

*File:*  
*Small Business*

**WHITE HOUSE STAFFING MEMORANDUM**

DATE: May 9, 1996 ACTION/CONCURRENCE/COMMENT DUE BY: May 15, 1996

SUBJECT: State of Small Business Report for 1994 - Accompanies SBA's Annual Report on Small Business and Competition and Annual Report on Federal Procurement Preference Goals

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	<input checked="" type="checkbox"/>	<input type="checkbox"/>	McCURRY	<input type="checkbox"/>	<input checked="" type="checkbox"/>
PANETTA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	McGINTY	<input checked="" type="checkbox"/>	<input type="checkbox"/>
McLARTY	<input type="checkbox"/>	<input type="checkbox"/>	NASH	<input type="checkbox"/>	<input type="checkbox"/>
ICKES	<input checked="" type="checkbox"/>	<input type="checkbox"/>	QUINN	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LIEBERMAN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	RASCO	<input type="checkbox"/>	<input type="checkbox"/>
RIVLIN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	REED	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BAER	<input checked="" type="checkbox"/>	<input type="checkbox"/>	SOSNIK	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CURRY	<input type="checkbox"/>	<input type="checkbox"/>	STEPHANOPOULOS	<input checked="" type="checkbox"/>	<input type="checkbox"/>
EMANUEL	<input type="checkbox"/>	<input type="checkbox"/>	STIGLITZ	<input type="checkbox"/>	<input type="checkbox"/>
GIBBONS	<input type="checkbox"/>	<input type="checkbox"/>	STREETT	<input type="checkbox"/>	<input type="checkbox"/>
HALE	<input type="checkbox"/>	<input type="checkbox"/>	TYSON	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HERMAN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	WALLEY	<input type="checkbox"/>	<input type="checkbox"/>
HIGGINS	<input checked="" type="checkbox"/>	<input type="checkbox"/>	WILLIAMS	<input type="checkbox"/>	<input type="checkbox"/>
HILLEY	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Angell	<input checked="" type="checkbox"/>	<input type="checkbox"/>
KLAIN	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Sperling	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LAKE	<input type="checkbox"/>	<input type="checkbox"/>	Klein	<input checked="" type="checkbox"/>	<input type="checkbox"/>
LINDSEY	<input type="checkbox"/>	<input type="checkbox"/>	Myers	<input checked="" type="checkbox"/>	<input type="checkbox"/>
			Kamarck	<input checked="" type="checkbox"/>	<input type="checkbox"/>
			Clerk		<input checked="" type="checkbox"/>

REMARKS: Please forward your comments to the Staff Secretary. The report, in its entirety, is in the Staff Secretary's Office if you should want to review.

RESPONSE: \_\_\_\_\_

The State of Small Business: A Report of the President

To the Congress of the United States

I am pleased to transmit to you my annual report on the state of small business and to report that small businesses are doing exceptionally well. In the year covered by this report, 1994, a record 807,000 new firms reported initial employment. Firms in industries dominated by small businesses created almost 60 percent of the nearly 3.3 million new jobs. Business failures and bankruptcies declined at some of the sharpest rates in a decade.

Small businesses have both contributed to and benefited from the recent strength of the economy. The deficit reduction plan I initiated in 1993 has cut the budget deficit in half. The economy has created 8.5 million new jobs since January 1993--almost all of them in the private sector. The combined rate of unemployment and inflation is at its lowest level in more than 25 years.

A major success story has been in the women-owned business sector. Women are creating new businesses and new jobs at double the national rate. Today, women own one-third of all businesses in the United States. Clearly, there is no stopping this fast-growing segment of the economy.

Last June I met in Washington with nearly 2,000 small business owners--participants in the National White House Conference on Small Business. They took precious time away from their businesses to tell us about their problems and their ideas for resolving them, turning over a list of 60 recommendations for

Government action. Their ideas are reflected in many of the recent initiatives of my Administration.

#### Improving Access to Capital

One of the keys to a healthy small business sector is access to adequate startup and working capital. The Small Business Lending Enhancement Act of 1995, which I signed last October, removed the \$500,000 cap on the Small Business Administration's 7(a) loans and lowered the guaranty rate, giving the agency the flexibility to guarantee loans for more small businesses. The number of these loans has increased dramatically, up 52 percent from fiscal year 1994 to fiscal year 1995--and that's with a smaller budget and fewer employees at the SBA.

Other initiatives are under way. My Administration has been working with banks and banking regulators to remove impediments to small business lending by financial institutions. The Riegle Community Development and Regulatory Improvement Act of 1994 amended the banking and securities laws to promote the growth of a secondary market for small business loans. And my Administration is looking toward reducing small business securities filing and disclosure burdens. In June 1995, the Securities and Exchange Commission proposed regulations that would further this small business initiative.

## Easing the Tax Burden

The Federal Government should reward rather than discourage entrepreneurs who take risks and create jobs. To that end, we have worked to simplify the tax code and make it more equitable for small firms.

In April 1995, I signed legislation to increase to 30 percent the share of health insurance premiums that self-employed individuals can deduct on their tax returns beginning this tax year--and we're working to increase that amount to 50 percent.

Small firms are less likely than their larger counterparts to be able to provide retirement plans. While 75 percent of workers in businesses with more than 1,000 employees have pension plans, only 24 percent of workers in businesses with fewer than 100 employees do. I have proposed a new pension plan targeted to the needs of small businesses--the National Employee Savings Trust (NEST). The NEST would provide generous benefits similar to those of a 401(k) pension plan, but could be created and operated as simply as an individual retirement account.

My Administration has endorsed other improvements that make existing pension plans safer and more beneficial for business owners and employees alike. For example, we have proposed to eliminate the "family aggregation" restrictions on pensions for family members, so that spouses or children who work in the same or related businesses can earn their own retirement benefits.

Our 1993 plan made 90 percent of small businesses eligible

for tax relief. It established a targeted tax preference for capital gains, reduced the recordkeeping requirements for the meals and entertainment deduction, and raised the small business expensing limit for equipment by 75 percent, to \$17,500. We have proposed to increase further the value of equipment that can be directly expensed to \$25,000.

My Administration is also taking steps to ensure that tax regulations are as simple and understandable as possible. For example, administrative guidance has been published to provide tax relief to S corporations and partnerships, simplify depreciation computations, and ease inventory capitalization for small businesses.

At the White House Conference on Small Business, many small businesses asked for a clearer standard in the tax code for classifying a worker as an employee or an independent contractor. Congress is considering several legislative proposals. In the interim, I have directed the Internal Revenue Service to set out clear standards for agents to follow to provide for faster, more uniform decisions. I have also asked the IRS to establish a system that allows businesses to settle tax matters quickly and fairly, taking into account small firms' good faith efforts to obey reporting requirements and the law.

My Administration is pursuing tax form simplification through our Simplified Tax and Wage Reporting System (STAWRS). This joint effort among Federal and State agencies will simplify, unify, and streamline tax reporting so that taxpayers will

eventually be able to file their State and Federal tax and wage returns at one location, electronically. All these efforts will bring tax reporting into the modern age while reducing the paperwork burden for small business.

### Shrinking the Regulatory and Paperwork Burden

Regulation and paperwork continue to be among the top concerns of America's small business owners, and I am proud of the progress my Administration has made in addressing that concern. At the SBA, for example, an application form for the most common loans used to be an inch thick and take five to six weeks to approve. We've cut it to one page with a three-day turnaround time.

I've said it before: the era of big Government is over. We have been working hard to give the American people a Government that works better and costs less. We are eliminating 16,000 pages of unnecessary regulations--shifting more decisionmaking out of Washington and back to States and local communities.

In March 1995, I announced a new approach to lessening the regulatory burden on small firms. Under this common-sense approach, an agency like the Environmental Protection Agency may waive up to 100 percent of a fine imposed on a small business if the same sum will be used to correct the violations leading to the fine. Small businesses now have the opportunity to avoid punitive action by correcting violations within an appropriate

time frame, and federal agencies are requiring the public to file reports only half as often.

I'm proud to have succeeded in putting more teeth in the Regulatory Flexibility Act (RFA). Under the 1980 act, Federal Government agencies must analyze their proposed regulations for their effects on small firms--and revise them if they will create an unfair burden. In the past, however, because the agencies' analyses could not be reviewed in the courts, small businesses had no recourse if an agency made a poor decision. On March 29, I signed into law the Small Business Regulatory Enforcement Fairness Act of 1996, which allows for full judicial review of Federal agency RFA analyses and requires agencies to provide simple compliance guidelines for small businesses.

As small business owners have told us, they care about environmental protection and occupational safety; after all, they drink the same water, breathe the same air and share the same workplace hazards as everyone else. My Administration has challenged small businesses and regulatory agencies to find cheaper, more efficient ways than government regulation to meet the high environmental and workplace standards Americans want.

#### Opening Markets and Expanding Trade

Every year the Federal Government spends \$200 billion <sup>on</sup> buying goods and services, and small businesses receive a substantial

share of that market. I am committed to expanding further the opportunities for small businesses to win Federal contracts. I fought for the Federal Acquisition Streamlining Act of 1994 and the Federal Acquisition Reform Act of 1996, which have simplified the procurement process and made it easier for small firms to do business with the Federal Government.

The 1994 law also created a new Government-wide electronic commerce system, FACNET, which will eventually permit electronic submission of bids and proposals. I encourage small businesses to take advantage of these new procurement procedures to provide more goods and services to the Government.

In addition to the federal marketplace, foreign markets offer significant opportunities for small business owners to compete and win. While NAFTA and GATT are opening markets abroad, my Administration's National Export Strategy has made it easier here at home for small businesses to export. Among other things, we've opened 14 U.S. Export Assistance Centers to provide one-stop shopping for export information, marketing assistance, and finance.

### Technology and Innovation

The strength of technological innovation by small firms is a major reason for America's leadership in the world economy. Through the Small Business Innovation Research and Small Business

Technology Transfer programs, the Federal Government taps into the brain power of small businesses to meet its own research needs. In the process, these programs help spur technological innovation to foster new businesses and jobs.

The Small Business Innovation Research program alone has nearly doubled awards to small businesses during my Administration--up from \$508 million in 1992 to more than \$900 million in 1995. Under the law, the percentage of Federal research and development contracts going to small firms will increase from 2 percent to 2.5 percent in 1997.

And we've dramatically expanded the Manufacturing Extension Partnership to help America's 380,000 smaller manufacturers become more competitive in world markets. Sixty locally managed manufacturing extension centers--up from seven in 1993--are delivering much-needed services to this important small business sector.

As this report documents, changes are coming at lightning speed. Small business owners recognize that they will need all the technological skill and "connectivity" they can muster just to keep up. Through manufacturing extension centers, FACNET, the U.S. Business Advisor, and other information networks, we can help make available the information small businesses need to start up and succeed.

## The Human Factor

If the heart of our entrepreneurial economy is small business, then the heart of small business is its people--small business owners and their employees. We need to work with small businesses to strengthen and support that dynamic human resource.

We've seen what business growth can do for communities, and we hope to encourage more business formation in empowerment zones and enterprise communities: legislation before the Congress would provide more tax incentives and waivers of some regulatory requirements in these areas.

As I mentioned earlier, we're taking steps to ease the tax code in ways that will make it more feasible for small businesses to offer health care and retirement plans to their employees. We also want to make sure that workers and their families can keep their health insurance even when they change jobs. I have urged Congress to enact the Kennedy-Kassebaum bill, which would make health insurance coverage more "portable" for our Nation's workers.

We want to make better use of our work force training dollars by consolidating and streamlining many of our Federal work force training programs. Under our proposal, States and localities have more flexibility to administer these programs in the way that will do the most good for our workers and small business owners.

I'm pleased that young entrepreneurs were represented at the

White House Conference on Small Business and that the conference looked to our economic future by endorsing more mentorships and workplace educational opportunities for young people. These private-sector efforts form an essential part of the work-based learning program I envisioned when I signed into law the School-to-Work Opportunities Act of 1994.

It takes a great deal of courage to start something new, to carve a reality out of a dream, often with few resources, sometimes in adverse surroundings, and in an economy that demands much of its participants. That is why we celebrate and listen to America's small business owners and why we will continue to look for ways to nurture and support this powerful economic engine--the small business sector.

THE WHITE HOUSE