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ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

AGENDA

December 11, 1975

8:30 a.m.

Roosevelt Room

1. State of the Union Preparation:
Small Business Initiatives Gorog
2. Review of Common Situs Picketing Legislation Dunlop
3. Economic Assumptions for 1977 Budget Troika II

MEMORANDUM FOR THE ECONOMIC POLICY BOARD

FROM: William F. Gorog

SUBJECT: Progress Report, Small Business Initiatives

The working panel on Small Business has met twice and has under review the following proposals:

- (1) To assure that small business is fully and formally represented at the White House level and has a greater voice in the Administration's economic policy:
 - a. Create a new position of Assistant to the President for Small Business Affairs; or
 - b. Create a new position of Deputy or Special Assistant to the President for Small Business Affairs; or
 - c. Designate an existing member of the White House staff as Special Assistant or Deputy Assistant to the President for Small Business Affairs ("double-hatting") or
 - d. Designate an existing member of the White House staff as chairman of an EPB Interagency Task Group on Small Business Affairs. The Task Group would have responsibility for reviewing EPB actions and their effect on Small Business; or
 - e. Appoint the SBA Administrator to the Economic Policy Board and/or the Domestic Council

Discussion

9.4 million small businesses provide 55% of private sector, non-agricultural employment; 48% of the gross business product; and 43% of the total gross national product. Unlike agriculture, small business does not have Cabinet-level representation, nor does it, like minority, Spanish-speaking, and consumer groups, have White House representation. The Department of Commerce and Small Business Administration are responsible for advancing its interests. Small business, however, feels that in relation to its contribution to the national economy and its historical cohesiveness and identity as a major group in American life, it lacks adequate voice and influence in Federal policy making. Cost implications would be minimal.

(2) To expand the availability of investment and working capital generally for the creation, growth and expansion of small business and resulting job opportunities:

- a. Pledge renewed efforts for enactment of legislation to extend and make permanent the \$50,000 corporate tax surcharge exemption together with other business tax cuts tied to overall reductions in Federal spending.
- b. Direct that the Secretary of the Treasury undertake a special review of tax policies as they affect the survival and growth of small business, including the feasibility of a graduated corporate income tax, and report his findings to the President in 90 days.
- c. Direct that the EPB, within the next 90 days, undertake a review of the effectiveness and efficiency of SBA's loan guarantee and financial assistance programs and recommend ways to expand the availability of capital for small business and at the same time cut loan processing time and costs.
- d. Emphasize that the most effective overall solution to the capital formation needs of businesses of all sizes is creation of a stable economic environment for investment through policies to control inflation by curbing government spending and returning to a balanced budget.

Discussion

Current national economic problems have made it more difficult for small business to finance working capital and growth needs from retained earnings and from the capital markets. Small businessmen feel that Federal tax policies and policies of the banking community discriminate in favor of large corporate enterprises. Although the ultimate solution to the capital problem for both large and small businesses is a balanced Federal budget, selective remedial actions of the type outlined above appear justified. Cost implications for FY '77 are negligible, however, subsequent Fiscal Years would be impacted by net losses on guaranteed loans (4% over life of the loan) and any changes in tax policies.

(3) To improve the environment for development of new, technologically innovative enterprises with their attendant job opportunities:

- a. Direct that the Economic Policy Board, within the next 90 days, make recommendations to improve the environment and the process for stimulating the development of small, risk-oriented enterprises dedicated to advanced technology; including needed changes in:
- Tax laws to provide adequate incentives for direct investment in small technical enterprises and for attraction and retention of capable managers and key employees
 - Securities regulations that disproportionately increase costs of administration for small business and reduce incentives for investment in these enterprises.
 - Government R&D policies as they impact on small private technical enterprises

Discussion

In a dynamic and highly competitive world economy a vigorous rate of development and application of new technology is essential for growth in jobs, exports and favorable international trade balances for the U. S. A primary source of innovation is American small business. However, the climate is not favorable for the start-up of small, highly innovative, risky, advanced technology companies. Formation of such enterprises has fallen to near zero rates in recent years. Major steps are critically needed to assure that the climate for this type of entrepreneur is preserved. The rate of job creation is faster in the young, innovative high technology company than in more mature organizations. Cost implications for FY 77 and beyond cannot be determined until recommended studies are completed.

(4) To reduce the burden of unnecessary paperwork and regulation on small business:

- a. Direct that the SBA strengthen its advocacy capability to:
- Represent small business interests in the formulation and application of regulations concerned with protecting health, safety and the environment

- Monitor and report to the public quarterly on progress in efforts now underway to reduce the government's paperwork burden on small businesses
- b. Designate ERDA as a "model agency" for the Federal government in streamlining reporting and contracting procedures which bear upon small business.

Discussion

Small business is particularly vulnerable to government reporting, regulatory and procurement policies. It is less capable than is big business of absorbing the costs and satisfying the expertise requirements generated by government rules and regulations. Special emphasis in this area is warranted. Cost implications are negligible.

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Conclusion

Small business initiatives should be prominent in the State of the Union address and in the Administration's economic program. Small business is a major force in the national economy, and, traditionally, in the constituency of the Republican party. It is clear that small business itself increasingly feels forgotten, harassed and submerged by the interests of big government, business and labor.

Notwithstanding the Administration's initiatives for regulatory and paperwork reform and for tax cuts and spending restraint, the President has been increasingly portrayed as a proponent of big business. . Action to correct this impression should have the highest priority.