

SMALL BUSINESS

Ford 1 no :
#2, 9/14/

President Ford believes that the small business sector of our economy is vital to job creation, competition and technological innovation.

The small business sector of the United States includes nearly 10 million enterprises, employs 58% of the private labor force, produces approximately 48% of the gross business product, and provides a livelihood for 100 million Americans.

To ensure that small business not only survives, but thrives, the President has attacked three primary problem areas for small business: inflation overregulation, and overtaxation. His economic policies have cut the rate of inflation by more than half. In the other two areas, President Ford has:

- * Cut by 12% the Federal paperwork burden on America's businessmen and businesswomen, removing from their ledgers the \$18 billion annual expense for completing the forms--and elimination untold millions of dollars spent by the Federal agencies just for reading, handling, and filing them.

- * Proposed a change in the Federal estate tax laws to make it easier to continue the family ownership of a small farm or business. This reform would help insure the survival of smaller farms and businesses for future generations and allow them to expand their current operations.

- * Proposed reducing the maximum corporate tax rate and making permanent the currently temporary exemption on the first \$50,000 of income. If approved, these tax cuts will affect thousands of small firms and help generate thousands of more jobs.

- * Proposed a one-third increase in the Small Business Administration's lending guarantee authority--from \$1.5 billion to \$2 billion--despite the austerity budget he submitted to the Congress. This will help stimulate the private business sector and create more jobs.

- * Named the Administrator of the U.S. Small Business Administration to serve on the President's economic Policy Board which oversees the formulation, coordination and implementation of the Administration's economic policy. It is the first time small business has been represented at such a high level of government.

- * Asked for reduction in capital gains taxation at an acceleration rate over a period of years. This would remove the tax incentive for small business mergers and make it possible for local interests to acquire and expand successful small businesses.

- * Proposed tax incentives to encourage broadened stock ownership, of low and middle income working Americans by allowing deferral of taxes on certain funds invested in common stocks.

In addition, the President has proposed eliminating the 50 percent marital deduction on estate taxes, so that 100 percent of an estate could be transferred tax free to a surviving spouse. He has also proposed an increase in the estate tax exemption from \$60,000 to \$150,000.

CARTER AND SMALL BUSINESS

Carter and the Democrats claim to be friends of small business, and charge that the Republicans have been unfriendly to small business. This is nonsense. Attached you will find the Ford record on small business, which is a very good one. But let's take a closer look at where the blame should fall for the problems that small business has.

1. Who is responsible for the paperwork and overregulation that adds enormous costs (which often cannot be recovered because of market conditions) to small business operations?

The Democrats are. They have controlled the Congress for forty of the last forty-four years, and have set up most of the agencies (and agreed to most of the regulations) that drive small businessmen up the wall.

2. Who is most likely to increase taxation levels for small business?

The Democrats are. What one hand giveth, the other hand taketh away. The Democratic platform promises increased help for small business, but also promises to spend money that seems very likely to come out of the pockets of small businessmen.

3. Who has proposed legislation that will drive private sector wages up and put small business at a severe disadvantage?

The Democrats. The Humphrey Hawkins bill and the public employee collective bargaining sections of the platform mean, in addition to inflation that would be unprecedented for the United States, substantial increases in private sector wages which have just got to lessen the ability of small businessmen to compete.

The Democrats say they're friends of small business. Who the heck do they think they're kidding?

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

January 23, 1976

SUBJECT: Kobelinski/SBA Nominee

Q. Will Mitchell Kobelinski, the President's nominee for the SBA Administrator, divest himself of his banking interest?

A. As you know, this is before the Senate Committee now. I would hesitate to comment extensively when I know this matter has been discussed in the Committee and presumably the Committee will work its will in this matter. However, for your information, I understand that Mr. Kobelinski has worked very closely with Committee members to resolve this question.

Q. Wouldn't this be a conflict of interest?

A. I am told the Justice Department has advised Mr. Kobelinski that the arrangements he is willing to make concerning his bank stock would relieve him of any need for divestiture and there would be no conflict of interest.

Q. Is the President aware of this?

A. I am not certain if the President has become personally involved. But the White House Counsel has been consulted by Mr. Kobelinski.

(SEE ATTACHED LETTERS)

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Department of Justice
Washington, D.C. 20530

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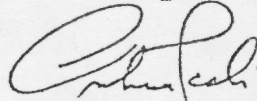
Honorable William Proxmire
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

At the request of Senator Tower, I have reviewed Mr. Mitchell P. Kobelinski's letter to you of January 20, 1976, in connection with his nomination to be Administrator of the Small Business Administration. Mr. Kobelinski's letter concerns his ownership of approximately 13 percent of the stock of Parkway Bank and Trust Company, Chicago, Illinois, and approximately 17 percent of the stock of First State Corporation, owner of the First State Bank, Chicago, Illinois.

Mr. Kobelinski's agreement to disqualify himself from any particular matter coming before him as Administrator involving either of the banks will avoid any potential conflict of interest problems under 18 U.S.C. 208 arising from his holding of these securities. The additional steps which Mr. Kobelinski proposes to take go beyond the statutory requirements and in my judgment serve to eliminate any appearance of conflict of interest as to his holdings in these banks.

Sincerely,



Antonin Scalia
Assistant Attorney General
Office of Legal Counsel



THE WHITE HOUSE
WASHINGTON

January 23, 1976

MEMORANDUM FOR: BILL KENDALL
FROM: KEN LAZARUS *KL*
SUBJECT: Nomination of Mitchell Kobelinski/
Chairman, SBA

Attached please find the series of letters relevant to the plan which has been devised to eliminate any conflict of interest or appearance of conflict facing Mitchell Kobelinski, who was recently nominated to be Chairman of the SBA.

Kobelinski had his hearing earlier this week and is apparently well thought of by every member of the Banking Committee. However, Chairman Proxmire has indicated that he may vote against the nomination because of his dissatisfaction with our conflict of interest plan. To our knowledge, Chairman Proxmire is the only member of the committee who holds this view.

We anticipate that an executive session of the committee will be held this coming Monday, January 26. I would appreciate your contacting Senator Tower, the ranking Republican on the Committee, in an attempt to have him move the nomination. Additionally and to the extent time permits, we would appreciate your contacting other members of the committee in order to solicit their support.

Thank you.



EXPORT-IMPORT BANK OF THE UNITED STATES

WASHINGTON, D.C. 20571

January 22, 1976

CABLE ADDRESS "EXIMBANK"
TELEX 89-461

BOARD OF DIRECTORS

Dear Ken:

Enclosed you will find a copy of the letter I am delivering to Senator Proxmire this afternoon, in which I advised him that the management of the two banks will not agree to refrain from doing SBA business. I also enclose the Justice Department letter, together with a copy of the original letter which I sent to Senator Proxmire on January 20.

I am going to deliver copies of all of the enclosures to all members of the Senate Banking Committee. I feel quite strongly that it is only Senator Proxmire who feels the presence of the appearance of conflict of interest. The other Senators appear ready to agree to the proposal which I have made which would, I believe, totally insulate me from any decisions relative to the banks.

After all, it is disclosure which is the key factor. My ownership is public knowledge, and it can be totally monitored by the Senate and the general public.

I would sincerely appreciate any assistance that could be rendered through the White House to encourage the members of the Committee to agree to the plan of action proposed in these letters.

Sincerely,

Mitchell P. Kobelinski

Mr. Kenneth A. Lazarus
Associate Counsel to the President
106 Old Executive Office Building
Washington, D. C.

Enclosure

January 20, 1976

Honorable William Proxmire
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

In discussions which I initiated with your Committee staff, I raised the possibility of an appearance of a conflict of interest in that should I be confirmed as the Administrator of the Small Business Administration I would own stock in two banks having outstanding loans guaranteed by SBA.

I own approximately 13% of the stock of Parkway Bank and Trust Company, Chicago, Illinois and approximately 17% of the stock of First State Bank Holding Corporation, owner of First State Bank of Chicago, Illinois. My ownership of this stock is public knowledge. I am not an officer, director or employee of either bank. I do not participate in any employee or group plan, e. g., profit sharing, pension, etc. White House Counsel has examined these facts and determined that no actual or potential conflict exists which would require sale of these assets in light of my proposals herein.

Sale of my stock in these two banks is impractical. Without doubt, having to sell these stocks at no more than book value at this time would result in substantial current and potential losses, to say nothing of the immediate unfavorable tax consequences.

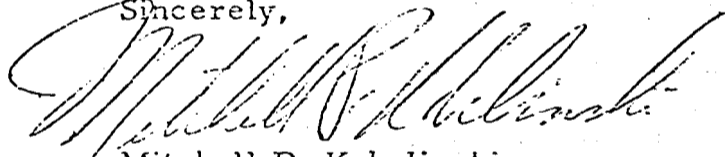
I am advised by White House Counsel that my agreement to disqualify myself from any particular matter involving Parkway Bank and Trust Company and First State Bank of Chicago (hereinafter the Banks) would satisfy the restraints imposed by the Federal conflicts of interest statute. Additionally, I

propose the following to assure the Committee that there would be no real or apparent conflict of interest. I would be pleased to adopt any of these or such further proposals -- not involving sale -- which the Committee desires to be in effect during my tenure as SBA Administrator should I be confirmed.

- (1) Arrange with both Banks that neither contact the Administrator concerning any SBA transactions.
- (2) Instruct Region V and the Chicago District Office that no transactions with the Banks are to be communicated to the Administrator and that the concurrence of at least two professional level staff members in the field office will be required on all loan application approvals affecting the Banks.
- (3) Any Washington Office level action involving the Banks, e. g. only the Administrator can deny liability to purchase a guaranty, will be handled finally by the Washington Claims Review Committee composed of three top-level career employees.
- (4) Any attempt on the part of the Banks to take advantage of their former relationship with the Administrator shall be reported by the field office to some disinterested official within or without SBA whom the Committee thinks appropriate.
- (5) My stocks in the Banks will be placed in a voting trust.
- (6) Periodic reports of activity between SBA and the Banks shall be sent to the Committee.

I am hopeful that these proposals will meet any concerns which the Committee may have.

Sincerely,



Mitchell P. Kobelinski
Administrator Designate

January 22, 1976

Honorable William Proxmire
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

I have complied with your request that I contact officials of Parkway Bank and Trust Company and First State Bank of Chicago (hereinafter Banks) to determine their reaction to a plan which would require that, should I become Administrator of the Small Business Administration, the Banks would agree not to participate in further SBA guaranteed loans during my tenure, and would take immediate steps to divest the SBA guaranteed loans which they now have. Regrettably, the Banks informed me that this proposal is unacceptable to them.

Both are young and growing neighborhood banks serving the small businesses in their communities. They stated to me that such a course would force them to turn over existing hard-won accounts to their competition and to refuse to deal with new small businesses in their areas that need the guaranteed loan program in order to develop into successful enterprises.

The Banks are located in a new and developing area near O'Hare Airport, and consequently have been called upon to assist many new business enterprises which are being established in this rapidly expanding community.

As I am only a minority stockholder in these Banks, I find myself unable to persuade management to consent to the proposed plan that we agreed was a possible solution to the question.

I believe in and understand the importance of small business in our free enterprise system, having been an integral part of the small business community for most of my business and professional life. I earnestly

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desire to put my energies to work on its behalf, once again, by providing leadership to the government's agency dedicated to its preservation.

I am most hopeful that such an agreement can be reached based upon the six proposals put forward in my letter to the Committee dated January 20, 1976, a copy of which is attached. I feel that the steps outlined therein, which have both White House Counsel and Justice Department approval, when added to the fact that total public disclosure has been made, will allow Congress and citizen interests groups to monitor any transaction between SBA and the Banks. I believe, the six proposals, in addition to full disclosure, will protect both the government and the public interests.

If there are additional ideas the Committee may have, I would be most happy to explore them.

Sincerely,

SIGNED BY M. KOBELINSKI

Mitchell P. Kobelinski
Administrator Designate