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THE WHITE HOUSE



Honorable Thomas Kleppe
Administrator
Small Business Administration
1441 L Street, NW.
Washington, D.C. 20416

FOR IMMEDIATE RELEASE

JUNE 17, 1975

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

REMARKS OF THE PRESIDENT
AT THE
NATIONAL FEDERATION OF
INDEPENDENT BUSINESS CONFERENCE

THE WASHINGTON HILTON HOTEL

*Small
business*

*Regulatory
Reform*

10:04 A.M. EDT

Members and guests of the National Federation
of Independent Business:

I welcome the opportunity to be here today and I thank you for your more than generous welcome. I appreciate the opportunity to exchange some views and some feelings with this very distinguished cross-section of what has come to be known as the "small business community."

Personally, I have always been a little amused by the term "small businessman." A few years ago, after a meeting like this, I asked one of the speakers what his definition of a big businessman would be. He said, "Congressman, it is very simple. A big businessman is what a small businessman would be if the Government would ever let him alone." (Laughter)

I want small business to grow. America's future depends upon your enterprise. I want small business released from the shackles of Federal red tape. Your tremendous efforts are stifled by unnecessary, unfair and unclear rules and regulations.

I want very desperately to have small business freed from the excessive Federal paperwork. Your time can be used far more productively, and you know it better than I.

In the months ahead, we face a very critical choice: shall business and Government work together in a free economy for the betterment of all, or shall we slide headlong into an economy whose vital decisions are made by politicians while the private sector dries up and shrivels away?

MORE



My resources as your President, and my resolve as your President, are devoted to the free enterprise system.

Let me assure you without equivocation, I do not intend to celebrate our Bicentennial by reversing the great principles on which the United States was founded.

The increasing growth of Government and the escalating interventions with which you are all too familiar dramatize the need to keep Federal authority within reasonable bounds.

I see a direct connection between the spirit of the American Constitution and a competitive, privately-oriented economy.

In the last few years, the estimated ten million businesses in America -- from mom and pop stores to huge corporations -- have struggled to adapt to the consumer protection laws, to environmental mandates, to energy shortages, to inflation, to recession and to complicated and high taxation.

Depending on their size and resources, some businesses can survive over-regulation better than others. Larger corporations have specialized staffs of accountants and attorneys; small businessmen and small businesswomen have nobody but themselves.

Businesses, both large and small, look with dismay at the fantastic pace of Federal spending. They foresee an end to the individual initiative in American life, a Government turned into an instrument of philanthropic collectivism, a legislative redistribution of wealth and income, and the prospect of productive citizens required by law to support a growing number of nonproductive citizens.

If that day ever comes, the foundation of our free society will be gone. The America you and I know, the America that you and I love, will be no more.

I can assure you I will do, as President, everything to curtail such centralization in Washington, as well as elsewhere, and such rigidity in Government.

I will continue to use my veto power to stem the escalation of Federal programs and agencies. A responsible society must do for certain individuals what they cannot achieve alone.

MORE

But that is a far cry from the runaway spending that confines Government to no boundary, that undermines individual initiative, that penalizes hard work and excellence, that destroys the balance between the private and public sector of American life.

It took Americans over 180 years to reach our \$100 billion Federal budget. Nine years later, in 1971, the budget rose to \$200 billion. This year, it will go far over \$300 billion, and within two more years, at the present rate of spending, the budget will exceed \$400 billion.

From my travels around America, from my meetings with citizens from all walks of life, I can say this with conviction: Americans have not arrived at a popular consensus for collectivism.

We have held no referendum to repeal our economic freedom. Quite the opposite is true. Americans are proud of our system and pleased with what it has produced.

Yet, if we continue to bigger and bigger Government, Washington will become the big daddy of all citizens. If the power to tax goes unchecked, it will inhibit capital formation for business and incentive for workers and we can say goodbye to the free enterprise system that has given us so much.

I am extremely pleased to be here today because you are the frontline in the very crucial struggle to preserve the private sector. Actually, you are protecting a society that still cherishes excellence and still values freedom.

You are painfully aware that a Government big enough to give us everything we want is a Government big enough to take from us everything we have.

I do not accept a scenario of doom and defeat. We have just begun to fight for a new balance between the public and private elements of our society. It is the determined intention of this Administration to review every single proposal for Government action, whether in taxation or regulations, or in any other areas, in light of what it will do to free competition and individual liberty.

This review will apply equally, across the board, to corporations that seek special anticompetitive and monopolistic advantages from the Government as well as to radical social theories that would collectivize American society and American life.

MORE

Those who express disdain for profits and distaste for free competition propose nothing in their stead.

American achievement under the free enterprise system remains the envy of the world. I intend to do what I can to keep it that way for the benefit of future generations.

Difficulties sometimes accompany advantages in any system. Where individual freedom of choice and action prevail, there are tests of survival by the free marketplace as a consequence.

There are bankruptcies, there are spells of unemployment, there are periods of rapid change and temporary slowdown. Nevertheless, the march toward a better life and expanded freedom has continued in America for 200 years.

I see small business as the bulwark of free enterprise. You offer opportunity to young people. Their ideas can get to the boss quicker, their efforts are more rapidly recognized and rewarded, and they can realistically work toward the day when they will start their own business.

Young men and women can take their faith into their own hands and make their own future. They will find small business the very best training grounds for leadership, for responsibility and for independence.

Your businesses -- and there are many, many more besides those represented here -- are vital to America's future. You account for 43 percent of the gross business product. You provide 51 percent of the private sector's labor force.

For America's sake, the present and future, I want you to succeed.

To restore a healthy business climate throughout America to fight recession and to curtail inflation, I have started a process of regulation reform. The time has come to cut Federal red tape that binds the hands of small business.

MORE

Let me share some memories from my own personal background. My father started a small business, the Ford Paint and Varnish Company in Grand Rapids, Michigan, a good many years ago. A few weeks after he went into business, the economic crash of 1929 struck. My father persevered to keep our little family paint factory going.

As a youth I mixed paint and labeled cans. But he sold the paint and he was his own bill collector. Let me say, if my father had to fill out today's forms and comply with the maze of rules and regulations now in effect, he would have had no time left to sell paint or collect bills.

When I think of the enterprising spirit that makes America great, I think of my father and how the Ford Paint and Varnish Company survived in the 1930's. And believe me, it wasn't easy.

Although most of today's regulations affecting business are well-intentioned, their effect, whether designed to protect the environment or the consumer, often does more harm than good. They can stifle the growth and our standard of living and contribute to inflation.

When we consider revisions in these regulations, we must consider the case of those who may be injured by regulatory modifications. Our system can and will make needed changes which are fair to all. Obviously we cannot eliminate all regulations. Some are costly, but essential to public health and public safety.

But let us evaluate the costs as well as the benefits. The issue is not whether we want to control pollution -- we all do. The question is whether added costs to the public makes sense when measured against actual benefits.

As a consumer, I want to know how much the tab at the front door check-out counter is raised through the back-door of regulatory inflation. As President, I want to eliminate unnecessary regulations which impose a hidden tax on the consumer.

Over a period of some 90 years we have erected a massive Federal regulatory structure encrusted with contradictions, excesses and rules that have outlived any conceivable value.

Last Friday I met with the leaders of the Congress, House and Senate, Democratic as well as Republican, to seek cooperation in eliminating regulations which do more harm than good. I will meet next week with members designated by the Congress to establish legislative priorities. Then I will meet with the Commissioners of the ten independent regulatory agencies on the need to improve their regulations and their procedures.

MORE



I have set up a special White House group to work with the Congress and the regulatory agencies to accomplish this long overdue and highly desirable objective. Particular emphasis will be placed on the impact of Federal regulations on a free economy and on the life of the individual citizen.

In recent months I have submitted a Railroad Revitalization Act, the Financial Institutions Act, and the Energy Independence Act. I have supported legislation to remove the antitrust exemptions from State Fair Trade laws and signed the Securities Act Amendments of 1975. Also I have asked the Congress to establish a National Commission on Regulatory Reform. These actions respond to the need for real economic growth. Real growth, as you know, as I know, depends upon productivity. We must free the business community from regulatory bondage so that it can produce.

And I say to the businesses represented here today: I hear your cries of anguish and desperation. I will not let you suffocate.

My deep personal concern is not only for the consumer but for the millions whose employment depends upon your enterprise. I want an end to unnecessary, unfair, unclear regulations and needless paper work.

The number -- this is hard to believe, really -- the number of different Federal forms sent out from Washington at last count totalled 5,146.

Quite frankly, America is being buried by an avalanche of paper.

The Congress has created a Federal Paperwork Commission to simplify, to reduce the enormous clog of Federal forms and Federal documents. Today I am appointing the members of this Commission. Its membership will include the Secretary of your own organization, the National Federation of Independent Business to represent your interests. I refer, of course, to your good friend Bruce Fielding of California.

MORE

I am also appointing to this group other outstanding members, including representatives of State and local governments, labor, education and consumer interests, and I think Mr. Fielding will well and faithfully carry out your representation.

Despite the handicaps, small business has made tremendous strides. Let's work together for an even greater future, and I ask for your suggestions; yes, your criticism. My door is always open to people who are strong and visionary, like yourselves.

I am delighted to learn of the latest quarterly survey just prepared by your Federation's research experts. It reports that small business has a sense of optimism for the coming six-month period.

Since small business has such a stabilizing influence on recession, I think this is a good sign for all Americans.

The worst recession since the 1930s is coming to an end. There are good signs, and let me tick them off quickly for you.

Consumer confidence is up, and retail sales are increasing. Sales rose 2.2 percent in May. Inventories are down. Employment went up by 553,000 between March and May. The inflation rate is continuing to fall. This year's rate is down from last year's 12 percent to about 6 percent.

Interest rates are down. Housing is showing strong signs of recovery with a 21 to 27 percent increase in building permits in April, and I am told there will be some further encouraging statistics released later today.

Orders for plant and equipment in April were up more than 15 percent over March. Altogether, the Department of Commerce indicators were up 4.2 percent in April.

Obviously, some indicators will continue to be depressed for a few months because they record only what is past. But, I am confident that we are at the bottom of the economic slide, and we will soon be on our way up.

Now is the time, as I see it, to chart the right path back to prosperity without inflation and with real economic growth.

MORE

Sound economic recovery depends upon moderation and economic expectation, fiscal restraint by the Government, increased savings in capital investment and a long-range plan for our energy independence, as well as regulatory policies.

Small business knows that the old time virtues must temper the tendency of our Government to do all things for all humanity. This desire has resulted in Federal deficits in 13 of the last 15 years.

Our national focus has been on recovery, but we must make sure, we must be positive, that the recovery now in sight is not accompanied by a new round of higher and higher inflation.

I have confidence, great confidence, in our economic future because I have great faith in the American people.

I assure each of you here today, although your business may be small, I will do my part to help each and every one of you make it big by getting Government off your back.

Thank you very much.

END (AT 10:31 A.M. EDT)



U.S. GOVERNMENT
SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

July 30, 1975

Honorable James M. Cannon
Director
The Domestic Council
The White House
Washington, D.C. 20500

Dear Jim:

Both Louis Laun and I enjoyed our meeting on Monday with you, Paul Leach, and Lynn May. We particularly appreciated your closing remark that we should feel as though SBA was a member of the Domestic Council, even though it would not be formally appointed to it.

Following is the information you requested as a follow up to our meeting.

1. SBA and Small Business's Capital Needs.

SBA offers four major services to the Nation's 9,400,000 small businesses (and an extensive minority business enterprise program that ensures delivery of these programs to minorities and disadvantaged people).

- o Management Assistance - wherein we counsel and train over a quarter of a million small businesses a year. 7500 SCORE/ACE volunteers and 17,500 business students aid us in this effort.
- o Procurement Assistance - wherein we currently help obtain one-third of the government's purchasing for small business and operate the 8(a) procurement and Certificate of Competency programs.
- o Advocacy - wherein we represent the interests of the small businesses in their relations with the Federal Government.
- o Financial Assistance - wherein we manage 19 different loan programs plus surety bond, lease guarantee and SBIC programs. The total impact of all of these for the past two years has been to make available about



\$3 billion a year of aid to small business, of which only one-sixth is direct government money, with the remainder from the private sector, including equity injections as a result of our SBIC program.

The following is a discussion of the problems and opportunities surrounding the major one of these loan programs: 7(a) Direct and Guarantee Loans. All of the other 18 programs are directed at specific problems or sectors of the small business community. This, our largest program, is general purpose.

The past two years have seen an average of \$100 million in 7(a) direct and immediate participation funds distributed, with an additional nearly \$1.5 billion put into this program yearly by the private sector either in 7(a) guarantee or immediate participation funds or in the unguaranteed part of each of these loans. The number of businesses helped has been just under 20,000 a year, with a total of over 430,000 jobs either created or maintained in the firms receiving these loans during the two year period.

None of these businesses would have received these funds without SBA's program. About a quarter of the loans resulted in the start up of a new business, with the rest either financing expansion or saving the business from trouble.

With regard to losses, we gave you several figures covering an average of many programs. For the 7(a) program to date our losses have been 2.7 percent of loans disbursed through June 30, 1975.

Our estimate for additional losses on these disbursements would make the total cost in losses 4.5 percent. Multiplying this figure by our two year average of the loan cost per job of \$6,350 you end up with an out of pocket government cost of \$285 per job retained or created. (This does not include part of the cost of SBA administration, about 3/8 of 1 percent a year, or the interest subsidy on our direct loan program, about 1-1/2 percent a year -- and we are trying to eliminate both of these costs.)

We work with 8,500 of the Nation's 14,000 banks to provide these loans. At the present time, even though we are now almost out of direct funds until October 1st, we have no serious complaint about the \$100 million in Direct and IP funds we will receive for fiscal 1976, but the current \$1.2 billion limit on SBA's share of guaranteed loans will create a serious problem if not increased soon.

We are currently operating at a rate of about \$1.8 billion per year. If we are forced to cut to the \$1.2 billion level we will have to ration our guarantees, and this will turn off many of the banks which are now

providing aid to small business. It will also abort two programs we have been developing for two years to help make increased flows of capital available to small business: creation of a network of "small business lending companies" which will make loans only to small business and creation of a national secondary market for SBA loans.

Most major economists predict a capital crunch over the next ten years, a crunch so severe that even large business will be unable to find the funds needed to expand and maintain or improve our living standards. Without SBA programs providing loans via our financial assistance efforts and equity via our SBIC efforts, small business can be squeezed out completely by government and large business priority financing. I submit that a Nation with a declining small business sector will be a Nation of lessening individual freedoms and will not be the sort of place where people of our American philosophy would like to live.

We are working with OMB to study this problem and to develop solutions. We will keep you and your staff posted on our progress.

2. SBA Resources.

SBA's constituency of 9,400,000 small businesses provides 48 percent of the business portion of the Gross National Product and employs 55 percent of the private sector work force, more than 10 times, for example, the employment in agriculture.

Our resources have never matched our task, in comparison with other agencies. The Department of Agriculture, for example, has 20 times as many employees as SBA, and even the Bureau of Indian Affairs representing less than 900,000 Indians is three times our size.

Yet SBA, with its dozens of programs operating through offices in 90 cities across the Nation, is really in the front lines of the war to save our private enterprise system and the freedoms that accompany it.

In the seven past years we have seen two simultaneous trends:

- (1) A proliferation of programs to meet small business needs.
- (2) A cut in the number of people available to execute the programs efficiently.

The picture looks like this:

See Table I.

TABLE I

Comparison of Programs Administered by SBA in FY 1968 and FY 1975
with
SBA Employment Levels

	<u>FY 1968</u>	<u>FY 1975</u>
<u>MANAGEMENT ASSISTANCE</u>		
Businesses counselled	53,887	102,352
Training Courses	2,558	4,579
Attendance at these courses	84,326	154,829
• SBI (Small Business Institute)		
Students working		18,000
Colleges involved	No Program	338
SCORE/ACE		
(Service Corps of Retired		
Executives/Active Corps		
of Executives)		
Number working	3,000	7,800
• 406 Call Contracting Program	No Program	2,853
		businesses served
Publications distributed	3,500,000	5,000,000
Film showings	2,300	6,115
Audience	75,700	180,600

PROCUREMENT ASSISTANCE

- No 8(a) program for socially and economically disadvantaged companies. Over 2,000 contracts awarded for over \$300 million.
- No government purchasing center surveillance reviews. * 30 centers reviewed.
- No active timber sales program. * 153 national forests covered.
- 918 COC referrals handled. * 1,157 COC referrals handled.
- 503 subcontract assistance plants reviewed. * 927 plants reviewed.

TABLE I (Cont'd)

FY 1968

FY 1975

MINORITY ENTERPRISE

41 people in small community economic development effort - about \$35 million in loans.

SBA delivers virtually all of the government's minority business program with 133 in minority enterprise staff in Central Office and field. Broad financial, procurement, and management assistance programs go through all departments, use 32% of all SBA personnel. Loans up sixfold.

Minority Vendors Program operational.

EQUAL EMPLOYMENT OPPORTUNITY
AND COMPLIANCE

Covered 3,000 companies employing 135,000 of whom 12,000 (9%) were minorities.

Covered 8,659 companies employing 650,000 of whom 170,000 (26%) were minorities.

• ADVOCACY

Nothing.

Active advocacy effort in Central Office and field.

TABLE I (Cont'd)

	FY 1968		FY 1975	
FINANCIAL ASSISTANCE				
• Lease Guarantees	Program started.		110 leases for \$37 million.	
• Surety Bond Guarantees	Zero		11,595 bonds for \$760.2 million.	
301(d) (MESBICs)	Zero		74 licensees operating.	
Loan Programs	Number of Loans	\$ in millions (SBA share only)	Number of Loans	\$ in millions (SBA share only)
7(a) Business	9,476	\$384.7	18,105	\$1,241.1
Economic Opportunity	2,891	30.4	3,613	73.6
Pool Loans	-	-	-	-
Displaced Business	331	42.5	186	25.1
• Handicapped	-	-	79	6.1
State Dev. Co.	2	.7	7	6.3
Local Dev. Co.	414	48.4	358	41.8
• Economic Injury Disaster	-	-	27	1.6
• Product Disaster	-	-	5	*/
• Coal Mine Disaster	-	-	1	.1
• Consumer Protection Disaster	-	-	25	4.4
• OSHA Disaster	-	-	38	10.9
• SALT Disaster	-	-	-	-
• Base Closings Disaster	-	-	144	11.2
• Air Pollution Disaster	-	-	46	7.4
• Water Pollution Disaster	-	-	17	6.9
• Emergency Energy Disaster	-	-	1,038	76.8
Total loan programs (other than physical disaster)	13,114	\$506.7	23,659	\$1,513.3
Physical Disasters	14,130	110.5	9,115	126.1
Total All Loan Programs	27,244	\$617.2	32,774	\$1,639.4
Active Loans in Portfolio	102,000	\$1,893.0	239,000	\$6,793.3

• New programs added since 1968.

* 1974 figures. 1975 not yet available

*/less than \$50,000

SBA EMPLOYMENT LEVELS

	<u>FY 1968</u>	<u>FY 1975</u>
Total Permanent Employees Authorized	4,360	4,196 (cut to 4171 in FY 1976)

Even without the extra "wild card" of our disaster loan program, which can and has grown 1,000 percent in a single year, our resources are stretched dangerously thin. Nineteen of our programs were not in existence in 1968, and loan programs in existence then have tripled and our portfolio requiring servicing has more than doubled. As a result of operating all these new and increased programs with less people, we risk not being responsive to needs that have been recognized by Congress and the Executive Branch. We also risk not having enough people to manage and watch over these programs as effectively as we should or as the GAO expects us to.

We recognize the need for a tight budget, and for cutting down the interference of government in the lives of the citizens. At the same time, we believe our Agency actually runs at a profit in terms of payrolls and taxes generated as a result of our programs, and that our Agency's thrust is not to impose Big Government on people, but to help small firms become independent and strong so that our system can survive.

A look at the total actual cost to the taxpayer of SBA programs is listed below. Here we have taken our total salary and expense budget, have added our actual losses on loans and guarantee programs and 8(a) contract subsidy costs, plus interest subsidies in our direct loan programs. We have separated this into physical disaster and "all other" segments.

We are also showing the total actual saving to government procurement programs as a result of our surety bond, set-aside, and Certificate of Competency programs.

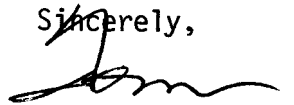
See Table II attached.

We do not believe our request for resources is bureaucratic empire-building. It reflects our belief that this area is not getting either the resources or the attention it needs.

Once again, we enjoyed the meeting with you and will respond to your questions regarding regulations, paperwork, and canning tops separately. A suggested Executive Order to cover the small business area will also be sent separately.

Please let me know if you, Paul, or Lynn would like to discuss any of the above with us.

Sincerely,



Thomas S. Kleppe
Administrator

Enclosure

TABLE II

Actual Cost of SBA Programs, OTHER THAN DISASTER
(millions of dollars)

	<u>FY 1974</u>	<u>FY 1975</u>
Interest Earned	\$ 85.8	\$ 97.0
Interest Expense	118.8	142.7
Net Interest Cost	\$ 33.0 *	\$ 45.7 *
Excess of other salary and expense items over other income (guarantee fees, collateral sales, etc.)	\$ 63.1 **	\$ 87.4 **
Loans charged off - Principal:	\$ 63.6	\$114.9 ***
Interest :	5.3	10.2
TOTAL COST TO SBA	\$165.0	\$258.2

Measured savings to the Federal Government due to SBA programs.

	<u>FY 1974</u>	<u>FY 1975</u>
Savings in lower cost procurement to government due to COC and set-aside programs.	\$ 17.2	\$ 17.2 ****
Savings in lower cost construction government due to Surety Bond program.	\$ 20.0	\$ 30.0
TOTAL SAVINGS (Deduct from SBA cost)	\$ 37.2	\$ 47.2
TOTAL NET COST OF SBA PROGRAMS	\$127.8	\$211.0

- * We are at work with OMB and the Congress to reduce this cost to zero.
- ** We are at work with OMB and the Congress to charge borrowers our administrative costs, which will reduce this.
- *** Represents a major clean up job under Project Help operated during the second half of FY 1975.
- **** Not known -- will be at least equal to 1974. Therefore used 1974 figures.

Note: Costs of operating the Disaster Program were \$437.5 million in FY 1974 (mostly due to forgiveness credits of \$345.3 million authorized by Congress) and \$149 million in FY 1975 (including \$49.9 million in forgiveness). This should be added to the above figures to arrive at the total cost of all SBA programs.

SBA

THE WHITE HOUSE

WASHINGTON

August 11, 1975

MEMORANDUM FOR:

JIM CANNON

THROUGH:

JIM CAVANAUGH

FROM:

PAUL LEACH *Paul*

SUBJECT:

Tom Kleppe Letter on SBA

Attached is a suggested reply to Tom Kleppe.

I will be working closely with Cal Collier at OMB, who has been provided with a copy of Kleppe's letter.

202 77 11 44 1 03



THE WHITE HOUSE

WASHINGTON

August 13, 1975

Dear Tom:

Many thanks for your letter of July 30 following up on our meeting.

I appreciated the chance to meet with you and have read your fact-filled letter with interest.

As you noted, small business is very important to the Nation. Consequently, the President is committed to its continued health and wellbeing. Because of this, I can assure you that we on the President's staff will give careful consideration to your suggestions for improving the SBA's ability to help small business.

Over the next few months, Paul Leach will be working closely with you to assure an effective SBA and I have asked him to keep me informed.

Sincerely,

James M. Cannon
Assistant to the President
for Domestic Affairs

Honorable Thomas Kleppe
Administrator
Small Business Administration
1441 L Street, NW.
Washington, D.C. 20416

NOTES

Tom Kleppe
December 15, 1975

MAJOR CONCERNS OF SMALL BUSINESSMEN:

1. Capital

It is almost unavailable to small businessmen. The banks don't want to lend to the little guy when they can lend to the big guy. How is Joe's Texaco going to compete with Bristol-Meyers? Kleppe believes one answer here is to continue to the extent possible, and even expand, the loan guarantee program for small businessmen who cannot get financing otherwise.

2. Taxes

The small businessman should be permitted to retain more of his earnings. The difficulty of retaining earnings makes it more difficult for him to raise capital. The first \$100,000 of income should not be hit by the surtax. Kleppe says he does not know of any faster way to start jobs. This is a relatively minor expense for Treasury; however, it is very significant for jobs.

3. Inheritance Taxes

The small businessman should be able to transfer a small business within the family with minimal or no tax costs. This would do more for the continuation of small business than any other thing.

4. Federal Paperwork

Some way should be figured out so that the small businessman should be exempted from Federal paperwork to the extent possible--but Kleppe realizes

OSHA should see that it is as healthy to work in a small plant as it is in a large plant. Kleppe understands the difficulty but thinks we ought to try.




THE WHITE HOUSE
WASHINGTON

DECISION

February 12, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON 
SUBJECT: Message on Small Business

Attached for your approval is a statement on the importance of small business in America. It has been prepared for release today at 2 p.m. following your remarks at the Kobelinski swearing-in.

It has been reviewed by OMB (Cal Collier), Bill Seidman (Porter), and Robert T. Hartmann (Doug Smith).

RECOMMENDATION

I recommend you approve the statement and that it be released today.

_____ Approve

_____ Disapprove

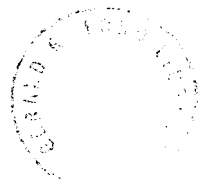


SMALL BUSINESS

As I have indicated on a number of occasions, the small business sector of our economy is vital to private job creation, technological innovation, competition and individual liberty. In this era of bigness, our Nation must maintain an environment in which small businesses can flourish.

To foster innovation and productivity gains, it is important that we have a dynamic economy in which new enterprises can be formed and will prosper. Without the ongoing search for new ideas and better ways of doing things, our competitive system would become progressively less efficient. Our historical experience indicates that innovative ideas often originate in the laboratories and workshops of small businesses. New enterprises are a basic source of innovative ideas and serve to push the entire economic system to higher levels of efficiency, thereby enhancing our competitive position in world markets. The strength of small business must be preserved if this innovative climate is to be maintained.

In addition to its economic role, [the] small business provides the entrepreneur with a means of self expression. The chance to create, own and manage a business is one of our most



important freedoms. My Administration considers the healthy individualism of the small business entrepreneur an essential element in our economic and political system. The freedom to create and operate one's own business does not exist in many parts of the world. Because of its value to our free society, this avenue for individual opportunity must be nourished and promoted.

The largest corporate complexes started as small businesses, but most small businesses never become international, billion-dollar companies. Rather, most small firms are likely to remain relatively small. In many communities throughout our Nation, the small businessman provides the leadership so vital to community life. Since this involvement in community affairs is of great value to the quality of life in our country, I am committed to the continued health and vigor of small businesses.

At a time when we so urgently need increased private job creation, I am particularly impressed by the fact that our 9.4 million small business firms employ about 55 percent of the private sector labor force in this country and produce about 48 percent of our gross business product. The continued growth and prosperity of this vital sector is critically important if we are going to generate the expanding number of private, productive jobs required in the coming years.

The Small Business Administration was created in 1953, during the Eisenhower Administration, to provide small businessmen with advice and assistance and to promote the interests of the small business community. The intent of this legislation was to "aid, counsel, assist and protect . . . the interests of small business concerns in order to preserve competitive enterprise as the basis for economic well-being and the security of the Nation." The SBA is the primary instrument of the Federal government in promoting the important interests of the small business community. I supported the creation of SBA in 1953 and strongly support it today. As evidence of this commitment, my fiscal year 1977 budget requests an increase of 33 percent in the SBA's major loan guarantee program. This will increase the ability of the SBA to assist in financing the many small businesses which cannot obtain needed financing in commercial markets.

In addition to supporting the work of the SBA, my Administration is taking a variety of actions to foster a strong small business community. Of paramount importance, of course, is our effort to achieve sustained economic growth without inflation by moderating the increases in Federal spending and by reducing our budget deficit. To also provide additional funds for business investment and growth, I have proposed a

permanent extension of the corporate surtax exemption and the 10 percent investment tax credit currently in effect and have also called for a reduction in the maximum corporate tax rate from 48 to 46 percent.

I have proposed changes in the estate tax laws to encourage expansion in family businesses. This reform will help ensure the survival of smaller businesses for future generations and allow them to expand their current operations.

Vigorous competition is necessary if small businesses are to expand and flourish. Accordingly, I have increased the anti-trust resources for the FTC and the Department of Justice and emphasized the importance of vigorous antitrust enforcement.

I consider it essential to reduce the burden of government imposed regulation and paperwork. I have, therefore, initiated a comprehensive review of all Federal regulation and paperwork in order to eliminate or improve those requirements and rules which are outdated or unnecessary.

I am today designating Mitchell Kobelinski, our new Administrator of the Small Business Administration, as a member of the Economic Policy Board. This will help ensure small business participation in the formulation of our economic

policies. It will also help provide me with the advice and expertise of the Small Business Administration in my consideration of economic policy issues.

These initiatives and efforts represent important and necessary improvements in the environment for small businesses in America.

THE WHITE HOUSE
WASHINGTON

February 12, 1976

MEMORANDUM FOR JAMES CAVANAUGH

FROM: ROGER B. PORTER *RBP*
SUBJECT: Message on Small Business

A draft statement on Small Business, including mention of the addition of the Small Business Administrator to the Economic Policy Board, is attached.

If I can be of any further assistance, please don't hesitate to call.

THE WHITE HOUSE
WASHINGTON

Last Day: June 4

June 2, 1976

MEMORANDUM FOR:

THE PRESIDENT

FROM:

JIM CANNON *by JMC*

SUBJECT:

Enrolled Bill S. 2498 -
Amendments to Small Business
and Small Business Investment
Acts

You must decide by Friday, June 4, whether or not to sign the enrolled bill.

DESCRIPTION OF S. 2498

This omnibus bill (a) authorizes small business to obtain Federal guarantees of tax-exempt industrial revenue bonds to finance pollution control facilities; (b) states Congressional policy that the SBA should provide financial and management assistance to small agricultural enterprises; (c) increases the allowable share of Federal matching funds to Small Business Investment Companies; (d) increases the maximum loan limit per borrower for certain SBA business loan programs; (e) standardizes interest rates for certain SBA disaster loan programs; (f) provides increased authorization for the SBA surety bond guarantee program; and (g) expands the duties of SBA's Office of Advocacy, authorizes a \$1 million appropriation for the Office, and requires that the Chief Counsel for Advocacy be appointed by the President with Senate confirmation.

The OMB enrolled bill memorandum at Tab A discusses S. 2498 in more detail.

BACKGROUND

Support for this bill has come from small business and agricultural interests who will benefit from its enactment.

OMB, Max Friedersdorf, Counsel's Office (Lazarus) and I recommend approval of the letter to the President of the Senate which has been cleared by the White House Editorial Office (Smith).

RECOMMENDATION

That you sign the letter to the President of the Senate at Tab B.

TO THE SENATE

I am returning today without my approval S. 2498, an omnibus bill which affects a number of Small Business Administration (SBA) programs. However, I strongly favor many provisions of this bill which would help small businesses. Therefore, I am directing SBA to send immediately to Congress legislation which contains the desirable parts of S. 2498 and other improvements.

While some provisions of this bill would improve Small Business Administration programs, several others are incompatible with the goals of controlling the growth of government, avoiding needless duplication of Federal programs and protecting the operation of our capital markets. In particular, I am concerned about the extraordinary authorization of Federal guarantees for tax-exempt pollution control bonds and the extension of SBA financial assistance to small agricultural enterprises which are already aided by the Farmers Home Administration and other farm credit agencies.

Section 102 would authorize the SBA to guarantee small business leases of pollution control facilities from State or local public bodies. To finance these facilities, State or local authorities would issue tax-exempt obligations secured by the SBA-guaranteed lease.

I am strongly opposed to the combination of a Federal guarantee and a tax-exempt security. And Congress has also recognized this problem by enacting at least twelve separate statutes to preclude guarantees of tax-exempt securities over the past five years.

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The combination of Federal guarantees with tax-exempt bonds increases the revenue loss to the U.S. Government while primarily benefitting the high income purchasers of these bonds rather than small businesses.

In addition, the provision of a Federal guarantee of tax-exempt bonds would create a security which would be more attractive in the capital markets than direct obligations of the U.S. Treasury. This would circumvent the intent of the Public Debt Act of 1941 which prohibits the Federal Government from issuing its own tax-exempt obligations.

Federal guarantees of tax-exempt obligations also add to the pressures on the municipal bond market by creating a security which is superior to all other tax-exempt securities issued by States and local governments. The result would be higher borrowing costs for States and local governments who must finance schools, road, hospitals, and other essential public facilities.

I share the Congressional concern that small business needs Federal assistance to comply with pollution control requirements. But this is not the way to do it. A better way to provide small business with access to financing for pollution control facilities is through the SBA's water and air pollution control loan programs. Although these relatively new programs have been adequately funded in fiscal years 1976 and 1977, small business



has not yet had the opportunity to use them fully. I am therefore directing the SBA to take prompt and vigorous action to insure that these loan programs are made fully accessible to the small business community by working with the Environmental Protection Agency (EPA) to reduce the loan processing and certification time, to clarify and promote the purpose of the program, and to provide necessary technical assistance.

I am also requesting that the EPA devote special attention to pollution regulations which the small business community believes excessively burdensome or inequitable. The EPA has already promulgated less/stringent effluent guidelines for small plants in several industries including dairies, electroplating, leather, seafoods, textiles, meat processing and rendering.

Section 112 of this bill would make all small food and fiber producers, ranchers and raisers of livestock, aquaculturists and all other small farming and agriculture related industries eligible for financing and management assistance from the SBA. At present, SBA does not consider applications for financial assistance made by small agricultural concerns because of a statutory prohibition against duplication by SBA of the activities of other departments or agencies of the Government. Section 112 establishes that this would no longer be the case.

I will not be a partner to the promulgation of overlapping and proliferating Federal programs.

The Department of Agriculture through the Farmers Home Administration (FmHA) has ample legal authority to extend financial assistance to small agricultural enterprises. In addition, adequate credit assistance is normally available from the Farm Credit Administration to meet the needs of farm partnerships, corporations and most other commercial farming enterprises. The changes to be made by S. 2498 would result in duplication of efforts, needless costs and senseless bureaucratic competition in the Federal Government. These changes would place SBA in direct competition with the FmHA and the other farm credit agencies. This Federal agency competition in the agricultural credit field would result in confusion because loans of each agency would have different terms, interest rates, and security requirements.

The legislative history of S. 2498 indicates that Congress is concerned with the difficulty which small agricultural enterprises often have in obtaining loans from the FmHA. I share this concern. However, rather than expand SBA authority to address the valid farm financing problems, I believe that small agricultural enterprises can be better assisted through needed amendments to the Consolidated Farm and Rural Development Act which would:

- provide Federal credit assistance for meeting pollution control requirements and
- double the loan limits for farm operating and ownership loans.

I urge the Congress to enact H.R. 10078 and S. 3114 which would make these required changes in the Consolidated Farm and Rural Development Act.

The final provision of S. 2498 which I consider inadvisable is the statutory reassignment of duties for SBA's Office of Advocacy. The bill would require Presidential appointment with Senate confirmation of the Chief Counsel for Advocacy, redirect the role of the Chief Counsel from small business advocate to that of director of special studies of small and minority business and require the Counsel to transmit reports to the President and Congress without prior review by other Federal agencies.

This provision would generate conflicts between the respective authority and responsibilities of SBA's Administrator and its Chief Counsel for Advocacy, place responsibilities in the Chief Counsel that are more appropriately within the discretion of the Administrator, and bypass normal executive branch staff reviews which assist the President in carrying out his responsibilities.

I strongly support much of this bill since I recognize that many provisions in this bill would benefit the small business community. Therefore, I am directing SBA to transmit immediately to the Congress legislation which incorporates

the needed authorities of S. 2498, together with other desirable amendments to SBA programs. I urge prompt consideration of this proposed legislation by the Congress.

I believe that these legislative proposals and the other actions I have described constitute a reasonable and effective response to the needs of the small business community and small farmers and ranchers and yet avoid needless duplication of Federal programs and unwise financing provisions.

TO THE SENATE

I am today signing S. 2498, an omnibus bill which affects a number of Small Business Administration (SBA) programs. I strongly favor many provisions of this bill which will immediately help small businesses. For example, increases in the maximum loan limit per borrower for certain SBA business loan programs are needed to compensate for the higher cost of capital plant and equipment.

While, on balance, I favor this bill, three parts of this legislation trouble me.

First, section 102 would authorize the SBA to guarantee small business leases of pollution control facilities from State or local public bodies. To finance these facilities, State or local authorities would issue tax-exempt obligations secured by the SBA-guaranteed lease.

I have consistently opposed the combination of a Federal guarantee and a tax-exempt security. And Congress over the past ~~five~~ ^{SIX} years has also recognized this problem by enacting at least twelve separate statutes which preclude guarantees of tax-exempt securities. The combination of Federal guarantees with tax-exempt bonds increases the revenues loss to the U.S. Government while primarily benefitting the high income purchasers of the these bonds rather than small businesses.

In addition, the provision of a Federal guarantee of tax-exempt

bonds creates a security which would be more attractive in the capital markets than direct obligations of the U.S. Treasury. ^{ALSO} ~~THE~~, Federal guarantees of tax-exempt obligations ~~add~~ add to the pressures on the municipal bond market by creating a security which is superior to all other tax-exempt securities issued by States and local governments. The result could be higher borrowing costs for States and local governmental UNITS WHICH ~~must~~ must finance schools, roads, hospitals, and other essential public facilities.

I share the Congressional concern that small business needs Federal assistance to comply with pollution control requirements. But this is not the best way to do it. A better way to provide small business with access to financing for pollution control facilities is through the SBA's water and air pollution control loan programs. Although these relatively new programs have been adequately funded in fiscal years 1976 and 1977, small business has not yet had the opportunity to use them fully. I am therefore directing the SBA to take prompt and vigorous action to insure that these loan programs are made fully accessible to the small business community by working with the Environmental Protection Agency (EPA). THEY WILL WORK to reduce the loan processing and certification time, ~~to~~ clarify and promote the purpose of the program, and to provide necessary technical assistance.

I am also requesting that the EPA devote special attention to pollution regulations which the small business community believes excessively burdensome or inequitable. The EPA has already promulgated less stringent effluent guidelines for small plants in several industries including dairies, electroplating, leather, seafoods, textiles, meat processing and rendering.

These actions should help to alleviate the adverse impact of pollution regulations on small business finances. I hope that the Congress will recognize that this problem can be corrected without resort to the extraordinary authorization of Federal guarantees for tax-exempt pollution control bonds. I urge the Congress ~~to~~ ^{PROMPTLY} review this guarantee program ~~along with~~ ^{AN} examination of the growth of industrial revenue financing, an issue which is of much concern to municipal finance experts.

My second concern is with Section 112, which makes all small agricultural enterprises eligible for financing and management assistance from the SBA. Despite widespread Congressional concern about overlapping and conflicting Federal programs, this new ^{SBA} program is quite similar to that of the Department of Agriculture. Continue TV OVER

The Department of Agriculture, through the Farmers Home Administration, and the Farm Credit Administration have ample legal authority to extend financial assistance to small agricultural enterprises. I am directing the SBA and the Department of Agriculture to insure that the overlap inherent in their credit programs is minimized.

The legislative history of S. 2498 indicates that Congress is concerned with the difficulty which small agricultural enterprises often have in obtaining loans from the Farmers Home Administration. I share this concern. However, I believe that small agricultural enterprises can be better assisted through needed amendments to the Consolidated Farm and Rural Development Act which would:

- provide Federal credit assistance for meeting pollution control requirements and
- double the loan limits for farm operating and ownership loans.

I urge the Congress to enact H.R. 10078 and S. 3114 which would make these required changes in the Consolidated Farm and Rural Development Act and to reconsider the necessity for expanding SBA authority to finance small farms and ranches.

Finally, I question the provision of S. 2498 which requires Presidential appointment with Senate confirmation of the Chief Counsel for Advocacy, redirects the role of the Chief Counsel from small business advocate to that of director of special studies of small and minority business and requires the Counsel to transmit reports to the President and Congress without prior review by other Federal agencies.

With these reservations, I am signing S. 2498. While the Congress and I share a deep concern for the health of small business and small farms, this commitment should not result in unnecessary or inappropriate changes in SBA programs. Therefore, I ask the Congress to join with my Administration in reexamining the parts of S. 2498 which concern me **AND**

**TAKE APPROPRIATE ACTION TO CORRECT THE
PROBLEMS I HAVE OUTLINED.**