Departments and agencies should be required to submit to the EMO and Congress comprehensive estimates of the potential paperwork impact of Administration bills providing for mandatory reports.

3. The Administration should require that reporting and record keeping assessments be published during the notice and comment period for all new or revised regulations issued by executive agencies.

4. The clearance function within the individual agencies should be strengthened so that unwarranted forms can be eliminated before coming to the EMO for review.

5. The ombudsman function which is now in the Commission on Federal Paperwork should be transferred to the proposed Executive Management Office. This ten-person function responds well to the public, is highly cost-effective, and is needed on a continuing basis.

6. Federal Government report forms should follow a standard format which provides essential facts about the information request, including;

- A clear statement of the purpose of the request;
- A statement as to whether a response is mandatory or voluntary;

-- An identification of the authority for the request -- Congress, EMO, or an independent regulatory agency;
-- An explanation of the legal penalty for not responding to the request.

The standard format should include a readable print size, and adequate space for filling in the information requested.

7. There should be an increased effort to train the persons responsible for drafting federal questionnaires in the techniques of report form drafting.

8. Information requests should be coordinated to spread the reporting burden over the year, eliminating peaks which impose excessive burdens on respondents.

9. Requests from two or more federal agencies for identical or nearly identical information should be consolidated in one form so that respondents may report essential information once instead of many times. Submitting the same information to more than one agency is justified only when privacy and confidentiality are primary considerations.

10. The frequency of recurring reports should be stretched out to the maximum extent possible to minimize the reporting burden, consistent with the benefits to business of the information developed.

11. The Executive Management Office should establish an effective process for assessing the actual benefits of ongoing reporting programs.

Recommended Congressional Action

1. The Administration should prepare and strongly support legislation to require independent regulatory agencies to submit to the EMO a comprehensive estimate of the potential paperwork impact of bills and rules initiated by such agencies.

2. The Administration should urge House action to require that any bill involving reporting requirements be accompanied by a comprehensive estimate of the potential paperwork impact. (The Senate already has such a requirement.)

3. The Administration should support legislation authorizing the transfer from the General Accounting Office (GAO) to the proposed Executive Management Office the current GAO responsibilities for clearance and review of the information requests of independent regulatory agencies.

4. The Federal Reports Act of 1942 should be revised and strengthened to:

- -- Involve the business community in the preparation of information requests so the information needs of the government are met with the least possible costs;
- -- Require pilot testing of report forms with a representative group of the persons affected before the reports become mandatory;
- -- Allow adequate lag time between the date a new or revised report form has been announced and the date on which a response becomes mandatory, to permit respondents to develop the required data;
- -- Establish an appeals procedure through which respondents could challenge specific reporting requirements;
- -- Require that agencies make public their reasons for not accepting suggestions submitted during the notice and comment period for proposed reporting requirements;
- -- Require that all public use reports, both exempt and nonexempt, be "logged" in a computer facility to cross check data elements, thus minimizing duplication and facilitating measurement of the total burden on the public.

5. The Federal Government should reimburse expenses incurred responding to mandatory information requests made to obtain information essential for

government policy decisions and not for the specific benefit of the businesses affected. Such federal paperwork burdens should be financed from the general revenues instead of constituting a special "tax" on the respondents. If the expense of mandatory surveys of business were funded through the appropriations and budget processes, the cost of federal paperwork would be clearly identified for the information of the Executive Branch and Congress.

Recommended Joint Action

1. A greater use of sampling techniques should be required in place of 100 percent canvassing. Exceptions should be made only when information about each and every business firm is clearly essential to achieve the objective of the survey.

2. Exemptions from most reporting requirements should be provided for very small businesses. It is important to include all business firms in basic census surveys which establish the conditions, problems, and trends affecting business. However, small businesses -- such as those having ten or fewer employees, or a gross income of less than $100,000 -- should be relieved of responsibility for responding to frequently recurring information requests.

APPENDIX

THE FEDERAL PAPERWORK BURDEN

The Cost

The best current estimate of the annual cost of the federal paperwork burden is $40 billion. This figure was derived from studies and hearings conducted by the Senate Select Committee on Small Business during 1972 and 1973. About half that amount is what it costs business to comply to federal paperwork requests; the other half is what it costs taxpayers for government to process it.

Although $40 billion is bad enough, that figure may be a serious underestimation. Almost certainly, it does not include costs to employers, employees and consumers resulting because management time has to be spent on filing papers instead of improving production, training people, planning research and development, and improving marketing and sales.

The Most Burdensome Reports

By an overwhelming margin, small business ranks federal tax forms as number one on the list of public nuisances, according to the National Chamber's surveys.

Next in line comes a report for the Occupational Safety and Health Administration (OSHA 100-03), two reports for the Labor Department (EBS-1, EEO-1), two for the Commerce Department (MA 36L, MA 100), one for the Federal Trade Commission (MG 2), and one for the Interstate Commerce Commission (ACR-40).

IRS forms also took honors in the "most burdensome" category: Over 60% of survey respondents cited them as those "which take the most management time."

Ironically, IRS is the largest single agency which has escaped supervision or control of its paperwork demands under the only law that makes any attempt to moderate such demands, the Federal Reports Act of 1942.

What People Are Saying

The survey also disclosed utter frustration, rage and a growing revolt against paperwork.

What follows are representative comments from the Chamber's survey. More could be provided. The original letters are available, should identification of the respondents be desired.

SERVICE COMPANY, MIDWEST:

"Forms which we have had experience with include the MA-100, MA-175 and an INGOT report -- all from the Bureau of the Census. We have found that most of the information requested is a duplicate effort.

"The mountain of paperwork required by the government from all of the people soon may take on the proportions substantiating a revolt. We are some of those who have had enough!"

MANUFACTURING COMPANY, MIDWEST:

"We need relief before we 'litterly' drown in paperwork."

ACCOUNTANT, SOUTHEAST:

"The client either must pay an accountant to prepare all of these reports, or spend many hours a month of non-productive time doing this himself. For this reason, I have seen many situations where the businessman decides it is not worth the trouble and expense to hire employees. The economic consequences of this decision are that there are fewer jobs created, and fewer small businesses succeed and grow.

"Another really sad example is the excess paperwork caused by the Pension Reform Act of 1974 (ERISA). The confusion caused by ERISA is resulting in termination of retirement plans on a wholesale basis, especially by small companies."

PHARMACEUTICAL FIRM, SOUTHWEST:

"My firm employs fifteen people in the home office. It is our estimate that if these regulations as proposed are made final, we would be required to add at least three additional employees whose primary jobs will be paperwork.

"Our industry, as I am sure of many other industries, is already 'up to our eyes' in paperwork. This additional regulation will be expensive to the entire industry and very well may deal a death blow to the small businessman in our industry."

PLASTICS COMPANY, MIDWEST:

". . . In our small $7,000,000 annual sales company, we were handling over 300 reports each year."

98-762 O - 78 - 15

CONSTRUCTION COMPANY, MIDWEST:

"Each agency i.e. EPA, HUD, etc, requires the submission of a written Affirmative Action Program from the Contractor for approval, prior to award of each contract. This requirement must be met even though the Contractor has a current approved Affirmative Action Program for a project which is in process for the same agency.

"There is no standardization of the requirements for these Affirmative Action Programs between the agencies or even within the same agency between regional offices."

SMALL STEEL COMPANY, SOUTHEAST:

"As operator of a small business, less than sixty employees, the most unnecessary paperwork burden to us is that of OSHA. In order to correct a situation where employees were subjected to unsafe conditions in a very small percentage of companies, it is totally wasteful to cause millions of persons to be subjected to the enactment of this regulation."

CONSTRUCTION FIRM, SOUTHWEST:

". . . The Environmental Protection Agency is the biggest abuser of excessive paperwork. There are so many forms and applications to complete before qualifying for a grant, that many municipalities just give up. As a result, the EPA complains that they have monies available and not being used, yet they make it so difficult to obtain the funds through their excessive paperwork and applications."

ENGINEERING FIRM, WEST COAST:

" . . . 40% of my time is being utilized for record keeping for governmental agencies.

"Small businesses faced with the burden of this paperwork are eliminating programs within their operation so that the reporting requirements are no longer necessary."

CANNING COMPANY, SOUTH:

"Especially burdensome is the Census report which requires long hours of research and is requested at a time when income taxes, payroll taxes, W-2's, etc. must be completed.

"Also our traffic department is overburdened with reports, plus being confused by the conflicting interpretations between ICC, DOT, and OSHA."

MANUFACTURING COMPANY, MIDWEST:

"We are a small manufacturing company with 72 employees. Our general office staff totals five people, including myself.

"As Office Manager, I find myself devoting more than 50% of my time in filing reports pertaining to OSHA, ERISA, Census Bureau (MA-100, Pollution Abatement, etc.), BLS (BLS 790C, BLS 790, DL 1219, etc.), State and Federal EPA reports, State and Federal EEO reports, etc. etc. The value of informational reports is questionable at best."

STEEL COMPANY, NORTHWEST:

"In 1973, our presentation consisted of 74 pages and was accepted by the Equal Employment Opportunity Specialist who conducted an 'on-site' review.

"In 1974, a different Specialist refused to accept our program until we developed two volumes containing a total of 395 pages. We are required to file two copies plus retaining one in our files.

"This is a ridiculous waste of expensive man hours and, as far as we can see, serves no useful purpose."

BANK, NORTHEAST:

" . . .they require us to provide an original and six copies of this report. Now, if some bureaucrat wants six copies of mostly blank forms, then I feel he should provide them for his own use. We are always required to make adjustments in our report and this, again, means an original and six copies. One year we had answered some questions with 'none.' These were questions asking for dollar amounts. The pages were returned with a request to insert '-0-' instead of 'none.' Again, same originals and six copies."

ENGINEERING COMPANY, WEST COAST:

". . . Our small business was required to complete 1,342 federal and state forms for the year ended 1975."

SAVINGS AND LOAN, MIDWEST:

". . .Our business has been saddled with RESPA, Fair Credit Law, Fair Housing Law, Home Mortgage Disclosure Act, Truth-in-Lending Law, Equal Credit Opportunity Law, Consumer Protection Act, and so on.

"The amount of change in internal procedures, new forms, and reporting to the various Federal Agencies has become monumental."

HOSPITAL, SOUTH:

"As a result of the more recent requirements of M.C.E., this 509 bed hospital, with approximately 40% Medicare and Medicaid patients, added four full time equivalent employees. Now, with P.S.R.O. regulations, we are forced to add one and a half e.f.t. employees. The 5.5 e.f.t. employees, 1½ of whom are nurses, will barely be sufficient to keep us in compliance with the rules and regulations of the mandated additional activity and associated paperwork.

"This additional paperwork does not and will not give better care or any care to the patient."

ENGINEERING COMPANY, WEST COAST:

"We are a small engineering, surveying and planning company with a total staff under 30 persons. Yet, under the ERISA manifesto, we are obliged to spend great amounts of time and considerable sums of money trying to: (a) understand, (b) implement, and (c) afford our profit sharing plan, now that the government has decided to punish everybody because some of the large pension plans have been raided by dishonesty or mismanagement.

"How serious is it, really? We are presently considering the termination of our profit sharing plan rather than try to comply with the utter madness of this Orwellian nightmare!"

MANUFACTURING COMPANY, MIDWEST:

"We recently were requested to supply material to a prime contractor, the total value of which material approximated $120.

"To ship this order, we were requested to give the prime contractor assurance that we had read and were aware of the contents of 39 government laws, regulations, or similar, and would comply with them."

Senator HUMPHREY. There has been a tremendous number of problems with ERISA. We know about it. There was a great effort made here in Congress to try to do something about pension reform because of some horrendous examples of workers who thought they had pension rights and found they did not have any at all. We had some out in my State, for example, at one of our large companies where several thousand workers were just out in the street with nothing. Now, I think, we sometimes over-react. This is an area that definitely needs careful review.

I do not participate in the legislative side of this. This is in other committees, but whenever the Joint Economic Committee holds hearings, we generally hear about ERISA and believe me we have heard a lot about OSHA.

In the case of OSHA, I think a good dose of common sense would help a lot. I thought what was said here early today was very sensible. Mainly, when an inspector comes in from OSHA and finds problems that seem evident, seem to violate what is the law and the regulation, the first thing he ought to do is note that to the entrepreneur, to the employer, and say, here we would like to have you correct it.

When I was mayor of my city I was also appointed the chief of police, and if I could say anything, we did clean up our town. I had a system. We called it baseball—one warning, two warnings, three warnings—you are out. We gave them two warnings, and once in a while some people were struck out. They got the message. I think that is a fair way to do it. I just think it is ridiculous to come on in and force standards on people all at once trying to make a sudden revision of long and established patterns overnight and at the same time impose punishment. The idea is to train, to educate, to persuade, and then if people do not shape up and the rules and regulations are reasonable, there is plenty of time for punishment or whatever you wish to call it.

By the way, we are happy with Ray Marshall, the new Secretary of Labor who seems to understand this and the people he has operating OSHA. That is being watched very carefully. Congress is very sensitive to this one, believe me. Because we get enough complaints about it and they are universal.

The other thing that I noticed here is the different view, Dr. Lesher, that you indicate. I am not sure how strong that view is with Mr. O'Malley in reference to certain features on this bill or with Dr. Doyle. I know your concern about the report and your concern about more paperwork. We have had lots of interest about that this morning. But you went over some of the titles that you found—I think title II you took some exception to and title VI. For example, you had reservations about the need to establish private sector incentives that would be part of the small business economic policy.

Maybe you do not understand what we had in mind here. Small business incentives might be tax reform, for example, that would help the small business. Surely the whole subject of estate taxes is a vital issue to small business. The whole subject of retained earnings as it relates to taxation is one of the things. What we thought we were talking about in the small business economic policy section of the bill was to have the Administration outline policies which they believe would serve as incentives after you accumulated the information that indicated any need for certain incentives. All this is tied together with the Small Business Administrator, at Cabinet level, so he is in there where the decisions are made. I want to say something—I sat on the Cabinet 4 years. When you are out of that, you are far down and your voice does not get heard very well.

For example, I happen to think that one of the big mistakes in our Government today is the huge agency called HEW—where you try to blend together Health, Education, and Welfare, which are, at least on the Education part, entirely separate from Health and Welfare. And I think they are all separate. I can assure you that the Defense Department does not permit itself to be so out maneuvered. You have the Secretary of the Defense in the Cabinet, but you also have the Secretary of the Air Force, the Secretary of the Army, and the Secretary of the Navy. They are there in the Cabinet with their Secretary of Defense. You get to HEW, the Commissioner of Education, well, he never even gets there. If that fellow gets into the White House, it is because he is a pushy sort of guy and he is able to work his way in.

I think this is absolutely necessary for the SBA Administrator to be able to sit with the Chairman of the Council of Economic Advisors who sits with the Cabinet. The Secretary of the Treasury who sits with the Cabinet. So that we can have some input as to what is going on. If you have got a good SBA Administrator, he is going to be able to tell the same story that many of you are telling here. He has got to be able to tell it. He has got to be able to relate what the problems are out there in the community.

Our Department of Commerce is a big department, but I have never seen this Department of Commerce up to now be a strong advocate for business, to be honest about it, any kind of business, big or little. To be frank about it, they do not have the same push in that Cabinet that Agriculture has or Labor has, to take two other features of our Cabinet structure. Believe me the Secretary of Agriculture is in there fighting and he may get overruled by OMB as we know, or the Secretary of Labor is in there fighting. He may get overruled by the President or somebody else, but they are in there and their voice is heard.

The Department of Commerce I think has had a lot of problems simply because business was very suspicious of the role in Government doing anything about business. Corporate business does not need anybody there or anything like that. They are all over the place. They run this country. You just take a look at who owns the banks. Who owns the insurance companies. I mean the power that is there.

I consider my duty as a Senator to represent people who do not have much representation. I consider my duty to be strong enough to stand up for the weak. To be articulate enough to stand up for those who cannot speak. I do not need to be down here representing IBM. They are doing a good job. I am all for them. They have got big plants in my State. They are doing fine. But let me tell you something—they have got influence. I do not need to represent Chase Manhattan. David Rockefeller does a beautiful job. He can get to see more people in Government than I can get to see.

You know who I have got to represent—old Joe Smalivitch, out home, Sam Swanson, out home, who never gets a chance to get down here. I have got to think about them. I have got to represent that fellow out on the street at Litchfield, Minn., who is running that haberdashery. I have got to represent a little turkey processing plant out in Willmar that never gets down here. That is who I have got to represent. That is why I am down here.

I do not need to represent Cargill, one of the great companies in my State. Cargill knows more people in Washington than Humphrey knows. They have connections all over this place. It is a great company and I would be the last man to condemn them. I am delighted with them. Happy they are in Minnesota. These are my friends. I know them. They need me like they need seven balloons in the air. They do not need me. I occasionally need them, but they do not need me.

But I will tell you who does need me—some fellow who just never gets a chance to be heard. Where do you think most of our time goes? Most of the time in my office, I do not know how my friend, Senator McClure, is going to respond to this, but I spend most of my time outside of legislation taking care of individual complaints and requests of independent business, farmers, and others. We are fighting for them in these Government agencies.

I told a President one time that, as far as I am concerned, there are only two enemies I knew of policies for which I was concerned which were visible—one was the Communist Party and the other was the Office of Management and Budget. [Laughter.]

I said, frankly, the one that seems to be the most effective is OMB. Because every time I want anything for my State, the people who I represent, they say, that is not in the President's program. It does not make any difference whose administration it is. We have got people down in OMB who have been there for years. Presidents come and go; Senators come and go; and they are right there and I think it is sort of like the plumber's union. Their son follows in right after them. [Laughter.]

These are some of the problems that a practitioner of politics of our country sees now.

But the purpose here, and I think we need your advice, Dr. Lesher, I am not trying to be mean or sarcastic at all. What we are trying to do is to enact this small business economic policy so that we have a sense of direction in Government as to what we are going to do to help small business. The same can be said about the advocacy part. You have got to have somebody in there who is just going to talk up. The fact of the matter is as every witness has testified—you all have testified to it—small business does not get the ear of the responsible officers of Government. It gets attention here in the Congress, but it is drowned out somewhere along the line.

Dr. Lesher. If I could respond to some of that?

Senator Humphrey. Yes.

Dr. Lesher. First of all, we very much agree on the goals. Second, I believe perhaps we are using different terminology to say the same thing. You call them profit incentives for small business, but what you really described as examples were removal of some of the disincentives. When you say tax reform is an incentive, we say there are disincentives in the tax structure. That is basically what we are saying.

Senator Humphrey. I agree with you on that.

You are back deciding whether the Department is half full or half empty. What I am saying to you is that the Department is half full and you are saying it is half empty.

Dr. Lesher. No, we are agreeing that it is more than half full of Government disincentives, and that is the point we are trying to make.

The free market system has all of the incentives that provided the greatest case history in human history for taking people out of the caves and out of poverty, the first country in all of history to do this on a sustained basis.

Senator HUMPHREY. I can argue about the theory of the free market. I have spent my time in business, both academically and practically in business as well as a legislator.

Do you really think it is a free market when you can go to the bank and get your money for less than I can get mine?

Is that a fair deal?

Dr. LESHER. What was the question again?

Senator HUMPHREY. My question is very direct.

Do you think it is a real free market, fair play, open free market, when you can go to a bank and get your money at lower rates of interest than I can get mine?

Dr. LESHER. You would have to give me more facts.

Senator HUMPHREY. No, no, no, no. We both have collateral. We both have established firms. When the words "prime rate" comes out, what does that mean? That means the biggest borrowers with the largest amount of collateral get the lowest rate of interest. I am simply saying that if you let that rule of the law of the jungle prevail, then there are not going to be any small people. Because the big ones will eat you up.

Dr. LESHER. There are basic elements in the system that are fairly well established. There are some advantages in scale and there well should be. There should indeed be some advantages of additional security, economies of scale, and marketing and so forth—that is just as much a part of the market system as small firms coming and going and large firms coming and going.

Senator HUMPHREY. Do you not think there is any value to social policies?

For example, we have got an amendment right now in the Committee on Agriculture. If you just let agriculture go without any concern as to how the individual entrepreneur, the private farmer, is going to stay on that farm, I will tell you what is going to happen. You are going to have few social policies and economic policies in Government. You are not going to have any farmers. You are going to have a few corporate farms. It will be just like the Soviet Union and we will be screwed up as bad as they are because corporate agriculture has just about as bad a bureaucracy as State agriculture.

Senator MCCLURE. Mr. Chairman, might I make one comment because we are going to miss the vote if we do not leave almost immediately. I did have some questions, but I will submit most of them.

I wanted Dr. Burrell to give me a little more detail on projected capital accumulation between now and the end of the century in addition to some other questions which the staff has. But I just wanted to make this comment:

I agree with you, Senator Humphrey, that big business has its advocates and they do a very good job of it. I would say also that big Government and big labor, have better advocates than the average small businessman or individual.

Senator HUMPHREY. No doubt about it.

Senator McCLURE. So my concerns will not be for the large corporation as much as they will be for the individuals who work for that corporation and communities in which they live and work, just as my concern would not be for the AFL–CIO as much as for the individual working men and women who are members of those unions who live and work in the communities that I have the honor to represent here.

Senator HUMPHREY. What should we do about this?

We have got to go down and vote. I think that we ought to just let you all go. Because we will most likely have two votes back to back and that will hold us for 45 minutes or 40 minutes. So we will excuse you.

Thank you very much.

[Whereupon, the joint subcommittees were adjourned at 12:27 p.m.]

[Subsequent information was received and follows:]

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

June 30, 1977

Professor George A. Doyle
Chairman
Economics and Foreign Relations
Department
Assumption College
500 Salisbury Street
Worcester, Massachusetts 01609

Dear Professor Doyle:

Senator James A. McClure has requested that the enclosed questions be sent to you. Your answers will be included in the record of the hearings on the Small Business Investment Policy and Advocacy Reorganization Act of 1977 which were held yesterday.

We would appreciate your reply as soon as possible in order to insert the answers in the final transcript.

Thank you for your attention to this matter.

Sincerely,

John R. Stark
Executive Director

JRS:bb

Enclosure

1. Do you have any idea as to how the information that would be generated in S. 1726 would assist or help the individual small business in his search or acquisition of capital?

2. I understand that many small businesses are turning to finance companies for loans. Is this true? Although small in amount so far, why are any small firms doing this, in view of the higher borrowing costs involved? Aren't commercial banks ready and eager to lend to small businesses at the present time?

3. Have you made any assessment of the impact of Carter's energy proposals on small business?

4. Do you have figures on the investment cost per job for small business, compared to large business in the same industry?

5. Is a statement of Federal policy to promote investment in small business as contained in the "Small Business Investment Policy and Advocacy Reorganization Act of 1977, sufficient, or do we need specific programs and machinery?

6. Would you prefer more government intervention in our economy, aimed at aiding small business, or less government intervention and fewer government programs, even though designed to aid small business?

ASSUMPTION COLLEGE

COLLEGE FOR MEN COORDINATE COLLEGE FOR WOMEN

500 SALISBURY STREET
WORCESTER, MASSACHUSETTS 01609

DEPARTMENT of ECONOMICS
and FOREIGN AFFAIRS

July 6, 1977

Mr. John R. Stark
Executive Director
Joint Economic Committee
Dirksen Senate Office Building
Washington, D. C. 20510

Dear John:

The following are my responses to the questions posed by Senator McClure:

1. This question puts the finger on a really difficult matter: How does the individual small business obtain information on anything affecting it? Inasmuch as SBA will gather the information required in S. 1726, it will primarily be up to SBA to find ways of disseminating it so as to be useful to small businesses.

2. Commercial banks are <u>not</u> ready and eager to lend to small businesses. If the business is doing very well, the bank will lend to it. As soon as it experiences difficult times, the small business finds it cannot obtain credit. In a few months time he expects to do well, but in the meantime the small businessman may not survive for lack of credit. I know of some who have actually used their personal credit cards to obtain cash to tide them over. Why don't they go to SBA? They say the red tape is too much for them and takes too long; their problems are immediate.

3. No, I have not made a study, but it is evident that the new legislation intends that SBA have an ongoing capability to assess the impact of all programs as they develop and affect small business.

4. This question can probably be best answered by one of the organizations of small businesses whose representatives testified at the hearings.

5. In my testimony I said that the new legislation was an important first step and asked that Part V of my paper be

included in the record because it contained recommendations which go beyond the provisions of S. 1726. For example, I recommend an Investment Reserve Fund into which a business would pay and from which it may draw at later times.

6. It is not a question of "government intervention" we are talking about. We are endeavoring to have government provide the environment within which private enterprise (which I equate to small business) may survive. Other economic systems, which do not propagandize themselves as being private enterprise systems, do much to provide such an environment. Small business is the essence of the American Economic System and is desperately needed if we are to preserve the basic nature of that system. It is obvious that Big business will not bring us full employment. Fiscal Policy and Monetary Policy may bring to big Business all the employment it wants, but cooperation of Government and Small Business is what we need if we are ever to achieve full employment again.

Sincerely yours,

George A. Doyle

GEORGE A. DOYLE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

June 30, 1977

Mr. Richard L. Lesher
President
Chamber of Commerce of the
United States
1615 H Street, N.W.
Washington, D.C. 20005

Dear Mr. Lesher:

Senator James A. McClure has requested that the enclosed questions be sent to you. Your answers will be included in the record of the hearings on the Small Business Investment Policy and Advocacy Reorganization Act of 1977 which were held yesterday.

We would appreciate your reply as soon as possible in order to insert the answers in the final transcript.

Thank you for your attention to this matter.

Sincerely,

John R. Stark
Executive Director

Enclosure

JRS:bb

1. On page 7 of your statement you say that subsection (4) of Title III of S. 1726 "is objectionable." Would you elaborate. I think I can see why the U.S. Chamber would say that, but would you please provide the Committees the reasons why you make that flat statement.

2. Also, on page 7 of your statement you denigrate the possibilities of the Small Business Economic Council of producing worthwhile policy on behalf of small business. In light of your experience, why do you make that statement?

3. On page 8 you question the need for a separate small business department--you imply that this agency might better be folded into the Department of Commerce. Do you have any background as to why Congress originally enacted legislation which separated the two agencies? When did the National Chamber establish its own small business council? Have you been pleased with the work of this Council? Has it served a useful purpose?

4. I understand that many small businesses are turning to finance companies for loans. Is this true? Although small in amount so far, why are any small firms doing this, in view of the higher borrowing costs involved? Aren't commercial banks ready and eager to lend to small businesses at the present time?

5. Have you made any assessment of the impact of Carter's energy proposals on small business?

6. Do you have figures on the investment cost per job for small business, compared to large business in the same industry?

7. Is a statement of Federal policy to promote investment in small business as contained in the "Small Business Investment Policy and Advocacy Reorganization Act of 1977, sufficient, or do we need specific programs and machinery?

8. Would you prefer more government intervention in our economy, aimed at aiding small business, or less government intervention and fewer government programs, even though designed to aid small business?

center for small business

July 29, 1977

Mr. John R. Stark
Executive Director
Joint Economic Committee
United States Senate
Washington, D. C. 20510

Dear Mr. Stark:

At the request of Dr. Richard L. Lesher I am attaching the questions submitted by Senator McClure in regard to S. 1726 which you have asked Dr. Lesher to answer, along with his responses.

Cordially,

Ivan C. Elmer

Ivan C. Elmer
Director

Attachments

chamber of commerce of the united states 1615 h street n.w. / washington, d.c. 20062

1. On page 7 of your statement you say that subsection (4) of Title III of S. 1726 "is objectionable." Would you elaborate. I think I can see why the U.S. Chamber would say that, but would you please provide the Committees the reasons why you make that flat statement.

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5. Have you made any assessment of the impact of Carter's energy proposals on small business?

6. Do you have figures on the investment cost per job for small business, compared to large business in the same industry?

7. Is a statement of Federal policy to promote investment in small business as contained in the "Small Business Investment Policy and Advocacy Reorganization Act of 1977, sufficient, or do we need specific programs and machinery?

8. Would you prefer more government intervention in our economy, aimed at aiding small business, or less government intervention and fewer government programs, even though designed to aid small business?

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1. Our objections begin with Section II, the Declaration of Small Business Investment Policy, in which it is stated, "The Federal Government is committed to an ongoing policy of using all reasonable means..." "to coordinate planning activity...to promote investment in small business." This is a clear call, in familar language, for national economic planning and credit allocation, both of which our members reject.

   In our view subsection(4) of Title IV is an objectionable step toward that form of national economic planning which substitutes public choice for private choice in allocating investment funds. The characteristic that most distinguishes the U.S. private enterprise system from others is our allocation of capital funds under the discipline of market forces.

   Federal planning of the allocation of private capital funds as in subsection(4) and section(201) would not achieve its avowed objectives. Instead, it would distort the allocation of resources. It would thereby increase costs to consumers. It would impair economic incentives of business investors, both large and small. Such allocation under national planning would increase the uncertainty element in private capital spending decisions by businesses of all sizes and it would retard capital formation.

   It is especially objectionable to require the independent agencies of the Federal Government, including the Federal Reserve Board, to substitute their judgment for the discipline of market forces in allocating capital funds.

2. Our comments in regard to the Small Business Economic Council did not treat the question of whether such a Council could make worthwhile policy statements; our concern is whether statements so generated would be influential in the policy processes of the Federal Government. There are all too many examples of statutes, such as the Rural Development Act of 1974, which set forth goals and separate policy mechanisms but which have had little visible effect on the way in which the Federal Government conducts its business.

   We would not want small business to be so treated, and we suggested alternatives which we believe to be more effective ways of serving small business policy needs.

3. Our comments on Page 8 in regard to Title V do not suggest that SBA should be folded into Commerce. They merely call for clarification of roles and raise questions in regard to a sound policymaking structure to serve needs of small business. We say those needs should be represented more consistently and more broadly throughout the Federal Government.

Our experience with the Chamber's Council of Small Business illustrates our point, so far as policymaking is concerned. Our Council was not established to make final overall policy but to make recommendations for policy important to small business and to be represented consistently in the policy body of the Chamber: our Board of Directors. There is only one policy system, and our Council is involved in every policy question of importance to small business.

In less than a year of operation the Council has been most useful, and we have been pleased with its work.

The Policymaking process in the Executive Branch is not comparable, and we do not believe this bill, as written, would produce a consistent policy process for the benefit of small business. Instead, the result is more likely to be one more separate but unequal forum without power to change the truly critical policy positions which are made under the jurisdiction of some other council or mechanism within the Executive Branch.

4. We regret that the Chamber does not have information on the extent to which small businesses are borrowing from finance companies. All lenders, including finance companies and commercial banks, must take the size of loans and the risk factor into account in their loan policies. Since finance companies typically make small loans to high risk borrowers their per dollar costs of lending are higher than in the case of commercial banks which typically make larger loans to less risky borrowers at corresponding lower per dollar costs of lending. The higher interest rates charged by finance companies reflect their higher unit costs of operation. If all loans from whatever source were to homogeneous borrowers there would be no need for specialized financial institutions such as small-loan companies. Their existence indicates that borrowers, including some small business firms, differ in many respects and the market has developed specialized institutions to meet the varying conditions of borrowers.

5. We have not made any assessment of the impact of President Carter's energy proposals on small business. However, our Forecasting Center's projections show that the additional taxes involved will raise total taxes from 21.5 percent of GNP in 1978 to 25.3 percent in 1988 and that per worker spendable income will be reduced by 1 percent in 1978 and by 8 percent in 1988.

6. We do not have figures on the investment cost per job for small business compared to large business in the same industry. This is the kind of statistical information that needs to be gathered as stipulated in Section 103 of the "Small Business Investment Policy and Advocacy Reorganization Act." As indicated in our testimony, we support Section 103.

7. More than a statement of intent is needed regarding promotion of investment in small business. The issue, in our estimation, is doing what is necessary to provide a better climate for the accumulation and investment of private funds. Rather than new programs or machinery, work should be directed toward freeing up markets from burdensome government regulations, reducing the levels of taxation and cutting back the Federal Government's contribution to inflation.

8. In response to your question Number 8, we concur with the goal of aiding small business. However, we cannot agree that government intervention in and regulation of the market system is the best way to achieve this goal.

On the contrary, substituting centralized public choice for decentralized private choice in allocating capital funds will reduce the efficiency of capital allocation and retard capital formation. Further intervention of government in private capital market would increase uncertainty about the economic future. The business climate would be impaired and the paperwork burden increased.

The entire business community and small business in particular is increasingly burdened by new regulations, imbalance in taxation and extensive reporting requirements for various purposes. Much of this grew out of well intentioned attempts by government to improve resource allocation through substituting public choice for private choice.

We believe that government could help business serve the community better by acting to improve the climate in which private business choices are made. In addition, the growing burden of government regulation of small business needs careful reassessment and close Congressional oversight. EPA regulation, OSHA regulation, FEA regulation, Truth-In-Lending regulation, Product Safety regulation are all based upon widely shared goals. Altogether, however, they may cause a cost and risk burden on small business that makes further government intervention seem necessary. We believe that small business could best be assisted by government through regulatory reform.

Imbalance in taxation also could be corrected to increase expected profits in business and thereby make more capital available through normal market channels.

S. 1726, SMALL BUSINESS ECONOMIC POLICY AND ADVOCACY REORGANIZATION ACT OF 1977

THURSDAY, JULY 21, 1977

U.S. SENATE, SUBCOMMITTEE ON GOVERNMENT REGULATION AND SMALL BUSINESS ADVOCACY OF THE SELECT COMMITTEE ON SMALL BUSINESS AND THE SUBCOMMITTEE ON ECONOMIC GROWTH AND STABILIZATION OF THE JOINT ECONOMIC COMMITTEE,

Washington, D.C.

The subcommittees met, pursuant to notice, at 10 a.m., in room 424, Russell Senate Office Building, Hon. Thomas J. McIntyre, chairman, presiding.

Present: Senators McIntyre and Hatch.

STATEMENT OF HON. THOMAS J. McINTYRE, A U.S. SENATOR FROM THE STATE OF NEW HAMPSHIRE

Senator McINTYRE. The committee will come to order.

This morning we will conduct our second joint hearing on S. 1726, the "Small Business Economic Policy and Advocacy Reorganization Act of 1977." The first joint hearing on this measure was held on June 29, 1977.

At that time the Subcommittee on Government Regulation and Small Business Advocacy of the Senate Select Committee on Small Business and the Subcommittee on Economic Growth and Stabilization of the Joint Economic Committee heard testimony from several small business representatives. All of those witnesses spoke in favor of the over-all concept and intent of the measure. Some association representatives provided suggestions as to how certain sections might be strengthened or amended.

Senator Humphrey and I are encouraged by this warm and enthusiastic response. It bears out my belief, too, that the SBA advocacy and small business economic research and analysis programs need to be greatly strengthened and upgraded. Those witnesses also confirmed that there is an acute lack of hard data that tells any of us just how the small business community is fairing economically.

It is imperative that the Congress move forward expeditiously in trying to resolve these two major shortcomings. I am personally convinced that Senate bill 1726 before us today provides the mechanism and resources to address these issues in a responsible and timely fashion. As I said on June 29, S. 1726 represents what I believe to be a landmark piece of legislation.

So this morning we have invited spokesmen from the Small Business Administration, the Department of Commerce, and the Securities and Exchange Commission to give us their views on the Small Business Economic Policy and Advocacy Reorganization Act of 1977.

Our first witness, and I am happy to welcome him here this morning, is the Chairman of the Securities and Exchange Commission, Mr. Harold M. Williams.

Mr. Williams, I wish to welcome you here. I have your statement and I notice it is 9 to 10 pages. It would be appreciated if you could manage to save us a little time this morning by hitting the high spots. But I want you to testify anyway you see fit. If you can save us 3 minutes, so much the better.

STATEMENT OF HON. HAROLD M. WILLIAMS, CHAIRMAN, SECURITIES AND EXCHANGE COMMISSION

Mr. WILLIAMS. Fair enough. Thank you, Mr. Chairman.

As one who has spent the bulk of his career in big business and has long recognized the vital importance to our economy of a strong small business sector, I fully support the principles underlying the comprehensive proposal embodied in S. 1726.

The importance to our Nation of an economic climate conducive to the growth of small businesses cannot be overstated. In case after case, technological innovations and new products with a profound impact on our society have originated—not from large and established businesses—but from small or start-up firms with limited capital. Further, the opportunity which our economic system affords the individual to go into business for himself is one of its greatest strengths. The principles underlying S. 1726 recognize and respond to this important role of the small business.

We need to recognize of course that many of the problems which face the small entrepreneur result from factors that are rooted in the broad economic environment. For example, even when the economy overall is strong, small businesses may be subject to violent swings, the length and depth of which can stretch their limited resources to the breaking point. The general economy must, at a minimum, remain on a reasonably even keel if small businesses are to operate in a climate in which they can produce a stable stream of earnings.

Matters such as economy-wide interest rates also exert a decisive effect on the capability of riskier ventures to raise new capital. When investors have confidence in their ability to receive a return in the range of 8 to 10 percent on the senior debt and equity obligations of large, mature corporations, it is difficult to fault their cautious avoidance of the risks associated with many small businesses. Although these overall economic parameters may, in many ways, be outside of the Federal Government's direct control, there are a number of steps and a number of impacts in areas such as tax policy and the other effects of Government regulation which are within the governmental reach and which can create additional incentives or reduce disincentives for investment in small businesses.

S. 1726 represents the kind of legislation which can coordinate and strengthen the Federal Government's efforts to identify those actions necessary to promote the growth of small businesses. As a result of this bill, the Small Business Administration would acquire the tools necessary for the creation of a data base adequate to deal confidently and analytically with the fundamental problems which have plagued small business for far too long.

Senator McINTYRE. Let me ask you a question at that point—when I was looking at this opening statement this morning, I had a kind of chill run down my spine when it said that we lacked data. One of the advocations of this Senator is paperwork and trying to get a handle on it. I would hope you would let me know if you see someplace in this bill where we are asking the bureaucrats to try to get more information. I say bureaucrats in the best sense of the word, too.

The staff says that the data is all available; it just has to be obtained from existing sources. Nevertheless, if we are going to be wringing somebody's neck for more and more information about what they are doing, how many people they have got on their payroll and so on, I am going to be awfully sad.

Mr. WILLIAMS. I share your concern. My own sense is that much if not all of the data is available. Whether it is available in the kind of form that makes it readily accessible is something we have to look at.

Perhaps even more important in my judgment would be the enhanced level of communication and cooperation between the SBA and the other Federal agencies and departments which impact on capital formation which would be fostered by the creation of the Council. This would go a long way toward removing the stumbling blocks to effective governmental encouragement of small business.

I might note generally that in my judgment the issue of capital formation is a vital and central one to the effectiveness of our economy, and I am still looking in my 3 months in Washington for a focal point, the place where one has the responsibility to oversee the impact of Federal governmental activity on capital formation. There are many organizations, many agencies, many departments that have an impact. There are many that seem to have a piece of the action, if you will, but no place where the various actors and the various impactors come together to take a look at what it is—what kind of impact they are having.

I welcome the opportunity which S. 1726 would provide for the Commission's Chairman to serve as a member of the proposed new Council. I believe not only might we have something to bring to the discussion, but also that the Commission would benefit in that our own sensitivity to the special needs of small business would be enhanced by virtue of the Council's work.

Now, there are a number of things that are ongoing at the Commission at this time in which the Commission is itself endeavoring to review its rulemaking initiatives, review the way it does business, to enhance our sensitivity to, and to accommodate the special needs of, small businesses and blend those to the requirements of the Federal securities laws.

Senator McINTYRE. Let me interrupt you again.

I wanted to ask you how many commissions do you serve on by virtue of your office now?

Mr. WILLIAMS. Just one—my own Commission.

Senator McINTYRE. Only one! I thought you were going to say six.

Mr. WILLIAMS. There is a second one, I guess, by statute to be on. That is the special Lockheed Commission, but in view of the SEC activities in relation to Lockheed, I do not serve on that Commission.

In the interest of time I think I might just summarize briefly three or four of the specific ongoing activities involving the Commission at this time which are designed to sensitize and facilitate our relationship to small business.

I might note parenthetically though that the Commission has in a sense a dilemma. The Commission's broad statutory mandate is to insure the protection of investors. The task of identifying the impact of Commission regulations on small businesses and judging the extent to which any rule revisions which might assist small business may impair the protection of investors. Such ventures entail a careful balancing of two very important national goals—one which the Commission needs on a continuing basis to be sensitive to in terms of its trade-offs and implications.

One of the unusual activities that the Commission is engaged began in March of this year when the Commission and the Department of Commerce announced a joint project to monitor the impact of certain Commission regulations on the ability of small businesses to obtain capital funding. Under this project, known as the "Experimental Technology Incentives Program," which in typical Washingtonian fashion we have now dubbed "ETIP," the National Bureau of Standards and the Commission will combine resources to monitor the capital markets which supply financing to small, technology-based firms such as manufacturers of electronic components, scientific instruments, chemicals, and computer equipment.

The Commission's concerns in this area stem from the fact that the funding sources available to small businesses appear to have diminished during recent years. The ETIP study is intended to determine the extent to which these reductions may be a result of the securities laws and to establish an experimental monitoring system to obtain timely information on the impact of Commission regulations. The proposed ETIP system will allow simultaneous analysis of the benefits and costs of regulations so the net effect of rulemaking actions can be assessed within a short period after a regulation has been adopted or amended.

Since it will take us several years to complete the ETIP program, we have undertaken simultaneously an independent review to determine whether immediate revision to the Commission's rules might be appropriate in order to further accommodate the needs of small business.

We are in the process for example of reviewing the narrative and financial statement disclosure requirements for sales of securities not exceeding $1 or $2 million in order to simplify those requirements for small businesses. At the same time, recognizing that any registration statement entails considerable expense to a small business, possibly expense of a magnitude that precludes the availability of public distribution, we are looking at the development of rules to permit increased dollar amounts of securities to be sold without registration. In this regard, a project is under review which would make the commission's existing small issue exemption, "Regulation A," more viable and more readily available for established small business seeking to raise up to $500,000.

We are also in the process of reexamining our rule 146, which relates to private placement of securities, and expect to have a reassessment of that rule available to the Commission before September of this year. We are looking at the feasibility of drafting a rule to exempt from Securities Act registration small offerings which are registered with State securities commissions, particularly and probably only in those States which have a Uniform Securities Act or the equivalent thereof. There are a number of practical problems and objections that have been raised to this concept based primarily on the complexity of determining by rule what standard of State regulation would be an adequate condition for Federal exemption. At this time, it is unclear whether we will be able to find satisfactory solutions to the theoretical problems inherent in this project.

Senator McIntyre. Well, this sounds great. What you are telling me here sounds great. As a member of the Paperwork Commission, I have often asked why instead of filing a report every month, why it can't be done semi-annually or annually? One day I got what I thought was a stupid answer, but then maybe I'm not being fair. The answer was, if the reports were not filed quarterly, but annually, it would interfere with the workload. I am not sure that person meant what I think he meant. [Laughter.]

Mr. Williams. I suspect he did.

Senator McIntyre. It has been a good story ever since and I cannot argue with it. But I am delighted to see this sort of work going on in your Commission.

Mr. Williams. That highlights at least the three activities ongoing. There are some others as well.

Senator Hatch. May I interrupt you at that point, Mr. Williams? I appreciate this too, as a matter of fact. You probably realize that back in 1969 we had over 500 regulation exemptions and last year only 8, and I am not so sure that it is because of over-regulation by the Securities and Exchange Commission since only a short form registration statements normally required in the regulation with such offerings. But I am sure that one of the real reasons why regulation offerings are basically dead—that is, exempted offerings are deminishing or at least you are having difficulty getting attorneys to do them—is because of the over-restrictive reaction to 10b–5 in our society.

In other words, here we have a short-form registration statement that really is never intended to be a full disclosure of everything there is to be told about that business but, more or less, an accurate disclosure. Yet, in retrospect, 80 percent of small businesses go bankrupt. Then we wind up with all kinds of litigation against the promoters, the accountants, and the attorneys on the basis of so-called inadequate disclosure, so that they are all scared off from doing these offerings.

One of the things that I am suggesting in the small business bill that we are working on is that we actually mute the 10b–5 obligations and the 10b–5 impact on small business, and that we just go back to the common law standard. People realize they are taking huge risks in investing in small businesses and are willing to do so, but the promoters and the accountants and the attorneys are not willing to take the risks themselves to promote the small businesses, or get them started, because of the almost unlimited liability arising from offerings covered by rule 10b–5.

Now, have you taken into consideration perhaps muting 10b–5 with regard to these areas, without removing the obligation of the Securities and Exchange Commission or anybody else to go after those particular instances where we have common law fraud?

Mr. WILLIAMS. Senator, I do not know whether the staff or the Commission, prior to my coming to the Commission, looked at that question specifically. I will determine whether they have or not.

Let me suggest this, though—it ties back to one of the comments I made, and that is, what we need to balance here is the protection of investors and facilitating capital raising for small businesses. In many ways, I think we can document that many of the grossest abuses of the capital-raising process or abuses of investors, if you will, occur in small businesses——

Senator HATCH. There is no question about that.

Mr. WILLIAMS. It is a delicate balance. If we had a chance to work with you——

Senator HATCH. I would like to do it. From an economic standpoint, I would say the abuses really amount to almost nothing. When you compare them to the abuses that occurred in equity funding, which uses the long-form series of registration, all of the abuses that have occurred in small businesses would not make a dot on equity funding's sheet of paper.

Mr. WILLIAMS. Probably true.

Senator HATCH. But I think what I am trying to say is this: Speaking as a former securities attorney and practicing lawyer who worked in the small business area for many years, the real problem today is that you cannot get professionals to work with the small business people because they realize that these people are, in many cases, not sophisticated people, who may or may not give them all the details that they really need to know, even if they ask for them. Also, professionals have almost unlimited liability because of the nature of the short-form offering or the exempted offering or the intrastate offering or the 144 series types of offerings; and, as a consequence, nobody wants to handle them any more, at least not without charging inordinate fees to do so. I think that there have been some tremendously bad abuses caused as a result of over-regulation and over-litigation in this area, and particularly overuse of 10b–5. Maybe we need to go back to the common law fraud viewpoint where you must have willful, wanton, and malicious fraud. You must have *mens rea*. I would just like to cite that as something you ought to consider because I think we have some hope for assistance in these areas in your Administration.

Mr. WILLIAMS. We would be glad to look at it with you. There may be another way to slice it, too, and that is by the kind of investors—if institutional investors or venture capitalists, whatever, are much better able to assess risks and take care of themselves.

Senator HATCH. Most of them will not invest in the inception of small business company. Most of the people who invest in those are people who probably would not fit within the category of "sophisticated" investors.

Mr. WILLIAMS. That is part of the problem.

Senator HATCH. But I think most people are willing to take the risk in the hope that they might have an incipient IBM, you see. Maybe the risk is worth taking.

Mr. WILLIAMS. I think I may disagree with you at least in part on that. You may be overstating at least my perception of the importance of your point although I agree it is a valid one and has a very clear impact certainly on the cost of getting to market, if you will, and that wipes out a number of small businesses from getting to the market in the first place.

But the other side of it is, in many ways the market is not there, and the market is not there for two reasons. One is that there are safer places to invest and with good yields as perceived at this time. I think the marketplace is generally not that preceptive for a number of reasons, including tax policy and a number of other factors.

Senator HATCH. Could I interrupt you at that point? Actually I have found that a market is there, but not a market in the sense of a trading market. There were, for instance, back in 1969 as I recall, an excess of 500 regulation A offerings. A lot of them raised money. They raised considerably more money from exempted offerings or intrastate offerings than we do today.

Mr. WILLIAMS. That was very significantly a different kind of market.

Senator HATCH. That is true; but, what I am saying is, maybe we ought to provide the incentives to these small businesses to get started.

Mr. WILLIAMS. I agree.

Senator HATCH. And maybe we ought to be willing to take the risks, and maybe we ought to take this 10b–5 burden away so that we have lesser legal and accounting costs——

Mr. WILLIAMS. I think 10b–5 in that context is a piece of the puzzle I agree with.

Senator HATCH. Maybe we ought to modify it. It may be that something in between elimination and *status quo* would be appropriate.

Mr. WILLIAMS. I think there are other dimensions that we also need to address, in addition. I think also the underlying tone of the market is such that I am not at all convinced that the people who take the risks on small business investment ventures recognize the loss opportunity as clearly as it exists.

Senator HATCH. As a practical matter, they are never going to recognize it by reading any prospectus. You and I both know that because they do have now a boiler plate in there that says they are going to lose everything they have and so forth. So the prospectus is, as presently required by the SEC, except from the viewpoint of keen analytical minds, basically useless. Again, this may be another problem in the overall scheme of helping capital formation in the area of small business.

I am just throwing these things out, and it is true I am taking kind of an avant-garde position here in the hope that we might be able to help small businesses get going. I think it is worth taking some of the risks—and I think people would be willing to—especially if we had an education program in our society that made clear that these are risk offerings but that, under these specific circumstances, we are going to let them go and that you are probably going to lose your money. If they hit, however, they are going to be good. I think we have to delineate between exempted offerings and nonpublic market offerings and those which hit the over-the-counter markets.

Mr. WILLIAMS. Perhaps just a cover sheet disclaimer.

Senator HATCH. Yes, a procedure that would be without that overwhelming liability on the part of everybody who tries to start a new business; and, if we are going to lose some money, we are going to lose some money.

Mr. WILLIAMS. The cover sheet disclaimant says this may be hazardous to your health.

Senator HATCH. That is right.

Mr. WILLIAMS. Maybe all we need.

Senator HATCH. But we do it every day. In fact, we stifle business development in America through, I think, over-reaction on the part of the Securities and Exchange Commission. Like I say, all of the stock fraud losses in the small business area would not make a drop in the sea of equity funding, and yet you do not hear nearly as much about equity funding problems as we do about the little kind of stock fraud in the $30,000 offering.

Mr. WILLIAMS. I would disagree with that, but——

Senator HATCH. Maybe you and I have been listening to different people.

Senator MCINTYRE. Well, I do not want to interrupt, but we have two other witnesses and I want to ask a few more questions.

Can you proceed now to finish up with your statement?

Mr. WILLIAMS. I have finished.

Senator MCINTYRE. You are finished.

Senator HATCH. Well, we appreciate your candor and your willingness to consider some of these areas, and I would like to sit down with you and discuss them.

Senator MCINTYRE. Mr. Williams, to the best of your knowledge does any Federal Government entity precisely define the amount of short- and long-term debt and equity capital going to smaller concerns? Do you know of any Government entity that does this work precisely?

Mr. WILLIAMS. We collect data on new issues that are cleared by the Commission, those that are in any way filed with the Commission. That would pick up most of the new capital offerings.

Now in terms of the aggregate of total capital investment in small business, I do not know of any source that would have that information.

Senator MCINTYRE. Another key role of the council is to help SBA obtain data in order for SBA to undertake comprehensive economic research and analyses as it relates to the small business community. So my question is—can the SEC be helpful in this endeavor? For instance, could the Commission regularly furnish to SBA the number of regulation A filings and the number of firm underwritings below a certain dollar amount and so forth?

Mr. WILLIAMS. Very easily, and we would be glad to do so.

Senator MCINTYRE. You would not have to hire 10 new people down there to do this?

Mr. WILLIAMS. No, no. Just pay about 10 cents a page for a little more Xeroxing and they can have how many copies they want.

Senator MCINTYRE. One of the interesting factors that has come to the attention of the committee this morning is that the SEC endorses S. 1726 while our next witness, Mr. Weaver of the SBA, opposes S. 1726. But, of course, you are fortunate, you do not have to clear your statements with OMB. [Laughter.]

Following up on that first question—on regulation A offerings, does the Commission ever follow up to determine if the offering was successful? Do you determine if the concern raised any funds?

Mr. WILLIAMS. We, as a matter of routine, will have a follow-up, yes; our reporting system will tell us what disposition was of the offering, whether it was withdrawn, whether it was totally or fully successful and how much money was raised.

Senator MCINTYRE. Thank you, Mr. Williams.

Senator HATCH. Do you think that small business is keeping up with, or falling behind, the general economic growth trends?

Mr. WILLIAMS. I think it is falling behind.

Senator HATCH. I do also.

I understand that many small businesses are turning to finance companies for loans. Is that true, if you know?

Mr. WILLIAMS. I have no quantitative data, but I would expect that to be true. It is certainly true in those instances that I am familiar with.

Senator HATCH. Since they are turning to finance companies for loans, why would they not be turning to the banks where they would get at least presumptively better interest rates and better treatment?

Mr. WILLIAMS. I would assume that there are probably several reasons. I am speculating rather than knowing, but my assumption would be that, first of all, over a time the availability of bank financing has been tight and many of them may be turning to finance companies because bank financing has not been available.

It may also be the form of financing. If factoring is required, which many of them might need to do, it just may be that the quality of the credit or the nature of the financing is outside that of the typical commercial bank.

Senator HATCH. Have you made any assessment of the impact of Carter's energy program on small business?

Mr. WILLIAMS. No, sir.

Senator HATCH. Are you intending to make any assessments in this area?

Mr. WILLIAMS. No. If I could take you back on your question, there are many programs on the part of the Federal Government that must have enormous and probably an inordinate impact directly or indirectly on small business. OSHA might be one such program and the investment policy implications of ERISA would be another. I would hope that those are being considered in terms of their impact on capital formation generally and on small business in particular.

Senator HATCH. I have really appreciated listening. This is the first time I have met you, and I think there needs to be a wholesale reexamination of this whole area because I think the Securities and Exchange Commission has had a great deal to do with the stifling of small business capital formation in America in their zeal to be able to say that nobody in America is defrauded or suffers investment loss. I think, in the process, America is suffering and we have got to somehow reach a balance situation where we minimize investment loss but still recognize that risks are involved in an area where 80 percent of the businesses have failed. But 20 percent become our businesses—at least 2 or 3 percent probably become our great businesses—of tomorrow and become fairly effective in the promulgation of business standards in our society.

I appreciate it and would like to sit down with you and discuss them.

Mr. WILLIAMS. I would like the opportunity.

Senator HATCH. So would I. Thank you.

Senator MCINTYRE. Thank you very much, Mr. Williams, for being with us this morning. I appreciate your testimony and especially your support of this bill.

[The prepared statement of Mr. Williams follows:]

TESTIMONY OF THE HONORABLE HAROLD M. WILLIAMS, CHAIRMAN, SECURITIES AND EXCHANGE COMMISSION, BEFORE THE SUBCOMMITTEE ON ECONOMIC GROWTH AND STABILIZATION OF THE JOINT ECONOMIC COMMITTEE, AND THE SUBCOMMITTEE ON GOVERNMENT REGULATION AND SMALL BUSINESS ADVOCACY OF THE SENATE SELECT COMMITTEE ON SMALL BUSINESS

July 21, 1977

Chairman Humphrey, Chairman McIntyre, Members of the Subcommittees:

As one who has long recognized the vital importance to our economy of a strong small business sector, I fully support the principles underlying the comprehensive proposal embodied in S. 1726, the Small Business Economic Policy and Advocacy Reorganization Act of 1977. The importance to our Nation of an economic climate conducive to the growth of small businesses cannot be overstated. In case after case, technological innovations and new products with a profound impact on our society have originated — not from large and established businesses — but from small or start-up firms with limited capital. Further, the opportunity which our economic system affords the individual to go into business for himself is one of its greatest strengths. The principles underlying S. 1726 recognize and respond to the important role of the small business.

It must, however, be recognized that many of the problems which face the small entrepeneur result from factors rooted in the broad economic environment. For example, even when the economy overall is strong, small businesses may be subject to violent swings, the length and depth of which can stretch their limited resources to the breaking point. The general economy must, at a minimum, remain on a reasonably even kheel if small businesses are to operate in a climate in which they can produce a stable stream of earnings.

Economy-wide interest rates also exert a decisive effect on the capability of riskier ventures to raise new capital. When investors have confidence in their ability to receive a return in the range of 8-10% on the senior debt and equity obligations of large, mature corporations, it is difficult to fault their cautious avoidance of the combination of high risk and small return associated with many small businesses. Although these overall economic parameters may, in many ways, be outside of the federal government's direct control, there are certain steps — particularly in the area of tax policy — which are within the governmental reach and can create additional incentives for investment in small businesses.

S. 1726 represents the kind of legislation which can coordinate and strengthen the federal government's efforts to identify those actions necessary to promote the growth of small businesses. As a result of this bill, the Small Business Administration would acquire the tools necessary for the creation of a data base adequate to deal confidently and analytically with the fundamental problems which have plagued small business for far too long. Moreover, the enhanced level of communication and cooperation between the SBA and other pertinent federal agencies and departments which would be fostered by the creation of the Small Business Economic Council could go a long way toward removing the stumbling blocks to effective governmental encouragement of small business.

I also welcome the opportunity which S. 1726 affords for the Commission's Chairman to serve as a member of the proposed new Council. This group would assist the federal government in responding meaningfully to the concerns of small businesses, and simlarly, I believe that the Commission would benefit in that our own sensitivity to the special needs of small business would be enhanced by virtue of the Council's work.

During the balance of my statement this morning, I would like to outline briefly some of the steps which the Commission has already undertaken in order to accommodate the special needs of small businesses to the requirements of the federal securities laws. A brief summary of these projects follows, and a more detailed discussion of the Commission's rulemaking initiatives appears in the separate memorandum I would like to submit for the record as an addendum to this testimony.

The Commission is optimistic that these programs will provide the means by which we may assess the impact of past and future Commission rulemaking activities on small businesses, and may lead to more immediate steps to improve the capital-raising capabilities of small firms. It must be recognized, however, that the Commission's broad statutory mandate is to insure the protection of investors. The task of identifying the impact of Commission regulations on small businesses and of assessing the extent to which any rule revisions designed to assist small businesses may impair the protection of the investors in such ventures entails careful balancing of two important national goals.

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Experimental Technology Incentives Program

Consistent with the objective stated in S. 1726 of assuring that "adequate capital at reasonable cost is available to small and medium-sized business," the Commission has initiated a number of rulemaking and study projects designed to minimize the regulatory burden imposed on small business to the extent compatible with the protection of public investors. For example, in March of this year, the Commission and the Department of Commerce announced a joint project to monitor the impact of certain Commission regulations on the ability of small businesses to secure capital funding. Under this project, known as the "Experimental Technology Incentives Program," or "ETIP," the National Bureau of Standards and the Commission will combine resources to monitor the capital markets which supply financing to small, technology-based firms, such as manufacturers of electronic components, scientific instruments, chemicals, and computer equipment.

The Commission's concerns in this area stem from the fact that the funding sources available to small businesses appear to have diminished during recent years. The ETIP study is intended to determine the extent to which these reductions may be a result of the securities laws and to establish an experimental monitoring system to obtain timely information on the impact of Commission regulations. The proposed ETIP system will allow simultaneous analysis of the benefits and costs of regulations so the net effect of rulemaking actions can be assessed within a short period after a regulation has been adopted or amended.

The staff of the Commission has already developed a tentative outline of certain of the matters to be considered in the ETIP study. We expect the focus will be upon those existing regulations which have been of greatest concern to small businesses. These generally include exemptive provisions under the Securities Act of 1933 which enable an issuer to raise capital without the need for a full-blown registration statement under that Act. Using these criteria, the regulations which we anticipate will be the subject of the ETIP study include Regulation A and Rules 144, 146, and 240. Although these provisions are discussed in greater detail in the attached memorandum, I will describe them briefly at this point as a background to further discussion and because of their relation to small-venture capital information.

Regulation A is an exemption from the registration requirements of the Securities Act for small offerings not in excess of $500,000 and requires that the offering be made through the use of an offering circular filed with the Commission. The information content of that document in certain respects is less than required in a regular Securities Act registration statement.

Rule 144, among other things, exempts from the registration requirements of the Securities Act the sale of privately-acquired securities if the seller files a public notice of his intent to sell, he has held the securities for two years, and sells only in limited amounts in broker's transactions at a time when the issuer has current financial information publicly available.

Rule 146 provides an exemption for securities sold by an issuer when certain conditions are met, including the requirement that the sales are to no more than 35 investors who have access to the type of information normally available in a registration statement, and who satisfy certain standards concerning their knowledge and experience in evaluating the proposed investment and their ability to bear the economic risk of the investment.

Rule 240 affords an exemption from the registration requirements for sales by an issuer, where, among other things, the offering does not involve public advertising; the proceeds do not exceed $100,000 within one year; and, upon completion of the offering, the issuer's securities are beneficially owned by 100 or fewer persons.

Review of the Registration Process for Small Issuers

Since we expect that the ETIP study may take several years to complete, the Commission is also undertaking an independent review of each of the rules I have outlined above — as well as other actions — to determine whether immediate revisions might be appropriate in order to further accommodate the needs of small businesses.

As the Subcommittees' members are aware, the Securities Act of 1933 requires, in general terms, registration with the Commission of any new public offering of securities. From the perspective of small or newly-formed ventures, the costs and other burdens of registration may seem a formidable obstacle to securing needed capital. Accordingly, the Commission's review is directed to determining how, in the case of small enterprises, these burdens can be reduced or eliminated consistent with investor protection. The ability of small issuers to raise capital is especially within the expertise of the Commission's regional offices, and input from those field units has played a central role in this effort.

The Commission's review of the effect of its existing rules on small issuers has several aspects. First, the staff is currently preparing a draft release containing certain proposals which would reduce the narrative and financial statement disclosure requirements for sales of securities not exceeding one or two million dollars.

The Commission recognizes, however, the considerable expense to a small business associated with even a simplified form of registration. We are, therefore, also currently engaged in developing rules to permit increased dollar amounts of securities to be sold without registration. In this regard, a project is under review which would make the Commission's existing small issue exemption, Regulation A, a viable financing vehicle for established companies seeking to raise up to $500,000. Essentially, this project would entail the adoption of a new rule under which issuers meeting certain requirements would be able to conduct offerings without the use of an offering circular. Further, the Commission has directed the staff to develop proposed amendments to Rule 240 which would, among other things, raise the present $100,000 limitation on an issuer's aggregate unregistered sales of securities to a figure within the range of $150,000 to $250,000. These proposals have been circulated to the regional offices for their comments, and the present timetable calls for soliciting public comment this Fall.

In further response to the needs of small businesses, the Commission last January invited public comment on the desirability of retaining, revising, or rescinding Rule 146, which, as I mentioned earlier, relates to the private placement of securities. These actions result, in part, from recommendations made by the National Venture Capitalists Association, and from the January 1977 report of the Small Business Administration on venture and equity capital. The staff's present schedule is to complete its study of this matter and report to the Commission on or before September 1977.

The Commission's staff has also been exploring the feasibility of drafting a rule to exempt from Securities Act registration small offerings which are registered with state securities commissions in states which have a Uniform Securities Act or the equivalent in effect. In order to assess the workability of this proposal, the staff solicited comments from the Commission's regional administrators and from members of the North American Securities Administration. A number of very difficult practical objections have been raised to this concept, based primarily on the complexity of determining by rule what standard of state regulation would be an adequate condition for a federal exemption. At this time, it is unclear whether we will be able to find satisfactory solutions to the problems inherent in this project.

Liquidation of Venture Capitalists' Investments

Finally, the Commission is cognizant of the fact that one of the reasons for the shortage of capital available to small businesses is the difficulty encountered by venture capitalists in liquidating securities acquired pursuant to the exemption from registration for nonpublic offerings. Accordingly, in response to several recommendations made by the National Association of Venture Capitalists, and others, the staff is reconsidering Rule 144, which governs such resales, and its application to small businesses. These suggestions and the January 1977 report of the SBA Task Force on Venture and Equity Capital for Small Business which recommends relaxation of the rule, will be considered by the Commission together with other data developed by the staff.

* * * * *

The IBMs and Xeroxes of the future are going to find their genesis in small businesses. If we do not focus on how to create venture capital, we are going to jeopardize this Country's technological progress. As I stressed at the opening of my remarks, however, in many ways the problems of small businesses are rooted in broader economic factors which are perhaps not easily remedied solely by legislation. Nevertheless, the Commission is cognizant of the importance of smaller enterprises to the growth of our Nation's economy and, as I have outlined, is taking steps to minimize the impact of the federal securities laws on small firms, whenever possible consistent with Congressional mandate to protect the investing public. We will continue that effort and would look forward to the contribution which S. 1726 could make to the overall government promotion of small businesses.

I would be pleased to answer any questions the members of the Subcommittees may have.

Senator McINTYRE. We call as our next witness this morning A. Vernon Weaver, the Administrator of the Small Business Administration.

We would like to welcome you here and hope that you are finding your job interesting and entertaining and keeping you on the move.

You have a statement here of 12 pages, but if you could move through it very rapidly, we will be able to ask you some questions.

STATEMENT OF HON. A. VERNON WEAVER, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION, ACCOMPANIED BY WILLIAM T. GENNETTI, GENERAL COUNSEL, SBA

Mr. WEAVER. I would like to say that I was delighted to hear the Chairman of the Securities and Exchange Commission in his interchanges with Senator Hatch. There is no more in my opinion an important area that could benefit small business than doing something about the problems of capital formation of small business. I am delighted to hear it.

Senator HATCH. Thank you. We are delighted you were listening and that you were here today. We appreciate it.

Mr. WEAVER. Mr. Chairman, the bill's sponsors are to be commended on their efforts in drafting this major small business proposal which clearly evidences their deep and abiding concern for this Nation's small businesses. As you know, the President is fully committed to reorganize the executive branch of the Federal Government. We are determined to make SBA a model in the President's reorganization.

Toward this objective, I have already established an independent study team, consisting of top SBA and outside professionals.

Our major emphasis will be to make SBA programs and people more responsive to small businesses, to eliminate unnecessary paperwork and regulations, and to make sure our employees are utilized in the most effective and efficient manner.

I am submitting for the record a listing of the broad objectives of the reorganization study team.

Senator McINTYRE. Briefly, what are you doing on paperwork?

Mr. WEAVER. Well, we of course have met with the representatives of the Paperwork Commission. We have given the Commission a preliminary paper on what we are doing. We have cut out considerable number of forms. We have gone back to OMB to register those forms which were not registered and Senator I have appointed a full-time person to handle paperwork from now and forever more as long as I am the Administrator.

Senator McINTYRE. Good.

Mr. WEAVER. I know what happens when you get rid of them and 6 months later they are back.

Senator McINTYRE. It seems as though that every day we stop one regulation, three new ones pop up. But I am delighted. Keep at it because it is awfully important out there in the field.

Senator HATCH. While he is at this, could I just throw out an idea on the Federal paperwork?

Senator McINTYRE. Sure, as long as it doesn't take too long. [Laughter.]

Senator HATCH. They all think I take too long—at least my colleagues on the other side of the floor—but they are always gracious to me, and they pat me on the head and say he is a nice young man. [Laughter.]

Let me just say this to you. I have been toying with an idea for small business where we put the Federal paperwork burden on the agencies that require it. It is revolutionary, but I think it is about time we do something like this. I think what we ought to do is have the Commission set what the actual costs of paperwork are on the average to small business—and limit it to small business, which, incidentally, is being killed in this country in so many ways right now, capital formation being one of them, but many, many other ways—and give the responsibility to each particular agency to pay for those costs on the basis of an assessment out of its appropriation budget, making it a line item so we know just how much the Federal paperwork burden that they request costs. I think you would find that there would be a real effort on the part of every agency to maybe cut that paperwork burden down and become a little more responsive to the needs of small business. That is pretty revolutionary, but I would like you to think about it.

Senator McINTYRE. Mr. Weaver, before you return to your statement, I should add that some paperwork is useful and necessary.

Mr. WEAVER. The Administration's objective is the same as the drafters of this legislation.

My analysis and comments on S. 1726 will identify areas of concern, including the relationship of the bill to the President's ongoing reorganization initiative and SBA's reorganization.

Section 101 of the bill would amend section 4(b) of the Small Business Act by increasing the number of Associate Administrators.

SBA cannot endorse the organizational structure proposed in the bill. The President has undertaken a major reorganization effort, and it would be premature to consider an independent, legislative reorganization of SBA.

I offer, however, comments on several provisions of section 101 that we believe may be of use to you, and which support our contention that further study is desirable prior to reorganizing SBA as proposed.

The creation of an Associate Administrator for Investment, separate from the Associate Administrator for Finance, is not necessary. It would need to be demonstrated that the volume of SBIC activity alone would justify a separate office; this is not now the case.

Finally, it is our opinion that the proposed position of Associate Administrator for Advocacy and Economic Research and Analysis should not be a Presidential appointee. We believe it is inappropriate that one Associate Administrator's status be different from the others, and that one Associate Administrator should be a Presidential appointee while the Deputy Administrator, a higher ranking SBA official, is not.

Section 103 would create a new section 9 which outlines the activities of the Advocacy and Economic Research and Analysis Division and proposes 15 specific tasks.

Subsections b(6)–(8) provide for the monitoring of the activities of all other Federal departments and agencies.

The activities in b(9)–(11) are a combination of data activities, such as establishing a set of criteria for defining small- and medium-sized businesses, and reviewing the efforts of other agencies with respect to their assistance to minority enterprises. Subsections b(12)-(15) contain the advocacy activities. The new division is to serve as a focal point for the receipt of complaints, criticisms, and suggestions concerning the activities of all Federal agencies.

Once again, I would note that a final determination on the merits of the provisions of section 103 is premature while the work of the President's reorganization project is still underway.

Senator McINTYRE. I was going to ask you—the gentleman that helped you write this speech, how long has he been with SBA, do you know?

Mr. WEAVER. That helped me write this—well, there are a number of people that did. Mr. Keel has been with the SBA several years prior to his present tenure which has been several months.

Senator McINTYRE. They like the present setup pretty well.

Mr. WEAVER. Yes.

Senator McINTYRE. That is alright. I am just trying to understand some of the constraints that are on you and the advocate. We are trying to figure out how we can put the SBA Administrator in a position where he will serve as a council—legislate counsel to small business. Is he going to be able to say, "That may sound good to you, Mr. General Motors, but it does not sound too good to the local haberdasher?"

Mr. WEAVER. If A. & E.R. & A. is to be a permanent activity, we fail to see the justification for staffing it outside the normal civil service system, therefore we cannot endorse this proposal at this time.

Lastly, we are concerned that the proposed section 9(d)(3) which contemplates consultation with experts and authorities outside of the Government does not require conformance to the Federal Advisory Committee Act.

Senator McINTYRE. We do not know what you mean by "require conformance to the Federal Advisory Committee Act."

It says in your statement, lastly, we are concerned that the proposed section 9(d)(3) of the bill which contemplates consultation with experts and authorities outside of the Government does not require conformance to the Federal Advisory Committee Act". What does that mean?

Mr. WEAVER. Well, we have a number of official advisory committees at SBA——

Senator McINTYRE. A number of what?

Mr. WEAVER. Official advisory councils and committees at SBA. The President has asked us to reduce them and we are doing so considerably, but let me get my General Counsel to answer that.

There is legislation regarding how the committees act and under what authority.

Bill Gennetti—General Counsel.

Mr. GENNETTI. If this provision calls for the formation of an advisory commission or council to SBA, then it might be subject to the Federal Advisory Council Act, which is a rather formal procedure. It is hard to tell from this provision whether it is intended that there should be a continuing type of advisory organization or whether it would just be an ad hoc, from time to time, arrangement. We just need to clarify the bill's language in this regard.

Senator McINTYRE. OK, please proceed.

Mr. WEAVER. OMB Circular No. A–10 presently requires that legislative proposals of agencies be submitted to OMB for coordination and advice prior to transmission to the Congress. The agencies, in turn, are required to set forth in their communications to the Congress the advice received from OMB concerning the relationship of the proposal to the Administration's program. This is a well-established practice which has worked well over the years.

A legislative requirement to exclude SBA from this process would make it difficult for the President to develop and present to the Congress a truly coherent and coordinated legislative program.

We accordingly believe that it is to the advantage of both the Congress and the executive branch to retain the present system for OMB coordination of legislative proposals by the various agencies.

Senator McINTYRE. Well, we have this trouble over in banking, too. Before we can get an agency to tell us how they feel about something that they are working on, they have to clear it with OMB. We have done our best to get some of the various agencies—and SEC is a good example—out from under this imposition.

We think that it is fine for OMB to submit the statement that they think you should say, but we also think it would be nice if you would tell us how you think it is. Legislation will continue to be introduced that will fight this. The point is if OMB were to clear all statements, Congress would never know if SBA's position truly represented the best interests of small business or represented overall Administration policy which, when applied to small business, might be detrimental. The very nub of what we are trying to get at here would be clouded over. But I am sure you understand that.

Mr. WEAVER. Yes, sir.

The Federal Reserve and the Federal Deposit Insurance Corporation have recently instituted a quarterly survey which complies with most of the requirements of this title.

As stated earlier, the Administration is committed to reorganization and overall improvement of the executive branch to assure the very best service and assistance is available and accessable.

Pending completion of the reorganization studies we cannot endorse the provisions of S. 1726. We have, however, attempted through our analysis and comments to show our deep commitment to make any future reorganization of SBA the best one possible, and will take into consideration the provisions of this bill as we proceed.

The rest of my testimony I will just submit for the record. It concerns a number of people.

Senator McINTYRE. Thank you.

The conferees' meeting on H.R. 692—the SBA authorization bill—met yesterday and agreed to authorize an expense line item for advocacy and economic research and analysis totaling $6 million. SBA in its authorization request only asked for $820,000 for the advocacy function in fiscal year 1978.

Do you believe that SBA's original fiscal 1978 request is sufficient?

Mr. WEAVER. Not if combined with data research and management, no, sir. We were submitting that separately I believe.

Senator McINTYRE. Well, since the House and the Senate yesterday, agreed to this $6 million figure, is not the mission of the advocate as defined in the bill in desperate need of being fulfilled? Do you not believe that SBA should significantly upgrade this function and utilize more funds to insure that the advocate is more effective than he has been in the past?

Mr. WEAVER. Yes, sir, I do. Now, I do not necessarily believe that the function of computer processing, data research and its data banks, should be the Office of the Advocate necessarily. I certainly think the material should be available and I certainly think we need funds to do it.

Senator McINTYRE. What we are concerned with here is economic research.

This bill would make the Administrator an Executive Level I appointment. I understand that your endorsing this section might appear to be self-serving. I do not want to put you in an embarrassing position in anyway, but would you please tell us your personal opinion as to whether the Administrator at the Executive Level I position would enable him to be a more effective spokesman for small business within the executive branch and whether it would assist him in obtaining small business data on behalf of SBA?

Mr. WEAVER. Yes, sir, it would.

Senator McINTYRE. Mr. Weaver over the years I have heard statements by previous Administrators that they were contemplating reorganization or implementation of new policies or what have you. You suggest that consolidation of the advocacy and the economic research and analysis function is premature. Can you tell us what is specifically objectionable with regard to this proposal? It seems to me that without hard economic data the small business advocate has to end up being pretty ineffective.

Mr. WEAVER. Well, the main thing I have against the combination of two is the fact that I look upon the advocate as a gadfly or person who is very active in outside agency activities and not necessarily a good organizer, a good research person. I doubt that those two things go together.

Second, I recognized when I first came to this office the accute need of professional help in the research and data management area and I have spent literally days searching for this person. I have such a person and hired him from Control Data in Minneapolis. He will be on board in about a month. I have confidence that the ability of this person is such that he can run his own department. In fact in order to get such a person I personally had to promise that he would have his own department.

Senator McINTYRE. Your statement appears to take issue with the fact that the Associate Administrator for Advocacy and Economic Research and Analysis is Presidentially appointed. Public Law 94–305 creates a position of Chief Counsel for Advocacy which would be appointed by the President and confirmed by the Senate. S. 1726 still leaves this redefined position a Presidential appointment, but makes him accountable to the Administrator. Public Law 94–305 makes the Advocate accountable to no one.

To make sure we have a clear understanding, what kind of advocate position would you or do you desire?

Mr. WEAVER. I desire to have him accountable to the Administrator and I appreciate that part of the bill.

Senator McIntyre. You do like that.

Mr. Weaver. Yes, sir.

Senator McIntyre. I will yield to Senator Hatch.

Senator Hatch. I am very happy to get acquainted with you also. What effect do you think the minimum wage has on small business capital formation and the ability of small businesses to maintain and obtain employees? It is presently $2.30, apparently they are going to switch it to——

Mr. Weaver. Well, the very small business of course is not helped by the minimum wage.

Senator Hatch. They are not what?

Mr. Weaver. They are not helped by the minimum wage going up.

Senator Hatch. You are talking about the very small businesses. These are the businesses without a lot of capital base, businesses of less than $1 million in capital.

Mr. Weaver. Yes, sir, the more menial type——

Senator Hatch. Yes, food type businesses and service type businesses. So you are saying they are not helped by the minimum wage?

Mr. Weaver. They are hurt. I know the restraints when the minimum wage goes up.

Senator Hatch. Do we lose a lot of jobs when the minimum wage goes up?

Mr. Weaver. That is my experience.

Senator Hatch. Does it interfere with, and really hurt, those who are presently on unemployment rolls, such as 50 percent of our young blacks in our society and 20 to 40 percent of other young people between the ages of 16 and 26?

Mr. Weaver. Well, I do not want to say that I am against minimum wage——

Senator Hatch. I do not think anyone wants to say that but the fact of the matter is in this area it is a doggone deleterious thing is it not.

Mr. Weaver. In the smaller businesses the ones that are employee intensive, there is no doubt it hurts them and it creates more unemployment in my opinion.

Senator Hatch. As to this, some of the ideas I have been working with do consider a tax cut for small business and also an increase in the right to accumulate earnings. Would you disagree with those stimulations, or at least those aspects, in helping small businesses to survive and also to create capital?

Mr. Weaver. I very much favor a tax cut for small business, but I recognize the difficulty of isolating small businesses in order to receive such a cut.

Senator Hatch. We might as well have it across the board for all business, and it would stimulate business and employment and everything else. I think gradually people are coming to that conclusion, we have been advocating that rather strongly, but you would agree then that, if we had a tax cut across the board, it would not only stimulate funds for small business but would also be stimulatory to the whole economy.

Mr. Weaver. I am looking for a tax cut for small business and I agree that in order to get it you are probably going to have an across the board tax cut.

Senator HATCH. Let me throw another idea out. I have been toying with the idea that what we need in small business is the ability to rollover capital gains.

Mr. WEAVER. I agree with that.

Senator HATCH. If we can roll them over so that small businesses which invest in other small businesses get to rollover capital gain, that would be very beneficial.

Mr. WEAVER. If there is one thing that would help small business, I think that would be a tax cut.

Senator HATCH. What if we go further and we say that anybody who receives a capital gain who invests that capital gain in a small business will defer the capital gains tax on that capital gain?

Mr. WEAVER. I am for it.

Senator HATCH. You would be for it. That would mean the Government would have to share part of the risk, considering that 80 percent—and I think I am fairly accurate on that—of small businesses do fail.

Mr. WEAVER. Correct.

Senator HATCH. You think that is a worthwhile risk.

Mr. WEAVER. I do.

Senator HATCH. So do I.

Let me just make a couple of points, and I think they are important. Small business faces a capital shortage estimated at $8 billion a year. Now this is according to the Treasury Small Business Advisory Committee on Economic Policy Report dated December 19, 1976, on page 5. I think you would agree to that.

Mr. WEAVER. I will accept it, but I am not sure what the sources are.

Senator HATCH. In 1975 there were only four underwritings of new stocks which were successful for small businesses. The 1975 offerings were $16.2 million whereas 548 offerings 8 years earlier raised $16 billion. Are you aware of that?

Mr. WEAVER. I certainly am.

Senator HATCH. It is really pathetic isn't it?

Mr. WEAVER. Totally.

Senator HATCH. And I think the securities industry and the Securities and Exchange Commission—not deliberately but as an aftermath of the overprotective nature of the regulatory system—have really caused that.

Mr. WEAVER. That at least has contributed to it to a great degree.

Senator HATCH. Regulation offerings have plummeted to $49 million in 1975. There were $256 million in 1972. That is true.

Mr. WEAVER. That is what I have been saying, Senator.

Senator HATCH. OK. I am saying it, too. I want to make sure we get this in the record.

New businesses fail at an alarming rate and 80 percent die within 1 decade. Is that true?

Small businesses provide 56 percent of private sector employment, 48 percent of business output, 43 percent of the gross national product, and over half of important industrial inventions and innovations. I think you would agree with all of those.

Mr. WEAVER. I am not positive of the sources, but I certainly agree with them.

Senator HATCH. You would agree in general with those figures?

Mr. WEAVER. In general.

Senator HATCH. In 1976 Gerald Ford estimated the cost to small business in complying with Government regulations and reporting requirements at as much as $18 billion a year. That is the cost to small business. The Paperwork Commission is currently doing a study on small businesses; and, although the report is far from completion, they estimate the cost of complying with governmental regulations for small businesses to be between $15 and $22 billion a year. They also estimate the cost to be between $2,500 and $3,500 per small business in completing governmental forms. Do you find any disagreement with that particular statement?

Mr. WEAVER. Again, not the specifics, but certainly I agree with it.

Senator HATCH. The theme is right and you have been preaching it.

Mr. WEAVER. Absolutely.

Senator HATCH. The New York Stock Exchange has come up with a 10-year projection to 1985 showing business investment needs of $4.5 trillion. Some $650 billion more have been forecasted for savings over that same period. That is important to understand. If we do not have savings in our society—which savings generally occur when we have an investment climate stimulative of saving—we are not going to have a society as we know today.

Well, I would like to just ask you, what is the single most important problem in your mind facing small businesses today?

Mr. WEAVER. Lack of venture capital.

Senator HATCH. You would say it is lack of venture capital. Would inflation contribute to that?

Mr. WEAVER. Inflation certainly contributes.

Senator HATCH. Would taxes contribute?

Mr. WEAVER. Taxes are one of the reasons for lack of venture capital.

Senator HATCH. Would Government regulation also be one of the reasons for lack of venture capital?

Mr. WEAVER. Yes.

Senator HATCH. And financing is certainly always a difficulty not only among banks but among other financing institutions for the area of small business.

We have to make it easier for small business people to raise money, even though there may be some losses, some big business loss of loan availability, and some other risks that we all know.

Mr. WEAVER. I certainly agree.

Senator HATCH. Could I ask you just one or two other questions?

You would agree with increasing the regulation exemptions to around $3 million and certainly more than the $500,000?

Mr. WEAVER. It is certainly more than the $500,000.

Senator HATCH. OK.

I have also been toying with another idea that is somewhat revolutionary—I hate to keep throwing these revolutionary ideas out to you. But I understand that big business is one of the foremost advocates of creating a healthy small business climate in America because that is where the ideas come from. Big businesses have a tendency to stagnate and become managed rather than creative. Small businesses are where more creativity exists. Would you agree to that?

Mr. WEAVER. Yes, sir.

Senator HATCH. They are the future of this country. The abilities of a good, growing, innovative, creative group of small businesses tend to encourage small business investment and a climate of stability.

Well, let me ask you this—I have two other questions and then I will quit, Senator McIntyre.

I have been toying with the idea of allowing small businesses, in contravention of the Clayton Act and other antitrust laws, to combine together, unify, or get together so that they can compete on a more equitable and better basis with large business. Now what do you think of that particular idea?

Mr. WEAVER. I would have to think about that, Senator, I can see that there would be a benefit.

Senator HATCH. They would benefit with regard to volume purchases, common advertising, common marketing, and common competition.

Now understand that that may be a way of helping small businesses to survive in a climate of intense competition, caused by higher technology and better business techniques in operating and planning, and so forth.

One last question, Mr. Weaver. I understand that you would like to see the problem of insufficient funds for small business solved by increased support from the private sector rather than by direct Government loans. My question is; how can you do this, and what are the prospects for any suggestions you may have?

Mr. WEAVER. Well, I say I would like to have that done.

Senator HATCH. Sure, and I would like to have your suggestions on how you think we might be able to accomplish this.

Mr. WEAVER. I think we have been talking about the way to accomplish this. I think Mr. Williams talked about some of the ways to accomplish this. I think we have got to remove the obstacles of venture capital, I mean some tax changes to encourage venture capital.

I was in New York last month talking to a number of venture capitalists and was informed that there is actually more money available in their opinion or would be more money available as venture capital to small business than there ever has been in the history of the United States. And that the reason venture capital is not forthcoming is very simply the tax climate. These are self-serving statements perhaps on their part but that is what I was talking about.

Senator HATCH. I have sat in other hearings of the Joint Economic Committee, which of course is combined here today, where they are really investigating the tax climate and what we might be able to do to change that. Hopefully, we can come up with some good suggestions there.

Mr. WEAVER. Well, a combination of the tax climates effect on venture capital along with the acceptability of small business not only under regulation A but in secondary markets which is equally important. The ERISA law of course removed pension funds as a buyer of small business stocks——

Senator HATCH. You view that as a very bad thing.

Mr. WEAVER. I certainly do.

Senator HATCH. So do I.

Mr. WEAVER. These things altogether I think is what is necessary.

98-762 O - 78 - 18

Senator HATCH. Well, let me just say this—I have been very pleased to listen to you today, and I want to commend you. I think you have your finger on the right things. I think you are advocating the right approaches. You seem to be open for, if not innovative, at least very aggressive suggestions. Frankly, I think if you continue to do that and if you can get some help up here on the Hill, maybe we can help save our small business climate in America and perhaps strengthen the whole country in the process. Perhaps we could even do something that is very dear to my heart and begin to solve some of the tremendous unemployment problems that exist in America today, especially among our young blacks.

I want to commend you, and I do not think you and I have disagreed on one thing here today. I may be wrong, but I do not think we have. How about that?

Mr. WEAVER. Thank you.

Senator MCINTYRE. Thank you, Senator Hatch.

Senator HATCH. Thank you, Mr. Chairman.

Senator MCINTYRE. I have been reminded by the staff of a bill, S. 1745, which Senator Nelson and I have introduced and on which we had an opportunity to conduct some hearings. This is a bill to improve ERISA, and I have been able to insert all of the recommendations contained in the report of the Paperwork Commission on ERISA of December 3, 1976 as part of that proposal. There is a morass of paperwork.

In that bill the attempt is being made to break out from the pension fund and other trusts some small part——

Mr. WEAVER. Two percent.

Senator MCINTYRE. Two percent would equal $8.9 billion. I do not think we can shoot that high, and we have not named any percentage in S. 1745. We will be marking it up, hopefully, this week or next week in the Finance Committee. We are not trying to get the prudent man rule set aside. What we hope to be able to do is to make it so that the trustee or a pension manager would be able to invest some portion of these gigantic funds that are lying there really not aggressively reaching out to help the new ideas; but with all the great innovative ideas of the American public to try to get a part of this so that it would not—venture capital in a small business would not be per se imprudent. How do you feel about that bill? Do you think that is going in the right direction?

Mr. WEAVER. Yes, sir, it is.

Senator MCINTYRE. I wanted to ask this question here in contrast. On page 12 of your statement, Mr. Administrator, you state that SBICs only provided $31.8 million in financing to small businesses for I presume a 1-year period. SBA's own published figures show that SBICs provided $128.4 million in financing during calendar year 1976. Why this discrepancy?

Mr. WEAVER. I will have to furnish that for the record, Senator.[1]

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[1] Mr. Weaver supplied the following information:

"Questions raised at Senate hearing on SBIC figures for 1976—

"The $31.8 million of financing to SBIC's and MESBIC's referred to on p. 12 of the Administrator's statement is the SBA's financing to the SBIC's.

"These same figures appear in the President's budget for 1978 and in SBA's Annual Report for 1976 on pp. 20, 21, and 22. The figures referred to by the committee have reference to the SBIC and MESBIC disbursements to small business concerns. This would be the amount of money that the SBIC's put out. What we were referring to is the amount of Federal funds that went to the SBIC's, not their own investments."

Senator McINTYRE. Mr. Weaver, you say that the Federal Reserve and the FDIC have instituted a quarterly survey which would provide most of the information on bank credit to business that would be required by this bill, S. 1726. Are you not saying, in effect, that the reporting requirement in title 6 of the bill could be met?

Mr. WEAVER. I am not against the reporting requirement of this bill. I think it is fine.

Senator McINTYRE. You are not against title 6 of this bill.

Mr. WEAVER. No.

Senator McINTYRE. Mr. Weaver, you restate in your testimony what the duties and functions are for the Small Business Economic Council, but you do not express an opinion as to the merits of creating a permanent council. What is your own opinion as to the formation of such a council which would be chaired by the SBA Administrator? What is your personal view as to the statutory mission of such a council?

Mr. WEAVER. Mr. Chairman, as you pointed out earlier that would be somewhat self-serving on my part——

Senator McINTYRE. That is alright. I will forgive you for a little self-serving statement. We are not in a court of law. [Laughter.]

Mr. WEAVER. Certainly, I cannot be against such a proposal. I can see that it would have some good effects on small business—access to Secretaries of other departments that perhaps is sorely needed.

Senator McINTYRE. We have been discussing at great length this morning the area of access to capital. Mr. Hatch, who has an outstanding background in the field of venture capital for small business has addressed this subject at length. I understand you have publicly and privately stated that increasing the availability of venture capital for small business is your top priority—not one of four or five priorities, but your top priority. Is that correct?

Mr. WEAVER. Yes, sir, it is.

Senator McINTYRE. Why is it not logical, then, to single out as a separate function the Associate Administrator for investment? In other words, a position with just the responsibility for managing the investment division. I should add that it appears to me that this is just what the Small Business Investment Act of 1958, section 201, requires. What is so wrong, what is so objectionable, in having someone exclusively responsible for this critical authority?

I am sure you are already finding that as Administrator, your role is similar to that of a mayor of a town or a city in that you have a lot of functions to attend and responsibilities to address. There are distractions. In municipal government we have seen the advent of a city manager to help the mayor in carrying out his duties. The mayor is still the head of the city government, but he simply cannot do everything for himself. Are you not in demand to attend conventions? Don't you find yourself taken away from your desk a lot?

Mr. WEAVER. Yes, sir.

Senator McINTYRE. I think we in the Congress appreciate the demands that are placed on you. Bernie Boutin was one of your predecessors. He was from my hometown which is Laconia, N.H. He and I served as mayor of Laconia. He was both an outstanding mayor and Administrator. He was also Administrator of GSA. Senator Stewart Symington who was here a long time said he thought that

Bernie was probably one of the finest Administrators of the General Services Administration that we have ever had.

Bernie was with SBA for some time; he worked very hard in his capacity as Administrator. He found that there were tremendous demands on his time that took him away from his desk. He simply could not do everything himself. The point is we are desperately trying to seek out ways to build SBA into a stronger outfit, one that will allow some specialization under the direction and responsibility of the SBA Administrator. That is what we are struggling for.

Mr. WEAVER. I appreciate that.

Senator, despite the calls on time which certainly are there, and the testimony, certainly, I have been up here a number of times, I am determined to run SBA myself and I am determined that since this is my first priority, I am going to spend a great deal of time on the subject of capital formation and the lack of it, venture capital to small business. I feel so strongly about it that I am going to make the time personally to take care of it as best I can.

Senator MCINTYRE. You would agree that you could use a person full time to help you in that area alone?

Mr. WEAVER. Well, of course, we do have a man full time. It is simply a question of his title.

Senator MCINTYRE. Would you please define his responsibilities?

Mr. WEAVER. Through the Associate Administrator for Finance and Investment, there is a person who is in charge of the Investment Division, Mr. Peter McNeish, and that is his full-time job.

Senator MCINTYRE. Is Mr. McNeish the Associate Administrator for Investment?

Mr. WEAVER. No. He is Deputy Associate Administrator for Investment under the Associate Administrator for Finance and Investment.

Senator MCINTYRE. Well I appreciate your coming here today and testifying as the Administration wants you to testify. I understand the constraints you are under. I am not pointing the finger at you at all. I would probably suspect that many of the things that the Administration feels you would agree with and some you probably do not agree with. I make those remarks to assure you that my next line of questioning is not meant to be personal. I hope you do not get upset.

Mr. Weaver, I want to read to you some statements that President Carter made during his campaign:

> To measure the success of these programs my administration would develop specific statistical yardstick formulas to measure the relative growth of small business in relationship to other sectors of the economy.
>
> It will be a goal of my administration to have the growth rate of small business exceed the growth rate of big business and Government.
>
> As President my economic policy will be designed to stimulate growth.
>
> As President I would introduce and support concrete programs which would have as high priority the expansion of the independent small business sector of the economy.
>
> As President I will see that small business has a strong voice in the White House.
>
> My objective is to establish closer ties with small business.
>
> As President I will endorse a thorough study of the capital markets available to small business and will work to strength existing governmental financing programs which will allow small business viable sources of equity and financing on a parity with big business.

Can you tell me how, in any way, S. 1726 conflicts with any of the President's statements—his objectives?

Mr. WEAVER. No, it does not conflict at all. We are not against the bill.

Senator McINTYRE. You are not against it?

Mr. WEAVER. We are simply against some of the ways—we are saying it may be premature in some ways and that we are reorganizing the SBA, but the tenets of the bill we are simply not against. We certainly want to use in the reorganization of the SBA.

Senator McINTYRE. Well, I think that the Congress has been waiting with baited breath for small business bold new initiatives by the Carter administration. We think that S. 1726 is complementary to the President's goals. If it is not, how does the President plan to fulfill these promises that he made in 1976? Time is quickly passing. If you get a chance some time when you are over at the White House, you ought to tell the President that we are waiting with baited breath.

Mr. Weaver, thank you very much for being here with us this morning and for doing the very best you know how at the Agency. You have a very important job and you have a lot of friends in Congress. Do not forget that. If somebody starts pushing you around, come running to Congress.

Thank you very much.

[The prepared statement of Mr. Weaver follows:]

SMALL BUSINESS ADMINISTRATION

★★★★★★★★★★★★★ Washington, D.C. ★★★★★★★★★★★★★

STATEMENT OF

A. VERNON WEAVER, ADMINISTRATOR
UNITED STATES SMALL BUSINESS ADMINISTRATION

BEFORE THE

SUBCOMMITEE ON ECONOMIC GROWTH AND STABILIZATION
JOINT ECONOMIC COMMITTEE

AND

SUBCOMMITTEE ON GOVERNMENT REGULATIONS
AND SMALL BUSINESS ADVOCACY
COMMITTEE ON SMALL BUSINESS

UNITED STATES SENATE

JULY 21, 1977

MR. CHAIRMAN AND MEMBERS OF THE JOINT COMMITTEE:

I appreciate this opportunity to appear before you today to discuss S. 1726, cited as the "Small Business Economic Policy and Advocacy Reorganization Act of 1977."

This bill would alter the present organizational structure of SBA, thereby redistributing certain duties and responsibilities including the role and nature of the present Advocacy Office; declare a new small business investment policy; require the President to annually present a Small Business Economic Policy Report; establish a Small Business Economic Council; elevate the SBA Administrator to an Executive Level I; and require a new schedule in reports required under the Federal Deposit Insurance Corporation Act.

The bill's sponsors are to be commended on their efforts in drafting this major small business proposal which clearly evidences their deep and abiding concern for this Nation's small businesses, As you know, the President is fully committed to reorganize the Executive Branch of the Federal Government. We are determined to make SBA a model in the President's reorganization.

Toward this objective, I have already established an independent study team, consisting of top SBA and outside professionals.

Our major emphasis will be to make SBA programs and people more responsive to small businesses, to eliminate unnecessary paperwork and regulations, and to make sure our employees are utilized in the most effective and efficient manner.

I am submitting for the record a listing of the broad objectives of the reorganization study team.

We at SBA are gratified and encouraged by the interest shown by the sponsors of S. 1726, and the continuing concern and support of this Committee, to improve the Small Business Administration.

The Administration's objective is the same.

My analysis and comments on S. 1726 will identify areas of concern, including the relationship of the bill to the President's ongoing reorganization initiative and SBA's reorganization.

Generally, I believe consideration of this legislation should be deferred until the Presidential review and the SBA study have been completed.

TITLE I - ADVOCACY AND ECONOMIC RESEARCH AND ANALYSIS

Section 101 of the bill would amend Section 4(b) of the Small Business Act by increasing the number of Associate Administrators. The present position of the Associate Administrator for Finance and Investment would be divided into an Associate Administrator for Finance, who would have responsibility for all Section 7 loan programs plus Titles IV and V of the Small Business Investment Act, and an Associate Administrator for Investment who would be responsible for Title III of the Small Business Investment Act, the SBIC program. The bill would also create the position for an Associate Administrator for Advocacy and Economic Research and Analysis.

SBA cannot endorse the organizational structure proposed in the bill. The President has undertaken a major reorganization effort, and it would be premature to consider an independent, legislative reorganization of SBA.

I offer, however, comments on several provisions of Section 101 that we believe may be of use to you, and which support our contention that further study is desirable prior to reorganizing SBA as proposed.

The term "minority small business concern" is not defined in the bill. While SBA has defined this term for its several programs, Congress has not. Congress might want to provide a precise definition at this time.

The responsibilities of the Associate Administrator for Procurement Assistance would be limited to Section 8 of the Small Business Act, and would unwisely exclude the well-established duties of Section 15 of the Act relating to the joint-determination program for awarding contracts and property which benefits all small businesses.

The creation of an Associate Administrator for Investment, separate from the Associate Administrator for Finance, is not necessary. It would need to be demonstrated that the volume of SBIC activity alone would justify a separate office; this is not now the case.

Finally, it is our opinion that the proposed position of Associate Administrator for Advocacy and Economic Research and Analysis should not be a Presidential appointee. We believe it is inappropriate that one Associate Administrator's status be different from the others, and that one Associate Administrator should be a Presidential appointee while the Deputy Administrator, a higher ranking SBA official, is not.

Section 103 would create a new Section 9 which outlines the activities of the Advocacy and Economic Research and Analysis Division and proposes 15 specific tasks. These tasks are listed in great detail and may be broken down into 3 separate types. Subsections b(1)-(5) involve the collection of data and review of the small business economy, including the requirement of a quarterly report to be published with statistics on at least 12 economic categories such as layoff rates, new orders, average work week, etc., for small-and-medium-sized businesses. The aim of these activities is to provide for a data base upon which policy can be based.

Subsections b(6)-(8) provide for the monitoring of the activities of all other Federal departments and agencies. A new division is to develop proposals for changes in the policies and activities of other departments to insure that their activities will better fulfill the purposes of the Small Business Act. The direct cost and impact of Federal regulations and policies on small-and-medium-sized businesses is to be measured in order to make legislative and non-legislative proposals for eliminating unnecessary regulation. Finally, the new division is to analyze proposed and pending legislation as to its impact on small-and-medium-sized businesses and propose additions, corrections or deletions. In all three situations reports are to be filed on a timely basis with the new council to be established (which will be discussed later), the Senate Select Committee on Small Business, and Committee on Small Business of the House of Representatives.

The activites in b(9)-(11) are a combination of data activities, such as establishing a set of criteria for defining small-and-medium-sized business, and reviewing the efforts of other agencies with respect to their assistance to minority enterprises. Subsections b(12)-(15) contain the advocacy activities. The new division is to serve as a focal point for the receipt of complaints, criticisms, and suggestions concerning the activities of all Federal agencies. It is also required to represent the views and interests of small-and-medium-sized businesses before all other agencies when their policies and activities have an impact on small-and-medium-sized businesses. Finally, the new division would counsel smaller businesses how to resolve questions and problems in their relationship with the Federal Government and should disseminate information concerning the programs available to small-or-medium-sized businesses beneficial to them.

Once again, I would note that a final determination on the merits of the provisions of Section 103 is premature while the work of the President's reorganization project is still under way.

We also question the necessity, and ultimate benefit, of an annual report. Perhaps a biennial report would be more useful.

In addition, we do not endorse a consolidation of the advocacy role and the economic research and analysis function at this time. Such an organizational change also should await the President's reorganization plan.

The bill would apparently expand SBA's area of concern to "medium sized businesses." It is not clear what this term means -- or foreshadows. Clarification is needed.

If A&ER&AD is to be a permanent activity, we fail to see the justification for staffing it outside the normal CSC system, therefore we cannot endorse this proposal at this time.

Lastly, we are concerned that the proposed Section 9(d)(3) which contemplates consultation with experts and authorities outside of the Government does not require conformance to the Federal Advisory Committee Act.

Section 9(e) would require the submission of an annual report containing the findings and recommendations of the AA/A&ER&AD to the Senate and House Small Business Committees prior to submission to OMB. Undoubtedly this contemplates legislative proposals.

OMB Circular No. A-19 presently requires that legislative proposals of agencies be submitted to OMB for coordination and advice prior to transmission to the Congress. The agencies, in turn, are required to set forth in their communications to the Congress the advise received from OMB concerning the relationship of the proposal to the Administration's program. This is a well established practice which has worked well over the years.

A legislative requirement to exclude SBA from this process would make it difficult for the President to develop and present to the Congress a truly coherent and coordinated legislative program. OMB serves several important purposes for agencies, the Administration, and the Congress: (a) it encourages the various agencies to take the problems and concerns of other agencies into account; (b) it facilitiates the development of a consistent Administration position on legislation; and (c) it assures that the Congress gets coordinated and informative agency views on legislation under consideration and is thus able to anticipate more effectively the impact on such legislation.

We accordingly believe that it is to the advantage of both the Congress and the Executive Branch to retain the present system for OMB coordination of legislative proposals by the various agencies.

TITLE II - DECLARATION OF SMALL BUSINESS INVESTMENT POLICY

Section 201 of the bill adds a new Section 9(f) to the Small Business Act which declares it to be national policy that all steps be taken to insure that adequate capital from private sources is available for small-and-medium-sized businesses.

Again, we are troubled by the use of the term "medium sized businesses." Further, we believe the term "reasonable cost" should be defined.

TITLE III - SMALL BUSINESS ECONOMIC POLICY REPORT

This section of the bill adds a new Section 9(g) to the Small Business Act. This subsection requires the President to prepare a Small Business Economic Policy Report annually to be submitted along with economic report. There are several issues which must be addressed in the report along with a requirement that the President list activities and steps taken to implement the small business investment policy.

The SBA already has the authority to include such analysis in the Annual Report which it is required to make to Congress on the State of Small Enterprise in the Economy.

We presume the bill would require a single report, even though it is captioned inconsistently in this title.

TITLE IV - SMALL BUSINESS ECONOMIC COUNCIL

TITLE V - SMALL BUSINESS ADMINISTRATION

These titles of the bill adds a new Section 9(h) to the Small Business Act which establishes a new Small Business Economic Council. The Council will consist of the Administrator, the Secretaries of Treasury, Commerce, Labor, and Agriculture; and Chairmen of the Federal Reserve, SEC, FTC, and Council of Economic Advisers. The Administrator is the Chairman of the Council which will meet at least quarterly. The Council is to advise the President on issues required to be discussed in the Annual Report on small business and to coordinate policy, develop programs to assist small-and-medium-sized businesses, etc.

TITLE VI - SMALL BUSINESS CREDIT INFORMATION

Section 601 of the bill amends the Federal Deposit Insurance Act. Banks would be required under the amendment to report on their loan activity according to the assets and sales of their borrowers. These reports would be published and further broken down by the respective regulatory authorities according to the size of the banks involved.

The Federal Reserve and the Federal Deposit Insurance Corporation have recently instituted a quarterly survey which complies with most of the requirements of this title.

As stated earlier, the Administration is committed to reorganization and overall improvement of the Executive Branch to assure the very best service and assistance is available and accessable.

Pending completion of the reorganization studies we cannot endorse the provisions of S. 1726. We have, however, attempted through our analysis and comments to show our deep commitment to make any future reorganization of SBA the best one possible, and will take into consideration the provisions of this bill as we proceed.

In this connection I would like to clarify a misunderstanding with respect to the percentage of SBA resources allocated to loan processing.

A figure of 70 percent has been referred to on several occasions as the percentage of SBA resources allocated to making 22,000 new loans in Fiscal 1976.

98-762 O - 78 - 19

I am advised by our Budget Office and Finance and Investment people that this figure is misleading and distorts the true picture.

I understand that this 70% figure covers a much broader area than heretofore indicated.

* I understand that this includes not only the making of 26,078 business loans but also 20,660 disaster loans -- a total of 46,738 loans.

* This includes the surety bond program which in Fiscal 1976 provided 13,786 contracts at $781.4 million in bonds and $20 million in claims.

* This also includes the SBIC program which provided $31.8 million in financing to small business and the regulation of 400 SBICs and MESBICs.

The 70% figure also involves the arbitrary pro rating of all administrative expenses whether or not they had anything to do with loan processing. For example, it included a pro rata share of expenses in Planning, Research and Data Management; Executive Direction and General Administration, Office of the General Counsel and even Advocacy.

It seems that this figure of 70% is somewhat shaky. I am advised that the cost of loan processing both direct and indirect -- including disaster loans -- was actually 36.3% of the total administrative costs -- 20.5% for regular loan processing and 15.8% for disaster loans.

I wanted to take this opportunity to correct this erroneous impression on the allocation of resources.

Mr. Chairman, this concludes my prepared remarks. I will be happy to answer any questions you or the Committee may have.

BROAD OBJECTIVES OF THE REORGANIZATION STUDY TEAM

-- Make SBA more responsive to its constituency

-- Reallocate resources closer to our constituency and improve our delivery systems

-- Establish objectives for the Agency

-- Simplify and consolidate programs

-- Eliminate unnecessary paperwork

-- Eliminate unnecessary levels of management

-- Eliminate unnecessary, non-cost effective functions

-- Simplify and eliminate unnecessary regulations

-- Establish basis for implementation of Zero Base Budgeting

-- Make SBA's programs more responsive to needs of small business community by searching out new ideas both internally and externally

-- Review size standards and maximum loan amounts

-- Assure that the Agency is ready to interface with OMB's inter-governmental reorganization study

-- Assure uniformity throughout the Agency

-- Assure that the Agency has strong affirmative action plan

-- Develop the basis for improving the Agency's data base on small business

Senator McINTYRE. We call as our next witness Frank A. Weil, Assistant Secretary for Domestic and International Business, Department of Commerce.

Mr. Weil, I am delighted to welcome you here. You came just in time. We were going to have to recess for a few minutes because we were told you would not be here until 11:15.

I have your statement before me. Would you please give us your testimony as to how you see S. 1726. Would you also please introduce for the record any associates you may have with you.

STATEMENT OF HON. FRANK A. WEIL, ASSISTANT SECRETARY FOR DOMESTIC AND INTERNATIONAL BUSINESS, DEPARTMENT OF COMMERCE, ACCOMPANIED BY ELMER S. BILES, SENIOR ECONOMIC ADVISER, BUREAU OF THE CENSUS

Mr. WEIL. Senator, I thank you for your courtesy in allowing me not to appear at 10 o'clock when I had a meeting at the White House. I am very glad that the time worked out so well. I appreciate your courtesy and we are very happy to be here today speaking with respect to this bill.

I will let my colleague introduce himself.

Mr. BILES. I am Elmer S. Biles, senior economic adviser for the Bureau of Census.

Senator McINTYRE. I welcome you.

Mr. WEIL. Mr Chairman, I appreciate the opportunity to appear before this joint committee hearing to speak in support of the general principles underlying S. 1726, the Small Business Economic Policy and Advocacy Reorganization Act of 1977. This legislative proposal is the outgrowth of an important congressional concern with the needs of small business firms. Although we share your concern in this area, we have a number of reservations about the specific provisions of S. 1726.

One need only look at the few aggregate statistics to understand the important role which an estimated 10 million small firms, using a standard of fewer than 500 employees, play in our ever-expanding economy. Aggregate statistics recently gathered and published by the Small Business Administration's Office of Advocacy indicate that small businesses represent 97 percent of the Nation's business concerns. They provide 48 percent of the Nation's gross national product. In terms of the total national dollar volume in sales, small businesses generate 64 percent of the volume by wholesaling, 73 percent by retailing, 57 percent by the service industry, and 76 percent by construction. In addition, small businesses employ 58 percent of the Nation's private, nonagricultural work force.

Given the vital contribution which small businesses make to the Nation's economic well-being, it is understandable that Congress is considering, in the words of Senator Humphrey, "a comprehensive proposal that raises consideration of SBA and small business needs to the highest levels of program and policy development in Government."

At the Department of Commerce we are committed to listening to the voices of all businesses. This commitment reflects, among other public statements made by officials within the Department, the statement of Under Secretary Harman during his confirmation hearings before the Senate Commerce Committee. On that occasion Dr. Harman said that one of the greatest possibilities that faces Commerce over the next number of years is the continued encouragement of mutuality of interest between small and big businesses. This statement reflects the position of the Department of Commerce that, in an ever-expanding economy, private enterprises of all sizes have a meaningful contribution to make. I am personally and deeply committed to the belief that economic pluralism is the foundation of our economic and political freedoms.

In keeping with this commitment, the Department of Commerce is going beyond a mere verbal support of small business. We are in fact seeking to increase our services to them.

A small business task force has been created in the Domestic and International Business Administration in order to conduct a thorough review of the export services provided small businesses. It is seeking to determine what modifications are necessary to make these services more responsive to the needs and wishes of these businesses. In addition, the task force has concluded that the President's Export Council should be restructured to be more representative of the small business viewpoint.

The Economic Development Administration of the Department of Commerce supports small- and medium-sized businesses through its public works, business loan, and technical assistance programs. To further assist small businesses, EDA's university center program helps businesses to small to procure expert help on their own by establishing a mechanism whereby they can tap the needed expertise within 21 universities.

In addition, the proposed appropriations bill for EDA provides technical assistance grants for the planning, development, and implementation of center city industrial parks in major U.S. cities. Small businesses are contemplated to be major beneficiaries of many of these grants.

Our Office of Minority Businesses Enterprise, OMBE, since 1969 has provided management and technical assistance to minority businesses, nearly all of which are small firms.

Small businesses continue to receive a high percentage of the services and programs provided by the field offices of the Domestic and International Business Administration. These services are designed to provide small firms with a greater share of national and international markets. We have recently provided counseling to small firms on such subjects as energy conservation, Federal procurement, productivity improvement, availability and use of marketing information, and domestic and international opportunities for minority businesses.

We recognize that the millions of small business owners in this country are busy minding the store and that they have had difficulty in presenting their views effectively on the Federal level.

Given this fact and the commitment of the Department of Commerce to assisting small business, we believe serious consideration should be given to establishing a mechanism through which we could coordinate our programs with those of SBA and other agencies. Such coordination could maximize the effectiveness of all governmental efforts and services designed to aid small business. An established mechanism could facilitate our working together to ensure that there is enough hard economic data available to permit small business' cases to be heard in the highest levels of Government.

Such a mechanism could be the "Small Business Economic Council" which would be established by S. 1726. However, as you know, the President has asked for a comprehensive review of the executive branch of the Federal Government and, where appropriate, reorganization recommendations. Until that review has been completed, I believe it would be premature for the Department of Commerce to support S. 1726.

Senator McIntyre. I just want to interrupt you a second. We understand that you work for the President. That comprehensive review of the executive branch of the Federal Government is not going to be done in a matter of 3 or 4 months is it? Isn't it going to be a year or two before we get to the end of the reorganization line or maybe more.

I do not know whether we in the Congress want to wait. You may have to.

Mr. Weil. Well, one of the things we are learning is the schedule with which different items are taken up is not fixed in concrete. It is possible, even likely perhaps, that an issue of this sort might advance on the agenda for consideration there in view of the pendency of this bill for example. I do not know that——

Senator McIntyre. If you get a chance when you are talking about small business—and I know you are a small business devotee—you might say to the President: "Why do we not push this up a little bit on our agenda?"

Mr. Weil. Perhaps these hearings might have that effect on the executive branch.

Senator McIntyre. Good.

Mr. Weil. Further, we believe that certain aspects of the legislation relating to data collection appear to be contrary to the policy of coordinating governmental efforts.

Section 103 proposes that the Associate Administrator for Advocacy and Economic Research and Analysis be mandated to establish and maintain a small- and medium-size business economic data base for compiling and publishing various types of information.

It is assumed that this section does not imply a statistical collection function for the Associate Administrator. Most of the information to be requested is already being collected by other Federal agencies. To establish a separate statistical collection function at the Small Business Administration would be duplicative and would impose an added response burden on those we are attempting to assist—small businesses. As the Federal Government's primary general-purpose statistical agency, the Bureau of the Census is uniquely qualified to assume a major responsibility in the development of information that will contribute to the establishment of a small business data base. Census now conducts a large, well-rounded statistical program in the economic area compiling data on both an establishment and company basis. Additionally, the availability of experienced analytical resources in the Bureau of Economic Analysis and the Domestic and International Business Administration could be of assistance to SBA in meeting its program objectives.

This position reflects national policy as set forth in the Federal Reports Act of 1942, which requires that "information needed by Federal agencies shall be obtained with a minimum burden upon business enterprises, especially small business enterprises . . ."

I would like to add, Senator, that this reporting burden is a subject which the executive branch and you up here, I know, are deeply concerned about. It is one which we in the Department of Commerce hear perhaps more about than almost any other single subject from the business community. There are various ways of doing this, but I cannot more strongly emphasize the problems of reporting, particularly with respect to small businesses. Large businesses can manage it in better ways. It is expensive, but they can absorb it. Many small businesses simply cannot. In many cases it makes a difference between survival and nonsurvival.

This concern is also underscored in OMB Circular A-40, "Clearance of Public Reporting and Recordkeeping Requirements Under the Federal Reports Act" which requires that "special consideration . . . be given to the burden on small business . . ."

In keeping with the intent of S. 1726, which is to develop a coordinated governmental strategy to assist small- and medium-sized business, reliance on the already existing capabilities in the Department of Commerce would serve the goal best. This information, of course, could be and would be used by SBA.

In conclusion, the Department of Commerce recognizes that small business is the warp and woof of our economic fabric. We hope that a structure can be developed to facilitate our participation with SBA and other governmental agencies in a coordinated effort to give the economic well-being of small business the time and attention it deserves. In this manner, we can assist small business in realizing its full potential contribution to our Nation. The ongoing Presidential reorganization effort is evidence of the President's concern that such progress be made.

I thank you, sir. I will be glad to respond to any questions.

[The prepared statement of Mr. Weil follows:]

Statement of Frank A. Weil, Assistant Secretary for Domestic and International Business, Department of Commerce, before the Joint Economic Committee, Subcommittee on Economic Stabilization and the Senate Select Committee on Small Business, Subcommittee on Government Regulation and Small Business Advocacy, July 21, 1977.

Mr. Chairman:

I appreciate the opportunity to appear before this joint committee hearing to speak in support of the general principles underlying S. 1726, the Small Business Economic Policy and Advocacy Reorganization Act of 1977. This legislative proposal is the outgrowth of an important Congressional concern with the needs of small business firms. Although we share your concern in this area, we have a number of reservations about the specific provisions of S. 1726.

One need only look at a few aggregate statistics to understand the important role which an estimated 10 million small firms (using a standard of fewer than 500 employees) play in our ever-expanding economy. Aggregate statistics recently gathered and published by the Small Business Administration's Office of Advocacy indicate that small businesses represent 97 percent of the Nation's business concerns. They provide 48 percent of the Nation's gross national product. In terms of the total national dollar volume in sales, small businesses generate 64 percent of the volume by wholesaling, 73 percent by retailing, 57 percent by the service industry, and 76 percent by construction. In addition, small businesses employ 58 percent of the Nation's private, non-agricultural work force.

Given the vital contribution which small businesses make to the Nation's economic well-being, it is understandable that Congress is considering, in the words of Senator Humphrey, "a comprehensive proposal that raises consideration of SBA and small business needs to the highest levels of program and policy development in Government."

At the Department of Commerce we are committed to listening to the voices of all businesses. This commitment reflects, among other public statements made by officials within the Department, the statement of Under Secretary Harman during his confirmation hearings before the Senate Commerce Committee. On that occasion Dr. Harman said that "one of the greatest possibilities that faces Commerce over the next number of years is the continued encouragement" of mutuality of interest "between small and big business." This statement reflects the position of the Department of Commerce that, in an ever-expanding economy, private enterprises of all sizes have a meaningful contribution to make. I am personally and deeply committed to the belief that economic pluralism is the foundation of our economic and political freedoms.

In keeping with this commitment, the Department of Commerce is going beyond a mere verbal support of small business. We are in fact seeking to increase our services to them.

A Small Business Task Force has been created in the Domestic and International Business Administration in order to conduct a thorough review of the export services provided small businesses. It is seeking to determine what modifications are necessary to make these services more responsive to the needs and wishes of these businesses. In addition, the Task Force has concluded that the President's Export Council should be restructured to be more representative of the small business viewpoint.

The Economic Development Administration (EDA) supports small and medium-sized businesses through its public works, business loan, and technical assistance programs. To further assist small businesses, EDA's University Center Program helps businesses too small to procure expert help on their own by establishing a mechanism whereby they can tap the needed expertise within 21 universities.

In addition, the proposed appropriations bill for EDA provides technical assistance grants for the planning, development and implementation of center city industrial parks in major U.S. cities. Small businesses are contemplated to be major beneficiaries of many of these grants.

Our Office of Minority Business Enterprise (OMBE) since 1969 has provided management and technical assistance to minority businesses, nearly all of which are small firms.

Small businesses continue to receive a high percentage of the services and programs provided by the field offices of the Domestic and International Business Administration. These services are designed to provide small firms with a greater share of national and international markets. We have recently provided counseling to small firms on such subjects as energy conservation, federal procurement, productivity improvement, availability and use of marketing information, and domestic and international opportunities for minority businesses.

We recognize that the millions of small business owners in this country are busy minding the store and that they have had difficulty in presenting their views effectively on the Federal level.

Given this fact and the commitment of the Department of Commerce to assisting small business, we believe serious consideration should be given to establishing a mechanism through which we could coordinate our programs with those of SBA and other agencies. Such coordination could maximize the effectiveness of all governmental efforts and services designed to aid small business. An established mechanism could facilitate our working together to ensure that there is enough hard economic data available to permit small business' case to be heard in the highest levels of government.

Such a mechanism could be the "Small Business Economic Council" which would be established by S. 1726. However, as you know, the President has asked for a comprehensive review of the Executive Branch of the Federal Government and, where appropriate, reorganization recommendations. Until that review has been completed, I believe it would be premature for the Department of Commerce to support S. 1726. Further, we believe that certain aspects of the legislation relating to data collection appear to be contrary to the policy of coordinating governmental efforts.

Section 103 proposes that the Associate Administrator for Advocacy and Economic Research and Analysis be mandated to establish and maintain a small and medium-size business economic data base for compiling and publishing various types of information.

It is assumed that this section does not imply a statistical collection function for the Associate Administrator. Most of the information to be requested is already being collected by other Federal agencies. To establish a separate statistical collection function at the Small Business Administration would be duplicative and would impose an added response burden on those we are attempting to assist--small businesses. As the Federal Government's primary general-purpose statistical agency, the Bureau of the Census is uniquely qualified to assume a major responsibility in the development of information that will contribute to the establishment of a small business data base. Census now conducts a large, well-rounded statistical program in the economic area compiling data on both an establishment and company basis. Additionally, the availability of experienced analytical resources in the Bureau of Economic Analysis (BEA) and the Domestic and International Business Administration (DIBA) could be of assistance to SBA in meeting its program objectives.

This position reflects national policy as set forth in the Federal Reports Act of 1942, which requires that "information needed by Federal agencies shall be obtained with a minimum burden upon business enterprises, especially small business enterprises..." This concern is also underscored in OMB Circular A-40, "Clearance of Public Reporting and Recordkeeping Requirements Under the Federal Reports Act" which requires that "special consideration...be given to the burden on small businesses..."

In keeping with the intent of S. 1726, which is to develop a coordinated governmental strategy to assist small and medium-sized businesses, reliance on the already existing capabilities in the Department of Commerce would serve the goal best. This information, of course, could be used by SBA.

In conclusion, the Department of Commerce recognizes that small business is the warp and woof of our economic fabric. We hope that a structure can be developed to facilitate our participation with SBA and other governmental agencies in a coordinated effort to give the economic well-being of small business the time and attention it deserves. In this manner, we can assist small business in realizing its full potential contribution to our Nation. The ongoing Presidential reorganization effort is evidence of the President's concern that such progress be made.

Thank you.

Senator McIntyre. You mentioned that the Census Bureau will undertake the economic census beginning next year. Do you know if there is still time to make certain that pertinent small business data will be collected in that census and could not that census be used to carry out the President's commitment to develop a small business economic yardstick?

Mr. Weil. I will defer to by colleague from the Census Bureau to answer that question.

Mr. Biles. The 1977 economic census program can provide considerable information that would be meaningful in the establishment of a small economic data base for the business community. In fact, we have had some discussions with the Small Business Administration regarding special tabulations from the economic census program. We have a current contract with the Small Business Administration for the development of special tabulations from the 1967 census and recently have had discussions with them regarding tabulations from some of our current programs. We do have the capability I believe of supplying information that would assist in this endeavor.

Mr. Weil. As I understand, even without any further changes in the present format, substantial information along these lines would be obtained by the census; but I think what we are all saying is we would like to see this further applied and aimed at this heightened objective.

Senator McIntyre. Could that be worked out with the Census Bureau so that there could be a specific section directed specifically at small business? Would the questions be specific enough to be of assistance to us? I hate to even ask this question because I am on the other side of the paperwork issue.

Mr. Biles. My response earlier was directed toward what we can do with the existing data that will be collected because we can make special tabulations which will breakout by size class the specific economic information for companies of specific size intervals.

We have over the last several years, Senator, effectively used administrative records and we have used this with the sole purpose in mind of reducing the response burden to small businesses. Of course we do have a simple program that does collect information from the very small establishments.

For example, when I speak of administrative records, I am talking about the small establishments say in the manufacturing sector with fewer than 10 employees—we do not send a report form to them. We use administrative records. We also will use—in the 1977 economic census—a short form approach for small manufacturing establishments above 10 employees.

Mr. Neece. Could I follow up on that question. If I understand correctly, census did a special study on minority small business enterprises in 1969 to determine how many minority-owned concerns existed. It also provided some type of a demographic breakdown as well as other additional data.

Has census ever undertaken that kind of a study for small business per se, and, second, do you intend to undertake that kind of a study in the future?

Mr. Biles. Minority business program reports dealt specifically with companies and enterprises which are owned by blacks, by Spanish-speaking people, and by women. We could provide some aggregate information that would identify the size of companies involved. I think most of us when we think of businesses which are owned by minorities are thinking mostly of small business.

Mr. NEECE. But if you could arrive at mutually agreeable size standards, could you undertake each a study as it related to just small business, not to minority small businesses?

Mr. BILES. Are you thinking in terms of a special questionnaire that would be sent to small businesses?

Mr. NEECE. Right, a special study similar to what you did for minority small business concerns in 1969, could you undertake a similar type of study for small businesses?

Mr. BILES. I think we have a capacity in that direction. I think this would have to be explored in terms of what the content would be, some of the items that would be of interest to the Small Business Administration, and so forth.

Mr. NEECE. Has there been given any serious consideration to undertaking such a study?

Mr. BILES. We have not had any extended dialogs with SBA on this, no.

Mr. NEECE. Would you be open-minded to considering such a study?

Mr. BILES. Certainly, very definitely.

Senator MCINTYRE. Should the chairman of the committee write a letter requesting that?

Mr. WEIL. Well, if I might add, this is of course an area that my colleague in the census is an expert on and I am not. It is obviously quite easy to do anything. It becomes a question to some extent of resources, and that of course comes in under OMB's concern, and we have to make sure that we balance out.

Senator MCINTYRE. I think that if we worked together at the staff level and our requests are reasonable, that something could be worked out.

Mr. BILES. One approach we have utilized, as we have considered specific requests in recent years for more sophisticated data, is a technique which I think has worked most successfully, and that is to undertake feasibility studies before we saddle and impose upon the business community a reporting form with unknown results. I think we have the responsibility of testing to see if the desired information is reportable.

Senator MCINTYRE. Mr. Neece has reminded me that yesterday in conference with the House we came up with a figure of $3 million for SBA's economic research. The Agency should now be in a position to reimburse Commerce for any extra burden to census.

Again, I say to you while I have you here, that we receive numerous letters commenting on the need for all the questions that are asked by census. I would hope that we would have certain constraints and would analyze very carefully the burden placed on small business if such a study were undertaken.

Mr. Secretary, would you be able to provide the committee with a list of all special Commerce Department studies that have been done for or requested by SBA within the last 5 years. Also, could you supply for the record the cost for each study and for each study requested but not undertaken and the reasons for not performing the study?

Finally, could you tell us what special small business studies the Department of Commerce has requested of SBA. We need the answers as best as you can supply them for the record.

Mr. WEIL. Right.

[The information requested follows:]

United States Senate

SELECT COMMITTEE ON SMALL BUSINESS
WASHINGTON, D.C. 20510

July 27, 1977

Mr. Frank A. Weil
Assistant Secretary for Domestic
and International Business
Department of Commerce
Washington, DC 20230

Dear Secretary Weil:

As a follow-up to your appearance before our Committee on July 21, 1977 during which time you testified with regard to S. 1726, it would be appreciated if you would furnish the following information:

(1) a list of all special Department of Commerce studies done for or requested by the Small Business Administration within the last five years.

(2) the cost of each study undertaken in item (1) above.

(3) a list of special studies requested by the Small Business Administration, but not undertaken by the Department of Commerce, and the reasons for not undertaking such studies.

(4) a list of special Small Business Administration studies done for or requested by the Department of Commerce within the last five years.

Thank you for your cooperation regarding this matter.

Sincerely,

Thomas J. McIntyre
Chairman
Subcommittee on Government
Regulation and Small
Business Advocacy

SEP 19 1977

Honorable Thomas J. McIntyre
Chairman, Subcommittee on Government
Regulation and Small Business Advocacy
Select Committee on Small Business
United States Senate
Washington, D.C. 20510

Dear Senator McIntyre:

I am pleased to respond to your letter of July 27, 1977 concerning studies pertaining to the Small Business Administration carried out in the past five years that involved the Department of Commerce.

Concerning points (1) and (2) of your letter, two contract efforts were performed by the Bureau of the Census for the Small Business Administration. The first of these was a summarization of special business tabulations utilizing 1972 Economic Censuses data, covering employment, value of shipments, sales/receipts and similar information for small firms. The cost of this study was $85,500; the contract is dated August 16, 1976. The second, not a study as such, was a one-time mailing service notifying minority-owned businesses of the SBA Minority Vendors Program. The cost of this activity was $18,000; the contract is dated September 30, 1976.

Concerning point (3), we have no record of studies requested by SBA but not undertaken by the Department of Commerce. Concerning point (4), we also find no record of SBA studies done for or requested by the Department of Commerce within the last five years.

It was ascertained that the Economic Development Administration and the Office of Minority Business Enterprise maintain working relationships with the Small Business Administration, the former in terms of servicing certain loans and the latter in terms of fulfilling informal requests for certain types of information. However, no studies as such have been carried out. The Domestic and International Business Administration likewise has not conducted any studies involving the SBA. However, DIBA and SBA have for some time engaged in cooperative activities, including programs designed to assist small business to enter the field of exporting.

Please call on me if I can be of further assistance in this matter.

Sincerely,

(sgd) Frank A. Weil

Frank A. Weil
Assistant Secretary for
Domestic and International Business

cc:
Chron
Official File
FAWeil
Brian Hessler
Mgmt & Systems/JRunyan/377-3756/mej/9/12/77

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Senator McINTYRE. I was pleased to read of your concern, Mr. Weil, about the balance-of-payments problems confronting the United States. Could not small- and medium-size businesses help to make a contribution in rectifying the balance-of-payment deficit by increasing their exports?

To the best of your knowledge, is there any hard data which would tell us how many smaller firms are exporting their products and what their total export dollar volume is? Is there any such hard data to your knowledge?

Mr. WEIL. There is not a great deal of hard data. I am very pleased that you asked the question. I think one of the problems I have identified as I have learned about that subject is that this country has a very low level of what one might refer to as export awareness. There are a lot of good reasons for that. The evidence of it is the fact—and I should add that there are economists that question the relevance of this statistic—that exports are about 7 percent of our gross national product. This is the lowest of any industrial country in the world. The next lowest is Japan which is 12 percent. France, Germany, and England are up to about 20 percent.

In my opinion, and of course there is a shift around as GNP goes up and down, the reason for it, of course, is that we are a very large country and we have very large and satisfactory internal markets. If you are a small business and do $2 or $3 million a year of business in Terre Haute, Ind., you perhaps would question the necessity of taking your better mousetrap abroad.

We estimate, and it is a pure estimate, in the Department of Commerce that there are at least an additional 25,000 firms in this country and almost by definition they are small businesses that could export. The definition of small business may vary, but 85 to 90 percent of all exports of $115 billion this year come from about 250 firms. That is the way our society is built. But those other 25,000, or whatever the number may be, firms in the aggregate could constitute a substantial increase of our export potential. I have personally seen at a number of our trade centers abroad remarkable examples of this potential. Export business tends to be profitable and it is good for the country. This will be a centerpiece of the program of DIBA for several years.

Senator McINTYRE. Mr. Secretary, I trust you are familiar with the annual Fortune 500 study of the largest companies in the country. Would not a similar study of small business done by a random sample or some other yardstick be helpful in measuring the year-to-year performance of the small business sector? In addition, would not it be useful to have a comparative analysis between the larger businesses and smaller companies? Is anyone in Government doing such an analysis to your knowledge?

Mr. WEIL. On an ad hoc basis there are studies being made both in the academic world and the consulting world, and even in Government, but they tend to be ad hoc, not repetitive. One of the virtues of the Fortune 500 is that it has been run consistently and quite professionally for some 25 years. I agree with the thrust of your question. If some kind of information base that was boiled down like that to reflect what was going on with the small business community it would be of great value to this country.

Senator McINTYRE. I gather from your statement that you favor establishment of a coordinating mechanism between the Commerce Department and the Small Business Administration. I would take it that you think establishment of a Small Business Economic Council could very well serve this purpose. Is that right?

Mr. WEIL. As I testified, the executive branch wants to reserve judgment as to precisely what the right mechanism would be. Some form of interagency council body is desirable. I think it is important that such a body include more than the Department of Commerce. The Treasury is very important and the Departments of Agriculture and Labor as well. So what the exact form or mechanism is can be determined as we move along. That there needs to be a high-level coordinating agency is something that we absolutely agree with.

Senator McINTYRE. Mr. Secretary, it seems to me that you are saying in your statement that the Commerce Department can supply SBA with most of the data it needs to establish a comprehensive data base for small business.

How much of a problem do you think this would be for your Department if the SBA is in a position to help in reimbursing the Department of Commerce's expenses?

Mr. WEIL. The key word in the question, sir, is help. Given all resources and constraints at the moment, if the SBA was in a position to reimburse us for the costs associated with it, I would say that the burden could be managed.

Senator McINTYRE. Mr. Weil, you say that the Commerce Department is committed to "mutuality of interest" between big and small.

Mr. WEIL. Yes, sir.

Senator McINTYRE. Where does Commerce stand when interests of small and big differ? For example, small business tax reform.

Mr. WEIL. I am tempted to be facetious and say in the middle, but——[laughter].

Senator McINTYRE. That would be understandable.

Mr. WEIL. The answer to the question is—at least in my brief experience—there is not really a serious problem. The concerns and needs of small businesses, particularly tax reform, are not that different than they are for large business. What we have managed to do so far is try to understand both sets of concerns and reflect those concerns in the interagency discussions on these matters. At least to date there has not been any conflict.

Senator McINTYRE. Mr. Secretary, you and Administrator Weaver suggest that further consideration of S. 1726 should await the results of an executive branch review of the Federal Government. What is there in S. 1726 that is in conflict with reorganizational processes and proposals now being developed by the Administration?

Mr. WEIL. The answer is, first, we in the various agencies and departments are not altogether privy to the thinking and plans of the reorganization people. Second, it is being done as you know on a seriatim basis, and I do not think there was an intention, at least I do not believe there was intention, on the part of OMB or the President to wait and have one complete all-encompassing plan. But, we know there is not such an intention.

What the sequence is, what their current plans on that sequence are, particularly with respect to this subject, I do not know. I am sure that those plans and sequences are like everything else—subject to modification. And, I would think as we said before, this hearing might serve to elevate the consideration of this subject in the priorities. Consequently, I think it is possible that the Reorganization Task Force, if they choose to deal with this question and any related aspects of it, sooner rather than later, could be dealt with in the not too distant future. It could be dealt with in the next 9 to 12 months.

Senator McIntyre. I think it would be helpful if you would expand on that for the record.

Mr. Weil. If I may ask, sir, I am not quite sure I understand your question. I am not sure what you have in mind.

Senator McIntyre. I am not going to read you all of the President's promises in the campaign. I did that for Mr. Weaver. Where is the conflict? You say S. 1726 is premature. We would like to know the specific reasons. We are trying to move this legislation.

Mr. Weil. I understand your question.

Senator McIntyre. I would suggest that perhaps you could put a staffman on this to single out some of the objections and call it to our attention. It might be very helpful. We might be able to modify the bill as a result.

Mr. Weil. Again, I should not speak too much on this subject because I do not know what the conflicts are, but I can imagine where some are.

For example, one of the provisions in S. 1726 is the elevation of the position of the Administrator of SBA to Executive Level I. Now, if that were to be done inconsistently with some other positions in the Government, that is the kind of domino problem that I think OMB is concerned with. This is something which I have no views on. But I give that as an example of how there are not conflicts, but consequences flowing from things that are done in one area.

I think one of the things which we are all concerned about in our society is what I often refer to as the unintended consequences of well-intended acts. We might well intend to do a number of things here that benefit the small business community, but produce unintended, unexpected consequences in other areas. I think one of the things the President wants to do, if I understand correctly, in OMB is to do these things in a coherent, coordinated way. When I think it through, it not only affects the small business community, but how it might affect other things that would not logically, immediately come to mind. That is the only thing I think of they really have in mind. But I do not know exactly where they are on the subject this morning.

Senator McIntyre. There is a history and a background here that concerns me as we in the Congress work to increase SBA's effectiveness. The history is that for a long, long time Commerce has looked with sort of a drooling mouth at SBA. We have told every SBA Administrator since I have been here sitting with John Sparkman, who I think was the father of the SBA Act and the Small Business Administration, that if he feels the hot breath of the Secretary of Commerce—not the Assistant Secretary—but the Secretary of Commerce, to get on his bicycle and speed right up here to Capitol Hill. I am worried as I see you pushing to become bigger and bigger. All of a sudden we might run smack into a reorganization plan that puts SBA into Commerce.

Mr. WEIL. Well, if there is such a thought or plan, I am not aware of it, not that I would necessarily be aware of it because the interaction process between OMB and the agency has not reached that stage. As far as the appetite is concerned, I have had the experience a few times in my life when there was too much on my plate and I have lost my appetite. As far as I am concerned, at least as far as our part of the Department of Commerce is concerned, we have more on our plate both in terms of problems and policies and lack of resources, that we are not looking for new turf. I believe that is the attitude of my colleagues including the Secretary of Commerce.

There are arguments to be made pro and con as to the location of the SBA. As I state in my formal testimony my personal creed, which I have stitched on a thing that my wife did for the wall in my office, is the word "pluralism". And I would have personally grave reservations at the wisdom of not permitting the SBA to remain independent.

Senator McINTYRE. I want to thank you, Mr. Secretary, for your helpful testimony this morning. I also want to thank Mr. Biles for his assistance in the economic field.

We will keep the record open for a period of 10 days. This hearing is adjourned, subject to call.

Thank you.

[Whereupon, the subcommittees were adjourned at 11:45 a.m.]

S. 1726, SMALL BUSINESS ECONOMIC POLICY AND ADVOCACY REORGANIZATION ACT OF 1977

MONDAY, NOVEMBER 21, 1977

U.S. SENATE, SUBCOMMITTEE ON GOVERNMENT REGULATION AND SMALL BUSINESS ADVOCACY OF THE SELECT COMMITTEE OF SMALL BUSINESS AND THE SUBCOMMITTEE ON ECONOMIC GROWTH AND STABILIZATION OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittees met, pursuant to notice, at 10 a.m., in room 424, Russell Senate Office Building, Hon. Thomas J. McIntyre, chairman, presiding.

Present: Senator McIntyre.

STATEMENT OF HON. THOMAS J. McINTYRE, A. U.S. SENATOR FROM THE STATE OF NEW HAMPSHIRE

Senator MCINTYRE. The subcommittees will please come to order.

Today is our third and hopefully the final hearing on S. 1726, the Small Business Economic Policy and Advocacy Reorganization Act of 1977. Hearings were held in June and July of this year at which time we received comments from representatives from the small business community and various Federal departments and agencies with regard to their views on this measure.

Since those hearings, the committees have undertaken additional discussions with those agencies and departments that collect business and financial data. Thanks to the advice and counsel of economists and data experts serving in the executive branch, we have tentatively revised, for discussion purposes, section 102 of title I of the bill which specified certain areas that SBA must periodically analyze in order to determine the relative well-being and economic standing of the small- and medium-sized business sectors.

We have also drafted an alternative title VI in an attempt to find a means whereby the commercial banks can still provide critically needed small business credit information without placing an undue burden on the institutions.

Witnesses who have been invited to testify this morning have been requested to give us their comments on these two titles.

I Would like first to welcome Ms. Shirley Kallek, Associate Director for Economic Fields of the Bureau of the Census, Department of Commerce.

Ms. Kellek, it is a pleasure to have you with us this morning.

You may proceed in any manner that suits your wish.

STATEMENT OF SHIRLEY KALLEK, ASSOCIATE DIRECTOR FOR ECONOMIC FIELDS, BUREAU OF THE CENSUS, U.S. DEPARTMENT OF COMMERCE

Ms. KALLEK. Thank you very much, Mr. Chairman.

Mr. Chairman, I am pleased to have the opportunity to appear before this committee to discuss the establishment and maintenance of an economic data base for small- and medium-sized companies and the ways the Census Bureau can assist in this endeavor.

At the present time there is no one basic source for comprehensive information about small business. Information is so scattered through the many series issued by various agencies of the Federal Government that its utility is diminished. Moreover, as we have found in other instances, there is a significant amount of information in basic surveys and in the administrative records of Government agencies which could be used much more extensively for analysis if it were tabulated in a more meaningful manner for analysis of small business. Needless to say, comparable data for all businesses are necessary if meaningful comparisons are to be made. Such a data base should be available to all Government agencies and congressional groups involved in program analysis and policy decisions, and, therefore, should be established and maintained by a centralized organization.

As the Federal Government's principal general purpose statistical agency, the Census Bureau is uniquely qualified to assume a major role in the development of such a data base. We also recognize that Small Business Administration (SBA) has a major responsibility in the area of small business and for insuring that maximum economic data are available about small business. We intend to work closely with SBA to insure that our efforts will be supportative of SBA's efforts in this regard and to avoid duplication of effort and utilization of resources. Census has a large well-established statistical program in the economic area collecting data on both an establishment and a company basis. In our collection of economic data, we obtain a large amount of information that is directly related to the small business economic data base which you are considering. I would like to briefly summarize some of these programs and then explain how they could be used to fulfill some of the objectives of the legislation now under consideration.

Every 5 years we conduct complete censuses of the manufacturing, mining, the distributive trades, services, construction, and agricultural areas. These censuses furnish an important part of the framework of such composite measures as the gross national product, input-output measures, index of industrial production, and indexes measuring productivity and price levels. Results from the censuses provide sampling frames and serve as benchmarks for current surveys of industrial and trade activity which are essential for understanding current economic conditions.

At the end of next month, December 27 to be exact, we will mail to approximately 2 million companies, both large and small, report forms associated with the 1977 Economic Censuses. There are an additional 3½ million firms included in the economic censuses which will not be bothered with forms, and their data will be obtained from administrative records of other Government agencies.

The basic mailing list for the economic censuses is the Standard Statistical Establishment List. This list is complete and updated annually to include all business firms and their constituent establishments. In addition to knowing the name and address, we also have an industry code and geographic code associated with each plant and company. Finally and most importantly, our records include the employment and payroll for each location.

This is the basis for the annual County Business Patterns program which provides summary totals from more than 4,114,000 establishments with paid employees covering all business activity. The County Business Patterns is a standard reference source of small area data useful for identifying benchmark "control totals" for other statistical programs as well as showing data by employment size classes.

Finally, the Census Bureau conducts a wide range of monthly, quarterly, and annual surveys where sampling is used extensively to provide for the data needs of many executive agencies and for information needed for some of the more important economic indicators.

I mention these points because they illustrate the wide range of data currently available at the Census Bureau for all business firms. I think that it is important in carrying out the objectives of the proposed legislation "to provide to the Congress and the Administration information on the economic status of the small- and medium-sized business sector" that consideration be given to the economic behavior of all businesses including the large as well as the small- and medium-sized companies. The performance of the small- and medium-sized businesses should not be measured only against their own performance but against the comparative economic activity of the larger companies as well.

In the development of our many economic programs, we work closely with trade associations, individual businesses, and other Government agencies to determine what is needed and how the information can best be obtained. We have gained the confidence and cooperation of the business community in the conduct of our programs including important voluntary monthly surveys.

Mr. Chairman, at the request of your committee, we have prepared a paper making suggestions for the development of a small business economic data base. I would like to outline briefly the major elements (more detail is shown in appendix A).

Sources of information have been divided into four major areas:

1. Information currently available from existing programs;
2. Information available by retabulation of existing data;
3. Information available by modifications to existing surveys; and
4. Information available by the conduct of special surveys.

I would like to point out at this time that it is absolutely necessary to obtain as much information as is possible from existing programs and by retabulation of basic information which is already available. This approach will minimize the response burden impact particularly on the small business sector as well as cost to both business firms and the Government. Census has pioneered in the use of probability sampling as an effective tool in reducing reporting burden and cost. Also, as early as 1954, we were using administrative records of other Government agencies to reduce response burden for small businesses. In addition to using administrative records in the basic economic censuses, such data have also been used to assemble information on minority-owned and women-owned businesses and in compilation of our annual County Business Patterns program.

Response burden and cost can also be minimized by using existing census surveys as the basis for recompiling data items needed for the data base rather than having to structure a special survey to collect the necessary information.

Returning to the sources of information, we feel that the nucleus for a data base is currently available from our existing programs. For example, from our 5-year economic censuses program selected statistics from each business and industrial firm are aggregated to the company level in order to present enterprise industry division data by type of company and employment size class of company.

These selected statistics include items such as number of companies; establishments and employees; total payroll; and sales and receipts. Similarly, information is now available for the industrial sector on concentration ratios and other measures related to the share of industrial activity accounted for by the largest companies in each industry. We also have tabulated selected data items by employment and sales size of the establishment for each industry.

Second, retabulation of existing data should be a major input to the data base. This information can be provided at a modest cost and again there is no additional response burden. This is the area probably of greatest promise. For example, the retabulation of County Business Patterns data for establishments classified in each of the standard classification industries by State and by size of owning company will identify national and regional trends by major economic sector and by size of business activity. County Business Patterns currently include data for both number of employees and payroll but it is possible to also obtain information on sales and receipts.

We are already providing Small Business Administration with special retabulations of economic census data from each of the censuses since 1963. These materials provide information on number of companies, employees, sales and receipts by employment size class of the owning company within each four digit industry covered by the censuses. Additional information by shipments size class of the owning company is also being provided from the 1972 censuses for the manufacturing and minerals areas.

From the Annual Survey of Manufacturers, general economic data such as employment, payroll, and shipments, together with more specialized information regarding the origin of manufacturers exports and quantity and cost of fuels consumed by fuel type could be developed by company employment size class. In fact, we are discussing such a tabulation of fuels and electric energy consumed by small companies with SBA. Similar special tabulations by size of firm could also be prepared utilizing information from our annual Retail Trade Survey and for selected current surveys in the industrial sector.

The third component of the data base relates to inclusion of new information that could be obtained by the expansion of existing surveys or by greater utilization of administrative records. Although some additional cost and response burden would result, we believe the existing surveys offer an opportunity of obtaining key data for the small business sector at a fraction of the cost and burden of collecting the information by an independent survey. For example, the addition of sales and receipts data which can be obtained from administrative records could be added to the annual County Business Patterns program and greatly enhance the ability to monitor the economic behavior of small businesses.

The inclusion of information from the monthly Manufacturers' Shipments, Inventories and Orders Survey could also be considered. This economic indicator survey provides national estimates of key manufacturing data with a limited breakdown by major industry group. The inclusion of small firms in the sample is generally limited to the minimum number required to obtain reliable overall estimates and is not large enough to provide disaggregation by company size. Expansion of the sample, however, could provide national aggregates for companies with fewer than 250 employees.

Similarly, monthly estimates of retail sales are currently provided for individual kinds of business for the United States and more limited kind of business detail by areas. A modest expansion of the sample could provide monthly estimates at the national level for durable and nondurable retail sales separately for companies above and below a specified employment cutoff.

In addition to what I have already outlined, it would be possible to collect other data through new survey efforts. For example, a sample of small business firms could be selected to determine the extent to which firms benefit from or participate in various Government programs designed to foster the growth of small business. A special survey could also be developed to provide information on business formations and failures. This might be done by selecting a sample of firms to determine their status such as newly started business, purchased going business, continually operating business, and so forth. Data could be tabulated at the U.S. level by size class of company.

In order to maximize the utility of the proposed small business economic data base, we also suggest including financial and other related data developed by other Government agencies; for example, the statistics of income reports published by the Internal Revenue Service present data by sales size classes.

As an additional aid to reviewing the status of small business, an annual chart book could highlight the trends and changes which have taken place. I have some examples of the types of charts which can be prepared and which can bring together critical information and express it in clear and easily understandable form.

In the development of the proposed data base, consideration should be given not only to the data users' needs but also to the feasibility of obtaining the desired information, data reliability, and response burden. In any case, we feel the Bureau of the Census is well qualified to assume a major role and can effectively establish and maintain a small- and medium-sized business economic data base that will provide the broad range of needed data.

Mr. Chairman, we welcome the opportunity of working with this committee as well as with the staff of the Small Business Administration on this project. I would be pleased to answer any questions that the committee might have.

[Attached documents follow:]

APPENDIX A

PROPOSAL FOR THE DEVELOPMENT OF A SMALL BUSINESS ECONOMIC DATA BASE

Background

The Census Bureau is the largest statistical data collecting agency in the United States. Every 5 years complete censuses of the manufacturing, mining, the distributive trades, services, construction, and agricultural areas are conducted. Significant detail is collected at the establishment level which provides a detailed snapshot of the economy at a single point in time. General and detailed statistics by State, county, Standard Metropolitan Statistical Area, and selected large cities are published. Publication and distribution of these data enable the Federal Government to analyze the economic activity of the United States and for individual companies to compare themselves to the statistics available for their kind of businesses.

To supplement the economic censuses, the Census Bureau conducts a wide range of surveys to meet specific needs of Government and industry. The monthly surveys of manufactures, retail, and wholesale trade provide some of the key indicators of current business activity. These results are also used in the preparation of such national economic measures as the Gross National Product and Index of Industrial Production. Other monthly, quarterly, and annual surveys are conducted for specific industrial areas such as inorganic chemicals, textiles, and various machinery areas. There are also a number of broadly based surveys designed to meet specific data needs such as the expenditures by manufacturers for pollution abatement and the shipments of defense-oriented industries.

Jointly utilizing Census and administrative data from other agencies, the Bureau issues the County Business Patterns Reports. These reports cover all economic activities with paid employees and provide establishment counts by size of establishment by industry and county.

Proposal

This proposal provides for the establishment of a small business economic data base by the Bureau of the Census. Census could initiate the formation of such a data base with information currently available. While we feel that the Bureau has a statistical capability of providing a wide range of economic and financial information relating to small business, we would emphasize the retabulation of existing data and modest expansions to existing surveys that would provide the basic data in order to minimize the cost and response burden impact. In the development of this data base, consideration will be given not only to the data users' needs but also to data reportability, reliability, and response burden. Since there is no standard or uniform definition of small business, we could show company data by standard employment size categories; i.e., 1-4, 5-9, 10-19, 20-49, 50-99, 100-249, 250-499, etc., unless otherwise specified. Data will be suppressed when necessary to avoid disclosing information for individual companies.

I. Information Currently Available from Existing Programs

A. Enterprise Statistics (Every 5 years)

Using the company affiliation information obtained from each business and industrial firm during the quinquennial economic censuses, data are aggregated to the company level. Examples of the kinds of data available for 1972 by company size include:

1. Number of companies classified in each enterprise industry category by employment-size class by primary enterprise industry specialization ratio of company.

2. Selected statistics for companies classified in each enterprise industry division by type of company and employment-size class of company:

   a. employment-size class of company
   b. sales and receipts size class of company

   (Selected statistics include: companies, establishments, employees, total payroll, sales and receipts, value added, new capital expenditures, and end-of-year inventories.)

3. Number of companies and employees of companies classified in each enterprise industry category by legal form of organization and

   a. employment-size class of company
   b. sales and receipts size class of company

4. A special tabulation from the Enterprise Statistics Program for 1972 is currently being completed for the Small Business Administration which will provide selected statistics for establishments classified in each of the standard classification industries by size of owning company. A similar tabulation was prepared for 1967.

B. Concentration Ratios in Manufacturing (Every 5 years)

A special report from the 1972 Census of Manufactures provides concentration ratios and other information on the share of industrial activity accounted for by the largest companies. Trends in industrial activity by the largest companies also reveal the remaining share accounted for by all other companies. For example, this report provides the share of selected items accounted for by the 4, 8, 20, and 50 largest companies ranked on value of shipments for each industry. (Select items include: companies, establishments, value of shipments, employment, payroll, production workers, value added, new capital expenditures by type and cost of materials.)

C. Information by Employment Size of Establishment

As part of the census of manufactures, information is regularly published by employment size of the establishment. For many industries where multi-establishment firms are not significant, this information may be useful in analyzing the composition of the industry.

II. Information Available by Retabulation of Existing Data

A. County Business Patterns (Annual)

The retabulation of County Business Patterns data (i.e., employees and payroll) for establishments classified in each of the standard classification industries by State by size of owning company will identify national and regional trends by major economic sector and by size of business activity.

B. Annual Survey of Manufactures

The Annual Survey of Manufactures (ASM) provides the key measures of manufacturing activity for intercensal years.

1. The general economic data available from the ASM could be retabulated to provide estimates by size of owning company for national aggregates.

2. Information on quantity and cost of fuels consumed by fuel type by manufacturers could be developed to provide:

   a. U.S. totals by company employment-size class

   b. U.S. by major industry group (3-digit SIC) for companies with less than 250 employees

   c. Census divisions and selected States for companies with less than 250 employees

   Note: A cost estimate to supply the above information was recently furnished the Small Business Administration.

3. Origin of Manufactures Exports

   Conducted as part of the ASM--A special tabulation by company employment-size class could provide important analytical information on the relative share of the export market accounted for by small companies compared to their total share of shipments.

C. Annual Retail Trade Survey

The Annual Retail Trade Survey provides benchmark data for annual sales and purchases plus end-of-year inventories. Since the data are collected from the entire monthly sample of retail firms, it may be feasible to retabulate by size of firm as reflected by employment measures obtained from Social Security Administration quarterly payroll information.

D. Current Reports

Census conducts a number of concurrent surveys which are conducted on a monthly, quarterly, or annual basis that could be retabulated to provide information by company employment size. Some examples of these are:

1. Expenditures for plant and equipment together with operating costs for pollution abatement.

2. Shipments of defense-oriented industries.

3. Capacity utilization--Differences in capacity utilization by plants owned by companies of differing employment size.

4. Commodity surveys--Many of the more than 100 current monthly, quarterly, and annual commodity surveys could be retabulated to identify the market share for individual commodities accounted for by companies of differing employment size. The ability to do this will vary by survey. In some surveys there is only limited reporting by small companies.

5. Annual Survey of Oil and Gas

E. Economic Censuses (Every 5 years)

1. Selected data--Special tabulations by size of company could be provided for the attached list (Attachment A) of data items available from each of the economic censuses.

2. Plant operating ratios--For both the census of manufactures and mineral industries, analytical tabulations could be developed that would identify selected operating characteristics by industry by employment size of owning company.

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III. Information Available by Modifications to Existing Surveys

A. County Business Patterns (Annual)

It is proposed that sales and/or receipts data be added as part of this important data base. The inclusion of these data will permit a more detailed analysis of the economic sector and provide needed annual trend data. To complete the more effective utilization of this "mini" annual census, particularly with respect to its utility to monitor the economic behavior of small businesses, the County Business Patterns data could be retabulated to provide data (i.e., employees, payroll and sales and/or receipts) for establishments classified in each of the standard classification industries by size of owning company. These data could also be tabulated on a geographic basis. (Note: See Attachment B for the proposed format for this information.)

B. Monthly Economic Indicators

The primary purpose of these surveys is to provide national estimates of key economic indicators at an aggregate level with limited breakdown by major industry groups. The inclusion of small firms in the sample is generally limited to the minimum number required to obtain reliable overall estimates. However, the sample of small firms is usually not large enough to provide disaggregation by company size. Moreover, because of the voluntary nature of these monthly surveys, the response rate for small firms is usually marginal at best. While this nonresponse rate does not have a significant impact on the overall estimates, it does have a significant impact on any size class information that could be developed. Both of these deficiencies could probably be remedied to a substantial degree by utilizing additional resources including the expanded use of our field staff to collect the information.

1. Manufacturers' Shipments, Inventories and Orders

This survey provides several of the most important economic indicators of the changes in the level of manufacturing. Monthly data are published showing shipments, new and unfilled orders, and total inventories for 38 industry categories.

Expansion of the sample could provide national aggregates for both durable and nondurables for companies with fewer than 250 employees. It is expected that data for selected major industry categories could also be made available.

2. Current Retail Trade

Monthly estimates of retail sales are currently provided for individual kinds of business for the United States and more limited kind of business detailed by area. Expansion of the sample could provide monthly estimates at the national level for retail sales for the small business sector. (Companies below some employment cutoff.)

IV. Information Available by Special Survey

A. Business Formations and Failures Survey

This proposed survey would supplement information available from the Census Bureau's Company Organization Survey and administrative payroll data for each employer identification number. A sample of selected firms would be canvassed to determine their status such as first-time business, purchased going business, changed legal form of organization, etc. Data could be tabulated at the U.S. level by employment size class of company. Industry detail and additional geographic detail would require a larger sample.

B. Federal Assistance to Small Business

A sample survey of small business firms could be selected to determine the extent to which firms benefit from or participate in various Government programs designed to foster the growth of small business. For example, information could be compiled on those companies that have had specific types of assistance from the Small Business Administration or from the Department of Defense in securing contracts or assistance in obtaining contracts. Before such a survey would be initiated, substantially more work would be needed to pretest the concepts to determine if the information is collectable.

V. Integration of Outside Data

In order to maximize the utility of the proposed small business economic data base, Census proposes to investigate the feasibility of including financial and other related data developed by other Government agencies into its data file. As a first step, it will be necessary to develop uniform standards and concepts in order to assure comparability of the data.

Note: Table formats for selected proposals are included as Attachment C.

Attachment A

—Major Data Items Collected in the Economic Censuses

Item	Economic Censuses							Econ. Surveys	
	Mineral Industries	Manufacturing	Wholesale Trade	Retail Trade	Selected Services	Construction	Agric.	ASM	CBP
Number of employes									
Production (Construction) workers - quarterly	X	X				X		X	
All other employees	X	X				X		X	
Total	X	X	X	X	X	X		X	X
Payrolls									
Production (Construction) workers wages	X	X				X		X	
All other employees	X	X				X		X	
Total	X	X	X	X	X	X	X	X	X
Operating expenses including payroll			X				X		
Supplemental labor costs									
Legally required	X	X	[1]X	[1]X	[1]X			X	
Voluntary programs	X	X	[1]X	[1]X	[1]X			X	
Total	X	X	[1]X	[1]X	[1]X		X	X	
Cost of materials, etc.									
Materials, supplies, etc	X	X	[1]X			X	X	X	
Specific materials	X	X					X		
Products bought and resold	X	X	[1]X					X	
Fuels consumed	X	X	[1]X				X	X	
Specific fuels consumed	X						X	X	
Purchased electricity	X	X						X	
Contract work	X	X				X	X	X	
Total	X	X				X	X	X	
Inventories									
Total		X	X					X	
Capital expenditures									
New structures and additions	X	X	[1]X	[1]X	[1]X	X		X	
New machinery and equipment	X	X	[1]X	[1]X	[1]X	X		X	
Used plant and equipment	X	X	[1]X	[1]X	[1]X	[2]X		X	
Mineral development and exploration	X								
Total	X	X	[1]X	[1]X	[1]X	X		X	
Quantity of electricity									
Purchased	X	X						X	
Generated	X	X						X	
Electricity sold	X	X						X	
Gross value, fixed assets									
Buildings and other structures	X	X				X	X	X	
Machinery and equipment	X	X				X	X	X	
Mineral properties	X								
Total	X	X	[1]X	[1]X	[1]X	X	X	X	
Total sales (receipts)	X	X	X	X	X	X	X	X	X 3/
Specific products	X	X				X		X	
Legal form of organization	X	X	X	X	X	X	X	X	
Rental payments, total		X	[1]X	[1]X	[1]X			X	
Building and structures		X	[1]X	[1]X	[1]X			X	
Machinery and equipment		X	[1]X	[1]X	[1]X	X		X	

[1] Data collected on a sample basis only. Totals will be available only at the U.S. level. For the census of wholesale trade, sample includes merchant wholesalers only.

[2] Used plant and equipment collected separately.

3/ Proposed data collection

Note: Agriculture Census -- 1974 and 1978
Economic Censuses -- 1972 and 1977

ASM - Annual Survey of Manufactures
CBP - County Business Patterns

Attachment B

COUNTY BUSINESS PATTERNS

Selected Statistics by State for Establishments Classified by SIC by Employment-Size of Owning Company

SIC Code	Industry, establishments, employees, and payroll	Employment Size Class of Owning Company									
		Total	1 to 4	5 to 9	10 to 19	20 to 49	50 to 99	100 to 249	250 to 499	500 to 999	1000 or more
xxx	Number of establishments........										
	Number of employees.............										
	Payroll, first quarter ($1000)..										
	Payroll, annual ($1000).........										
	Receipts ($1000)*...............										

*Proposed new data collection

Attachment C

MANUFACTURERS' SHIPMENTS, INVENTORIES, AND ORDERS
(Millions of dollars)

Shipments

	Employment size class of owning company								
	Total	1 to 4	5 to 9	10 to 19	20 to 49	50 to 99	100 to 249	250 +	
All manufacturing industries, total									
Durable goods industries, total									
Nondurable goods industries, total									
Selective major industrial categories									

Total Inventories

	Employment size class of owning company								
	Total	1 to 4	5 to 9	10 to 19	20 to 49	50 to 99	100 to 249	250 +	
All manufacturing industries, total									
Durable goods industries, total									
Nondurable goods industires, total									
Selective major industrial categories									

New Orders

	Employment size class of owning company								
	Total	1 to 4	5 to 9	10 to 19	20 to 49	50 to 99	100 to 249	250 +	
All manufacturing industries, total									
Durable goods industries, total									
Nondurable goods industries, total									
Selective major industrial categories									

MANUFACTURERS' SHIPMENTS, INVENTORIES, AND ORDERS
(Millions of dollars)

Unfilled Orders

	Employment size class of owning company									
	Total	1 to 4	5 to 9	10 to 19	20 to 49	50 to 99	100 to 249	250 +		
All manufacturing industries, total										
Durable goods industries, total										
Nondurable goods industries, total										
Selective major industrial categories										

ANNUAL SURVEY OF MANUFACTURES

Selected Statistics for Establishments Classified by

SIC by Employment-Size of Owning Company

(See appendix, Explanation of Terms)

	Item		All employees: Number (1,000)	All employees: Payroll (million dollars)	Production workers: Number (1,000)	Production workers: Man hours (millions)	Production workers: Wages (million dollars)	Value added by manufacture (million dollars)	Cost of materials (million dollars)	Value of shipments (million dollars)	Capital expenditures, new (million dollars)	End-of-year inventories (million dollars)
SIC												
xxx	Employment-Size class of Owning Company											
	1 TO 4 EMPLOYEES											
	5 TO 9 EMPLOYEES											
	10 TO 19 EMPLOYEES											
	20 TO 49 EMPLOYEES											
	50 TO 99 EMPLOYEES											
	100 TO 249 EMPLOYEES											
	250 TO 499 EMPLOYEES											
	500 TO 999 EMPLOYEES											
	1,000 TO 2,499 EMPLOYEES											
	2,500 EMPLOYEES OR MORE.											

Estimated Monthly Retail Sales of Companies by Kind of Business for the United States by Employment Size of Owning Company

Kind of business	Employment size class of owning company									
	Total	1 to 4	5 to 9	10 to 19	20 to 49	50 to 99	100 to 249	250 +		
Retail stores, total......................										
Durable goods stores, total................										
Nondurable goods stores, total.............										
Food stores, total.........................										
Grocery stores.............................										
General merchandise group with nonstores										
General merchandise group without nonstores (except department stores mail order)........										
Department stores and miscellaneous general merchandise stores..............										
Department stores..........................										
Variety stores.............................										
Apparel and accessory stores, total............										
Women's apparel, accessory stores										
Women's ready-to-wear stores................										
Shoe stores................................										
Tire battery, accessory dealers................										
Drug and proprietary stores....................										
Liquor stores..............................										
Retail stores, total......................										
Grocery stores.............................										
General merchandise group with nonstores										
General merchandise group without nonstores (except department stores mail order)........										
Department stores..........................										
Variety stores.............................										
Apparel and accessory stores, total............										
Women's apparel, accessory stores										
Shoe stores................................										
Tire, battery, accessory dealers................										
Drug and proprietary stores....................										

Senator McINTYRE. Ms. Kallek, you made what appears to be a very fine statement, a statement which indicates future possibilities that could be very helpful to the small business community.

You note that you can disaggregate data according to standard employment size categories. For some types of businesses such as manufacturing enterprises, size disaggregation could be misleading. I say this because most manufacturers are capital-intensive and therefore have relatively few employees.

Conversely, construction industry is labor-intensive and could be classified as a big business based on size alone.

Can the Census Bureau also disaggregate data according to asset size, net and gross receipts and/or sales? Can you break it down by those categories?

Ms. KALLEK. Yes, Mr. Chairman, we have information from the economic censuses on sales and receipts, and we can do that quite easily on a 5-year basis.

Information on asset size signs can be gotten for certain selected areas such as construction and manufacturing.

Unfortunately, we do not collect this information on a complete count basis in the retail and wholesale areas.

Senator McINTYRE. Could you do it for retailers?

Ms. KALLEK. Not on a census basis.

During the census, we collect information on depreciation and assets, only from a sample of companies, and we use our annual retail trade program for that, but we do have the information on sales.

Senator McINTYRE. Could the disaggregation we are discussing here be accomplished at a low cost without too much burden being placed on the small business community?

Ms. KALLEK. There would be no burden on the small business community, because we already have the sales information. It just requires the retabulation of the data that is in our files.

Senator McINTYRE. How about the costs?

Ms. KALLEK. I do not have cost figures, but it would certainly not be very expensive, sir.

I would say in the range of probably $50,000 to $75,000.

It is a manipulation of the files.

Senator McINTYRE. To what extent would you have to rely on the Internal Revenue Service to obtain information based on business asset and sale size?

Ms. KALLEK. As I said, Mr. Chairman, we do not have the information on assets.

We could get it from IRS. We do have legal authority to receive such information.

Senator McINTYRE. Are there any problems that would be encountered in obtaining information from the IRS?

Ms. KALLEK. I do not believe we would have any problem in getting information from the IRS.

I would have to see how we could collect the information for the large companies, because the IRS is not on a company basis.

It is on a legal entity basis, but I think, sir, it could be done.

Senator McINTYRE. To your knowledge, are there any legislative restrictions that would prevent SBA or Census from having relatively easy access to such information from IRS, that is, any legislative restrictions?

Ms. KALLEK. My understanding, sir, is that the Tax Reform Act only gave permission for the statistical use of IRS records to the Bureau of the Census, the Bureau of Economic Analysis, the Federal Trade Commission, and certain Department of Treasury officials.

No other agency can get access to that information.

Senator McINTYRE. Revised title I of S. 1726 lists specific types of economic information that is required to be a part of the small business economic data base.

Would you please address each item to explain to what extent Census could presently provide this information?

Ms. KALLEK. The information on employment, and new hirings is collected by the Bureau of Labor Statistics.

My understanding, and we will check it for the record, is that information is obtained by means of a cutoff sample, which means that small businesses are not well represented.

[The information follows:]

BLS advises that information on employment and new hirings for mining and manufacturing is available and is obtained by means of a stratified sample including representation from the small business sector.

Ms. KALLEK. Information of course on employment itself is available from the Census Bureau, from the annual county business patterns program, or from our economic census.

The second piece of information, on number and type of business establishments is available, again from our censuses.

We do not collect this information other than every 5 years, and it only covers industries within the economic censuses.

We could arrange to do the same thing for industries which are not part of the economic censuses.

The number of business formations and failures is a series which is not available within the Government at the present time. We think we have an excellent vehicle for conducting this survey and have included it in our proposal.

Since we get information about all business changes from IRS, for use in our current surveys, we could sample these firms to determine why they went into business; was it a new business formation, or just the purchase of an ongoing business.

As to sales, new orders, and back orders we currently count orders data for the manufacturing sector.

Actually new orders is not really used in areas other than the manufacturing sector. As I stated in my testimony, by enlarging our monthly manufacturers, shipments, inventories and orders survey, we could collect information for the small business sector.

The same is true for back orders, or what we call unfilled orders.

Information on investment in plant and equipment are available annually for the manufacturing sector. Similar information is available from a company sample for retail trade and merchant wholesalers from the 1972 economic census.

The samples, however, could be enlarged to provide reliable information for the small business sector. An expanded sample would also be necessary to provide information for the small business sector on changes in inventory, and rate of inventory turnover.

I think the information is collected by the FTC on capital investment including debt and internally generated funds. The same is true of debt-to-equity ratios, and although FTC had originally enlarged their samples to include small firms, I do not believe they have maintained that. We will check, and if it is a sample survey, it could probably be enlarged to include the small business sector.

[The information follows:]

The Federal Trade Commission confirms that beginning with the current quarter approximately 1,500 companies representing the small business sector have been eliminated from their Quarterly Financial Report in order to reduce response burden. It would be possible for FTC to enlarge the survey to include more representation from the small business sector.

Ms. KALLEK. We collect information on manufacturing exports in our annual survey of manufacturers. We will determine if we can obtain reliable information for the small business sector from our present sample size.

On mergers and acquisitions, information is published by the FTC, but unfortunately it covers predominantly the larger firms.

The Census Bureau has had a small survey in this area, but does not plan to continue it at this time.

Concentration ratios can be obtained by a retabulation of our data. I think that covers all of your list.

Senator MCINTYRE. Do you have any idea what the ballpark cost would be for this additional effort?

Ms. KALLEK. Mr. Chairman, we are still working on that, and we have not gotten any of our figures approved at this time.

Senator MCINTYRE. We would like to have that for the record.

Ms. KALLEK. This is something I will check, sir.

Senator MCINTYRE. Will you be able to give us some kind of figure within the next 2 weeks or so?

Ms. KALLEK. Yes, Mr. Chairman, I will try.

I would say it will not cost less than $100,000, but it will not cost $5 million either.

Senator MCINTYRE. In your estimate would it cost less than $3 million?

Ms. KALLEK. Yes, Mr. Chairman.

[The information follows:]

Estimated Cost for Implementing
the Development of a Small Business Economic Data Base

	Major Area	Cost	Annual Man-hour Response Burden
I.	Information Currently Available from Existing Surveys	None	None
II.	Information Available by Retabulation of Existing Data	710,000	None
III.	Information Available by Modification to Existing Surveys	1,040,000	62,000
IV.	Information Available by Special Survey	200,000	2,116
V.	Integration of Outside Data Including Development and Maintenance of Small Business Economic Data Base	500,000	None
	TOTAL	$2,450,000	64,116

Note: Estimates to develop the revised list of specific types of information (Title 1 of S. 1726) are included above except for the following:

1. Layoffs and hirings--Discussions will have to take place with the Bureau of Labor Statistics regarding the cost and feasibility of developing reliable estimates for small business.

2. Sources and amounts of capital investment, including debt, equity, and internally generated funds and debt-to-equity ratios, and number and dollar amounts of mergers and acquisitions by size of acquiring and acquired firms--Discussions will have to take place with the Federal Trade Commission regarding the cost and feasibility of developing reliable estimates for small business.

Senator McINTYRE. There is an insatiable desire on the part of the bureaucracy in this modern world to gain every bit and piece of information that it can. It's driving a lot of people crazy out there in the great wide world. In moving around New Hampshire, I bump into these people, and they are not very kind to the bureaucrats.

I just want to ask you, from your vast experience, do you believe that all of the economic information from this proposed revised version of title I is really needed to develop a complete small business data base? Do you really believe we need all of this in your opinion?

Ms. KALLEK. Well, Mr. Chairman, and again, it is my opinion the more information you have, the better you can make a decision, and I guess the problem of the Census Bureau has always been how do you put a figure, a cost figure on the value of good decisions. A good decision is based on information, and can you make a good decision without the facts?

We think the data, as now obtained, if they were retabulated in many ways, would give you an opportunity to see a better relationship between small business and big business.

Senator McINTYRE On the other hand, do you believe there is information that we need in addition to what we have already discussed?

Are there any other items that should be added to this revised section?

Ms. KALLEK. I think, Mr. Chairman, once a data base is established, and the information is used, you then find out where the data gaps are, and you also find out what series you do not really need, and are not really using, and it is only through experience and use, that you can really improve the kinds of information that you should have.

Senator McINTYRE. While you are here, I would like to ask whether you really need to send out all of these surveys to millions and millions of people?

Take a look at the way the pollsters come so close on Presidential elections. Look at the money they are picking up from people like myself trying to get a feel as to what is going to happen. Why is it you continue to send out questionnaires, and not only that, if people fail to reply summon them to court. That is absolutely ridiculous.

While you were here, I just wanted to give you a bit of a hard time.

What is the answer to that?

Why don't you do more sampling?

Ms. KALLEK. Mr. Chairman, we sample wherever it is feasible, and we always have.

The Census Bureau has been a leader in that area.

I think the major program you are speaking about is the economic census. I appeared before you about 5 years ago prior to the 1972 Census, or right after that, and, in fact, that was the first time I ever testified on the Hill. We need a census, because you need basic information. If you did not have a census, you could not have reliable current data.

The Census is the only time you obtain information on all establishments for those industries covered by the census. You are now able to see what has happened over time, and you get very detailed information by industry and by size class.

We have done a number of things since the last census to simplify reporting and ease the respondent burden. I brought several examples along. We are testing on some of the census forms the use of a toll-free number to see if respondents will reply more easily that way.

We have prepared brochures explaining what the census is, and why it is important.

Senator McINTYRE. Are you still invading privacy? I should add that I am told this is a bad question.

Ms. KALLEK. Of course, Mr. Chairman, we do not believe it is an invasion of privacy, because we feel since we keep our information so confidential under our title 13, that no one but a sworn census agent has access to the information, and anything reported to the Census Bureau is kept completely private.

Senator McINTYRE. In Milford, N.H., two people accosted me on the street about 2 years ago. They were worried not only about the Census, but they were also worried about the computer invading their privacy in such areas as how much they owed, what their records were on payments—30 days, 60 days—I thought they were going to have a fit right there in front of me.

There are people who are very up tight about privacy. I hope you will try to keep out of that business.

What type of permanent, continuing liaison should be set up between SBA and Census to insure proper development and evaluation of the small business data base?

Ms. KALLEK. We have, of course, worked closely with SBA.

The information in the data base would not only be of use to the SBA, but also to other Government agencies, such as EDA, and other agencies within the Department of Commerce, I imagine Treasury, and other Departments would also find the data are of interest.

We would certainly work most closely with them, finding out their needs, and supply them with what they wanted.

Senator McINTYRE. Could you pursue that question?

Mr. NEECE. What we are really trying to determine here is what specific role would the Census play in putting together the data base? What respective role would the Department of Commerce and SBA play?

Ms. KALLEK. I understand.

Mr. NEECE. We are trying to get a determination from both agencies as to where they come down on this issue.

Ms. KALLEK. Well, Mr. Neece, in any effort of this type, we always set up an interagency committee.

This would be under the aegis of the Office of Federal Statistical Policy and Standards, so that all agencies would agree on the needed statistical information.

The reason we believe it should be at the Census Bureau, of course, which is a personal belief, is that we are a centralized agency, we collect most of the information, we are able to retabulate it, we have the expertise in this area.

Mr. NEECE. After you actually collected and then disaggregated all of the data, which we have been addressing, would SBA then be able to retrieve the information census generated and place it in their own computer system?

Ms. KALLEK. I am certain that is what we would aim toward.

That would be a long-range goal, it would take several years probably to get it instituted.

Mr. NEECE. Do you think you could do that within, say, 3 or 4 years?

Ms. KALLEK. Oh, yes, sir.

Senator MCINTYRE. Because the Census Bureau presently collects aggregated information, it is my understanding that the Bureau does not generally followup with smaller businesses to obtain requested information that the business has not supplied.

In what manner and to what extent would Census have to undertake such followup with smaller enterprise to insure adequate development of the small business data base?

Ms. KALLEK. Mr. Chairman, at the present time, we have an extensive followup program, and I am sure you know about it, since you have gotten letters and complaints about the Bureau, and about our followup program. We do estimate where necessary, where firms do not report.

Our belief is that the more firms understand the value of data, and the more they use it, or find it useful to them, the more they will be willing to report. In taking that approach, we have had several press conferences relating to the 1977 economic censuses and have sent several thousand pieces of material to trade associations in order to obtain the cooperation of both big and small firms.

We feel that our response rate is adequate in the census for both the small business sector as well as the large business sector.

It is a little different in our monthly voluntary surveys.

Senator MCINTYRE. Would the Sabin technique handle the problem of followup?

Ms. KALLEK. Not in that way, sir. When you select a sample, you want to come out with reliable data, and you take the minimum sample necessary for that objective.

We attempt to get forms from all firms, and we work very hard to achieve this.

Actually, we do feel we have an adequate response rate of the small business sector as well as the large at the present time.

Senator MCINTYRE. In items II B (1 and 2) on page 3 of your "Proposal for the Development of a Small Business Economic Data Base," you note that you have cost estimates for supplying disagregated information from the Annual Survey of Manufacturers.

Do you have any idea of what that cost would be?

Ms. KALLEK. I am sorry, sir. I do not have it.

Senator MCINTYRE. Can you answer that for the record?

Ms. KALLEK. Fine.

[The information follows:]

A cost estimate of $34,000 to supply information on quantity and cost of fuels consumed by fuel types by manufacturers from the 1975 Annual Survey of Manufacturers was recently furnished the Small Business Administration.

The retabulation would include:

(a) U.S. totals by company employment-size class.

(b) U.S. by major industry group (3-digit SIC) for companies with less than 250 employees.

(c) Geographic divisions and selected States for companies with less than 250 employees.

These above costs are included in the estimated cost for implementing the development of a Small Business Economic Data Base (see page 18).

Senator MCINTYRE. Item II B (3) notes that Census could specially tabulate the Annual Survey of Manufacturers to supply "important analytical information" on the share of exports that belong to small business. What type of analytical information would be generated by this special tabulation?

Ms. KALLEK. At the present time we publish information from manufacturer's exports by industry, and the percentages of the total.

We would in fact retabulate the information to obtain the data for the small business community.

Senator MCINTYRE. You say on page 4 of your proposal that it may be feasible to retabulate the Annual Retail Trade Survey by employee size of firm.

What specific problems would have to be solved before such a retabulation could be achieved?

Ms. KALLEK. We could retabulate without any difficulty, Mr. Chairman, but we do not know whether the data will be reliable or not.

We select the firms to provide an overall estimate of reliability, not particularly for the small business sector.

Senator MCINTYRE. Ms. Kallek, you explained you could retabulate the County Business Patterns by employee size of firms. This retabulation would include information on employee number, payroll, sales and/or receipts. What would the time frame be to accomplish this disaggregation, for example, from time of data collection to implementation?

Ms. KALLEK. Mr. Chairman, we could at the present time retabulate the information from employment and payroll without any additional response burden.

In order to get sales and receipts, we would have to obtain receipt data from IRS for the single establishment firms, and we would add this item to our company organization survey, for the larger or multi-establishment firms.

The first part could be done immediately at relatively small cost, and I am sorry, I do not have a figure, I would have to give it to you for the record, as to how much it would cost to get the additional information from both IRS and the company organization survey.

Senator MCINTYRE. What would the cost be?

Ms. KALLEK. I will have to give you that for the record.

I do not have the figure.

[The information follows:]

It is estimated that the cost of retabulating County Business Patterns data (i.e., employees and payroll) to provide information on establishments classified in each of the standard classification industries by State by size of owning company will be $150,000. An additional estimated cost of $250,000 with an associated annual response burden of 40,000 man-hours would provide the additional information on sales and/or receipts.

These above costs are included in the estimated cost for implementing the development of a Small Business Economic Data Base (see page 18).

Senator MCINTYRE. The memorandum notes that it would be difficult to disaggregate the monthly economic indicators because Census solicits information from very few small firms and only a small number of these small firms respond. It further states that the poor response rate could be improved by expanded use of the Census field staff.

Could you please elaborate on how the use of the field staff would be expanded? How would the staff deal with small firms to increase their response rate to a statistically significant confidence level, and what would be the cost of such an endeavor?

Ms. KALLEK. The field staff would be used for telephoning the companies and getting the information by phone if they do not report through the mail system.

The sample would have to be enlarged of course to obtain representation for the small firms.

At the present time the sample is designed to give national estimates with reliability.

In order to have the same reliability for the information about small firms, we would have to increase the size of the sample.

Costs there again, I do not know.

Senator McINTYRE. Again, I think we would like to get your best estimate for the record within a couple of weeks.

[The information follows:]

The following is the estimated cost for expanding the monthly Manufacturers' Shipments, Inventories, and Orders Survey and the monthly Retail Sales Survey to supply information for the small business sector:

1. Manufacturers' Shipments, Inventories, and Orders (M-3):

   Cost: $440,000.

   Annual response burden: 16,000 man-hours.

Monthly estimates for the M-3 survey would be limited to two employment size ranges for broad industrial groups.

2. Retail Sales:

   Cost: $350,000.

   Annual response burden: 6,000 man-hours.

Monthly estimates for the Retail Sales Survey would be limited to approximately three employment size ranges and five selected kinds of businesses.

These above costs are included in the estimated cost for implementing the development of a Small Business Economic Data Base (see page 18).

Senator McINTYRE. How long would it take to implement your proposed business formations and failures survey?

Ms. KALLEK. We could probably start to do that within 6 to 9 months after we have approval.

We have a basis for doing it at the present time, and we would be just implementing the sampling technique.

Senator McINTYRE. Are there any particular difficulties you can think of that would delay implementation of this operation?

Ms. KALLEK. I do not believe so, sir.

We have talked about this. We would of course have to do a feasibility study to make sure that we are getting what we think we should be getting.

As I said, this is an area which is of importance, not only for the small business sector, but really for the entire business community.

There are no reliable data available at the present time on business formations.

Senator McINTYRE. To what extent can the survey undertaken for the 1977 Economic Census be amended to accommodate the needs outlined in revised title I and those that we have discussed this morning?

Ms. KALLEK. Well, I think we are able to give you most of the information except for the retail sector.

I should say fortunately or unfortunately, the report forms for the 1977 census are finalized; in fact, all single-establishment forms have already been labeled and put into mailboxes.

Senator McINTYRE. To what extent can the above-mentioned survey and the needs outlined in title I be amended to include unincorporated businesses, that is, partnerships and sole proprietorships, by industry and company size? If this cannot be accomplished, what are the impediments preventing the implementation?

Ms. KALLEK. The information, sir, that we collect in our economic censuses covers all businesses, including partnership and proprietorships.

In fact, we publish data showing tabulations by legal forms of organizations.

The data are collected once every 5 years, and it could be expanded to include information for industries not included in the economic censuses.

Senator MCINTYRE. Thank you very much for your able and fine testimony here this morning. We appreciate your cooperation with the committee staff.

We will see if we can try to work out something that will be helpful and practical to the small business community.

Ms. KALLEK. Thank you.

Senator MCINTYRE. Our next witness is Ms. Mary T. Mitchell, Deputy Director, Division of Bank Supervision, FDIC, Washington, D.C.

We are very happy to welcome you here this morning.

I have your statement and it will be placed in the record in its entirety.

You may read the statement, or you may summarize. Please be comfortable, however, and testify in any manner that you wish to best state your case for us.

STATEMENT OF MARY T. MITCHELL, DEPUTY DIRECTOR, DIVISION OF BANK SUPERVISION, FEDERAL DEPOSIT INSURANCE CORP.

Ms. MITCHELL. Thank you, Mr. Chairman.

I am Mary T. Mitchell, Deputy Director, Division of Bank Supervision, Federal Deposit Insurance Corp.

Members of the FDIC staff have worked with committee staff members on the Small Business Credit Information Project, and we are very anxious to be fully cooperative in providing a statistical base of information that will be useful to you.

You have requested a discussion of the views of the Federal Deposit Insurance Corp. relative to title VI of S. 1726, a draft of which we received last week.

From our reading of the draft, we conclude that title VI, Small Business Credit Information would require the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, and the Federal Deposit Insurance Corp., in consultation with the Administrator of the Small Business Administration, to develop a sample survey of insured commercial banks which would provide estimates of credit extended to businesses of various sizes.

Title VI would also require estimates of the loan requests which were denied to businesses of various sizes.

Specifically, estimates would be required, by region and nationwide, of the number and dollar amount of commercial and industrial loans and other types of credit extended and denied during each half-year period to borrowers of various sizes as measured by, (1) their total assets, and (2) their annual sales.

Such estimates would be compiled and published semiannually, for banks having assets of less than $300 million and for banks having assets of $300 million or more.

In support of the overall goals of title VI, we have reviewed the nature of the procedures which would have to be developed by the three Federal bank regulatory agencies and followed by the banks which would constitute the sample for purposes of this survey.

There are about 14,500 insured commercial banks in the United States which presently hold commercial and industrial loans amounting to $190 billion.

These banks range in size from multibranch and large unit banks which extend tens of thousands of loans to businesses every half yearly period to small banks making fewer than 50 such loans.

The 100 largest banks account for well over half the dollar volume of commercial and industrial loans in all U.S. banks. We note with approval that title VI specifies a sample of banks, rather than the complete universe of banks, which was specified in an earlier version of the bill. Any bank participating in this survey will have a substantial compliance cost. We note, however, that inasmuch as the sample design implied by title VI provisions requires a large enough sample to provide separate estimates by two sizes of bank, seven sizes of borrower, and presumably at least 12 geographical regions, we are talking about a very large number of banks, possibly as many as 2,000.

Such a sample design is "doable," but because reporting would require a substantial cost on the part of many sample banks, we recommend considerable thought be given to how well the goals of title VI would be met by the proposed survey.

Compliance with survey requirements by each of the banks falling into the sample would require a coding for each commercial or industrial loan made of two indicators of the size of the borrower; in terms of total assets and annual sales. At the end of each half-yearly period, each bank would compute and report the number and dollar amount of commercial and industrial loans made in each of seven size-of-asset categories and in each of seven size-of-sales categories.

We presume that for very large banks sampling within their records might be permissible.

We note that title VI has a significant addition that was not in previous versions: Namely, the banks would report information on loan denials.

The number and amount of loans denied, and their relationship to loans granted constitutes important information in the evaluation of a bank's business loan policies.

However, these data may be difficult to secure and interpret.

Frequently, and particularly in small banks, no record of rejection is kept or required. Often requests are modified, deferred, or referred to other sources. On the other hand, denials in the record ordinarily will be for substantial reasons.

Since, unlike loan approvals, for which detailed records are kept in the books of the bank, many loan denials never reach the application stage, and if they do, may not be adequately recorded, there is a lack of symmetry between loan approvals and loan denials.

We suggest that the committee staff make an effort to determine from a small sample of banks of various sizes, whether acceptable reporting of loan denials is feasible, and the reliability, costs and significance of such data.

We see some remaining deficiencies in title VI and our views on these are as follows:

(1) Line 8 on page 1 of title VI refers to "Federally insured and regulated commercial banks."

Is the intent to include commercial banks which are not insured?

I cite the Home Mortgage Disclosure Act in which FDIC is charged with enforcement with respect to noninsured commercial banks.

The FDIC, for example, has the responsibility for some regulations which are applicable to noninsured banks.

(2) Line 10 on page 1 reads "by region and nationwide, as determined by the Administrator."

We merely point out that collecting loans by region has major implications for the scope of the survey. In general the more area breakdowns of data required, the larger the sample will have to be.

(3) Line 12 page 2 refers to "other types of credit" extended by banks in addition to commercial and industrial loans.

The "other types of credit" should be specified: Is it intended to include agricultural loans, loans to brokers and dealers who are borrowers, loans to financial institutions installment loans for business purposes, real estate loans for business purposes?

The survey problems would be simplified if the data were limited to commercial and industrial loans as defined in the Report of Condition.

(4) We also note with approval that the number of size breaks on assets and loans of borrower has been reduced from 13 to 7.

We would like to suggest that additional study and experience may permit a further reduction in the number of size breaks, which in turn would permit a smaller sample of banks.

Senator McINTYRE. I am glad to see somebody trying to protect the banks.

Ms. MITCHELL. We must be cognizant of costs, sir, in the work we are doing.

Senator McINTYRE. Absolutely.

May I ask you a few questions now, or do you want to sum up?

Ms. MITCHELL. If I might just say that our most important observation is this, that we respectfully suggest that legislation should not spell out sample designs and details, but give us broad outlines, so the technicians could work out the most efficient, the most economical plan. Considering the apparent unresolved problems which I have listed, those problems in 1 through 9, before any statute requiring collection of data is enacted, we recommend that technicians from the three agencies in cooperation with the Administrator provide for limited pilot testing to establish data collection procedures, which are responsive to the needs of the Administrator.

It would also be very helpful to secure the advice of those who will have the responsibility of providing useful data.

Thank you.

Senator McINTYRE. Thank you.

The balance of your statement will be made a part of the record.

[The balance of the statement follows:]

(5) The bill continues to require the collection of information according to both assets and sales of borrower. In this regard the bill differs from a previous recommendation by Chairman LeMaistre that one of the two but not both, should be the criterion of collection. Our preference would be for size breaks based on assets. This is a more meaningful standard for banking purposes as assets can be collateralized, whereas sales may entail little support for a loan extension unless accompanied by an established net income record.

(6) The bill in (A) specifies that assets of the borrower are as of the time of the application of the loan. Large businesses may have available daily balance sheets but small businesses do not. It would be preferable to specify assets at the time the most recent balance sheet was computed.

(7) The bill provides that each of the three regulatory agencies publish the information for banks under its supervision. This would unnecesarily increase the size of the sample required. A single sample survey and publication with estimates for all insured commercial banks would be more economical and significant.

(8) Does the information to be collected cover new customers or both old and new customers? Since many of the existing loans on the books of banks are simply implementations of previous arrangements for lines of credit or revolving credits or extending the term of an existing loan, the total of actual credit extensions is in large measure predetermined; i.e., the availability of credit is assumed when the negotiation for the "lie" or revolving credit takes place. It might be desirable to distinguish between loans activated under previous arrangements from those negotiated at the time of the loan extension.

(9) Similarly, the wording of the bill does not make clear the period over which the information on loans should be collected: would all loans made during the 6-month period be reported or would the information collected be limited to only a small portion of the 6-month period? Most of the surveys that we undertake cover only a period of a few days or so. For example, the current quarterly survey on lending to business and farmers collects information for 5 days of the quarter for small banks and 3 days of the quarter for large banks.

(10) Considering the apparent unresolved problems, before any statute requiring the collection of data of this type is enacted, it would be advisable to provide for pilot or testing operations to establish data collection procedures responsive to the needs of the Administrator. It would also be most helpful to secure the advise of respondents who will have the responsibility of providing usable data.

Senator McINTYRE. It is my understanding that the staff of the Small Business Committee and the Joint Economic Committee have been working with staff members of the Federal Deposit Insurance Corp. in an attempt to find a means to make title VI of S. 1726 more manageable both on the part of the banks and the regulators.

Can you first tell us as best you can at this juncture, how the Corporation would undertake a sample survey to obtain the required title VI data?

Ms. MITCHELL. We would presumably work with our counterparts at the Board of Governors of the Federal Reserve System, and the Office of the Comptroller of the Currency, to design a sample which would be a stratified sample of banks.

There would be a larger proportion of the large banks than of the small banks.

This is accepted procedure in such cases as this, where the distribution of commercial and industrial loans is highly skewed, that is a large amount of the total is accounted for by a relatively small number of banks. So we would have to follow acceptable statistical principles; we would have a selection of banks within size strata of banks.

Senator McINTYRE. How many banks would have to participate in order for the survey to be statistically valuable for national and regional summaries in your opinion.

We are looking at a total of 14,500 banks of various sizes and locations, are we not?

Ms. MITCHELL. Yes.

In my opinion, for a 2-way breakdown of size of bank, a 12 regional breakdown (your earlier version of section 601 specified the 12 Federal Reserve Districts) and the 7 breakdowns of size of business, we might need a sample as large as 1,500 to 2,000 banks.

Senator McINTYRE. Is it true that none of the three banking regulators breakout total loans having a total dollar value made to firms in specific size category?

Ms. MITCHELL. We do not collect such information routinely at the FDIC.

It is my understanding that at the Board of Governors, there are several sample surveys, I think in one case of 350 banks, which regularly reports a size breakdown of borrowings.

I should be pleased to get a reference for the record, sir.

Senator McINTYRE. All right. The point that the staff was trying to make is that there is no way at present to measure, with any degree of certainty or integrity, how much banking credit is being extended to the small business community.

[The information follows:]

Survey of Terms of Bank Lending

New Series

Since as early as 1919 the Federal Reserve has been monitoring interest rates on loans at commercial banks through survey methods. Over the years, the interest rate surveys have been expanded and refined to reflect the growth and development of the banking industry. The Federal Reserve's principal interest rate survey of recent years, the Quarterly Interest Rate Survey (QIRS), has been revised to enlarge its coverage and scope. The new survey, now called the Survey of Terms of Bank Lending (STBL), was first taken in February 1977.

OBJECTIVES OF THE REDESIGNED SURVEY

The content and coverage of the STBL were designed to achieve certain objectives related to changing practices in banking and to provide better, more representative statistics on bank lending. The previous survey had been limited to collecting interest rate information on business loans made at 120 large commercial banks. The reporting panel was not representative of all commercial banks; it consisted of the largest banks, which accounted for slightly over 60 per cent of all business loans of commercial banks. While the banking sector has become more closely integrated in recent years through advances in communications and methods of transferring funds, the validity of a survey limited only to large banks came into question, as a large share of business lending was made at other banks. Moreover, issues affecting the entire banking system such as the cost or availability of funds to small business borrowers could not be addressed within the design of the old survey. This latter shortcoming prompted the Federal Reserve to initiate the monthly Survey of Selected Interest Rates in 1972 under the auspices of the then-Committee on Interest and Dividends.

The Survey of Selected Interest Rates asked approximately 350 responding banks to provide the "most common" interest rates charged on small ($10,000 to $25,000) business loans and selected types of agricultural and consumer loans. The accuracy of this survey, however, was not comparable to that of the QIRS since data on lending rates on actual loans were not collected and the survey results could not be weighted by the volume of lending by respondents.

The new STBL replaces the Quarterly Interest Rate Survey and the small business and agricultural portions of the Survey of Selected Interest Rates.[1] The STBL will gather information on actual loans made to businesses and farmers during the survey period. Construction loans secured by real estate, which are not included in the business loan category because of their collateral, were added to the survey.

Another objective in the redesign of the survey was to add information on nonprice terms of lending that might help explain movements and levels of interest rates charged on loans. The interest cost is the explicit cost of bank credit, but nonprice terms of lending—or price terms not directly associated with the loan such as commitment fees—also might justifiably be included in the total cost of borrowing. Economic theory and empirical analysis of bank

NOTE.—This article was prepared by Paul W. Boltz of the Board's Division of Research and Statistics.

[1] The consumer loan section of the Survey of Selected Interest Rates will be continued in the same form, and the results will continue to be published monthly in the modified G.10 release.

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lending terms suggested the importance of compensating balances, collateral, loan insurance, and commitment fees. However, in considering the addition of such nonprice terms of lending to the interest rate survey, the availability of this information in bank records and the cost to respondents of reporting nonprice items acted as constraints.

A pretest of the survey was conducted in early 1976 to determine the feasibility of collecting nonprice terms of business and agricultural loans from banks of all sizes on a regular basis. It was found that amounts of compensating balances and commitment fees associated with individual loans presented the most difficulty to respondents, particularly large banks that have computerized data systems. Many respondents indicated that isolating compensating balances and commitments fees associated with a particular takedown could not be accomplished with their existing data systems. Still other institutions reported that they monitored the level of transactions balances maintained by borrowers and could not identify idle balances usually associated with the concept of compensating balances.

The inability of some banks to report on compensating balances and commitment fees was not inconsistent with results from occasional special surveys of bank lending that have been conducted by the Federal Reserve. Nevertheless, in the large majority of banks some nonprice terms of lending met the two criteria of availability and economic importance. These include information as to whether there was any commitment or commitment fee, whether there was Federal loan insurance or collateral, and for agricultural loans whether other lending institutions participated in the loans.[2]

Both the Quarterly Interest Rate Survey and the Survey of Selected Interest Rates were subject to a number of technical shortcomings that the new survey was designed to correct. The principal improvement in this area is the collection of information on the maturity of each loan reported. In compiling the results of the Quarterly Interest Rate Survey, the maturity of short-term business loans had to be assumed, and the results of the Survey of Selected Interest Rates reflected no adjustment for maturity on loans to small businesses. In addition, the new survey asks respondents to report on whether rates on loans are floating, that is, the interest rate charged is tied to a rate that may change over the life of the loan. Under floating rate agreements, interest rates typically are linked to the prime lending rate of the bank.

DESCRIPTION OF THE NEW SURVEY

The STBL will be conducted during the first full business week of the middle month of each quarter at about 340 member and nonmember banks, randomly selected to represent all size strata of insured commercial banks in the United States.[3] About 100 of the respondents are nonmember banks; their reports are collected and processed by the Federal Deposit Insurance Corporation. Small- and intermediate-sized banks report on business, construction, and agricultural loans made during the 5 days of the survey week. Very large commercial banks report on their loans made over two or three randomly selected days of the survey week in order to reduce the absolute burden of participation in the survey to respondents and the editing and processing costs to the Federal Reserve. A monthly supplement to the quarterly survey is conducted during the first full business week of the first and last month of the quarter. The supplement is conducted at member banks only and is limited to price terms on business loans (excluding construction loans secured by real estate).

The three sets of forms and instructions used in the quarterly survey and monthly supplement are reproduced at the end of this article.[4] The first form is used quarterly to collect data on individual loans made to businesses. Con-

[2] Many banks that are heavily engaged in farm lending are small and therefore often need the participation of other lenders in their larger loans.

[3] See the appendix, which describes the principles used in selecting the random sample.

[4] Some banks that have computerized data systems are reporting by magnetic tape or cards, obviating the need to fill out forms.

struction loans secured by real estate are reported on this form as well, and the type of structure being financed by construction loans is reported by responding banks. The second form used in the quarterly survey covers loans to farmers. The purpose of agricultural loans (feeder livestock, machinery and equipment, and so forth) is also reported by respondents, and the classifications correspond to the categories in the Survey of Selected Interest Rates, the agricultural portion of which is replaced by the STBL.

The form for the monthly supplemental survey of business lending is also reproduced at the end of the article. About 250 member banks provide monthly information on business loans. Like the quarterly survey, the monthly supplement is conducted during the first full business week of the month.

The results of the quarterly surveys and the monthly supplements will be used to approximate the lending terms of the banking system as a whole. Respondents' loans are weighted by the relationship between the amount of loans in each category as reported on the call report and the total volume of such lending by banks

1. Survey of terms of bank lending

Short-term commercial and industrial loans (other than construction and land development) made during February 7–12, 1977

Item	All sizes	Size of loan (in thousands of dollars)					
		1–24	25–49	50–99	100–499	500–999	1,000 and over
	All banks						
Amount of loans (thousands of dollars)	5,264,153	668,619	356,031	622,569	1,015,065	437,161	2,164,708
Number of loans	125,377	97,688	10,896	9,516	5,814	709	754
Weighted-average maturity (months)	3.4	3.6	4.3	3.4	3.6	3.1	3.1
Weighted-average interest rate (per cent)	7.48	8.99	8.43	8.43	7.64	7.15	6.57
Standard error[1]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Interquartile range[2]	6.40–8.54	8.24–9.50	7.47–9.31	7.32–9.38	6.62–8.68	6.40–7.71	6.25–6.62
Percentage of amount of loans:							
With floating rate	44.5	11.7	26.2	16.0	38.5	58.3	65.9
Made under commitment	47.9	23.0	33.5	24.2	48.9	54.9	62.8
Insured by Federal Government	.8	.2	.7	.2	.4	.4	1.5
	48 large banks						
Amount of loans (thousands of dollars)	2,272,560	74,997	65,461	82,939	299,115	216,164	1,533,884
Number of loans	14,897	9,220	1,976	1,311	1,587	342	461
Weighted-average maturity (months)	3.4	4.4	4.7	3.9	3.2	3.0	3.2
Weighted-average interest rate (per cent)	6.82	8.34	7.90	7.73	7.35	7.17	6.49
Standard error[1]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Interquartile range[2]	6.25–7.25	7.27–9.18	7.27–8.54	7.00–8.27	6.66–7.76	6.40–7.50	6.25–6.50
Percentage of amount of loans:							
With floating rate	66.5	42.0	55.3	56.7	63.5	72.4	68.4
Made under commitment	54.2	37.6	48.8	48.9	54.4	45.6	56.7
Insured by Federal Government	1.8	1.2	1.6	1.0	1.3	.8	2.1
	Other banks						
Amount of loans (thousands of dollars)	2,991,592	593,622	290,570	539,630	715,950	220,996	630,824
Number of loans	110,480	88,468	8,920	8,205	4,227	367	293
Weighted-average maturity (months)	3.5	3.5	4.2	3.3	3.8	3.1	2.8
Weighted-average interest rate (per cent)	7.98	9.07	8.55	8.54	7.77	7.13	6.76
Standard error[1]	.07	.14	.14	.24	.11	.07	.11
Interquartile range[2]	6.50–9.10	8.25–9.50	7.75–9.31	7.50–9.38	6.62–8.77	6.40–7.71	6.25–6.75
Percentage of amount of loans:							
With floating rate	27.9	7.9	19.6	9.8	28.0	44.5	59.9
Made under commitment	43.1	21.2	30.1	20.4	46.6	64.1	77.7
Insured by Federal Government	.1	.1	.5	....	....	....	....

1 The chances are about 2 out of 3 that the average rate shown would differ by less than this amount from the average rate that would be found by a complete survey of lending at all banks.

2 The interquartile range shows the interest rate range that encompasses the middle 50 per cent of the total dollar amount of loans made.

n.a. Not available.

of similar size.[5] Consequently, the survey provides estimates not only for the terms of bank lending but also for the gross volume of new lending. The reliability of estimates of the volume of lending, however, is high only for short-term business loans, which constitute a very high proportion of the loans reported in the survey. The estimates of the volume of construction, agricultural, and long-term business lending are based on much smaller samples of loans.

[5]The appendix on the sample design explains more fully the blow-up procedures.

SURVEY RESULTS

Tables 1 to 4 summarize the results of the first survey, taken in February 1977. They cover, in turn, short-term business loans other than construction loans, long-term (over 1 year in original maturity) business loans other than construction loans, construction loans secured and unsecured by real estate, and loans to farmers. The tables do not contain regional information on lending terms as did the QIRS because the sample is drawn on a national basis. A sample capable of producing regional data of comparable accuracy to those shown in the tables would require a much larger panel of banks.

2. Survey of terms of bank lending

Long-term commercial and industrial loans (other than construction and land development) made during February 7-12, 1977

Item	All sizes	Size of loan (in thousands of dollars)			
		1-99	100-499	500-999	1,000 and over
		All banks			
Amount of loans (thousands of dollars)	974,912	295,105	163,735	68,869	447,202
Number of loans	23,469	22,269	990	102	108
Weighted-average maturity (months)	41.7	41.4	38.1	38.1	43.7
Weighted-average interest rate (per cent)	8.19	10.00	8.39	7.44	7.04
Standard error [1]	n.a.	n.a.	n.a.	n.a.	n.a.
Interquartile range [2]	6.85-9.00	8.50-10.47	7.34-9.00	6.40-7.99	6.52-7.59
Percentage of amount of loans:					
With floating rate	50.9	18.8	45.3	66.6	71.7
Made under commitment	47.4	24.1	33.3	65.9	65.2
Insured by Federal Goverment	2.2	.1	.1	....	4.7
		48 large banks			
Amount of loans (thousands of dollars)	502,565	33,271	46,390	36,760	386,144
Number of loans	2,094	1,754	204	57	79
Weighted-average maturity (months)	42.4	32.8	48.9	39.7	42.8
Weighted-average interest rate (per cent)	7.20	8.82	7.66	7.24	7.00
Standard error [1]	n.a.	n.a.	n.a.	n.a.	n.a.
Interquartile range [2]	6.52-7.75	7.45-9.65	6.55-8.41	6.40-7.72	6.52-7.59
Percentage of amount of loans:					
With floating rate	74.6	59.4	76.7	84.0	74.8
Made under commitment	64.0	51.2	53.1	74.1	65.4
Insured by Federal Government	4.2	.6	....	....	5.4
		Other banks			
Amount of loans (thousands of dollars)	472,347	261,834	117,345	32,109	61,059
Number of loans	21,375	20,515	786	46	29
Weighted-average maturity (months)	40.9	42.5	33.9	36.3	49.7
Weighted-average interest rate (per cent)	9.25	10.15	8.68	7.68	7.29
Standard error [1]	.16	.59	.18	.49	.41
Interquartile range [2]	7.99-9.65	8.57-10.47	8.00-9.00	6.40-8.03	6.50-7.99
Percentage of amount of loans:					
With floating rate	25.7	13.6	32.9	46.8	52.1
Made under commitment	29.8	20.6	25.5	56.6	63.6
Insured by Federal Government	.1	.1	.2	....	....

The notes are the same as those to Table 1.

The tables contain summary statistics for all commercial banks, 48 large money center banks, and all other banks. Each table shows the volume and terms of lending for various size categories of loans at each class of bank. Nominal interest rates reported on loans are adjusted for the method of interest calculation, maturity, and the number of payments over the life of the loan in calculating the average interest rates in the tables. The interquartile range is presented as a measure of the dispersion of lending rates. Along with the average interest rates appears the standard error of the estimated average, which provides a measure of the reliability of

3. Survey of terms of bank lending

Construction and land development loans (secured and unsecured by real estate) made during February 7–12, 1977

Item	All sizes	Size of loan (in thousands of dollars)					
		1–24	25–49	50–99	100–499	500–999	1,000 and over
	All banks						
Amount of loans (thousands of dollars)	977,682	107,586	72,575	87,635	146,517	44,026	519,352
Number of loans	17,917	13,133	2,094	1,378	851	60	402
Weighted-average maturity (months)	10.6	10.8	6.2	5.7	6.9	10.6	12.7
Weighted-average interest rate (per cent)	8.40	9.33	8.97	8.80	8.38	8.27	8.08
Standard error[1]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Interquartile range[2]	8.00–8.77	8.57–9.50	8.24–9.50	8.24–9.88	8.22–9.00	8.24–8.33	8.00–8.00
Percentage of amount of loans:							
With floating rate	25.1	16.7	17.7	21.4	43.2	55.2	20.9
Secured by real estate	89.8	64.7	92.3	96.2	90.5	92.2	93.1
Made under commitment	74.0	54.9	68.3	65.7	49.0	86.1	86.2
Made for construction	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1–4 family	33.7	70.0	82.2	74.8	59.7	50.0	3.8
Multifamily	43.1	2.0	5.4	3.8	8.0	15.6	75.8
Nonresidential	23.1	27.9	12.4	21.4	32.4	34.4	20.4
Insured by Federal Government	1.5	.3	.9	2.7	6.5	4.9	....
	48 large banks						
Amount of loans (thousands of dollars)	119,990	8,410	7,194	6,896	43,675	12,962	40,853
Number of loans	1,668	1,112	211	102	206	20	18
Weighted-average maturity (months)	12.2	8.7	8.9	7.5	10.3	8.4	18.7
Weighted-average interest rate (per cent)	8.01	8.33	8.46	8.22	8.31	7.99	7.53
Standard error[1]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Interquartile range[2]	7.25–8.81	7.75–9.00	7.81–9.24	7.50–9.25	7.47–9.03	7.75–8.28	6.25–8.81
Percentage of amount of loans:							
With floating rate	90.2	83.6	77.8	87.3	91.9	100.0	89.4
Secured by real estate	68.2	58.1	82.9	84.2	79.2	73.6	51.6
Made under commitment	74.8	57.6	79.4	91.4	82.1	93.6	60.8
Made for construction	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1–4 family	39.6	75.9	61.7	52.8	44.1	40.6	20.9
Multifamily	5.2	3.7	5.7	12.3	6.5	14.2	.0
Nonresidential	55.2	20.3	32.6	34.9	49.4	45.1	79.1
Insured by Federal Government	2.5	.5	3.1	3.4	5.6	....	....
	Other banks						
Amount of loans (thousands of dollars)	857,702	99,176	65,382	80,739	102,842	31,064	478,499
Number of loans	16,248	12,021	1,883	1,276	645	40	384
Weighted-average maturity (months)	10.4	10.9	5.9	5.5	5.6	11.6	12.3
Weighted-average interest rate (per cent)	8.46	9.41	9.02	8.85	8.41	8.39	8.13
Standard error[1]	.24	.22	.18	.17	.17	.22	.75
Interquartile range[2]	8.00–8.77	8.71–9.50	8.24–9.50	8.24–10.00	8.24–9.00	8.25–8.33	8.00–8.00
Percentage of amount of loans:							
With floating rate	16.0	11.0	11.1	15.8	22.5	36.5	15.0
Secured by real estate	92.8	65.3	93.3	97.2	95.3	100.0	96.6
Made under commitment	73.9	54.6	67.0	63.5	34.9	83.0	88.4
Made for construction	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1–4 family	32.9	69.5	84.5	76.7	66.3	53.9	2.4
Multifamily	48.4	1.9	5.4	3.1	8.6	16.2	82.2
Nonresidential	18.7	28.6	10.1	20.2	25.1	29.9	15.4
Insured by Federal Government	1.4	.3	.7	2.6	6.9	6.9	....

The notes are the same as those to Table 1.

4. Survey of terms of bank lending

Loans to farmers made during February 7–12, 1977

Item	All sizes	Size of loan (in thousands of dollars)					
		1–9	10–24	25–49	50–99	100–249	250 and over
	All banks						
Amount of loans (thousands of dollars)	809,024	171,247	143,928	137,765	112,606	101,382	142,097
Number of loans	66,285	49,541	9,805	4,387	1,674	715	162
Weighted-average maturity (months)	10.8	9.1	8.8	12.8	20.8	7.4	8.0
Weighted-average interest rate (per cent)	8.80	9.00	8.97	8.65	8.63	8.77	8.69
Standard error[1]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Interquartile range[2]	8.27–9.20	8.53–9.25	8.37–9.25	8.03–9.11	8.25–9.01	8.24–9.20	8.25–9.50
By purpose of loan:							
Feeder livestock	8.49	8.82	8.63	8.77	8.51	8.52	7.85
Other livestock	8.89	8.99	8.93	8.39	8.81	8.98	9.22
Other current operating expenses	8.78	8.91	8.89	8.71	8.51	8.76	8.73
Farm machinery and equipment	9.06	9.14	8.80	9.15	8.97	8.84	†
Other	8.80	9.26	9.65	8.45	8.56	8.98	8.43
Percentage of amount loans:							
With floating rate	15.6	4.9	7.1	4.0	8.3	13.1	56.0
Made under commitment	37.3	24.0	22.9	32.8	47.4	45.2	58.7
By purpose of loan:							
Feeder livestock	13.9	10.3	14.1	11.8	10.9	23.4	15.9
Other livestock	14.7	12.9	10.6	19.2	13.7	8.2	22.0
Other current operating expenses	35.7	45.0	39.1	24.5	32.5	44.8	27.9
Farm machinery and equipment	13.7	18.9	19.1	16.0	11.0	2.3	†
Other	21.5	12.7	17.1	28.5	29.0	21.1	23.9
	48 large banks						
Amount of loans (thousands of dollars)	98,226	3,163	4,144	4,653	7,802	11,471	66,994
Number of loans	1,472	815	280	139	114	78	45
Weighted-average maturity (months)	5.4	7.8	7.6	8.3	8.1	7.4	4.3
Weighted-average interest rate (per cent)	8.37	8.70	8.43	8.33	8.02	7.98	8.46
Standard error[1]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Interquartile range[2]	7.85–8.84	8.11–9.13	7.98–9.00	7.80–8.81	7.00–8.81	7.31–8.56	7.85–8.84
By purpose of loan:							
Feeder liverstock	7.78	8.10	7.96	8.24	(†)	7.53	(†)
Other livestock	6.94	7.78	7.85	8.17	6.52	7.54	6.58
Other current operating expenses	8.61	8.76	8.52	8.27	8.36	8.39	8.70
Farm machinery and equipment	8.77	9.31	9.06	(†)	8.33	(†)	(†)
Other	8.48	8.85	8.48	8.51	8.28	7.62	8.63
Percentage of amount of loans:							
With floating rate	81.5	35.2	52.1	62.8	69.1	67.8	90.6
Made under commitment	70.4	57.4	61.7	57.6	75.6	78.5	70.4
By purpose of loan:							
Feeder livestock	11.9	5.8	8.2	8.8	(†)	14.2	(†)
Other livestock	6.2	7.0	8.3	10.4	16.8	7.0	4.4
Other current operating expenses	49.8	61.4	54.7	64.4	54.3	42.4	48.6
Farm machinery and equipment	1.5	5.1	4.1	(†)	8.6	(†)	(†)
Other	30.4	20.4	24.7	12.3	18.6	32.6	33.5
	Other banks						
Amount of loans (thousands of dollars)	710,798	168,084	139,784	133,112	104,804	89,911	75,103
Number of loans	64,813	48,726	9,525	4,248	1,560	637	117
Weighted-average maturity (months)	11.6	9.2	8.8	12.9	21.8	7.4	13.3
Weighted-average interest rate (per cent)	8.86	9.01	8.99	8.66	8.68	8.87	8.89
Standard error[1]	.06	.06	.12	.12	.16	.08	.36
Interquartile range[2]	8.31–9.20	8.53–9.25	8.48–9.31	8.05–9.11	8.25–9.01	8.56–9.20	8.42–9.50
By purpose of loan:							
Feeder livestock	8.57	8.83	8.64	8.79	8.52	8.59	7.89
Other livestock	8.99	9.00	8.96	8.39	†	9.14	†
Other current operating expenses	8.82	8.92	8.91	8.75	8.53	8.81	8.86
Farm machinery and equipment	9.06	9.14	8.80	9.15	9.01	8.82	†
Other	8.87	9.27	9.70	8.45	8.57	9.27	8.03
Percentage of amount of loans:							
With floating rate	6.5	4.3	5.7	1.9	3.8	6.1	25.1
Made under commitment	32.8	23.4	21.8	31.9	45.3	41.0	48.4
By purpose of loan:							
Feeder livestock	14.2	10.4	14.2	11.9	11.6	24.6	18.1
Other livestock	15.9	13.1	10.6	19.5	†	8.3	†
Other current operating expenses	33.8	44.7	38.7	23.2	30.9	45.1	9.5
Farm machinery and equipment	15.4	19.1	19.6	16.4	11.2	2.3	†
Other	20.2	12.6	16.9	29.0	29.8	19.7	15.2

† Fewer than three sample banks.

Other notes are the same as those in Table 1.

the estimate.[6] Although measures of the reliability of other figures in the tables are not shown, it must be emphasized that all the data in the tables are estimates.[7]

The results of the quarterly survey for all commercial banks will appear regularly in the Financial and Business Statistics section of the Federal Reserve BULLETIN, replacing Table 1.35 "Interest Rates Charged by Banks on Business Loans." The results of the quarterly survey and the monthly supplement will also be published as the Board's G.14 (formerly E.2) statistical release.[8]

Much of the information in the tables has not been previously available or was available only in occasional special surveys. Consequently, interpretation of some parts of the survey findings may become useful only as an historical data base develops. But some of the new information made available through the STBL provides insights into bank lending practices that are of immediate interest. For example, the survey confirmed the view that a high proportion of lending by banks, particularly large banks, is being made at floating rates. Fully two-thirds of the dollar amount of short-term business loans made by large commercial banks carried floating rates in the February survey, and nearly one-third of such loans made by other banks had floating rate agreements.

In addition, the survey pointed out the wide extent to which bank borrowers are relying on prior commitments for loans. Commitments were associated with almost half of the business loans and about three-fourths of the construction loans reported on the survey. The widespread practice of arranging prior commitments was found at both the large banks and the other banks. The proportion of lending under prior commitments will likely rise and fall over the business cycle in response to changes in general credit conditions, and the survey will provide a guide to these developments.

[6] Additional programming is being performed to compute standard errors for interest rates on loans made at the 48 large banks; meanwhile, standard errors will be published for loans at other banks.

[7] Standard errors for all the estimates will be available later and may be obtained from the Banking Section of the Division of Research and Statistics.

[8] Copies may be obtained from Publications Services, Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

APPENDIX

SAMPLING PROCEDURES OF THE SURVEY OF TERMS OF BANK LENDING

The population to be sampled by the Survey of Terms of Bank Lending was defined to be all insured commercial banks in the United States. The banks were ranked by the volume of commercial and industrial loans in their portfolios as of June 30, 1974, and divided into six strata. The largest 48 banks were assigned to the top stratum with certainty, that is, all were included in the sample. Such banks accounted for about 50 per cent of all commercial and industrial loans of commercial banks. The remaining more than 14,000 banks in the United States were divided into five strata. The method of stratification (the cumulative square root procedure) was to approximately equalize the products of the number of banks in the strata and the standard deviations of commercial and industrial loans about the mean of the strata. The number of banks in a stratum is inversely related to the size of the banks; the strata for larger banks contain relatively few banks, while the strata for smaller institutions contain many banks.

The two strata containing the banks with the smallest business loan portfolios were combined and re-ranked by agricultural loans and re-divided into two strata. These two lowest strata account for a substantial portion of commercial bank agricultural lending (more than 70 per cent of all loans to farmers), and the reliability of farm loan

NOTE.—The STBL sample was designed by Irving Gedanken, Senior Statistician in the Division of Research and Statistics until his recent retirement.

information was thus improved. There would be little deterioration in the reliability of business loan information from this procedure, since the larger banks represented in the top four strata of the sample account for about 85 per cent of business lending.

Before selecting the reporting panel from the banking system so stratified, each stratum was divided into 10 zones containing equal numbers of banks. Six banks were then selected from each of the 50 zones (10 zones in each of the 5 strata) into which banks other than the 48 large banks were divided. Not all banks were able to participate in the voluntary survey, and the final sample design called for a panel of about 340 banks. As banks merge or otherwise are dropped from the panel, replacements will be selected to keep the sample representative of the population.

By dividing the strata into zones from which six banks were chosen, it became possible to identify six subsamples, each representative of the entire population of banks. The six banks chosen randomly within a zone were identified numerically as one to six in order of selection. The first bank selected from each zone in a stratum was assigned to subsample one of the stratum, the second was assigned to subsample two, and so forth. Consequently, in addition to the sample of 60 banks from each stratum, six subsamples of the 10 randomly selected banks were identified. Over the five sampled strata, the 300 respondent banks constitute six subsamples of 50 each. Including the certainty stratum of 48 banks, each complete subsample of the banking system is made up of about 98 banks.

Each of the six subsamples is a cross-section of the population and is a replicate of the other five subsamples. By ratio-estimate procedures relating call report totals for a particular loan category at sample banks to call report totals at all banks, the reports of the 340 banks in the sample are blown up to population estimates. Likewise, the six subsamples are each separately blown up to the population. Thus, seven estimates of the characteristics of the population are calculated, one over-all estimate from the large sample and six from subsamples of the whole. According to the central limit theorem, samples of the same size tend to distribute themselves about the mean of the population in a normal distribution. Relying upon this characteristic of the replicated estimates of the population, estimates of the variance of the elements can be readily calculated, and the standard errors for interest rates will be published regularly.

The first survey collected information on 23,201 business and construction loans and 2,740 loans to farmers. These loans were estimated to represent about 150,000 business loans, 18,000 construction loans, and 66,000 farm loans made by the banking system during the survey period. The relative coverage of business lending is higher than in agricultural lending because the sampling method concentrated more heavily on banks with higher business loan volume. However, the standard error of the estimates of interest rates on agricultural loans at smaller banks, other than the 48 large banks in the first stratum, are comparable to those on short-term business loans. The underlying variability of lending rates to farmers appears to be less than the variability of commercial loan rates. □

FR 2028A
Approved by Federal
Reserve Board -- July 1976
Approval Expires Feb. 1979

Page ____ of ____

TERMS OF BANK LENDING TO BUSINESS

COMMERCIAL, INDUSTRIAL, AND CONSTRUCTION AND LAND DEVELOPMENT LOANS MADE ON ______________

This report is authorized by law [12 U.S.C. 248(a) and 12 U.S.C. 248(i)]. Your voluntary cooperation in submitting this report is needed to make the results comprehensive, accurate, and timely.

The Federal Reserve System regards the individual bank information provided by each respondent as confidential. If it should be determined subsequently that any information collected on this form must be released, respondents will be notified.

(Please read instructions before completing form)

	DATE MADE: Mo.	DATE MADE: Day	FACE AMOUNT OF LOAN: Mil.	FACE AMOUNT OF LOAN: Thou.	FACE AMOUNT OF LOAN: Dol.	RATE OF INTEREST: Stated rate of interest (Per cent)	RATE OF INTEREST: Method of calculation (Check one): (a) Discount	(b) Add-on	(c) On remaining balance	RATE OF INTEREST: Rate over life of loan (Check one): (a) Floating	(b) Predetermined	MATURITY STATUS: Date of maturity (If none, enter zero): Yr.	Mo.	MATURITY STATUS: If maturity stated, enter number of scheduled payments over life of loan	COMMITMENT STATUS: Loan made under a commitment: Yes	No	COMMITMENT STATUS: Fees paid on commitment: Yes	No	FEDERAL INSURANCE STATUS (Check one): (a) Insured or guaranteed by S.B.A.	(b) Insured or guaranteed by other U.S. agencies or depts.	(c) Not insured by U.S. agencies or depts.	COLLATERAL AND PURPOSE: Loan secured: Yes	No	Complete columns 12 and 13 only for construction and land development loans — Check one: (a) 1–4 Family	(b) Multi-family	(c) Non-residential	Primarily secured by real estate: Yes	No
	1		2			3	4			5		6		7	8		9		10			11		12			13	
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Bank name, branch number

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Office address

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Person to be contacted concerning this report

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Area code, telephone no.

Return one copy to the Federal Reserve Bank of

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By ______________________________

INSTRUCTIONS
FOR FR 2028A

This report covers loans classified in Schedule A of the Report of Condition (Call Report) under Item 5, "Commercial and Industrial Loans", and Item 1a, "Construction and Land Development Loans", secured primarily by real estate. Report loans to farmers on FR 2028B.

INCLUDE: New loans which are defined as advances of funds to borrowers during the report period, takedowns under revolving credit agreements, notes written under credit lines, and renewals.

Your bank's portion of loan participations.

Commercial and industrial loans made at all offices of your bank in the States of the United States and the District of Columbia to any borrower domiciled in the States of the United States, the District of Columbia, or U.S. territories and possessions, including U.S. branches or subsidiaries of foreign businesses. (C&I loans include construction and land development loans not secured primarily by real estate to builders and developers in the States of the United States, the District of Columbia, and all U.S. territories and possessions.)

Construction and land development loans secured primarily by real estate made to any borrower domiciled in the States of the United States, the District of Columbia, or U.S. territories and possessions.

EXCLUDE: Purchased loans and open market paper such as commercial paper and acceptances.

Accounts receivable loans.

Loans made by an international division or an international operations subsidiary of your bank.

Loans made to business firms domiciled outside of the United States, the District of Columbia, and all U.S. territories and possessions (foreign loans).

Loans of less than $1,000.

INFORMATION TO BE REPORTED ON EACH LOAN

COLUMN NUMBER

1. **Date made.** Enter the calendar date the loan or renewal was made. For a loan made on November 3, enter 1103.

2. **Face amount of loan.** Enter the face amount of loan in dollars. If the note represents the first advance of a loan agreement or an addition to an existing loan, enter the amount advanced on the date shown in column 1.

3. **Stated rate of interest.** Enter the stated initial rate of interest shown in the note or agreement in per cent to three decimal places. Report an 8-1/4 per cent rate as 8.250.

4. **Method of calculation.** Check the appropriate space.

"Discount" applies when the proceeds credited to the borrower are the face amount less the interest based on the face amount to be paid at maturity.

"Add-on" applies when the borrower repays the face amount plus interest calculated on the face amount for the full period until maturity.

"Remaining balance" applies when the interest for any period is charged on the outstanding balance of the loan during that period.

5. **Rate over life of loan.** Check the appropriate space.

"Floating" applies when the rate is tied to some other rate (such as the prime rate or a market interest rate) and neither the bank nor the borrower knows the exact rate of interest to be charged over the life of the loan.

"Predetermined" applies when both the bank and the borrower know the exact rate of interest to be charged over the life of the loan. Do not check "predetermined" if at any time during the life of the loan the rate is floating.

6-7. **Maturity status.** If the loan has a specific maturity, enter the month and year in column 6. Include due dates for notes with specific maturities written under revolving credit agreements. If the loan is an instalment loan, enter the date of the last payment. If the loan is a demand loan and has no stated maturity, enter "0" and skip column 7.

For those loans with stated maturities, enter in column 7 the number of payments on the principal scheduled over the life of the loan. If the loan is a single payment note, enter "1". If the payments are not explicitly scheduled, enter "0".

8-9. **Commitment status.** For purposes of this survey, a commitment is defined as an official promise to lend a specified amount that is expressly conveyed, orally or in writing, to the customer. Such commitments should include revolving credits and approved lines of credit. Authorizations (internal guidance lines) where the customer is not informed of the amount are not to be considered as commitments.

If the loan is made under a commitment so defined, check "yes" in column 8 and the appropriate response in column 9. If the loan is not made under a commitment or if the loan is a participation originated by another lender and your bank is unaware of the commitment status of the loan, check "no" in column 8 and skip column 9.

Commitment fees are payments for access to credit under commitments and should exclude interest payments on individual loans under commitments. Fees may be based on the amount of the total commitment, the unused portion of the commitment, or both and may be charged once or periodically. If any fees have been levied on commitments associated with the loan, check "yes" in column 9, if not check "no".

10. **Federal insurance status.** Check whether the loan is fully or partially insured or guaranteed either by the Small Business Administration or by any other agency or department of the U.S. Government, including wholly-owned government corporations. If the loan is not insured by an agency or department of the U.S. Government, check "not insured by U.S. agencies or departments."

11. **Loan secured.** Check whether the loan is secured by collateral of any kind.

12-13. **Construction and land development loans.** These columns apply only to those loans made for the purposes of financing construction of new structures, demolition of existing structures to make way for new structures, or for land improvement prior to construction. In column 12, check the appropriate space to indicate the intended principal use of the property involved. If the ultimate structure type is unknown, check "non-residential". Note that all loans classified as construction loans, regardless of collateral, are limited to loans with original maturities of 5 years or less. All such loans of longer maturity are assumed to be permanent financings and are not reported as construction loans.

If the loan is primarily secured by real estate, check "yes" in column 13. Such loans would be classified on the Report of Condition in Schedule A as Item 1a.

Check "no" in column 13 if the construction loan is not primarily secured by real estate. Construction loans not secured by real estate would be classified in the Report of Condition in Schedule A, as part of Item 5.

98-762 0 - 78 - 23

TERMS OF BANK LENDING TO FARMERS

LOANS MADE ON ____________________

FR 2028B
Approved by Federal Reserve Board -- July 1976
Approval Expires Feb. 1979

Page____of____

This report is authorized by law [12 U.S.C. 248(a) and 12 U.S.C. 248(i)]. Your voluntary cooperation in submitting this report is needed to make the results comprehensive, accurate, and timely.

The Federal Reserve System regards the individual bank information provided by each respondent as confidential. If it should be determined subsequently that any information collected on this form must be released, respondents will be notified.

(Please read instructions before completing form)

	DATE MADE		FACE AMOUNT OF LOAN			RATE OF INTEREST						MATURITY STATUS			COMMITMENT STATUS				FEDERAL INSURANCE STATUS			LOAN SECURED		PARTICIPATION STATUS			PRIMARY PURPOSE OF LOAN				
						Stated rate of interest	Method of calculation (Check one)			Rate over life of loan (Check one)		Date of maturity (If none enter zero)		If maturity stated, enter number of scheduled payments over life of loan	Loan made under a commitment		Fees paid on commitment		Check one					Check one			Check one				
	Mo.	Day	Mil.	Thou.	Dol.	Per cent	(a) Discount	(b) Add-on	(c) On remaining balance	(a) Floating	(b) Predetermined	Yr.	Mo.		Yes	No	Yes	No	(a) Insured or guaranteed by Farmers Home Administration	(b) Insured or guaranteed by other U.S. agencies or depts.	(c) Not insured by U.S. agencies or depts.	Yes	No	(a) Participation loan originated by your bank	(b) Participation loan originated by others	(c) Not participated	(a) Feeder livestock	(b) Other livestock	(c) Other current operating expenses	(d) Farm machinery and equipment	(e) All other loans
	1		2			3	4			5		6		7	8		9		10			11		12			13				
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Bank name; branch number

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Office address

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Person to be contacted concerning this report

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Area code, telephone no.

Return one copy to the Federal Reserve Bank of

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by ____________________

INSTRUCTIONS
FOR FR 2028B

This report covers loans classified in Schedule A of the Report of Condition (Call Report) as Item 4, "Loans to Farmers." Report business loans on FR 2028A.

INCLUDE: New loans, which are defined as advances of funds to borrowers during the reporting period, take-downs under revolving credit agreements, notes written under credit lines, and renewals.

Your bank's portion of loan participations.

Loans made to farmers at all offices of your bank in the States of the United States and the District of Columbia to any farm borrower domiciled in the States of the United States, the District of Columbia, or U.S. territories and possessions, including U.S. branches or subsidiaries of foreign businesses.

EXCLUDE: Purchased loans and open market paper such as commercial paper and acceptances.

Accounts receivable loans.

Loans made by an international division or an international operations subsidiary of your bank.

Loans made to farmers domiciled outside of the United States, the District of Columbia, and all U.S. territories and possessions (foreign loans).

Loans of less than $1,000.

INFORMATION TO BE REPORTED ON EACH LOAN

COLUMN NUMBER

1. **Date made.** Enter the calendar date the loan or renewal was made. For a loan made on November 3, enter <u>1103.</u>

2. **Face amount of loan.** Enter the face amount of the loan in dollars. If the note represents the first advance of a loan agreement or an addition to an existing loan, enter only the amount advanced on the date shown.

3. **Stated rate of interest.** Enter the stated initial rate of interest shown in the note or agreement in per cent to three decimal places. Report 8-1/4 per cent rate as 8.250.

4. **Method of calculation.** Check the appropriate space.

"Discount" applies when the proceeds credited to the borrower are the face amount less the interest based on the face amount to be paid at maturity.

"Add-on" applies when the borrower repays the face amount plus interest calculated on the face amount for the full period until maturity.

"Remaining balance" applies when the interest for any period is charged on the outstanding balance of the loan during that period.

5. **Rate over life of loan.** Check the appropriate space.

"Floating" applies when the rate is tied to some other rate (such as the prime rate or a market interest rate) and neither the bank nor the borrower knows the exact rate of interest to be charged over the life of the loan.

"Predetermined" applies when both the bank and the borrower know the exact rate of interest to be charged over the life of the loan. Do <u>not</u> check "predetermined" if at any time during the life of the loan the rate is floating.

6-7. **Maturity status.** If the loan has a specific maturity, enter the month and the year in <u>column 6.</u> Include due dates for notes with specific maturities written under revolving credit agreements. If the loan is an instalment loan, enter the date of the last payment. If the loan is a demand loan and has no stated maturity, enter <u>"0"</u> and skip <u>column 7.</u>
For those loans with stated maturities, enter in <u>column 7</u> the number of payments on the principal scheduled over the life of the loan. If the loan is a single payment note, enter <u>"1"</u>. If the payments are not explicitly scheduled, enter <u>"0"</u>.

8-9. **Commitment status.** For purposes of this survey, a commitment is defined as an official promise to lend a specified amount that is expressly conveyed, orally or in writing, to the customer. Such commitments should include revolving credits and approved lines of credit. Authorizations (internal guidance lines) where the customer is not informed of the amount are not to be considered as commitments.

If the loan is made under a commitment so defined, check <u>"yes"</u> in <u>column 8</u> and the appropriate response in <u>column 9.</u> If the loan is not made under a commitment or if the loan is a participation originated by another lender and your bank is unaware of the commitment status of the [illegible] check <u>"no"</u> in <u>column 8</u> and skip <u>column 9.</u>

Commitment fees are payments for access to credit under commitments and should exclude interest payments on individual loans under commitments. Fees may be based on the amount of the total commitment, the unused portion of the commitment, or both and may be charged once or periodically. If any fees have been levied on commitments associated with the loan, check <u>"yes"</u> in <u>column 9</u>, if not, check <u>"no"</u>.

10. **Federal insurance status.** Check whether the loan is fully or partially insured or guaranteed by the Farmers Home Administration or any other agency or department of the U.S. Government including wholly-owned government corporations. If the loan is not insured by an agency or department of the U.S. Government, check <u>"Not insured by U.S. agencies or departments."</u>

11. **Loan secured.** Check whether the loan is secured by collateral of any kind.

12. **Participation status.** If the loan is participated, check whether it was originated by your bank or by other lenders. If the loan does not represent a participation with other lenders, check <u>"Not participated."</u>

13. **Purpose of loan.** Indicate which one of the following classifications best describes the borrower's primary use of the loan funds:

Feeder livestock. A loan used primarily to purchase feeder cattle, feeder pigs, or feeder lambs to be fattened for slaughter.

Other livestock: A loan used primarily to purchase poultry and livestock other than feeder livestock.

Other current operating expenses: A loan used primarily to finance such items as current crop production expenses and the care and feeding of livestock (including poultry).

Farm machinery and equipment: A loan used primarily to finance purchases of tractors, trucks, machinery, and other farm equipment, such as irrigation equipment and equipment for structural facilities (e.g., automated feeding equipment).

All other loans: A loan used for purposes not listed above as well as loans for which the primary purpose is unknown.

MONTHLY SUPPLEMENT TO TERMS OF BANK LENDING TO BUSINESS

COMMERCIAL AND INDUSTRIAL

LOANS MADE ON ______________________

FR 2028C
Approved by Federal Reserve Board – July 1976
Approval Expires Feb 1979

Page ____ of ____

This report is authorized by law [12 U.S.C. 248(a) and 12 U.S.C. 248(i)]. Your voluntary cooperation in submitting this report is needed to make the results comprehensive, accurate, and timely.

The Federal Reserve System regards the individual bank information provided by each respondent as confidential. If it should be determined subsequently that any information collected on this form must be released, respondents will be notified.

(Please read instructions before completing form)

	DATE MADE		FACE AMOUNT OF LOAN			RATE OF INTEREST				MATURITY STATUS		
						Stated rate of interest	Method of calculation — Check one: (a) Discount	(b) Add-on	(c) On remaining balance	Date of maturity (If none, enter zero)		If maturity stated, enter number of scheduled payments over life of loan
	Mo.	Day	Mil.	Thou	Dol.	Per cent				Yr.	Mo.	
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Return one copy to the Federal Reserve Bank of ______________________ by ______________________

______________________ Bank name; branch number

______________________ Person to be contacted concerning this report

______________________ Office address

______________________ Area code, telephone no

INSTRUCTIONS
FOR FR 2028C

This report covers loans classified in Schedule A of the Report of Condition (Call Report) under Item 5, "Commercial and Industrial Loans."

INCLUDE. New loans which are defined as advances of funds to borrowers during the report period, takedowns under revolving credit agreements, notes written under credit lines, and renewals.

Your bank's portion of loan participations.

Commercial and industrial loans made at all offices of your bank in the States of the United States and the District of Columbia to any borrower domiciled in the States of the United States, the District of Columbia, or U.S. territories and possessions, including U.S. branches or subsidiaries of foreign businesses. (C&I loans include construction and land development loans not secured primarily by real estate to builders and developers in the States of the United States, the District of Columbia, and all U.S. territories and possessions.)

EXCLUDE: All loans secured primarily by real estate, including all construction and land development loans secured primarily by real estate that are reported on the quarterly survey.

Purchased loans and open market paper such as commercial paper and acceptances.

Accounts receivable loans.

Loans made by an international division or an international operations subsidiary of your bank.

Loans made to business firms domiciled outside of the United States, the District of Columbia, and all U.S. territories and possessions (foreign loans).

Loans of less than $1,000.

INFORMATION TO BE REPORTED ON EACH LOAN

COLUMN NUMBER

1. **Date made.** Enter the calendar date the loan or renewal was made. For a loan made on November 3, enter 1103.

2. **Face amount of loan.** Enter the face amount of loan in dollars. If the note represents the first advance of a loan agreement or an addition to an existing loan, enter the amount advanced on the date shown in column 1.

3. **Stated rate of interest.** Enter the stated initial rate of interest shown in the note or agreement in per cent to three decimal places. Report an 8-1/4 per cent rate as 8.250.

4. **Method of Calculation.** Check the appropriate space.

   "Discount" applies when the proceeds credited to the borrower are the face amount less the interest based on the face amount to be paid at maturity.

   "Add-on" applies when the borrower repays the face amount plus interest calculated on the face amount for the full period until maturity.

   "Remaining balance" applies when the interest for any period is charged on the outstanding balance of the loan during that period.

5-6. **Maturity status.** If the loan has a specific maturity, enter the month and year in column 5. Include due dates for notes with specific maturities written under revolving credit agreements. If the loan is an instalment loan, enter the date of the last payment. If the loan is a demand loan and has no stated maturity, enter "0" and skip column 6.

   For those loans with stated maturities, enter in column 6 the number of payments on the principal scheduled over the life of the loan. If the loan is a single payment note, enter "1". If the payments are not explicitly scheduled, enter "0".

Senator McINTYRE. Ms. Mitchell, would there be a significant reporting burden on small businesses if they were to supply a bank with their asset size and annual sales figures when obtaining a commercial and industrial loan? Maybe we ought to change it to the last time the small business had a fiscal year end balanced statement.

Ms. MITCHELL. Yes, sir.

Senator McINTYRE. I can appreciate the difficulty in determining the number and dollar amounts of denied loan requests. Can you suggest how the three banking regulators might monitor loan request turndowns?

Do you know of any way?

Ms. MITCHELL. It is a question that I think is sufficiently important to warrant talking to some loan officers, and asking about the feasibility of this.

It would, looking down the road, be somewhat difficult, it would seem to me, to evaluate changes in loan extensions by size of borrowing, without some kind of handle on what the demand is.

Should you find that in a period of monetary restraint, the loans to large businesses were increasing at a faster rate than loans to smaller businesses, it would be a question of has the demand by the small businesses been commensurate.

It would be difficult to interpret without this information.

Senator McINTYRE. We know that the FDIC, the Comptroller's Office, and the Fed now compute by means of the quarterly "CALL" report, for the following type of loans:

Construction loans, farmland loans, single-family residential property loans, multifamily residential property loans, nonfarm nonresidential property loans, financial institution loans, loans for purchasing or carrying securities, loans to farmers, consumer loans, commercial and industrial loans, and financial institution loans.

Ms. MITCHELL. Yes.

Senator McINTYRE. Do you believe that it is meritorious to also track the amount of loans being made to smaller business concerns just as it has been determined that it is worthwhile to monitor such activities for loans made for the purchase of securities or farmland?

Ms. MITCHELL. I believe there is considerable merit in including questions that would monitor the lending by banks to small business.

Senator McINTYRE. Ms. Mitchell, since the bank regulatory agencies require all banks to provide detailed information concerning the types of loans I mentioned in my last question, can you help the committee by explaining why the corporation found the original title VI of S. 1726 objectionable?

We are not trying to put you on the spot. We just want you to answer the question.

Ms. MITCHELL. Many banks still, particularly small banks, do not have their loan data on the computer, and while they are now accustomed to adding up commercial and industrial loans in total, there would be a substantial burden for them to separate out all of these loans into various size categories, and add them up separately.

At the present time, this would involve a substantial effort, a manual effort of addition, and our sampling was suggested to cut down on the reporting burden.

Senator McIntyre. Who came up with the $300 million asset breakout on big banks and small banks? Is that your figure?

Ms. Mitchell. The records, sir, have become more detailed, reporting has become more frequent, for banks in that size category.

That is, we now get information on income of commercial banks for the larger banks quarterly, and in so many of our series they take that size bank into consideration, that there is a break there of $300 million.

Senator McIntyre. Thank you very much Ms. Mitchell. We appreciate very much your appearance. The record will be open for further answer to the questions that you would like to supply for the record.

Ms. Mitchell. Thank you, sir.

Senator McIntyre. Thank you.

Our final witness is Mr. Milton Stewart, chairman of the Research Council for Small Business and the Professions.

STATEMENT OF MILTON STEWART, CHAIRMAN, RESEARCH COUNCIL FOR SMALL BUSINESS AND THE PROFESSIONS

Mr. Stewart. Thank you, Senator.

I must apologize for not having a statement. Notice was specifically quite late, and I agreed to appear without one.

I know it is an imposition. I will do my best to respond to questions which is why I think I am here.

Perhaps I could briefly explain that for some 10 years at least, I have been concerned with the problem of data about small business, and its role on the economy, and from the standpoint of perhaps four or five areas of public policymaking, all of whom are critically concerned, first and foremost, the public policymakers who are called upon to make decisions about a variety of matters, which affect the size of the independent sector of the economy in general, and small business in particular, and I do not think myself that the President of the United States, the Congress, or the Governors, have adequate information about what is happening to the small business sector.

Second, the business people themselves need ongoing information to orient themselves to what is happening to their own industries, and others, institutions of which they must deal within the business community.

Third, scholars, and from all of these standpoints, it has appeared to me over the years that the kind of excellent beginnings this committee is making, with respect to a small business data base, economic data base, is almost a precondition if we are going to learn how to fine tune our economy, and manage it to expand the small business sector.

Not long ago, I tried to summarize the requirements for an economic data base for small business.

This was shortly after the passage by the Congress of H.R. 692, in which I think was an important first step, and that I wrote in a summary of the situation that was at that time, a summary of the situation at that time was that there were present then two of the six essentials for the establishment of such a data base.

First, is there a clear congressional mandate to establish it.

I think you have started to give the executive branch that.

Second, an initial appropriations to make it possible.

You at least authorized it. The appropriations has not been made yet.

The four others are Presidential support probably in the form of amending Executive Order 11581, and I have suggested reenforcing SBA's leadership in establishing an interagency mechanism to implement the project, and then increasing find data base designs to meet the needs of the executive branch and the Congress and its staff, the State, and small business and trade associations, and one or more arrangements designed to obtain a small business data base, one that the agencies can measure their own work product, which is very difficult to undertake, and the other to meet the general research needs in economics action as stated by the Congress, and, finally, because the Government itself is so much a part of the problem of small business, what the Government does, I think it is critical to involve in this process of design in administering this data base, people from outside the Government, so that it is not just left to people in the executive branch to decide what will be reported, because you need the perspective of people who want to appraise what the Government itself does, and I think that is best done by people with some detachment from the academic community, the small business community, and the trade association community.

Let me conclude these opening remarks by again commending the committee for its courage in going into this field, and urge it to recognize that the response of the executive branch, the congressional desires are best met when the Congress does not lose interest after it passes a law, that continuing oversight, as well as, for example, Presidential support of the congressional imperative, is usually necessary, if you are going to have a long-term impact on the way the executive branch collects and gives out data.

In terms of a subject, I know the chairman expresses concern about on many occasions, we too in the small business community are concerned about a balance between the data, which were called upon to provide, and the data we need, the most heinous situation is when the data we are called upon to provide is burdensome, and we do not get back the data we need, and it is that conflict perhaps, or irresolution that I think your proposed legislation should go far to help with.

Senator McIntyre. Were you reading from a prepared statement? Is it too long for inclusion in the record?

Mr. Stewart. I think it is, although I will be glad to give you the exact part of the document that relates to what I have read.

Senator McIntyre. I would like to have that in the record.

Mr. Stewart. Yes, sir.[1]

Senator McIntyre. How important is Presidential leadership in an area like this?

Mr. Stewart. Absolutely crucial, based on 30 years of experience with the executive branch, to elaborate on it, 10 years ago, the Congress amended with some help from us, the Small Business Investment Act, to require some reporting by the SEC, the Treasury, the Defense Department, OMB, by way of the SBA's administrative annual report.

What we were after is a very simple thing. We wanted to know

[1] Material not available at time of going to press.

what does the Government take out of business, what does it take out of small business, and what does it give back, in the form of taxes, contracts, and the like.

How much of a balance of it in and out of the Government is there.

We thought the Congress was pretty clear and explicit in the amendment, until we saw what came out, and has been coming out every year since.

It is of no value at all.

Senator McINTYRE. I am told you had spoken to many Federal agencies about the development of the small business economic data base. What is your opinion of their attitude about the development of such a data base? Did these agencies appear to be willing to participate and be of assistance, in undertaking such an endeavor.

In answering, would you please specify which agencies you think should play a major role in the development of such a data base?

Mr. STEWART. Taking the last part of your question first, Mr. Chairman, I am personally strongly of the view that the Small Business Administration should be the lead agency in this effort, and should function as the surrogate client in this effort for the Congress, the President and small business and the public, that unless you have an agency which is committed deeply, and by statute, then the mission of expanding the small business sector, with conflicting responsibilities in any other agency, will undercut the effort.

That is a personal view, but it is based on some experience.

Other agencies that must be and should be deeply involved, are obviously the Census Bureau, the IRS, the Office of Management and Budget, the Federal Reserve Board, the SEC.

I would also include the Federal Trade Commission. All of the agencies which monitor any significant element or factor, determining on the relative growth of large and small business in the economy, or factors which contribute to that relevant growth, must be involved.

That means we have to rely on this God awful human invention, the interagency committee, and that is the place where Presidential leadership and Presidential order would be most held.

Traditionally OMB used to be the place which provided the spearhead leadership, but now the old division of statistical standards has been transferred to Commerce, so probably some three-headed monster committee will have to be established, but I think the Congress should have one agency to look to, and I suggest it ought to be the SBA.

In terms of defining the standards of what should be collected, SBA does not have to get into any duplicative data collection activities, I think, because I think most of the data is available throughout the Federal statutes.

Senator McINTYRE. Did you run into opposition from some agencies or an apparent unwillingness to help in other agencies?

Mr. STEWART. I think it is fair to say, depending on how you measure it, Mr. Chairman, I think the record should show, and you would find it of interest, that I was involved in two rounds of inquiry, one before the last election, and one after it, and there was a demonstrable difference in response, perhaps because President Carter was elected after having himself in his campaign talked about the importance of yardsticks for measuring the growth of small business, and I had the impression that Federal agencies were responding to some extent, even that early to some indication of Presidential interest in the process.

Is that clear enough, Mr. Chairman?

There were some agencies clearly more prepared, less concerned with obstacles, readier to take some lead, but opinion in this whole area within the executive branch is shifting in response to what you do here, to what the President says and does downtown, his people do, to what SBA says it does, so that I am not sure that response even as recently as 3 to 6 months ago would be the case today.

Senator McINTYRE. Is the data base you hope to procure by asking many questions and beleaguring small businesses throughout the country worth it?

Mr. STEWART. Mr. Chairman, I have been one of those people out there, a lot more than I have not been one.

Senator McINTYRE. You must have some mercy on those people.

Mr. STEWART. I think myself that what we are after, we can get without beleaguring them anymore.

Senator McINTYRE. You just heard that very nice lady from FDIC say, look fellows, I shiver a little bit because I do not want this legislation as drafted.

I am a cosponsor of 1726. When you get a breakout such as the one that appears on page 16(B)—"Borrowers having had, during their most recent full fiscal year at the time of application of the loan, annual sales of less than $100,000, $100,000 or more, but less than $500,000," and so on down the line—what are you going to do with this data when you get it? What will it tell you?

Mr. STEWART. I hope it will tell us several things, first and foremost, is the small business sector of the economy growing as rapidly as the rest of it, or is it not.

Senator McINTYRE. Well, we know it is not.

Mr. STEWART. I do not know that it is not. A lot of the economists are not persuaded, and then I hope within that, we will get to the question of why, specifically what public policies are having effects on what part of the small business community.

Is it worth the effort?

It seems to me, first of all, it does not seem to me it will take a lot more effort out there.

It will take a lot more effort within the Government, and what I think we all want to see is more exchange and utilization within the Government of data that is already there.

We are not already talking about much additional data.

For example, the example you use, every bank in this country, I cannot imagine a banker who does not know the sales level of everybody he extends to.

The question is, is it written down someplace in a way it can be added up and counted.

That is really all we are talking about. My guess is in 95 percent of the banks in the United States, that information is there.

Take a tough one, how convenient and nicer it would be if every balance sheet carried the number of employees clearly, the number of employees in the United States, the number of employees abroad.

I do not think that is much of a burden, and I do not think any businessman will beef if it is made a part of the standard reporting.

That sort of thing is a slow, long job; but your first steps are simply to use data that is already there.

I think myself the long-term consequence of doing this right may well be to reduce the burden on business, even though it may increase it somewhat on Government, in terms of its internal utilization of data it already has.

Senator McIntyre. Did you ever run or operate a business that did less than $1 million in assets?

Mr. Stewart. I surely did.

Senator McIntyre. I mean in income.

Mr. Stewart. I was raised, Senator, in a family business.

I shudder to remember what its gross sales were, but if it exceeded $100,000 in many years, I would be surprised.

I am intimately familiar with business of that size.

Senator McIntyre. At that time, did you have to meet the payroll?

Mr. Stewart. I used to have to hussle the checks to the bank to meet it.

Senator McIntyre. But there were no OSHA guys coming through at that time.

Mr. Stewart. No.

Senator McIntyre. That is something we thought of later.

Mr. Stewart. That is correct.

Senator McIntyre. Well, I think it is a noble achievement to acquire this data base, but when you get it, I do not know what you will do with it. Will you enact some new laws?

Mr. Stewart. I think we will take a look at some old ones for one thing.

I think we will take a look at some assumptions we have been making about tax policy, about capital and credit policy.

Senator, I have the feeling some things are happening to the capital stock of this country that are not yet reflected.

You and I may know them based on our personal experience, but when it comes time to talk about them to the Federal Reserve Board, the Senate, or the Senate Finance Committee, we do not have the data to back us up.

I think this is an indispensable thing.

Senator McIntyre. Do you have a definition in mind of small business?

Mr. Stewart. I do not have any new definitions. I have several old ones.

Senator McIntyre. I do not want several. I want one which you think is a good one.

Mr. Stewart. I would have to give a long-winded answer to what seems like a short question.

Senator McIntyre. I have you there.

Mr. Steward. You sure do.

Senator McIntyre. Well, no long-winded answers at 11:30, please.

Mr. Stewart. I will say 500 employees, if you hold a gun to my head, and I qualify it in 15 ways.

Senator McIntyre. Five-hundred or less?

Mr. Stewart. Yes.

Senator McIntyre. Do you think that criteria is more important than volume of sales, et cetera?

Mr. STEWART. No; I do not, but you remember what strictures you put me under.

You want a short answer.

Senator MCINTYRE. Five-hundred or less. All right. Mr. Neece wants you to elaborate on your answer, so let us keep it to a 5-minute elaboration. Please be succinct.

Mr. STEWART. OK. Let me put it this way. One way to define it simply to knock out big business, and make everything else small business, large and medium size, I would run it this way, and this does not affect the burden, it affects how you run the tables after you have the data in.

That is the important thing to bear in mind. I would run all the way from self-employed with no employees, up to giant businesses of 100,000 or more, and I would have six steps in between, so you could see what is happening to small- and medium-size business.

Our need for the dollars and cents, that is to administer Federal programs to make it easy for people to know whether or not they qualify for a Federal program, but when you get into our economy, it is too complicated to be satisfied with answers like that.

Senator MCINTYRE. Title I lists items that are required to be a part of the small business economic data base. Do you believe that all of those elements in the list should be part of the data base? Would you add any items to the list? What would these indices tell someone interested in monitoring what is happening in the small business sector?

Mr. STEWART. If I understand it, it ought to give them a pretty good picture of the relative growth of, for example, Government, small business and big business, something that I think we do not have enough measures now, definitive enough measures now.

Senator MCINTYRE. You would not add any items to this list?

Mr. STEWART. I do not see the need to do it.

There are other factors you will want to get into, but I sure would not put them in the statute.

There is no need to. There are things, Senator, like productivity, technology concentration, patents, you can rattle them off, but the data is there, and you do not need to put them in the statute.

If you have responsible people administering, they will know what to put.

Senator MCINTYRE. Who are these responsible people?

Mr. STEWART. You better have them in the SBA to be answerable to you for it.

I think, if I understand the statutory mission of the SBA, it is to expand competition in the economy.

Senator MCINTYRE. Mr. Stewart, in working with the Federal agencies and departments that would contribute data for the small business data base, should there be an agreed upon definition of small business, or should that criteria be determined after analyzing data that pertains to all of industry and commerce?

You have practically answered that already.

Mr. STEWART. I think I have. The data on employees, sales size, and asset size are collected in enough detail, so you define small business after you have them.

Senator MCINTYRE. Would SBA need additional staff to assume such a leading role?

Mr. STEWART. Some, not much.

Senator McINTYRE. How much is not much?

Mr. STEWART. I would say fewer than 5 or 10 people, myself. I would say not more than 10.

Senator McINTYRE. Without making a policy judgment for the Agency, does SBA presently have an internal capability of leading the Federal effort for development of the small business data base? Please answer that for the record.

Mr. STEWART. I do not think I really can. I do not think I would know enough in detail about it.

Senator McINTYRE. All right. I have one last question. For purposes of helping the Agency in developing the data base and an analytical capability of interpreting the data—you may choose to not answer this question, if you like——

Mr. STEWART. I will say, so I do not leave a misinterpretation in the record, I have estimated when I have asked elsewhere about the cost of this, of being somewhere between $2 to $5 million a year might be required.

Senator McINTYRE. Do you think that if you get this data base, that you will not create a reporting burden on small business?

Mr. STEWART. I sure do.

Senator McINTYRE. You do think you will not create a burden on small business?

Mr. STEWART. Yes, sir.

Senator McINTYRE. One more thing—one man said I will vote for you if you promise not to help me because I cannot afford all of the help I am getting now.

Mr. STEWART. I am well aware of the point of view.

Let me give you an example of the burden, and you say how big it is.

If every business tax return, if in those we had the number of employees of the guy who filed the return, just the number of full-time employees, it would increase the value of IRS data by about 1,000 percent.

I do not think that is any burden on small business, or on big business either.

They do not have to collect any new data. It is only when you get fancy that it gets to be burdensome, and I would keep this in the hands of people not so sophisticated that they get fancy.

Senator McINTYRE. If you go to IRS and say you have a mandated form, would you put a bracket in there asking how many employees the firm has?

Mr. STEWART. It takes an act of Congress.

Senator McINTYRE. And then what is the next thing you want to know?

Mr. STEWART. That is all.

Senator McINTYRE. That is for the first year or two, and then you may find something else you may need?

Mr. STEWART. You may, or some other people or Member of Congress for a very good reason.

Senator McINTYRE. IRS is the biggest manipulator of paperwork in the whole spectrum of Government. We were having some hearings on the Paperwork Commission and the IRS gentleman said, pointing at OMB, please protect us from the statistical guys at OMB.

Mr. STEWART. Senator, let us be honest about the paperwork, it is like the old cartoon, we all stand in a circle and point to one another. There is no question about it.

Only the data I want is important, but I really believe this data base can and should be collected without burdening business anymore.

Senator McINTYRE. What do you think, Mr. Stewart, are the major obstacles to the development of the kind of data base mandated by S. 1726?

Mr. STEWART. Probably the lack of an unambiguous directive from the President to the Congress.

Senator McINTYRE. I have known you a long time. I know of your ability. We do appreciate your testimony here this morning very much.

And with that, we will recess the hearings subject to the call of the Chair.

Thank you.

We stand adjourned.

[Whereupon, the subcommittees were adjourned at 11:35 a.m.]

APPENDIX

"Small Business Investment Policy and Advocacy Reorganization Act of 1977".

SECTION-BY-SECTION ANALYSIS

Title I amends the advocacy legislation enacted last year to make the Advocate an Associate Administrator for Advocacy and Economic Research and Analysis and accountable to the Administrator; Public Law 94-305 made the Advocate accountable to no one.

Title I also requires the Advocate to break out quarterly, specific economic information as it pertains to small businesses; this requirement amounts to SBA having to publish a small business economic index every 3 months. The indices used in the bill are the same as those used by the Department of Commerce in compiling the Composite Index.

Title II establishes a policy goal for the Federal Government in that it is to use all reasonable means to establish private sector incentives that will help assure that adequate capital at reasonable cost is available to small and medium-sized businesses. All departments and agencies are to therefore create and sustain circumstances which promote investment in the small business sector of the Nation's economy.

Title III requires the President to submit to the Congress a Small Business Economic Policy Report at the same time he presents the annual Economic Report. He is to report on amount of capital presently available to small and medium-sized concerns and present and emerging trends that will affect the small business community's ability to accumulate investment capital. Government policies and programs impacting small and medium-sized concerns are to also be assessed. Every 2 years a plan is to be submitted with the Small Business Economic Policy Report giving recommendations on how the government can better implement the Small Business Investment Policy of Title II.

Title IV establishes a Small Business Economic Council that is to concern itself with the economic welfare of the small business sector. The Council is chaired by the SBA Administrator. Also serving on the Council are the Secretaries of Treasury, Commerce, Labor, and Agriculture; and the Chairmen of the SEC, FTC and the Federal Reserve. The Council is to help SBA in collecting economic data, advise the President on small business economic issues, and to take whatever action is necessary to implement small business economic policies throughout the Federal Government.

Title V directs that the Administrator shall serve as an Executive Level I appointee instead of Executive Level III. No re-organization of SBA is implied by this Title. However, it does give the Administrator Cabinet level standing to communicate and work with the highest officials in the executive branch on small business policies and problems. It also enables him to request from his peers the economic data and information that the agency will need in order to execute the mandate of Title I of this bill and to fulfill the priorities established in the SBA authorization bill, S. 1442 (Senate passed H.R. 692).

Title VI requires insured banks to disaggregate quarterly in the "Call Reports" the amount of loans made to commercial and industrial borrowers according to certain sales and asset criteria.

EMERGING INNOVATIVE COMPANIES—
AN ENDANGERED SPECIES

November 29, 1976

NATIONAL VENTURE CAPITAL ASSOCIATION

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**EMERGING INNOVATIVE COMPANIES—
AN ENDANGERED SPECIES**

Unless some solution to the present shortage of capital for large and small companies alike can be found, America's productive resources will grow old and the productivity of its workers will decline. Should this happen, our standard of living will decline.

This paper has been prepared by the National Venture Capital Association. NVCA represents professional venture capital investors as well as the companies they back, and the Association is particularly concerned by the significant drop in new companies being started and financed in this country.

The following analysis and recommendations were developed in order to emphasize the importance of the emerging innovative company and how to encourage more such firms to get started and financed.

IMPORTANCE OF EMERGING INNOVATIVE COMPANIES TO THE ECONOMY

Emerging innovative companies play a far more important role in our economy than is generally understood. Through their innovations these companies offer new products and services which improve the quality of life in this country and keep our system competitive. Moreover, these companies provide disproportionately more new jobs per dollar of capital employed than do mature companies, thereby facilitating the reduction of unemployment. Finally, they provide a substantial amount of revenue to the U.S. Government through corporate income taxes, and their rate of increase in income tax provision is growing far faster than that of mature companies.

In order to flourish, innovative companies require:

- The availability of capital to fund the formation of new small companies (arising from the implementation of new technology, new ideas, or from the spin-offs of products or services from larger corporations unwilling to devote resources to the ongoing development of such products or services). *It is the successful new small company of today which becomes the important innovative company of tomorrow.*

- The availability of capital to finance the growth of successful innovative companies, themselves. These companies provide substantial new jobs, grow at a rate far faster than can be financed by internally generated cash flow, and, therefore, depend upon external capital.

- A favorable market climate to encourage the investment of capital in higher risk small new and innovative companies vs. in lower risk equities of mature companies or in bonds.

- Appropriate incentives to attract capable management away from the high salaries and long term security provided by mature companies and into the emerging innovative companies which cannot afford competitive salaries, lack security, and can only offer the opportunity of substantial rewards if successful.

The Case for Emerging Innovative Companies

Many products and services, unheard of a few years ago, which now benefit our daily lives, were developed, not by mature companies, but by small innovative businesses. Semiconductors, and more recently large scale integrated electronic circuitry, minicomputers, microprocessors, computer peripherals and the expanding services they perform, hand-held calculators, automatic editing typewriters, new lifesaving medical equipment, high fidelity recording equipment and many other products are but a few examples. Companies producing these products and services keep our system efficient by challenging older, established mature companies who do not innovate and improve. They keep America at the cutting edge technologically and help our foreign trade balance.

Successful small companies become the substantial innovative companies which have a major impact on new job creation and pay increasing revenues to the Federal Government in the form of income taxes. Recently the M.I.T. Development Foundation completed a study on sales and employment trends among selected young high technology companies, innovative companies and mature companies. The companies encompassed in the study were as follows:

Young Technology Companies
Data General, National Semiconductor, Compugraphic, Digital Equipment, Marion Labs

Innovative Companies
Polaroid, 3M, IBM, Xerox, Texas Instruments

Mature Companies
Bethlehem Steel, du Pont, General Electric, General Foods, International Paper, Proctor & Gamble

The study reflected the following salient facts:

($ in Millions, Employment in Numbers of Employees)

	Young Technology Companies	Innovative Companies	Mature Companies
1974 Sales	$857.3	$21,517	$36,795
1969 Sales	145.7	11,647	21,410
5-Year Sales Growth	$711.6	$ 9,870	$15,385
Compound annual rate of increase	42.5%	13.2%	11.4%
1974 Employment	41,966	555,882	812,351
1969 Employment	7,597	449,284	786,793
5-Year Employment Increase	34,369	106,598	25,558
Compound annual rate of increase	40.7%	4.3%	.6%
1974 Income Tax Provision	$ 57.4	$ 2,296	$ 1,506
1969 Income Tax	13.2	1,528	1,034
5-Year Increase	$ 44.2	$ 768	$ 472
Compound annual rate of increase	34.1%	8.5%	7.8%

The following conclusions can be drawn from this study:

- The Young Technology companies, with ending sales only 2% as much as those of the mature companies, nevertheless hired 34,369 people or 34% more than the 25,558 hired by the mature companies over the 5-year period.
- The Innovative companies, with ending sales only 58% as much as those of the mature companies, nevertheless hired 106,598 people, or ***over 4 times more*** than the number hired by the mature companies during the 5-year period.

- While the mature companies increased sales and net income over the period at close to the same rate as the innovative companies, the mature companies accomplished this largely through utilizing available capital to automate production rather than through expanding their labor forces. Employment in the mature companies increased by only 3.2% over the five years compared with *23.7% for the innovative companies.*

- Finally, the innovative companies, with ending sales only 58% those of the mature companies, and with ending employment only 68% of that of the mature companies, not only hired over 4 times as many new employees as the mature companies over the 5 years studied but throughout the whole 5-year period provided substantially more revenue dollars to the federal government in income taxes. In the final year alone the innovative companies provided *nearly $2.3 billion or over 52% more in tax revenues than the $1.5 billion provided by the mature companies.*

Emerging innovative companies create products, services, jobs and revenue for the Federal Government faster than do our large mature companies. Such companies should and must be helped to flourish.

CAPITAL AVAILABILITY – AND THE LACK THEREOF

Mature large companies are the most capable of providing for their capital requirements out of internally generated funds. In addition, because of their size and maturity they have the easiest access to external capital. Investors perceive investment in such companies to be of low risk. In addition, the new Pension Reform Act, ERISA, has tended to make pension fund managers more cautious in their interpretation of the Prudent Man Rule. This has resulted in making the resources of pension funds, the largest available source of capital in the country, largely available only to the mature companies, thereby severely reducing the growth capabilities of most smaller companies.

Unfortunately, innovative companies, which have a far greater need for external financing, are perceived to have a higher risk, and large segments of capital sources are not willing to fund these companies. The highest risk segment, the younger emerging companies, are having the greatest difficulty of all in raising capital. Without such companies there will not be any innovative companies in the future.

For the most part, innovative companies do not arise from rejuvenated mature firms. Once a company reaches a certain size, it often approaches its future with caution and reduced risk taking. While the policy is designed to protect the stability of the business, the result is a decrease in its ability to grow. There is a direct relationship between risk taking and growth in our economy.

The smaller, higher risk companies provide a good measure of the corporate growth in the country. Yet it is these companies that have the greatest difficulty in raising capital and in their early stage, attracting good management.

The following data on the venture capital industry show how little venture capital is presently being invested.

The National Venture Capital Association, which includes the major venture capital groups in the country, has commissioned a two-year study by Professor A. Ofer, Northwestern

University, on the flow of venture capital. The most recent study showed the following for the Venture Capital industry (143 Venture Capital Firms):

	millions 1975	millions 1974
Investments in new projects not previously in the portfolio	$ 52.4	$ 80.6
Investments in companies already in the portfolio	58.9	101.3
	$111.3	$181.9

Professor Ofer's studies indicate that the flow of venture capital investment is slowing materially. His data also show how little money is now being directed by the venture industry into start-up or barely emerging companies:

	millions 1975	millions 1974
Amount invested in start-ups	$ 15.6	$ 12.9
Amount invested in "first round" financings	8.1	37.5
Amount invested in somewhat more seasoned "second round" financings	17.7	23.6
	$ 41.4	$ 74.0

Prior to 1973, the public markets were a significant source of financing for the successful emerging innovative companies. Firm public underwritings for companies with a net worth (prior to the public offering) of less than $5 million reflect the following pattern:

Year	No. of Offerings*	Total Dollar Amount (millions)*
1969	548	$1,457.7
1970	209	383.7
1971	224	551.5
1972	418	918.2
1973	69	137.5
1974	8	13.1
1975	4	16.2

*Excludes Regulation A, best efforts, government securities and foreign issues.

Source: *VENTURE CAPITAL MAGAZINE.*

As shown above, public offerings declined from 548 companies (and $1.5 billion) in 1969 to 418 companies (and $918 million) in 1972 to an abysmal average of 6 companies (and $15 million) in each of 1974 and 1975.

Effective public markets for the successful emerging innovative companies serve a twofold purpose. First, they provide desperately needed external capital to companies at a time of significant growth in sales and employment. This follows their successful emergence from the very high risk start-up and early development stages funded privately by founders, friends of founders and, in many cases, venture capitalists. Second, they permit the early investors and venture capitalists, with locked-in private investments, to sell a portion of their holdings and thereby "recycle" some funds from their more successful early stage investments into new private emerging companies requiring venture capital.

Certainly there is no way to develop emerging innovative companies unless capital is willing to be risked to get them started and growing. Studies by Professor Ofer indicate that the amount required to start a company has been increasing each year since 1970. It now takes at least $2 to $3 million to launch an emerging innovative type company and many times this amount in equity capital to finance its growth.

This is a wealthy country and there is no shortage of capital that COULD be invested in emerging innovative companies. However, there is a distinct shortage of capital that IS WILLING to be invested in such companies.

There are a number of reasons for this great change from the environment in which this country has grown and flourished:

- Capital gains rates have continuously been increased over the years and the new tax law has increased the tax on significant capital gains to levels that are commensurate with taxes on ordinary earned income. In addition, many states also tax capital gains.

  As a result the investor is receiving back less and less after taxes in return for taking the high risk of starting and backing new and growing enterprises. Nothing has been done to mitigate the high risk of such investing.

- It has become more difficult to sell successful venture capital investments. New SEC rules inhibit the sale of such investments, and side effects of these rules have generally reduced the price at which such investments can be sold.

  The stock market itself has reflected these changes. Stock prices of emerging growth companies are low . . . so low that venture capitalists cannot make sufficient profits on their winners to justify the high risks they must take or even to offset the losses on their losers.

  About the only way a venture capitalist can make a reasonable profit is through the merger of the emerging companies with a large corporation . . . which only goes to consolidate the power of the larger corporations in the country.

Basically, the question regarding capital formation is — will the system self-correct to encourage once again the creation of new companies and the flow of more capital into developing companies, or have basic changes occurred in the system to prevent this from occurring?

While the answer is unclear, fortunately an increasing number of responsible people give evidence of being vitally concerned.

A survey by the highly regarded "Cambridge Report" (1st Quarter 1976) reflected a substantial 64% majority who thought that a "very serious" (25%) or "somewhat serious" (39%) problem existed with respect to "raising the dollars needed for business investment" in the years ahead. Even more encouraging, 72% favor private investment over government investment.

In another 1976 survey by the polling firm of Opinion Research Corporation of "thought leaders in Washington" the results are encouraging. "Thought leaders" were divided into three groupings: Legislators; Executive Branch and Regulatory Agency leaders; and leaders of unions, public interest organizations and the media. The question asked was, "How serious do you think the shortage of investment capital facing U.S. industry will be over the next 10 years?" The answers follow:

	Legislators	Executive Branch and Regulatory Agencies	Unions, etc.
Very Serious	57%	57%	20%
Somewhat Serious	21	33	45
Subtotal	78%	90%	65%
Slightly Serious	17	5	10
No shortage/or no answer	5	5	25
	100%	100%	100%

Again, it is encouraging that 78% of the Legislators surveyed and 90% of the Executive Branch and Regulatory Agency personnel surveyed see "very serious" or "somewhat serious" problems in the area of capital formation.

Our new President is, himself, a small businessman who has expressed an interest both in expanding business and in expanding job opportunities, particularly in those areas which require minimum federal spending. New approaches to these problems are being sought by the new administration.

Hopefully, this awareness by the new administration and Congress will encourage action to be taken to improve the flow of capital to smaller and innovative companies.

FEWER ENTREPRENEURS AND MANAGERS ARE INTERESTED IN NEW AND EMERGING COMPANIES

There seem to be fewer entrepreneurs in the country interested and willing to start their own companies. In addition, fewer people are willing to leave the large corporation to participate in the risks of an existing younger company. Once a company has been started, it can only continue to grow if it is able to attract additional, highly trained and dedicated executives in such areas as marketing, production, finance and research. Since the best such men will be earning high salaries in large companies, the small firm must find some way to entice them to leave their high salaried, secure positions and risk their future with the emerging innovative company.

What can entice a man to make such a move? Surely the smaller company can't compete with high salaries. It simply doesn't have the capital or budget, and it can't offer job security either. But it can offer excitement, challenge and the possibility of making a lot more money (if he can keep enough of it after tax payments) if the venture proves to be successful.

Founder's stock rules have been made much more restrictive in recent years and qualified stock options were eliminated in the Tax Reform Act of 1976. Only the non-qualified stock option is available as an incentive to induce skilled managers to associate with growing companies. With such options the recipient must pay taxes in the year the option is exercised (when cash is not readily available) rather than in the year of sale (when cash is available). Since the receipient normally has few other liquid resources, he is usually forced to sell a substantial portion of his stock just as it is received in order to fund the taxes he must pay. Such essentially forced premature sales of stock in the very company in which the entrepreneur/manager is working to build a growing successful business severely erodes his ongoing stake and hence motivation to continue building the business.

The key building blocks for the emerging innovative company are capital and management. Without adequate incentives for both, the ongoing formation of these vitally important businesses will simply not happen.

SOLVING THE CAPITAL AND MANAGEMENT PROBLEMS

Broad Initial Recommendations

Given the evidence that, in comparison with large mature corporations, the emerging innovative companies each year employ disproportionately more people and provide disproportionately more revenues through federal income taxes (to say nothing of the increased payroll and ancillary taxes available from the increased employment base), we recommend the following:

- The Carter Administration, in its plan for reorganizing the Government, should give adequate authority to some entity within the Executive Branch which would focus full time on the needs of smaller emerging and innovative companies. This entity should focus on necessary incentives to promote adequate capital formation and on necessary incentives to attract qualified management from the relative security of large corporations to the far higher risks of small growing businesses.

- The new administration should work closely with the House Ways and Means Committee, the Senate Finance Committee, and any other committees dealing with the problems of capital and management incentives for emerging innovative companies. The objectives should be to develop legislative tax and regulatory changes designed to expand the formation of these businesses and to attract capital and qualified management to them.

  Until recent years, the private sector was effective in supporting new and smaller businesses. The Federal Government need not invest or spend valuable public funds to develop these businesses. With proper incentives, the private sector will again fund such businesses; qualified management will be attracted, as in the past; and the Federal Government will become more than a 50-50 partner through income tax receipts and payroll deductions from the successful growth of such businesses.

Longer Range Specific Recommendations

The National Venture Capital Association, on behalf of its members and the emerging innovative businesses in which its members have invested, has a continuing program of reviewing the impact, both beneficial and adverse, of legislative and regulatory changes.

The NVCA is in contact with the Treasury Department, the Securities and Exchange Commission, the various staff and members of the House Ways and Means Committee and Senate Finance Committee and others. The principal areas of concern to NVCA are:

- *Management Incentives* – Specific proposals to retain certain key benefits of incentive qualified stock options for managements of small emerging innovative companies were unsuccessfully presented to the 94th Congress. Incentive programs for managements of these types of businesses must be reestablished following the adverse impact of the 1976 Tax Reform Act if qualified managements are to be successfully attracted in the future. We stand ready to introduce specific proposals to the proper authorities.

- *Incentives to Assist Smaller Growing Businesses* – Graduated income taxes have long been recognized as equitable in the taxation of individuals. The corporate tax structure has differentiated only between those businesses either earning *less* than $50,000 annually or *more* than $50,000. This penalizes the smaller growing company much as the same policy would unduly penalize individuals. We stand ready to espouse specific proposals in this area to the proper authorities. We also stand ready to discuss the concept of providing specific deductions to smaller growing operating companies arising from net increased employment they may provide each year. Other proposals for the assistance of smaller growing businesses are under study.

- *Incentives to Investors* – The Tax Reform Act of 1976 has resulted in increasing the minimum tax on capital gains. It has also adversely impacted the maximum 50% tax rate on personal service income by offsetting personal service income eligible for the 50% rate with all tax preference income, including one-half of realized capital gains. The impact of these changes further reduces the amount of capital gains which effectively can be retained after federal taxes to as little as 47.5% of the gains in certain instances (less any further reductions from state taxes on capital gains) whereas the risks of capital investment continue unabated. Consideration should be given to establishing lower rates for capital gains taxes and, simultaneously, removing capital gains entirely from inclusion as a tax preference item. The effect of this proposal would be to clarify and simplify capital gains tax calculations and to eliminate the double taxation effects of the present system.

- *Incentives to Encourage Investment in Already Publicly Owned Successful Emerging Innovative Companies by Pension Funds and Other Institutions* – The great institutionalization of the stock market and the increasing percentage of the nation's capital in the hands of pension funds is creating a shortage of investment interest in smaller sound growing publicly held companies with annual sales of less than $100 million or so.

  In Peter Drucker's new book, "The Unseen Revolution," he estimates that 50% of the equity capital in the country will be under control of the corporate pension fund managers by 1985. These men, in his opinion, are temperamentally unsuited and unqualified professionally to invest in the smaller type of publicly owned company. Yet, unless a way is found to tap some of this capital for emerging growth companies who deserve and need capital in order to keep growing, they will continue, as now, to be choked.

  Some means must be found to strongly encourage pension funds and perhaps insurance companies and banks to invest in the smaller publicly owned companies. Perhaps this might entail the creation of special funds with capable professional management to make such investments. The pension funds, banks and insurance companies should be encouraged to invest a small percentage of their capital in such special funds and pay the somewhat higher management fees required to support such endeavors.

Clarification of the Prudent Man Rule under the new pension fund law, ERISA, must be issued by the Department of Labor in order to accomplish this.

Pension fund managers must also receive clearance to invest in another fund for the purposes indicated above. The present rules on fiduciary responsibilities often create problems and should be altered appropriately.

- *Increased Liquidity and Marketability for Securities to Enable Investors to Turn Over and Recycle Investments in Maturing Business* – NVCA is having ongoing discussions with the Securities and Exchange Commission and has proposals currently before it to accomplish these objectives in limited fashion. We stand ready to discuss these and other proposals with the proper authorities.

  In a related area, funds devoted to investment should be given higher priority for the benefit of the country, its economic growth and fuller employment than funds devoted to consumption. We recommend consideration of a program similar to that available to homeowners, for the deferral of capital gains taxes from profitable investments in smaller emerging growth companies, as appropriately defined, so long as proceeds from the sales of any such investments are "recycled" into similarly defined companies within an appropriate period of time.

Finally, we would urge a study of public trading in options of the large corporations. Such a study may well demonstrate that capital utilized for these purposes is unproductive for the economy and is, in fact, draining away capital from other more productive although equally high risk uses, such as investment in the smaller emerging innovative companies. In this connection we would urge a study of the feasibility of a lower capital gains tax rate for any profits arising from funds invested directly into a company who qualified, by appropriate definition, as a smaller emerging innovative company. Funds so invested help to build businesses and increase employment. This type of tax incentive might assist in luring funds away from alternative, less productive, investments, such as publicly traded options.

Above all, whatever specific remedies are employed, we repeat that emerging innovative companies create products, services, jobs and substantial revenues for the Federal Government faster than do our large mature companies. Such companies are presently "an endangered species." They must be helped to flourish.

1977 COSIBA TAX BILL

I. GRADUATED CORPORATE TAX RATES (Capital Formation)

To allow smaller firms to retain more of their earnings for growth and modernization, COSIBA proposes that the corporate tax rate structure contain six steps, rather than the current three.

Taxable Income	Proposed Tax Rate
$ 0 to $ 29,999	8%
30,000 to 59,999	$ 2,400 + 16% of excess over $ 30,000
60,000 to 89,999	7,200 + 24% of excess over 60,000
90,000 to 119,999	14,400 + 32% of excess over 90,000
120,000 to 149,999	24,000 + 40% of excess over 120,000
150,000 and Over	36,000 + 48% of excess over 150,000

II. CHANGE DEPRECIATION SCHEDULES (Capital Formation and Simplification)

Smaller firms make little use of the complex provisions of the Code allowing rapid depreciation (investment tax credit or accelerated depreciation ranges). To simplify the Code and to permit additional capital formation for capital-intensive independent business, COSIBA proposes a schedule with only three categories of useful life: (1) two years for highway equipment; tools, dies, and the like (2) five years for machinery; fixtures; office furniture; rail, water, and air equipment; leasehold improvements; and (3) ten years for depreciable real estate and real estate improvements. Categories one and two would be limited to $100,000 a year with no carryovers; category three would be limited to $200,000 a year with no carryovers.

III. DEFERRAL OF CAPITAL GAINS TAXES (Capital Formation)

The present Code contains a tremendous bias in favor of the sale of small businesses to big business through the tax-free stock exchange provision. To remove that prejudice and to encourage investment in smaller firms, COSIBA proposes that the proceeds of sales of interests in qualified small businesses be exempted from capital gains taxes, provided the proceeds are reinvested in other small businesses within a two-year period.

IV. OPTIONAL CASH BASIS (Simplification)

Even though the Code requires firms to use the accrual method for computing tax liabilities if inventories are an income-producing factor, studies have shown that the bulk of very small firms utilize cash accounting methods. COSIBA would simplify the Code by permitting concerns with annual receipts of not more than $2-million to use the cash method.

V. DOUBLE TAXATION OF CORPORATE DIVIDENDS

COSIBA is unalterably opposed to the types of dividend relief which have been mentioned in the press. Any such relief, to be acceptable, must meet three tests: (1) it does not give a further advantage to large firms which are the dividend payers; (2) it does not constitute an incremental tax on retained earnings; and (3) its revenue cost does not rule out other more beneficial types of business tax reform.

GENERAL STATEMENT

The Council of Small and Independent Business Associations (COSIBA) has devoted its major attention over the past three years to the development of small business tax reforms which would revitalize independent business and permit it to play its traditional role as: (1) the major private sector employer; (2) the innovating force in bringing new products and services to the Nation; (3) the competitive factor providing lower prices and an increased range of products and services to the American consumer; and (4) the outlet valve for our citizens who cannot function within the strictures of big business, big government, or big labor.

COSIBA's emphasis on Federal tax reform comes not from a desire for a hand-out from Uncle Sam, but because these taxes now impose a burden which is far more onerous on new, small, and growing businesses than it is on the established major corporation. We shall expand upon this point in the discussion of our five specific recommendations.

It is easy to be cynical about those who raise the banner of small business -- "they're just another group of cry-babies trying to cash in on their traditional American appeal, like motherhood and apple pie". Our tax proposals, however, are positive; they look to the healthy growth of the economy and an expansion of meaningful employment opportunities; they are logical. Our recommendations represent sound investments in the future of a competitive, vigorous, and growing free enterprise system.

One last word: small business is not just a vestigal anachronism from an earlier Jeffersonian day. Over 9-million small businesses employ well over half of all the private, nonagricultural workforce and contribute 43% of the total Gross National Product. Anyone purporting to speak for American business who ignores our segment of the economy is indeed foolish.

I. GRADUATED CORPORATE INCOME TAX RATES

A. COSIBA PROPOSAL

To allow smaller firms to retain more of their earnings for growth and modernization, COSIBA proposes that the corporate tax rate structure contain six steps, rather than the current three, as follows:

Taxable Income	Proposed Tax Rate
$ 0 to $ 29,999	8%
30,000 to 59,999	$ 2,400 + 16% of excess over $ 30,000
60,000 to 89,999	7,200 + 24% of excess over 60,000
90,000 to 119,999	14,400 + 32% of excess over 90,000
120,000 to 149,99	24,000 + 40% of excess over 120,000
150,000 and Over	36,000 + 48% of excess over 150,000

B. EXPLANATION

At the present time, the Internal Revenue Code graduates the corporate income tax in three steps: 20% for the first $25,000 of profits; 22% for the second $25,000; and 48% for all profits above $50,000. The COSIBA tax proposal calls for six steps with the highest rate applying to profits above $150,000.

The Administration has stated that the three yardsticks by which it will measure tax proposals are: (1) simplicity; (2) equity; and (3) effectiveness in providing incentives for business growth.

1. We believe our call for additional graduation meets all three criteria. It is certainly <u>simple</u>; it will require no additional record-keeping; no costly professional advisers.

2. We feel that six-step graduation meets the <u>equity</u> test for several reasons. In the first place, many studies have indicated that the largest firms are able to achieve a lower effective tax rate than their small and medium-sized competitors. Surveys by COSIBA groups of their memberships give credence to those studies, because we find that smaller firms seldom are able to take advantage of the complex and sophisticated tax-saving devices hidden within the Code. The second reason why we believe graduation brings greater equity comes from the

realization that internally-generated funds are almost the sole source of capital for independent businesses. The data are clear: there is no public market at all for the securities of small or medium sized firms in the late 1970's. Furthermore, we are certain that few private sources of capital are available. To give testimony on this point, we cite the recent report of SBA's blue-ribbon Task Force on Venture and Equity Capital for Small Business. That group concluded: "It is alarming that venture and expansion capital for new and growing small businesses has become almost invisible in America today." The largest corporations, on the other hand, are tapping the public securities markets at an all-time record rate.

3. There can be no question but that the COSIBA proposal will be most effective in providing incentives for business growth. The table below indicates the tax savings which will accrue to smaller firms, and those dollar savings will surely be converted into business growth, modernization, and increased employment. We know that the membership of our associations will utilize the tax break for those purposes; furthermore, these higher levels of retained earnings will at least partially offset the dangerous trends toward higher debt-to-equity ratios which threaten the existence of every independent business in times of tight money, inflation, or business downturns.

Pre-Tax Profits	Present	COSIBA	PERCENT SAVINGS
$ 10,000	$ 2,000	$ 800	60%
20,000	4,000	1,600	60%
30,000	6,100	2,400	61%
40,000	8,300	4,000	51%
50,000	10,500	5,600	47%
60,000	15,300	7,200	53%
70,000	20,100	9,600	52%
80,000	24,900	12,000	52%
90,000	29,700	14,400	52%
100,000	34,500	17,600	49%
110,000	39,300	20,800	47%
120,000	44,100	24,000	46%
130,000	48,900	28,000	43%
140,000	53,700	32,000	40%

Pre-Tax Profits	Present	COSIBA	PERCENT SAVINGS
$150,000	$ 58,500	$ 36,000	38%
200,000	82,500	60,000	27%
300,000	130,500	108,000	17%
400,000	178,500	156,000	13%

Joining COSIBA in endorsing additional steps in the corporate tax structure are the SBA Task Force mentioned earlier, the Treasury Department Small Business Advisory Committee on Economic Policy (which filed its report in December 1976), and scores of Senators and Representatives.

II. CHANGE DEPRECIATION SCHEDULES

A. COSIBA PROPOSAL

Smaller firms make little use of the complex provisions of the Internal Revenue Code allowing rapid depreciation (investment tax credit or accelerated depreciation ranges). To simplify the Code and to permit additional capital formation for capital-intensive businesses, COSIBA proposes a schedule with only three categories of useful life:

1. Category One -- Two-Year Useful Life

Highway transportation equipment, tools, dies, and other similar assets.

2. Category Two -- Five-Year Useful Life

Machinery, equipment, and fixtures. Office furniture and equipment. Rail, water, and air transportation equipment. Leasehold improvements.

3. Category Three -- Ten-Year Useful Life

Depreciable real estate. Real estate improvements.

Categories one and two would be limited to $100,000 a year total additions to assets for each business, with no carryovers permitted.

Category three would be limited to $200,000 a year with no carry-over permitted.

B. EXPLANATION

COSIBA believes that this proposal would be most effective in all three areas specified as criteria for Carter Administration tax policy: (1) it is simple; it would reduce the present 100 categories of assets to just three, thus simplifying tax accounting for small firms. (2) It is equitable; the complexity of the present Code gives big businesses a definite, though unintended, advantage over their smaller competitors. (3) It is effective as an incentive to business growth; it will increase cash flow for those firms which purchase assets for their operations.

III. DEFERRAL OF CAPITAL GAINS TAXES

A. COSIBA PROPOSAL

The present Internal Revenue Code contains a tremendous bias in favor of the sale of small businesses to big business through the tax-free stock exchange provision. To remove that prejudice and to encourage investment in smaller firms, COSIBA proposes that the proceeds of sales of interests in qualified smaller businesses be exempted from capital gains taxes, provided the proceeds are reinvested in other small businesses in a two-year period.

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B. EXPLANATION

We have already demonstrated that retained earnings are almost the sole source of capital for independent business, but that should not be the case -- and need not be the case. COSIBA believes that Americans should be encouraged to save and to invest and that some incentives should be given to investment in smaller businesses.

The increasing levels of capital gains taxation at both the Federal and state levels have significantly decreased the attractiveness of investment for every citizen -- and investment in the riskier securities of younger and growing concerns has all but ceased.

We shall do no more than mention the obvious fact that dependence upon borrowings, as opposed to equity financing, carries with it the perils of shut-downs during periods of economic down-turn or high inflation and exacerbates the problems which accompany such times.

We agree with the SBA Task Force when it states "Well-intentioned efforts to protect investors inadvertently place small businesses at a disadvantage in competing for available funds." We do not argue with the purposes of those actions, but we point out that our proposal for deferral of capital gains taxes represents a postive means for offsetting the impact of those other Federal legislative and regulatory restrictions.

The increase in capital gains taxation has seriously impacted upon the risk/reward ratio established by professional venture capitalists to determine whether or not it is rational to invest in a growing business. The reward has been decreased by Federal and state tax laws, while the risk has been increased through the unavailability of outside sources of equity and the resulting dependence upon debt financing. The venture capitalist, too, has been forced to disburse his funds in the form of debt and that merely makes a bad situation worse. Incidentally, in terms of numbers and size of resources, the size of the venture capital community has decreased; our proposal on capital gains taxation will bring additional dollars to the venture capital industry and will permit those companies to place additional equity dollars in the birth and growth of small businesses.

Let us speak again of equity in respect to this proposal. We believe the most pernicious feature in the entire Internal Revenue Code is the one which allows the tax-free sale of a business to a large, publicly-held corporation. Today, any rational entrepreneur has only one means for cashing in on his success in creating and guiding his business to profitability: he has to sell out to a big business, often one of his larger competitors. We say that the Code's present bias in favor of mergers and sell-outs is an abomination which flies in the face of the fundamental basis of our free enterprise system.

It's apparent that COSIBA's proposal for deferral of capital gains taxation is not original; several precedents exist, including the deferral of taxes in home sales, condemnation proceedings, and retirement plan distributions.

Revenue Loss: We can provide no estimate. Logic indicates that the substantial transactions which would occur if this provision were enacted are already subject to deferral under the corporate reorganization features of present tax law. Furthermore, we are certain that the encouragement of investments through the deferral concept will contribute enormous sums to the Federal Treasury through the increased profitability of hundreds of thousands of small and growing firms.

IV. OPTIONAL CASH BASIS

A. COSIBA PROPOSAL

Allow every business with annual receipts of less than $2-million to use the "cash" basis of accounting for determining its Federal tax liabilities.

B. EXPLANATION

Under present law, if inventories are an income-producing factor in a business, it must use the "accrual" accounting method. Since accounts receivable are included as income under the accrual method, a business is often taxed on paper profits. For smaller firms, taxation of such paper profits severely restricts their cash flow and their ability to meet day-to-day operating expenses. Perhaps equally important, however, is the fact that the accrual method of accounting places a high cost of record keeping on these very small firms.

This proposal is designed primarily to simplify the Code and reduce the cost of complying with Federal laws and regulations on the smallest segment of American business. We are certain that millions of these one and two-person businesses now actually use the cash method. IRS certainly doesn't have the resources to audit such small operations, nor would recovery in any case be significant. Any revenue loss in year one would most likely be recovered in subsequent years as the firm collected its accounts receivable and sold its inventories.

V. DOUBLE TAXATION OF CORPORATE DIVIDENDS

This is not a COSIBA recommendation. Press accounts indicate that the Administration is giving a high priority to eliminating the present double taxation on corporate dividends. Small business does not give this objective a high priority.

Only a miniscule percentage of smaller firms pay dividends; they must retain all their after-tax profits for growth -- or just to keep even. Smaller firms have absolutely no access to public securities markets or to institutional investors, so they must rely solely on retained earnings for capital growth.

The various types of dividend "relief" which we have read about all appear to have one fatal flaw: they would provide and irresistible incentive to pay out profits in the form of dividends. Statedanother way, they all impose an incremental tax on retained earnings. This seems to fly in the face of the stated Administration goal to encourage capital formation -- it encourages instead capital distribution.

In addition, we cannot conceive of such a plan which would be equitable to large and small business alike. Small business does not pay dividends; most major corporations do. It would be possible for a major corporation to pay out all its profits in dividends and become such an attractive investment for the public that it could raise the capital it needs through regular sales of stock on Wall Street or to institutional investors.

The complete integration of corporate and individual taxes also fails to meet the test of equity, simplicity, or capital formation. It is true that some smaller corporations utilize Subchapter S treatment in which the corporate income is attributed to the shareholders, but this election is ordinarily only when the corporation is operating at a loss or when its profits are divided among the owner-managers, permitting them to pay the added personal taxes involved.

When it studied this question last year, the Treasury Department Small Business Advisory Committee on Economic Policy made the following recommendation: "We feel that proposals for tax integration through credit given on the payment of dividends by corporate taxpayers is seriously deficient and would have an adverse effect on small business. We believe that the proposal for a partial deduction for the cost of equity outlined by Professor Robert N. Anthony in the November 29, 1976 issue of the Wall Street Journal is worthy of further investigation and evaluation. We, therefore, recommend that Treasury consider and analyze Professor Anthony's proposal."

Finally, we are aware that any proposal for corporate dividend relief would result in revenue loss. We strongly believe that our four specific recommendations rank far higher on the Carter Administration's scorecard and should warrant White House backing before the concept of dividend relief.

SUMMARY

As drafted, two of COSIBA's four tax changes are equally applicable to large and small businesses. They do not penalize bigness in any way. They recognize the realities of American economic life in 1977 and would greatly encourage the birth, growth, and continuation of independent business. Graduation and simplified depreciation schedules apply equitably to all businesses, but they obviously would contribute more to the viability of the small than to the large.

Even the deferral of capital gains taxation would benefit the owners (and the managers) of firms which began small and grew to become big businesses.

The proposal for cash accounting for the smallest firms would not be applicable to big business, but we cannot see that as any differential burden, because concerns with sales above $2-million annually undoubtedly require record keeping for internal purposes which would allow them to file their taxes on an accrual basis.

Thus, COSIBA has attempted to meet all three of the Administration's goals in all of its proposals. We believe our package meets the business needs of America today. We know that it has the support of the 750,000 small businesses represented by COSIBA and its affiliated organizations.

STATEMENT OF

DEAN A. TREPTOW, PRESIDENT

THE BROWN DEER BANK
BROWN DEER, WIS.

Representing the

INDEPENDENT BUSINESS ASSOCIATION OF WISCONSIN

on the

SMALL BUSINESS INVESTMENT POLICY
and ADVOCACY REORGANIZATION ACT of 1977

before

Subcommittee on Government Regulation
and Small Business Advocacy

Senate Select Committee on Small Business

and

Subcommittee on Economic Growth
and Stabilization

Joint Economic Committee

June 29, 1977

I am representing the Independent Business Association of Wisconsin, as Vice President of Federal Programs. I believe it pertinent to your consideration of my comments, to be aware that I am President of the Brown Deer Bank, an independent bank in suburban Milwaukee, devoted to the financial needs of small and independent business.

I commend the Joint Economic Committee for the spirit of their recommendations embodied within Senate bill 1726. As I understand the bill, it would virtually assure that the executive branch would focus on the capital requirements of the small business and be required to submit capital adequacy planning for the small business sector to both houses of Congress. Inasmuch as the survival of small business, in our opinion, is essential to our national interest, we are enthusiastic about this provision.

The Small Business Economic Council to be created under this legislation is an interesting concept. Personally I would prefer that the SBA administrator be given cabinet level rank as the importance of his constituency would seem to support. If the administrator were, in fact, at cabinet level, I would think that he would be able to formulate and implement the proposals set forth under the Economic Council. If it is impossible from a practical standpoint to achieve this status for the SBA administrator, I would acknowledge that the Small

Business Economic Council is the next best compromise. It is essential that a representative of the Small Business Administration be able to speak forcefully for the needs of small business in the context of national economic planning.

Forgive me if I am somewhat skeptical about the ability of an SBA administrator being able to achieve meaningful input into economic policy planning on a Small Business Economic Council. It seems that the SBA has never achieved a level of advocacy for its small business constiuency as has been evident in such other departments as Agriculture and Labor. There is no doubt in anyone's mind that the Secretary of Labor speaks on behalf of the wage-earners of this country and consistently bears their interests in mind, in all matters coming before the President's Cabinet. The same is certainly true of the Department of Agriculture. Small businessmen have become cynical over the years as they have seen the SBA used as a tool for meeting all types of so-called national emergencies, whether or not they were even remotely related to small businesses. The functions and responsibilities of the SBA have been splintered and divergent and have lost focus. All too often, we have seen the SBA act as an advocate of the Executive Branch in forcing policy upon the small business sector, as opposed to representing small business in formulation of executive policy.

Therefore, we endorse the concept of the SBA administrator being seated in a formalized structure with other cabinet level officials in representing the interests of small business. We are cynical however, that the desired results will be achieved due to our perceived inadequacies in the policy and structure of SBA.

As regards the division of advocacy, economic research and analysis, we stand squarely behind the responsibilities outlined for this function in S1726. I appears however, that the subject legislation would change public law to require that the advocate report not to the President of the United States, but to the administrator of the SBA. I know the argument can be raised that in business a corporate president would not permit a subordinate to report directly to the Board of Directors or stockholders, without any control by the President. The existing structure is accused with violating good, managerial chain of command. I hasten to offer, however, that the division of advocacy should be likened to a department of audit within a corporation. Such a department frequently does report directly to the Board of Directors without influence from the chief executive officer. The reasons for this have been proven over time and have been found to be in the best interests of all concerned. If the advocacy is to be effective, it must be completely free to suggest alterations and critique activities and plans of the SBA. So long as the advocate is reporting to the SBA administrator he quite obviously will be restrained from candid and objective analysis by virtue of job retention. It seems to me that we want the advocate to be responsive to the small business interests of this nation and not to a bureau c racy.

I must inform you that both as a banker and as an independent businessman, the proposal for quarterly reporting of business loans classified by sales and asset size upsets me greatly. I am concerned for several reasons: (1) Instead of simplifying compliance with government regulations and reducing paper work we add still another layer of reports that ultimately will stand in the way of banks' serving the needs of small business. (2) Having knowledge of what types of banks are lending what amounts of money to various sizes of small business, will have absolutely no impact on future activities by the banking industry. The largest banks in this country will not change the markets they choose to serve simply because there is published data on the manner in which they and their competitors are meeting the market. (3) If for economic planning purposes it would be desirable to know the amount of money flowing into the small business sector, then you certainly would not need the great number of brackets in which a bank would have to report on business loans. I cannot imagine what possible value would come from thirteen brackets of asset sizes and thirteen brackets of sales sizes for every business loan made in the United States by every bank. From a national economic planning position, I could possibly justify three brackets of reporting; loans by banks to (a) all companies qualifying for SBA assistance, (b) all companies over a size deemed qualified for underwriting by investment bankers, and (c) all firms lying in between those two general catagories. (4) Banks are already faced with reporting the numbers anddollar volume of loans made by census tracks for all mortgages and home improvement loans. Similar requests are being made for other types of loans to consumers. With the quarterly reporting to regulatory agencies as required in S1726, we would now have a data bank in Washington that would make it easy for those governmental officials already calling for credit allocation within our society to achieve that objective. I fear greatly that if such reporting was required one day the Federal government will say, "Mr. Banker, your loan distribution last quarter was as follows. Please adjust categories by a percentage which we will indicate to you." This flies in the face of the free enterprise system and all of the principles as c ribed to by the small business organizations of this country.

These criticisms should not be construed as a negative attitude on the concepts of this bill. S.B.A. needs redefinition of its role; the S.B.A. Administrator must have a larger role in national planning and the President of the United States should have a formalized commitment to the capital needs of small business. If we were convinced that the Economic Council would serve as well as a cabinet position for the S.B.A. administrator - without creating its own mini-bureaucracy - we would then support the concept of this bill. The mechancis of loan reporting, however, are totally unpalatable and need to be revised.

AMERICAN
BANKERS
ASSOCIATION

1120 Connecticut Avenue, N.W.,
Washington, D.C.
20036

EXECUTIVE DIRECTOR
GOVERNMENT RELATIONS

Gerald M. Lowrie
202/467-4097

March 2, 1978

The Honorable Thomas J. McIntyre
Chairman
Subcommittee on Government Regulation
and Small Business Advocacy
Select Committee on Small Business
Washington, D. C. 20510

Dear Mr. Chairman:

The American Bankers Association is submitting these comments on S. 1726, the "Small Business Economic Policy and Advocacy Reorganization Act of 1977." The bill seeks to provide for the capital needs of small businesses through a reorganization of the Small Business Administration and the establishment of a small business economic policy. It would also raise the status of the Small Business Administrator and create a high level Small Business Economic Council within the Executive Branch. Finally, the bill would require the Federal bank regulatory agencies to annually survey banks to determine an estimate, by asset and sales sizes of borrowers, of the amount of credit extended in commercial and industrial loans in every region of the country.

Our Association supports the goals of S. 1726 to improve the flow of credit and capital to small businesses. We are greatly concerned, however, that Title VI of the bill would impose significant new paperwork and reporting burdens on some insured banks without appreciable benefits to small businesses. We must, therefore, oppose Title VI of S. 1726 and urge that it be deleted from the bill.

The consolidated reports of condition required quarterly of all insured banks now contain, in Schedule A - Loans (attached), a single figure which comprises all non-real estate commercial and industrial loans (see item 5 of Schedule A). The provisions of proposed Title VI would require that the bank being surveyed break out this single figure into fourteen figures classifying such loans by the asset size and annual sales of all borrowers. This provision is designed to provide a data base from which the total amount of credit flowing to small- and medium-sized businesses from full service banks may be compared to that lent to large firms. Our concern with this proposal relates not only to the cost to banks of breaking down their loan figures, but also to the fact that this information, if compiled, will be virtually useless, because it will fail to reflect the amount of credit needed by small businesses. Moreover, even if the information could be made to provide a realistic picture of the credit flows to, and needs of

The Honorable Thomas J. McIntyre

AMERICAN BANKERS ASSOCIATION

CONTINUING OUR LETTER OF March 2, 1978

SHEET NO. 2

credit for, small businesses, we fail to see any purpose in compiling the reports other than some ultimate scheme of government allocation of credit -- a concept we adamantly oppose, which is inconsistent with the economic philosophy of this country, and which the Congress has consistently rejected as a valid tool of national financial policy.

Our first concern, then, is based on the increased costs and burden of compiling and reporting loan figures segregated by asset and sales size of borrowers. Although the cost figures we have obtained on this proposal are necessarily estimates, we believe they are based on reasonable assumptions.

As presently drafted, two types of costs are associated with Title VI's requirements. The first is the one-time cost of breaking down the figures for all outstanding business loans by the asset and sales size of the borrowers. This cost is nothing short of staggering, for it entails a complete review of each commercial and industrial loan on a bank's books before the first quarterly report of condition under Title VI's provisions is due. If such a review were undertaken on an industry-wide basis, the costs, we estimate, would approximate $13,000,000. This estimate is based on an informal survey of banks of various asset sizes in all areas of the country. Although unscientific, it represents, we believe, a conservative estimate of total start-up costs. The costs to individual institutions, we believe, will range from $15,500 for a $1 billion bank, through $4,000 for a $100 million bank, to $800 for a $10 million bank. These costs are wholly disproportionate to any possible benefit from the compilation of the information.

The second cost associated with Title VI is the continuing one of segregating each commercial or industrial loan made each quarter by the asset sizes and annual sales of the borrowers. We estimate annual industry-wide costs for this process would be $5,000,000. Although not as staggering as the initial compliance cost, this, too, is a substantial figure. Unless some quantifiable benefit can be identified which would outweigh even this continuing cost, we fail to understand how any justification can be made for its imposition. We would note in passing that our research has indicated that even those banks which have placed their business loan records in their computers would be required to manually process and compile the requested information. This is so because existing computer programs for business loans are not keyed to identification of borrowers by asset size or annual sales. Manual processing not only is much more costly and time-consuming, but also imposes a tremendous personnel burden because the initial one-time compilation of all existing loan breakdowns will not justify banks hiring additional manpower.

The second objection our Association must raise to Title VI is based on the lack of benefit it will provide and the consequent lack of need therefor. If

The Honorable Thomas J. McIntyre

AMERICAN BANKERS ASSOCIATION

CONTINUING OUR LETTER OF March 2, 1978

SHEET NO. 3

the purpose of the bill is to identify the credit needs of the small business community, the logical source of such information is the Small Business Administration. Statistics on the amount of credit flowing to small businesses from commercial banks will provide no foundation from which conclusions may be drawn concerning the needs of small businesses for such credit. By ignoring such factors as the amount of non-commercial bank credit to small businesses, number of unsuccessful applicants for credit, numbers of small businesses meeting capital needs through non-credit sources, and indirect credit sources for small businesses (e.g., indirect consumer credit purchases through dealer discounts), the bill focuses on only one aspect of the small business credit picture. By focusing on the amount of credit granted successful applicants, in fact, the bill may serve to distort the actual credit needs of the small business community.

Moreover, we would note that the banking industry has responded, and continues to respond, to the credit and capital needs of small businesses. In certain special-purpose credit situations, indeed, the industry has taken a leadership role in providing credit or capital to small businesses. For example, the American Bankers Association, through Minbanc Capital Corporation, has been assisting the growth of minority-owned banks. The Corporation raises capital through the sale of stock to individual banks (presently more than 500 banks are shareholders), and invests directly in minority-owned institutions through capital loans and stock purchases. As of March 31, 1977, Minbanc had invested $2,750,000 in eight minority-owned banks. (See Annual Report attached.)

Our final objection to Title VI of S. 1726 is based on our perception of the ultimate goals of the information gathering contained therein. As stated above, we can determine no useful purpose of such data-gathering other than some ultimate scheme of government credit allocation. We must strongly oppose any such design, because of the inefficiencies it must introduce into the credit markets of this country, because of the lack of need therefor, and because government allocation of credit attacks the foundations of a free market economy. No case has been made that creditworthy small business applicants are being frozen out of the credit markets. Our Association can, therefore, perceive neither need for nor justification of any credit allocation scheme.

Should the Subcommittee determine, in spite of our arguments to the contrary, that some type of survey such as that proposed in Title VI is necessary to provide information on the credit being granted to the nation's businesses, we would urge that Title VI be amended to provide for greater simplicity of administration and more effective, less costly reporting of credit information.

The Honorable Thomas J. McIntyre

AMERICAN BANKERS ASSOCIATION

CONTINUING OUR LETTER OF March 2, 1978

SHEET NO. 4

We would suggest, first, that Title VI contain a sunset provision so that the survey will be only a one-time burden on the banks to be surveyed. Second, we would urge the deletion of the requirement that "loan requests denied" or "applicant borrowers" be included in the survey. The costs of attempting to record applicants or requests would be far in excess of those we have detailed for recording credit actually granted. Moreover, applicant or request information would not indicate the creditworthiness of the applicant or requester. It would not serve to demonstrate the extent of credit needs of the business community, and would, therefore, not justify the costs of requiring reporting of applicants or requests in the proposed survey.

A third amendment we would suggest would simplify the reporting burden for the survey by providing that the Federal Reserve Board, which presently conducts surveys of consumer and business credit outstanding, would have sole responsibility for designing and implementing the survey. We would further urge that only credit extended after the design and initiation of the survey be included in order that banks might have the opportunity to plan systems and programs which will minimize the cost and burden of responding to the survey. A final suggestion we would make is that the number of categories in which extensions of credit must be reported be reduced to focus on credit extended to small businesses. In this regard, we believe categories (v), (vi), and (vii) of subparagraphs (A) and (B) be eliminated, and category (iv) be extended to include all credit in excess of $10,000,000.

In summary, the American Bankers Association opposes Title VI of S. 1726 and urges its deletion from the bill. If it is not deleted, we urge that the amendments we have suggested be adopted. We respectfully request that this letter be inserted in the record of hearings on S. 1726.

Sincerely yours,

Gerald M. Lowrie

Gerald M. Lowrie
Executive Director
Government Relations

Attachment

SCHEDULE A—LOANS

(Including rediscounts and overdrafts)

	Thousands of dollars THOUSANDS	Hnds.	Cts.	
1. Real estate loans (include only loans secured primarily by real estate:				
a. Construction and land development		XXX	XX	1a
b. Secured by farmland (including farm residential and other improvements)		XXX	XX	b
c. Secured by 1-4 family residential properties:				
(1) Insured by FHA or guaranteed by VA		XXX	XX	c1
(2) Conventional		XXX	XX	c2
d. Secured by multi-family (5 or more) residential properties:				
(1) Insured by FHA		XXX	XX	d1
(2) Conventional		XXX	XX	d2
e. Secured by nonfarm nonresidential properties		XXX	XX	e
2. Loans to financial institutions:				
a. To real estate investment trusts and mortgage companies		XXX	XX	2a
b. To domestic commercial banks		XXX	XX	b
c. To banks in foreign countries		XXX	XX	c
d. To other depository institutions (Mutual Savings Banks, Savings and Loan Associations, Credit Unions)		XXX	XX	d
e. To other financial institutions		XXX	XX	e
3. Loans for purchasing or carrying securities (secured or unsecured):				
a. To brokers and dealers in securities		XXX	XX	3a
b. Other loans for purchasing or carrying securities		XXX	XX	b
4. Loans to farmers (except loans secured primarily by real estate; include loans for households and personal expenditures)		XXX	XX	4
5. Commercial and industrial loans (except those secured primarily by real estate)		XXX	XX	5
6. Loans to individuals for household, family, and other personal expenditures (include purchased paper):				
a. To purchase private passenger automobiles on instalment basis		XXX	XX	6a
b. Credit cards and related plans:				
(1) Retail (charge account) credit card plans		XXX	XX	b1
(2) Check credit and revolving credit plans		XXX	XX	b2
c. To purchase other retail consumer goods on instalment basis:				
(1) Mobile homes (exclude travel trailers)		XXX	XX	c1
(2) Other retail consumer goods (exclude credit cards and related plans)		XXX	XX	c2
d. Instalment loans to repair and modernize residential property		XXX	XX	d
e. Other instalment loans for household, family, and other personal expenditures		XXX	XX	e
f. Single-payment loans for household, family, and other personal expenditures		XXX	XX	f
7. All other loans		XXX	XX	7
8. Total loans, Gross (sum of Items 1 thru 7)		XXX	XX	8
9. Less: Unearned income on loans		XXX	XX	9
10. Total loans (excluding unearned income) (must equal Asset Subitem 9a)		XXX	XX	10

ANNUAL REPORT

March 31, 1977

minbanc capital corp.

1120 Connecticut Ave., N.W.
Washington, D.C.
20036

(202) 467-4216

Kenneth V. Zwiener
President &
Chairman of the Board

Carmine J. Capozzola
Secretary-Treasurer

minbanc capital corp.

To Our Stockholders:

In this, Minbanc's sixth Annual Report to you, we are pleased to note the continued growth of Minbanc's investment program. Since our last report, Minbanc has made investments in Consolidated Bank and Trust Company (Richmond, Virginia), the oldest black-owned bank in the nation, which intends to use the proceeds for branching, and in American State Bank (Tulsa, Oklahoma), which is relocating its office to a new building it is constructing on a main thoroughfare. With these additions, Minbanc has invested $2,750,000 in eight banks. Additional commitments and applications are pending.

The number of minority owned or managed banks eligible for Minbanc investment now exceeds 85, with assets of over $1.5 billion. Such banks have been able to secure capital funds from business corporations, religious organizations, philanthropic groups and citizens in the communities which they serve, as well as Minbanc. Minbanc continues to seek out for investment those banks in need of additional capital which have demonstrated a potential for growth and stability, and which have been unable to obtain total capital needs from other sources.

Minbanc representatives have continued to pay periodic visits to the banks in which Minbanc has invested and report on their condition and performance to our Board of Directors and its Investment Committee. These periodic reviews are not only for the purpose of monitoring Minbanc's investments, but also to determine if there are other ways in which Minbanc might assist such banks in their operation. The Board is pleased to observe that, in general, its investments appear to have been made in banks able to put additional capital to good use, and at a time when such investment was most beneficial to such banks.

As you know from our last report, the Investment Company Act of 1940 requires that the Board of Directors value its portfolio securities from time to time. In compliance with this mandate, the Board has once again valued the portfolio at par. Despite this good-faith determination the Board has concluded that it would be reasonable and prudent, to add $100,000 to the allowance for possible investment loss. A provision for this amount has, therefore, been included among Minbanc's expenses.

Minbanc is once again pleased to declare a dividend, this year in the amount of $98,725 ($11.31 per share), payable to stockholders of record as of June 1, 1977. Minbanc has continued to elect to be treated as a regulated investment company under Subchapter M of the Internal Revenue Code and accordingly is distributing to its stockholders 100% of its taxable income.

We wish to express our continued appreciation to the American Bankers Association for its support and cooperation and to the Minbanc Board, Investment Committee and staff for their dedication and vigorous participation.

Kenneth V. Zwiener
President and
Chairman of the Board

Washington, D. C.
June 1, 1977

To the Shareholders and Board of Directors of

Minbanc Capital Corp.:

We have examined the statement of assets and liabilities of MINBANC CAPITAL CORP. (a Delaware corporation) as of March 31, 1977 and 1976, and the related statements of operations and changes in net assets for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, including confirmation of securities owned at March 31, 1977 and 1976, by correspondence with the custodian.

In our opinion, the accompanying financial statements present fairly the net assets of Minbanc Capital Corp. as of March 31, 1977 and 1976, and the results of its operations and the changes in its net assets for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

1666 K Street, N.W.
Washington, D. C.,

May 17, 1977.

MINBANC CAPITAL CORP.

STATEMENT OF ASSETS AND LIABILITIES

AS OF MARCH 31

	1977	1976
ASSETS:		
U. S. TREASURY BILLS, at cost, plus accrued interest (which approximates market) at approximate rates of 4.7% to 5.3% in 1977 and 5% to 6% in 1976	$2,004,229	$2,765,131
INVESTMENTS, at cost, less allowance for possible investment loss of $200,000 in 1977 and $100,000 in 1976 (Notes 1 and 2)	2,376,619	1,680,067
ACCRUED INCOME ON INVESTMENTS	19,765	28,217
CASH	39,341	23,194
	4,439,954	4,496,609
LIABILITIES:		
ACCOUNTS PAYABLE TO AMERICAN BANKERS ASSOCIATION (Note 1)	15,698	5,673
OTHER ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	12,912	38,349
COMMITMENTS (Note 2)		
DIVIDENDS PAYABLE, $11.31 per share in 1977 and $13.62 per share in 1976 (Note 1)	98,725	118,923
	127,335	162,945
NET ASSETS (equivalent to $494.06 per share in 1977 and $496.47 per share in 1976 based on 8,729 shares of common stock outstanding)	$4,312,619	$4,333,664

The accompanying notes are an integral part of this statement.

MINBANC CAPITAL CORP.

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31

	1977	1976
INTEREST AND DIVIDEND INCOME	$228,885	$274,560
EXPENSES (Note 1):		
Provision for possible investment loss	100,000	100,000
Professional fees	36,754	42,888
Travel	11,910	13,185
Other	2,541	4,026
	151,205	160,099
NET INVESTMENT INCOME ($8.90 per share in 1977 and $13.11 per share in 1976 based on 8,729 common shares)	$ 77,680	$114,461

The accompanying notes are an integral part of this statement.

MINBANC CAPITAL CORP.

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED MARCH 31

	1977	1976
FROM INVESTMENT ACTIVITIES:		
Net investment income	$ 77,680	$ 114,461
Dividends to shareholders (Note 1)	(98,725)	(118,923)
Decrease in net assets	(21,045)	(4,462)
NET ASSETS:		
Beginning of period	4,333,664	4,338,126
End of period	$4,312,619	$4,333,664
REPRESENTED BY:		
Common stock, par value $1.00, authorized 20,000 shares; issued and outstanding 8,729 shares (Note 3)	$ 8,729	$ 8,729
Capital surplus	4,294,316	4,294,316
Retained earnings	9,574	30,619
	$4,312,619	$4,333,664

The accompanying notes are an integral part of this statement.

MINBANC CAPITAL CORP.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 1977 AND 1976

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies applied by Minbanc Capital Corp. (the "Company") in the preparation of its financial statements. The policies are in accordance with generally accepted accounting principles for investment companies.

ORGANIZATION

The Company is registered under the Investment Company Act of 1940, as amended, as a nondiversified, closed-end management investment company. The Company was incorporated on June 18, 1971, for the purpose of making capital funds available to qualifying minority-owned banks. Minority-owned banks are banks in which a majority of the voting securities are owned by individuals from minority groups in the United States, or which are managed by minorities, and have been in operation for a minimum of two years.

The Company's Officers and Directors serve without compensation but are entitled to reimbursement of out-of-pocket travel expenses. The American Bankers Association (the "Association") has agreed to make certain of its personnel and facilities available without charge for research into the capital needs of qualifying minority-owned banks and for other administrative services. The Association does pay certain other expenses on behalf of the Company which are charged to the Company and recorded in its accounting records.

INVESTMENT VALUATION

The amount of $2,376,619, at which the investment portfolio has been valued at March 31, 1977, represents the cost of the investments, less an allowance for possible investment loss of $200,000 (see Note 2) and, in the opinion of the Board of Directors, represents the fair value at that date. There is no public market for the investments of the Company. Therefore, the Directors, in making their evaluation, have taken into account the cost of the investments to the Company, developments since the acquisition, including reviews of the current financial statements of the investee banks and other factors generally pertinent to the valuation of these investments.

INCOME TAXES AND DIVIDENDS PAYABLE

The Company has elected the tax treatment applicable to "regulated investment companies" under Subchapter M of the Internal Revenue Code. To qualify as a "regulated investment company" under the Code, certain requirements need to be met, including distribution of at least 90 percent of the Company's taxable income to its shareholders. Such distributions are taxable to the shareholders and not to the Company.

Income taxes have not been provided in the accompanying financial statements on net income of $77,680 in 1977 and $114,461 in 1976, as the Company has declared in 1977 and 1976, distributions of $98,725 and $118,923, respectively, that were sufficient to eliminate income as it is reported for tax purposes. Taxable income is different from the amount of net income for financial reporting purposes as a result of interest income on U. S. Treasury bills being reported on the cash basis for tax purposes.

(2) INVESTMENTS AND COMMITMENTS

A summary of investments, at cost, at March 31, 1977 and 1976, is as follows:

	1977	1976
LOANS:		
6-1/2% Subordinated note of Independence Bank of Chicago, dated March 30, 1973, principal payable $25,000 annually in March 1977 through March 1980, $100,000 in March 1981, $125,000 in March 1982, and $125,000 in March 1983, with interest payable quarterly; principal repayment due March 1977 was received in April 1977.	$ 450,000	$ 450,000
6-1/2% Subordinated capital note of Gateway National Bank of St. Louis, originally $300,000, dated March 26, 1973, and an additional $150,000 dated May 23, 1974, with principal and interest payable in equal quarterly installments on both loans through March 1983 and March 1984, respectively.	387,090	414,150

	1977	1976
6-1/2% Subordinated note of Tri-State Bank of Memphis, originally $200,000, dated September 20, 1973, and an additional $200,000 dated October 30, 1974, with principal and interest payable in equal quarterly installments on both loans through September 1983 and September 1984, respectively, except that the principal repayments on the October 30, 1974 loan due quarterly from December 30, 1975, to June 30, 1977, have been deferred at the bank's request to July 5, 1977.	$ 332,039	$ 345,024
6-1/2% Subordinated note of Douglass State Bank of Kansas City, originally $150,000, dated October 5, 1973, with principal and interest to be payable in equal quarterly installments through September 1983; in December 1975, the note was declared immediately due and payable by the Company's Board of Directors as the result of a technical event of default by the bank in complying with the specific section of the subordinated note agreement with regard to payment of a dividend on preferred stock. No dividends were paid by the Bank in the year ended December 31, 1976, and the event of default referred to above has been waived.	111,241	120,893
7% Capital note of Citizens Trust Bank of Atlanta, dated January 21, 1975, principal due in December 1979, with interest payable semiannually.	225,000	225,000

6-1/2% Subordinated Capital Note of American State Bank of Tulsa, originally $250,000, dated January 6, 1977, with principal and interest payable in equal quarterly installments through September 1986, and $62,097, the remaining principal balance, together with accrued interest payable in December 1986.	$ 246,249	$ -
6-1/2% Subordinated Capital Note of Consolidated Bank and Trust Company of Richmond, originally $400,000, dated December 28, 1976, with interest payable quarterly from March 1977 through December 1978, principal and interest payable in equal quarterly installments through September 1986, and $177,973, the remaining unpaid principal balance, together with accrued interest payable in December 1986.	400,000	-
7% Subordinated Capital Note of First Enterprise Bank of Oakland, originally $100,000, dated May 11, 1976, with interest only payable quarterly from June 1976 through March 1978, and principal and interest payable in equal quarterly installments from June 1978 through March 1986.	100,000	-
	2,251,619	1,555,067
PREFERRED STOCK:		
6% Cumulative preferred stock of Citizens Trust Bank of Atlanta, 2,250 shares, no par value, purchased January 21, 1975, with the right, after December 31, 1984, to require the bank to repurchase these shares at a price of $100 per share.	225,000	225,000

6% Cumulative preferred stock of First Enterprise Bank of Oakland, 1,000 shares, par value $100 per share, purchased May 11, 1976, with the right, after May 11, 1986, to require the bank to repurchase these shares at a price of $100 per share.	$ 100,000	$ -
	325,000	225,000
	2,576,619	1,780,067
LESS: Allowance for possible investment loss	(200,000)	(100,000)
Total investments	$2,376,619	$1,680,067

The Company has expressed its conditional intent to make the following new investment:

Bank	Amount
Atlantic National Bank, Norfolk	$250,000

The investment in Atlantic National Bank, would be, if consummated, in the form of a ten-year, 6-1/2% subordinated note.

The Company withdrew, without prejudice, a conditional commitment previously issued to the Bank of Finance, Los Angeles, pending a new application from the bank for investment consideration.

(3) COMMON STOCK

Shares of the Company's common stock were offered only to banks which were members of the American Bankers Association (or parents of such banks in states in which the Company's shares may not be purchased by banks) and are subject to restrictions on transfer. No banks may own more than five percent of the Company's outstanding shares.

(4) PER SHARE AND STATISTICAL INFORMATION

Selected data for each weighted average share of common stock outstanding are as follows:

	Year Ended March 31				
	1977	1976	1975	1974	1973
Investment income	$ 26.22	$ 31.45	$ 37.84	$ 36.08	$ 22.46
Expenses	(17.32)	(18.34)	(9.71)	(6.06)	(5.68)
Net investment income	8.90	13.11	28.13	30.02	16.78
Dividends from net investment income	(11.31)	(13.62)	(31.88)	(26.18)	(15.70)
Costs related to sale of common stock	-	-	-	-	(.95)
Net increase (decrease) in net asset value	(2.41)	(.51)	(3.75)	3.84	.13
Net asset value:					
Beginning of period	496.47	496.98	500.73	496.89	496.76
End of period (a)	$494.06	$496.47	$496.98	$500.73	$496.89
Ratio of expenses to average net assets	3.50%	3.62%	1.88%	1.19%	1.12%
Ratio of net investment income to average net assets	1.80%	2.59%	5.47%	5.88%	3.32%
Weighted average shares of common stock outstanding (a)	8,729	8,729	8,856	8,965	8,839
Number of common stock shares outstanding at end of period (a)	8,729	8,729	8,729	8,965	8,963
Dividends actually paid per outstanding common stock share at end of period	$ 11.31	$ 13.62	$ 32.31	$ 26.90	$ 15.90

(a) Based on number of common stock shares outstanding (including subscribed and fully paid shares not issued in 1973 and 1974).

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Kenneth V. Zwiener
President &
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Secretary-Treasurer

minbanc capital corp.

Board of Directors

President and Chairman of the Board:

Kenneth V. Zwiener
Former Chairman of the Board
Harris Trust and Savings Bank
Chicago, Illinois

Willis W. Alexander
Executive Vice President
American Bankers Association
Washington, D.C.

Justin N. Feldman
Partner
Poletti Freidin Prashker Feldman and Gartner
New York, New York

Frederic A. Potts
Former Chairman of the Board
Philadelphia National Bank
Philadelphia, Pennsylvania

Emmett G. Solomon
Chairman of the Executive Committee
Crocker National Bank
San Francisco, California

Thomas J. Stanton, Jr.
Chairman and Chief Executive Officer
First Jersey National Bank
Jersey City, New Jersey

John H. Wheeler
President
Mechanics and Farmers Bank
Durham, North Carolina

Eugene C. Zorn, Jr.
Senior Vice President and Economist
Republic National Bank of Dallas
Dallas, Texas