

Originally Processed With FOIA(s):

S

FOIA Number:

S

# FOIA MARKER

**This is not a textual record. This is used as an administrative marker by the George Bush Presidential Library Staff.**

---

**Record Group/Collection:** George H.W. Bush Presidential Records  
**Collection/Office of Origin:** Speechwriting, White House Office of  
**Series:** Speech File Backup Files  
**Subseries:** Chron File, 1989-1993

---

**OA/ID Number:** 13834  
**Folder ID Number:** 13834-004

---

**Folder Title:**  
North Carolina Business Event 9/23/92 [OA 7581] [1]

---

Stack:	Row:	Section:	Shelf:	Position:
<b>G</b>	<b>26</b>	<b>23</b>	<b>1</b>	<b>3</b>

---

Office of the Press Secretary  
(Greensboro, North Carolina)

For Immediate Release

September 23, 1992

REMARKS BY THE PRESIDENT  
TO TRIAD BUSINESS COMMUNITYJoseph S. Koury Convention Center  
Greensboro, North Carolina

9:50 A.M. EDT

THE PRESIDENT: Thank you, Tom. Thank you very, very much, and what a wonderful welcome back to this state. Thank you all, please be seated. It's an honor to be introduced by a successful, honored, small businessman, Tom Coble. Thank you, sir, for those kind words. I also want to salute the woman who's done so much to advance the interests of American small businesses, our Administrator of the Small Business Administration, Pat Saiki, former member of Congress and now of our SBA in Washington. (Applause.) And also to, of course, to salute the inimitable, marvelous Governor of this state, Jim Martin. What a job he's done for the country and for North Carolina. (Applause.) And salute, too, congressional candidates Barbara Gore Washington of the 12th District and Richard Burr of the 5th District. I'm glad to be with them. (Applause.)

And with us are our two national leaders of our Independent Business Coalition, Pat Harrison and Miller Hicks -- both here with us today -- here's Miller over here; and where's Pat? Whoops, she didn't make the head table -- sitting out here. (Laughter.) She should have; she's an outstanding business success.

Pat, stand up. And, Miller you've got to stand up and let them see you. (Applause.) These people are pulling together this national small business coalition -- Independent Business Coalition, we call it.

Well, I've come here to Greensboro to talk about small business -- and, really, to drive home for the nation the fact that businesses, like the ones that come together in the Triad business community, generate the hope and pride and the jobs that hold America together.

Take Joe Koury -- a well-respected member of the Triad, and the father of four beautiful daughters. Now, Joseph wasn't always the one-man conglomerate that we see today. He started small: began building his empire in the early years after World War II, buying up the old Army barracks here in Greensboro and turning them into housing -- sometimes for the same GIs who'd trained there before going off to war, now come home to start a family. And that ingenuity -- that spirit of enterprise -- that drive and dream tells us the meaning of opportunity, the meaning in America. And it's all over this great -- I don't want to start singling people out, but my friend, Jack Laughery is another one right here from this state who exemplifies the American Dream -- starting, taking risk, building. And it's a wonderful thing, and it's a wonderful epitome of the spirit of this state, in my view.

Now today, America's economy is working its way through a period of profound change. And, incidentally, it's not just America, it's international change. You saw the recent ups and downs in the international currency market. Other countries even now look

MORE

to our economy as the envy of the world. And you see it here in North Carolina, these changes, just the way you do all across the country. Many of our larger companies have retrenched and, indeed, they've restructured -- and I know that these changes have been difficult for many working Americans. But America's small businesses have shown a staying power -- creating new products by the thousands -- new jobs literally by the millions.

Let me give you one statistic that will drive home just what I mean. In the 1980s, the numbers of workers employed by Fortune 500 companies actually went down. But in that same decade, small businesses boomed -- adding 16 million new jobs.

The simple fact is, small businesses are often the first to adapt to a changing world -- the first to turn change to advantage -- the force at the leading edge of economic recovery. And that's why it is absolutely critical that we do all we can to strengthen small businesses -- remove obstacles that stand in their way, and create incentives that unleash America's entrepreneurial genius. Helping small business reach for its dreams is key to my Agenda for America Renewal.

I've set a goal -- to make America the first -- the world's first \$10-trillion economy in the early years of the 21st Century. And when we get to that goal -- not if, but when -- and it is very achievable -- look at the numbers -- it won't be the chairmen of the Fortune 500 we have to thank -- it will be the men and women who run the small businesses that power America -- (applause) -- the men and women, for example, of the Triad business community.

Right now, small businesses employ over half of our nation's workforce. Small businesses create two-thirds of the new jobs in America. Small businesses are hothouses for innovation, and risk-taking, new ideas -- the very engine of entrepreneurial capitalism that pulls this economy forward.

And I know because I've been there myself. I did, as Mr. Coble said, run a small business -- started it from the ground up, with a lot of help, obviously, from coworkers and partners. And I know what it's like to sweat out a deal, and shop for credit, stay up late worrying how you're going to meet the next payroll. And I've even got the ulcers, or had them back then, to prove it. And that is a fact.

So let me tell you: I happen to think that meeting a payroll is not a bad qualification for being President of the United States of America. (Applause.)

And I might peripherally make the point that the contrast with my opponent couldn't be clearer. He's spent almost his entire adult life in government. And when he wasn't in government, he practiced law and taught law school. And he even worked in the Congress -- for his part-time job. Not exactly the credentials we're looking for these days. (Laughter.)

So it shouldn't surprise you that when it comes to the economy, my opponent thinks government should lead -- all I ask you to do is compare the plans -- directed by bureaucratic planners who couldn't run a business anywhere but into the ground.

Now I believe government can play a role in helping small business; no question. But it is a role of support -- not the lead. Not to put the new bureaucracy of government planners in the business of picking winners and losers -- but to help America do what it does best: to make way for the American entrepreneur, the little guy with the big idea. (Applause.)

So I've put together a program to strengthen small business -- a program that will work, because it understands how

MORE

small businesses work. This is one important part of my comprehensive Agenda for America Renewal.

I'm releasing the full program today in a report I call "Encouraging Entrepreneurial Capitalism." Now, here is the report, and I hope we can make some, at least, available to people here today. But we can get them to you. That's a fancy name for small business savvy America is known for. Some of the ideas are ones that we've been pushing for, for years -- some are new: All of them are solid, sensible ways to strengthen small business.

Now, let me detail -- and some of this is quite detailed -- what my program does:

First, it will help small businesses get started. You see, many new businesses literally begin at home -- when entrepreneurs convert their own "nest egg" into capital. Germany does not tax capital gains at America's punitive rates -- neither does Japan. One of them, I believe, is zero percent; and the other, I believe, is Japan, is on percent. If we want to compete and win, it's time to reward the risk-takers who turn their dreams into tomorrow's jobs. It is time to cut the tax on capital gains. (Applause.)

The liberals continue to insist that that's a break for the rich. It isn't. It is clearly an incentive to start new companies and employ more people. (Applause.) And because you've got to crawl before you can walk, we're also helping small businesses with an aggressive micro-loan program -- from a few hundred dollars up to \$25,000 at the critical early stages when new ventures are, I think we would agree, that at that stage, new businesses are most vulnerable.

That's how we'll help entrepreneurs get their ideas off the ground, get their businesses up and running.

But today, I want to take our efforts one step further. I am proposing a five-year, \$20-billion small-business initiative -- to lift tax and regulatory burdens off the back of small business, and to cut the costs of capital.

We start by knocking down the corporate tax rate on small businesses from 15 to 10 percent. (Applause.) And this new initiative will smooth the way for small business start-ups -- by increasing the small business deduction limit from \$10,000 to \$25,000. And it will allow entrepreneurs to deduct \$2,500 of those start-up costs that most of you remember in the very first year.

My initiative includes steps to simplify tax laws for small businesses -- (applause) -- changes that will result in almost \$5 billion a year in tax relief -- and should allow most small businesses to file a one- or two-page tax return. And finally, it eliminates capital gains on newly-issued small business stock. That will serve as an incentive to create new businesses.

Part three of this small business program is to help existing small businesses find credit. The best idea in the world cannot work without capital. Entrepreneurs simply can't do it alone. They need credit to set up shop and to expand.

Right now, you and I know that the credit crunch has hit small businesses hard. That's why we've been working with bankers and regulators across the country to free up the flow of credit to companies like yours. Our regulatory reform, for example, by the SEC, has made it easier for small businesses to raise capital through stock, through these offerings of stock -- and to help growing firms get from Main Street to Wall Street.

MORE

And I've had the Small Business Administration -- I have Pat Saiki here working overtime to help credit-starved businesses. This year alone, we have increased by more than 50 percent the loan guarantees offered by her agency, the SBA -- more than \$6 billion for men and women with good ideas -- who want to turn those dreams into jobs.

Small business is one of the most effective ways to bring minority Americans into the economic mainstream. That's why later today, Pat Saiki will release our plan to streamline the SBA's Minority Small Business program to bring economic opportunity to entrepreneurs all across America.

And tomorrow, Pat's going to go on to South Florida, to kick off what we call the Green Line program -- a program that we test-marketed up in New England -- to provide a revolving line of credit to help small businesses bridge the gap between production and payment. This Green Line initiative, incidentally, should be especially helpful to small firms that are seeking to get back to "business as usual" after Hurricane Andrew.

Now, fourth, we have got to help small businesses hire new workers and increase productivity. Small businesses -- like every employer in America -- will benefit from education reforms like America 2000, our program from our expanded job training initiatives, from enterprise zones, from legal reform that ends those sky's-the-limit lawsuits that can drive a small business into bankruptcy. We've got to do something about these crazy lawsuits. Even all of that, though, is not enough.

That's why I support aggressive new export promotion programs to help small businesses crack new markets abroad, and create new jobs here at home. You see, in the 21st century, America must be not just a military superpower, but an economic superpower and an export superpower. And for a long time, it was felt that small businesses were too little to sell abroad and compete abroad. That's changed. And we want to facilitate more sales from small business into this vast export market that lies ahead.  
(Applause.)

Right now, a fraction of America's companies -- 15 percent -- account for 85 percent of America's exports. We've got to open these new markets for America's small businesses -- we've got to tap their explosive potential to make new customers not just down the street, but around the world.

Small business is already helping us pioneer new worlds -- leading the way, for example, in the bio-tech, the bio-technology revolution. That's one key reason that I strongly support a 100% increase in federal research and development funds to help small businesses generate the technologies of tomorrow.

And fifth, we've got to free small businesses from the tangle of red tape and regulation. (Applause.) Vice President Quayle has filled me in on a meeting that he had not long ago with Richard Allen, who runs a furniture manufacturing company over in High Point. Federal reporting rules have gotten so bad that he's had to hire new staff just to read regulations. Now, frankly, that's one kind of job creation we could do without. Filling out federal forms should not be a full-time job.

That's why, in January of this year, I ordered a freeze on federal regulations. You work long and hard for your success, and you should spend your time doing business -- not doing paperwork. (Applause.) And finally, we've got to help small businesses provide for their workers, to help the 15 million Americans who are self-employed. So I want to raise the deduction for health insurance from 25 percent to 100 percent. And I want to reform health insurance -- give small companies the same advantage that bigger companies have

MORE

when they shop for health care coverage, by encouraging small companies to pool together to buy insurance.

We want to create tax incentives to help small businesses offer their employees family leave -- not do what the liberal Congress wants me to do -- slap another mandate on small businesses' back. I'm not going to do that. (Applause.)

I believe in family leave, and I believe our approach to facilitating family leave through tax credits is a far better way than putting new mandates on a guy who is struggling to make ends meet and would have to lay off people to meet the costs of that program. We want to expand small businesses' ability to offer the portable pensions people will need in a dynamic economy.

Taken together, that's a strong package -- a comprehensive package -- to give real-world help, right now, to the small businesses that make this economy grow. You'll notice a lot of it, through tax relief, is removing the burden of government from the back of small business.

Now, I think it's fair to say, and ask dispassionately: What about my opponent? What is his plan for small business? The difference could not be sharper. You see, I see small business as the backbone of the American economy. Mr. Clinton, Governor Clinton sees small business as the goose that lays the Golden Eggs.

Bill Clinton's got big plans for bigger government -- and to pay for it, he's got the tax plan for almost every day of the week: Start with \$150 billion in new taxes. That's not my saying he's doing it; this is what he actually has proposed. And then add a payroll tax for training -- he's already proposed that -- one-and-a-half percent across the board for small businesses -- every business -- and then add a health care plan that will lead to a 7 percent payroll tax to finance the inevitable government takeover of health care.

And I tell you, it's taxing just to talk about this whole program ahead. (Applause.) Somebody said, that taxes my memory. And Clinton says, that's a good idea, let's try it. (Laughter and applause.) Now, I guess -- and yesterday -- nobody believes this, but I did make a subconscious slip. I spoke up when I was going on about the different plans, and I called him "Governor Taxes." And I quickly corrected it.

But now, "Governor Taxes" says, yes, he wants to raise taxes -- and rolls out his standard "soak the rich" rhetoric. You listen to him. But what he won't tell you is this: two out of every three people hit by Governor Clinton's tax hike would be small business owners or family farmers. And these folks are not millionaires -- they are Mom and Pop, Inc., and we cannot let them slap a tax on small business. (Applause.)

Take a look at what Governor Clinton's tax plan would mean for small businesses right here in this state. If you're like the typical small business, you operate with a profit margin of about 2 percent. Some clearly do better; some are struggling to make it 2 percent. Your market is too competitive for you to pass on costs by raising prices. That can happen in large companies that dominate the market. You can't do it as a small businessman. You already feel that you've already cut your costs, your operating costs, to the very bone.

And so when Bill Clinton's new taxes kick in, you have a choice -- a tough choice. His payroll taxes alone amount to 4 percent to 5 percent of your operating expenses. That's your profit margin -- and then some.

MORE

So here's your choice: You can board up the windows -- or you can get out the pink slips. You can continue to operate, but to do so you're going to have to lay off some on your rather small workforce.

Now, I want to invite Governor Clinton and his advisors to follow along for a little "business math." Just over half of all small businesses with between 10 and 20 employees have annual sales of \$500,000 to \$1 million. That's a 2 percent profit margin -- and in the best case -- gives that business a -- say, a \$20,000 profit.

Now, Governor Clinton's new taxes would cost that company between \$46,000 and \$56,000 -- so after you've handed over your profit to the government, the only way to pay the rest of the tax is putting someone out of work, cutting down on your overall payroll account.

And in the case of my example, that's two or three employees -- two or three people out of less than a 20-person company who lose their jobs.

Now, just think about that. Those two or three people aren't just numbers -- they're not some names on a payroll sheet. They're real people -- they're friends and neighbors -- men and women with families to feed and mortgages to pay.

Now, if that two or three still doesn't sound like much, keep this one in mind. In North Carolina alone, 25 percent of the workers -- of all workers -- 638,000 people -- work in companies the same size as the one in my example, companies that will be crippled by Bill Clinton's new taxes.

Across this state, North Carolina has thousands of businesses with less than 10 employees. Grocery stores -- more than 3,000. More than 2,500 small furniture stores. Four out of every five companies in the building trades. Book stores, beauty shops, laundries, video stores and TV repair shops. And the list goes on and on and on. And for them, Bill Clinton's tax plan means one thing: Misery on Main Street. (Applause.)

You see, I don't think these central planners understand this. America is a nation of small businesses -- and to those small businesses, they'll take a big hit under Governor Clinton's tax plan. And my opponent could not do more damage to America's risk-takers, entrepreneurs, if he'd declared war on small businesses. Well, if you're like me, you've got to say: Small business should not be big-government's piggy bank. (Applause.)

All I ask is that you people here and the people across the country take a look for a moment at my approach -- and then contrast that with Governor Clinton's. You see, I want to strengthen small businesses across America by lowering taxes -- increasing R&D.

Bill Clinton wants to tax small businesses and small business owners so he can give big government a raise.

I want to cut red tape, eliminate excessive regulation and reform the ruinous legal system that's crippling this economy and killing small businesses. (Applause.) We really must get these suits under control. We are suing each other too much and caring for each other too little in this country. (Applause.) Now, Bill Clinton wants to saddle these -- or, his plan would saddle these new small businesses with new mandates; the old ones, too, the existing ones. New or old, small businesses, all with new mandates. And he's told the trial lawyers of America he wouldn't take away even one little loophole.

How about health care? Job training? Family leave?

MORE

I want to reform our health care system -- extend coverage to all Americans, and use the markets to drive costs down while keeping quality -- the great quality of American health care up. And as I said before, Bill Clinton's plan will mean a payroll tax and more government control.

I want to give displaced workers a voucher to get the training they want. And Bill Clinton wants to put a payroll tax on employers.

I want to use tax credits to encourage businesses to provide workers family leave. Well, my opponent? You see the pattern -- more government rules, more government red tape.

You know, they sent this family leave bill down to me the other day. They sent it down just for fine timing in terms of politics. And I vetoed it, and I sent it right back. I am for family leave, but I am not for putting further mandates on small business. Let's do it through tax relief, not through running people out of business. (Applause.)

Bill Clinton's got a "Punt, pass and kick" plan: Punt the problem over to business. Pass the costs along. And kick the American worker -- right where he carries his wallet. (Applause.)

Now, you've got a choice in this election. A choice between two different philosophies -- two different directions to take this great country. Bill Clinton puts his faith in the so-called "best and brightest:" In his old Oxford cronies who believes that "government knows best" -- just like the social welfare crowd that pulled Britain down before Maggie Thatcher and John Major pumped some life back in.

Well, I put my faith in the American people -- and I want to see you keep control of the decisions that really matter in life. And when Bill Clinton says "government knows best" -- I say: You know better.

Let me sum it up this way: His plan is wrong for America. And mine is right. (Applause.)

Here's what Bill Clinton and the "government first" crowd just really don't get. They don't get it. They don't understand: Government can print money -- but it simply cannot create wealth. The great ideas that make this economy grow don't begin in the marbled halls of some federal building back in Washington, D.C. More great ideas -- more of our gross domestic product, our GDP -- begins at a basement workbench, at a computer on someone's kitchen table, with the savings you set aside to start a business of your own.

And, America -- don't let them teach the American people, particularly the young, that America is a nation in decline. We are simply not. We are the most respected leader in the world -- militarily, and economically. (Applause.) And in spite of the economic difficulties we've had and are enduring, America -- believe me -- is the envy of the world: not because its government is great -- but because its people are great. Because the American people are builders and dreamers who build.

We need a government that understands that fundamental fact. And my program -- my Agenda for American Renewal -- will make the next American Century a new American Century, a time of peace and prosperity for all.

Thank you once again for this warm North Carolina welcome -- and may God bless the United States of America. Thank you very much. (Applause.)



U. S. Small Business Administration

Washington, DC

# Office of Public Communications

## FAX

### Transmission Sheet

Date 9-18 Time \_\_\_\_\_ Page 1 of 4

Subject Small business facts

Person	Office, firm or division	FAX Number	Voice Number
To <u>Carol Aarhus</u>		<u>456-6218</u>	
From <u>Donna Harper</u>	<u>OPC</u>	<u>(202) 205-6913</u>	<u>205-6740</u>

Optional Message \_\_\_\_\_

Call (202) 205-6740 if this FAX transmission was not received in its entirety.

Check if you would like the receiving office to confirm receipt of this FAX

Receiving office, firm or division \_\_\_\_\_

Receipt date \_\_\_\_\_ Receipt Time \_\_\_\_\_

# Small Business Answer Card

## 1991

99.6% of all employers in 1988  
 employed 58% of the private work force  
 55% of innovations in 1988  
 accounted for 50% of private sector  
 output in 1988  
 contributed 39% of GNP in 1982  
 accounted for 15.6% of federal prime  
 contract dollars in 1988  
 added 48.5% of all new jobs from  
 1980 to 1988

This Answer Card is published annually by the U.S. Small Business Administration, Office of Advocacy, Washington, DC. Many of its programs and services are extended to the territories on an equal basis.

### White- and Black-Owned Firms, 1982-1987

	1982	1987	Percent Change 1982-1987
Total	2,618	3,115	19.1
White-Owned	308	424	37.6
Black-Owned	90,282	127,686	163.0
Total	9,619	19,769	105.5

Source: Department of Commerce, Bureau of Census.

### Rate of Growth, 1984-1988

	Employees		
	All Firms	<100	<500
Total	11,143	4,421	5,408
Per 100 Firms	100.0	39.6	48.5

Source: Small Business Administration.

### Business Incorporations, Bankruptcies, and Failures, 1988 and 1989

	Percent Change		
	1988	1989	1988-1989
Incorporations	62,445	62,449	-0.6
Bankruptcies	62,845	62,449	-0.6

Sources: Dun and Bradstreet (Incorporations and Failures); Administrative Office, U.S. Courts (Bankruptcies).

### Nonfarm Business Tax Returns for Corporations, Partnerships, and Proprietorships, 1987-1989 (Thousands)

Year	Corps.	Partn.	Props.	Total
1987	4,027	1,826	13,126	18,979
1988	4,027	1,826	13,126	18,979
1989	4,027	1,826	13,126	18,979

Percent Change,

1987-1989	11.5	6.9	9.5	9.7
-----------	------	-----	-----	-----

Note: 1989 data are estimated and 1988 data have been revised.

Source: Internal Revenue Service.

### Change in Employment in Small- and Large-Business-Dominated Industries, 1988 to 1989 (Percent)

Industry	Small-Business-Dominated	Large-Business-Dominated
Total	-0.1	4.3
Mining	-0.1	4.3
Construction	0.3	-0.7
Manufacturing	0.3	-0.7
Transportation	3.0	NA
Wholesale Trade	3.0	NA
Retail Trade	3.3	1.6
Finance	3.3	1.6
Services	3.3	1.6

NA = Not applicable. There was a lack of industry representation within the size category.

Source: Adapted by the U.S. Small Business Administration, from data published by the Bureau of Labor Statistics.

### Self-Employment in Nonagricultural Industries, 1980 and 1989 (Thousands)

	Percent Change		
	1980	1989	1980-1989
Total	5,510	5,562	-0.1
Men	5,564	5,562	-0.1
Women	2,354	2,343	-0.5

Source: Bureau of Labor Statistics.

### Nonfarm Sole Proprietorships, 1980 and 1988 (Thousands)

	Percent Change		
	1980	1988	1980-1988
Total	6,928	10,028	44.7
Men-Owned	6,928	10,028	44.7
Jointly Owned	266	520	95.5

Note: Most small businesses are proprietorships.

Source: Internal Revenue Service.

### Business Dissolution Rates (Percent)

Age of Business (Years)	All Firms	Growing Firms	Nongrowing Firms
0-3	51.7	19.1	65.5
4-7	51.7	19.1	65.5
8-11	51.7	19.1	65.5
12-15	51.7	19.1	65.5
16-19	51.7	19.1	65.5
20+	51.7	19.1	65.5

Note: Growing firms are defined as those adding at least one job during each of the respective periods. This analysis is based on a sampling of firms that entered the Small Business Data Base between 1976 and 1978.

Source: U.S. Small Business Administration.

### Fastest Growing Industries: December 1988 to December 1989 (Percent Change in Employment)

Industry	Percent Change 1988-1989
<i>Small-Business-Dominated</i>	
Medical and Dental Laboratories	14.6
Automotive Rentals, Without Drivers	13.0
Computer and Data Processing Services	11.0
Residential Care	9.3
School Buses	7.9
<i>Large-Business-Dominated</i>	
Air Transportation	11.9
Medical Services and Health Insurance	6.0
Hospitals	5.7
Holding and Other Investment Offices	3.7
Gas Production and Distribution	2.1

Source: Adapted by the U.S. Small Business Administration, from data published by the Bureau of Labor Statistics.

# U-ASK-SBA

Whether you're looking for information on starting a new business or for sources of technical and financial assistance for an already existing business, the SBA's Small Business Answer Desk can help you.

## Toll Free

So call us at our new telephone number:  
 800-U-ASK-SBA  
 (that's 800-827-5722)

## The Small Business Answer Desk

### Industries Generating Most New Jobs: December 1988 to December 1989 (Thousands)

Industry	Employment Increases
<i>Small-Business-Dominated</i>	
Eating and Drinking Places	107.0
Office of Physicians	101.3
Computer and Data Processing Services	79.2
Trucking and Trucking Terminals	69.4
Miscellaneous Business Services	61.2
Outpatient Care Facilities	57.9
Machinery, Equipment and Supplies	57.6
Residential Care	37.7
Printing, Reproduction, and Stenographic	33.3
Engineering and Architectural Services	30.3
<i>Large-Business-Dominated</i>	
Hospitals	194.1
Grocery Stores	133.7
Air Transportation	68.7
Educational Services	37.1
Colleges and Universities	27.1
Commercial and Stock Savings Banks	21.9
Oil and Gas Extraction	21.5
Motion Picture Production and Services	18.6
Medical Services and Health Insurance	13.6
Air Transportation Services	9.2

Source: Adapted by the U.S. Small Business Administration from data published by the Bureau of Labor Statistics.

SEP 18 1991 10:50 S.B.A.

9D-00.3



**Small businesses**

- were 9%
- employ
- in 1988
- provide
- account
- output
- made u
- account
- contrac
- provide
- 1984 to

The Small Business Act  
Small Business Adminis  
20416. All of the SBA's p  
public on a nondiscrim

**Growth of Women- a**

**Firms (Thousands)**  
Black-owned

**Receipts (Millions)**  
Black-owned

Source: U.S. Departme

**Small Business Share**

**Jobs Generated**  
(Millions)  
**Share of Growth**  
(Percent)

Source: U.S. Small Bus

## FACTS ABOUT U.S. SMALL BUSINESS

### ECONOMIC IMPACT

\* **SUMMARY STATEMENT:** Small businesses today employ more than 50 percent of the U.S. work force, account for 44 percent of all sales, generate 39 percent of the GNP, and have been responsible for 55 percent of the country's technical and industrial innovations since World War II.

### JOBS

\* Small businesses continue to provide two of every three workers (67 percent) with their first job and thus are responsible for most of the initial on-the-job training.

\* Most new jobs are created by small firms. The 1980s can truly be called an economic miracle - the longest peacetime economic expansion in history, with over 20 million new jobs created during that time. Small businesses led this expansion; small companies with fewer than 500 employees added about 12.5 million additional workers during the 1980s, while the Fortune 500 companies, employment actually declined by a total of 3.1 million jobs.

\* Over one-tenth (13 percent) of the labor force - 15.6 million workers - are self-employed (that includes part-time self-employment).

### INNOVATION

\* Much of the innovation in this country comes from small businesses. Small firms produce about 2.4 times as many innovations per employee as large firms.

### EXPORTING

\* Forty percent of all firms that export are small businesses.

\* Every billion dollars in exports creates 26,000 new jobs.

### GENERAL

\* Smaller businesses contribute more to their communities - in terms of cash and in-kind services - on a per employee basis than do their larger corporate cousins.

\* Most businesses do not actually fail, but close for voluntary reasons.

## **WOMEN AND MINORITIES**

\* Small business provides the best opportunity for economic empowerment to this country's fastest-growing and most dynamic groups...women and minorities.

\* Although small businesses have been hit hard by the recession, this sector continues to create new jobs, provide sources of business innovation and open the door of opportunity for all American entrepreneurs--regardless of race, sex or background.

## **WOMEN**

\* Women are starting businesses at twice the rate of men.

- The most recent Census Bureau statistics show that 30 percent of all small businesses in the U.S. are women-owned.

- If the trend continues, nearly 40 percent of all small businesses will be women-owned by the turn of the century.

\* Receipts of women-owned firms increased 183 percent between 1982 and 1987, from \$98.3 billion to \$278.1 billion.

\* Women own more than 400,000 corporations and partnerships.

\* The total number of businesses owned by women increased about 58 percent from 1982 to 1987. This rate of growth is more than four times the rate for all businesses (14 percent).

\* Women-owned businesses continue to demonstrate their growing importance as providers of jobs for American workers. Between 1982 and 1987, the number of women-owned businesses with paid employees nearly doubled. As of 1987, women-owned businesses employed over three million workers.

**MINORITIES**

\* SBA estimates there are now approximately 1 million minority - owned businesses nationally.

- During the 1980's, the number of black-owned businesses grew by almost 40 percent, from just over 300,000 to 424,000.

- The most recent Census Bureau statistics show more than 422,000 Hispanic-owned businesses nationally...an increase of 81 percent from 1982.

- The most recent Census Bureau statistics show more than 355,000 businesses were owned by Asian Americans...an increase of 89 percent from 1982.

\* Businesses owned by minorities had almost \$80 billion in sales in 1987.

\* The number of businesses owned by American Indians and Alaska natives rose by 57.5 percent between 1982 and 1987. The number of Black-owned businesses rose 38 percent during the same time.

\* The number of Black-owned manufacturing businesses more than doubled from 1982 to 1987, from 3,707 to 8,004.

\* Black-owned businesses with employees rose by 87 percent from 1982 to 1987, from 37,841 to 70,815.

\* The number of Hispanic-owned businesses rose 80.5 percent from 1982 to 1987. This rate of growth is almost six times the rate for all businesses (14 percent), from 233,975 in 1982 to 422,373 in 1987.

\* As of 1987, Hispanic-owned businesses accounted for roughly 3.1 percent of all U.S. businesses.

\* Between 1982 and 1987, the number of businesses owned by Asian Americans and Pacific Islanders rose 89.3 percent.

\* The number of businesses owned by Vietnamese Americans increased more than five-fold from 1982 to 1987, from 4,989 to 25,671.

\* The total receipts of businesses owned by Asian Americans and Pacific Islanders rose 161.8 percent during that period.

\* Note: Source for all of the data on women and minorities is from the Bureau of the Census.

Stephanie -

The fact sheets just  
came in. Here they  
are!

Carol

THE WHITE HOUSE  
Office of the Press Secretary

For Immediate Release

September 23, 1992

**Encouraging Entrepreneurial Capitalism:  
Strengthening Small Businesses**

**FACT SHEET**

President Bush announced today a comprehensive program for strengthening our Nation's small businesses, including a five-year, \$20 billion initiative to reduce capital costs directly and to reduce the paperwork burdens that fall heavily on small businesses.

The initiative includes:

- Reducing the lowest corporate tax rate for small businesses from 15 percent to 10 percent;
- Increasing the current equipment expensing limit from \$10,000 to \$25,000;
- Eliminating capital gains taxes on newly-issued small business stock;
- Permitting the immediate write-off of up to \$2,500 of the front-end costs of starting a new business; and
- Simplifying the tax laws so that most small businesses can file their returns on one or two pages.

**I. Helping Small Businesses Get Started**

The Administration has proposed tax policies and innovative programs to give incentives for entrepreneurship.

**A. Expanding Tax Incentives to Start Small Businesses**

- Reducing Capital Gains.

Today the President proposed to eliminate the capital gains tax on small business start-ups. Under the President's proposal, capital gains earned from qualified investments held for five years in certain small business corporations would qualify for a 50

percent exclusion. In addition, for each additional year the investment is held, the exclusion is increased by ten percent. Investments held for ten years or more will be exempt from capital gains taxation. The proposal would cover investments in small businesses with up to \$10 million in assets or receipts.

- Expensing Start-Up Costs.

The President also proposed to permit the immediate write-off of up to \$2,500 of the initial costs of organizing a new business. (Under current law, allowable business start-up expenditures must be capitalized and amortized over at least five years.) Direct expensing of a portion of these costs will reduce the cost of capital necessary to start a business.

The new write-off provisions would be applicable to expenditures made after December 31, 1992 to start up a business that has less than \$500,000 in sales in its first full year of operation.

**B. Providing Additional Assistance to Entrepreneurs**

- Facilitating Equity Investments.

The President recently signed legislation authorizing the SBA to guarantee new equity-type investments in Small Business Investment Companies (SBICs). The SBICs would, in turn, use the proceeds to make equity investments in small businesses.

- Providing Micro-Loans.

The Small Business Administration (SBA) is implementing a \$45 million program to offer unsecured micro-loans of up to \$25,000 to small businesses.

**II. Helping Small Businesses Reduce the Cost of Capital**

President Bush today proposed a five-point initiative to reduce the cost of capital and simplify the tax code for small businesses. In addition to reducing or eliminating the capital gains tax on newly-issued small business stock and permitting the immediate write-off of up to \$2,500 of the initial costs of starting a small business, the President proposed to:

percent exclusion. In addition, for each additional year the investment is held, the exclusion is increased by ten percent. Investments held for ten years or more will be exempt from capital gains taxation. The proposal would cover investments in small businesses with up to \$10 million in assets or receipts.

- Expensing Start-Up Costs.

The President also proposed to permit the immediate write-off of up to \$2,500 of the initial costs of organizing a new business. (Under current law, allowable business start-up expenditures must be capitalized and amortized over at least five years.) Direct expensing of a portion of these costs will reduce the cost of capital necessary to start a business.

The new write-off provisions would be applicable to expenditures made after December 31, 1992 to start up a business that has less than \$500,000 in sales in its first full year of operation.

**B. Providing Additional Assistance to Entrepreneurs**

- Facilitating Equity Investments.

The President recently signed legislation authorizing the SBA to guarantee new equity-type investments in Small Business Investment Companies (SBICs). The SBICs would, in turn, use the proceeds to make equity investments in small businesses.

- Providing Micro-Loans.

The Small Business Administration (SBA) is implementing a \$45 million program to offer unsecured micro-loans of up to \$25,000 to small businesses.

**II. Helping Small Businesses Reduce the Cost of Capital**

President Bush today proposed a five-point initiative to reduce the cost of capital and simplify the tax code for small businesses. In addition to reducing or eliminating the capital gains tax on newly-issued small business stock and permitting the immediate write-off of up to \$2,500 of the initial costs of starting a small business, the President proposed to:

THE WHITE HOUSE  
Office of the Press Secretary

For Immediate Release

September 23, 1992

**Encouraging Entrepreneurial Capitalism:  
Strengthening Small Businesses**

**FACT SHEET**

President Bush announced today a comprehensive program for strengthening our Nation's small businesses, including a five-year, \$20 billion initiative to reduce capital costs directly and to reduce the paperwork burdens that fall heavily on small businesses.

The initiative includes:

- Reducing the lowest corporate tax rate for small businesses from 15 percent to 10 percent;
- Increasing the current equipment expensing limit from \$10,000 to \$25,000;
- Eliminating capital gains taxes on newly-issued small business stock;
- Permitting the immediate write-off of up to \$2,500 of the front-end costs of starting a new business; and
- Simplifying the tax laws so that most small businesses can file their returns on one or two pages.

**I. Helping Small Businesses Get Started**

The Administration has proposed tax policies and innovative programs to give incentives for entrepreneurship.

**A. Expanding Tax Incentives to Start Small Businesses**

• **Reducing Capital Gains.**

Today the President proposed to eliminate the capital gains tax on small business start-ups. Under the President's proposal, capital gains earned from qualified investments held for five years in certain small business corporations would qualify for a 50

- A. Reduce the corporate tax rate for small businesses from 15 percent to 10 percent. The President proposed to reduce the tax rate on the first \$50,000 of a corporation's taxable income from 15 percent to 10 percent. The proposed new corporate tax rate would become effective on January 1, 1993.
- B. Increase the current expensing limit from \$10,000 to \$25,000. Under current tax law, a small business may deduct up to \$10,000 of the cost of business or income-producing equipment in the year it is placed in service. The President proposed to increase the maximum allowable deduction from \$10,000 to \$25,000. This \$25,000 maximum would be reduced for each dollar of eligible equipments' cost above \$200,000. Thus, no expense deduction would be allowed when the cost of eligible equipment exceeds \$225,000.
- C. Simplify the tax laws so that most small businesses can file their returns on one or two pages. This includes:

- **AMT Relief for Business Tax Preferences**

Under the President's proposal, certain business preferences and adjustments arising from qualifying small corporations (including adjustments for depreciation, depletion, intangible drilling costs and other expenses) would no longer be subject to alternative minimum tax. In addition, active participants in qualifying unincorporated businesses would not be required to include these preferences and adjustments in determining their individual AMT.

- **Inflation-adjusted inventory accounting rules**

Taxpayers with gross receipts under \$10 million could elect to use an inflation-adjusted FIFO (First In, First Out) method of accounting for inventory. Inventories would be indexed using inflation adjustment factors based on an overall price index, such as the Consumer Price Index, to eliminate the effects of inflation from the determination of taxable income.

- **Exemption from uniform capitalization rules**

The President's proposal exempts taxpayers with gross receipts under \$10 million from the uniform rules governing capitalization of direct and indirect costs associated with the production of property. In addition, very small producers (those with gross

receipts under \$1 million) would be required to capitalize only direct costs attributable to production activities, and could expense all indirect costs associated with their production activities. This will permit small businesses to avoid making costly and burdensome cost allocations solely for the purpose of computing tax liability.

- **Exemption from long-term contract rules**

Under current law, taxable income from long-term contracts is determined under the percentage of completion method (PCM) of accounting.

The President proposes to expand the current exemption from the PCM requirements to any long-term contract being performed by a contractor with average gross receipts under \$10 million.

- **Pension rule simplification**

The President proposed several changes to simplify pension rules and expand pension options for small businesses, including:

- **Permitting small businesses with less than 100 employees that have no pension plan to sponsor a Small Business Model Retirement Plan for its employees. An employer who sponsors a Small Business Model Retirement Plan must contribute one percent of pay to an account for each participating employee.**

Employees could elect to defer a portion of his or her compensation to the account, up to a maximum of \$3,000. To encourage employees to elect deferrals, the employer must make a matching contribution to the first 3 percent of compensation that an employee elects to defer, plus 50 percent of elective deferrals representing between 3 percent and 5 percent of the employee's compensation.

- **Repealing certain family aggregation rules that apply for pension plan purposes;**

- **Permitting certain tax-exempt employers (including trade associations and credit unions) to adopt Section 401(k) retirement plans for their employees; and**

receipts under \$1 million) would be required to capitalize only direct costs attributable to production activities, and could expense all indirect costs associated with their production activities. This will permit small businesses to avoid making costly and burdensome cost allocations solely for the purpose of computing tax liability.

- **Exemption from long-term contract rules**

Under current law, taxable income from long-term contracts is determined under the percentage of completion method (PCM) of accounting.

The President proposes to expand the current exemption from the PCM requirements to any long-term contract being performed by a contractor with average gross receipts under \$10 million.

- **Pension rule simplification**

The President proposed several changes to simplify pension rules and expand pension options for small businesses, including:

- **Permitting small businesses with less than 100 employees that have no pension plan to sponsor a Small Business Model Retirement Plan for its employees. An employer who sponsors a Small Business Model Retirement Plan must contribute one percent of pay to an account for each participating employee.**

Employees could elect to defer a portion of his or her compensation to the account, up to a maximum of \$3,000. To encourage employees to elect deferrals, the employer must make a matching contribution to the first 3 percent of compensation that an employee elects to defer, plus 50 percent of elective deferrals representing between 3 percent and 5 percent of the employee's compensation.

- **Repealing certain family aggregation rules that apply for pension plan purposes;**
- **Permitting certain tax-exempt employers (including trade associations and credit unions) to adopt Section 401(k) retirement plans for their employees; and**

- A. Reduce the corporate tax rate for small businesses from 15 percent to 10 percent. The President proposed to reduce the tax rate on the first \$50,000 of a corporation's taxable income from 15 percent to 10 percent. The proposed new corporate tax rate would become effective on January 1, 1993.
- B. Increase the current expensing limit from \$10,000 to \$25,000. Under current tax law, a small business may deduct up to \$10,000 of the cost of business or income-producing equipment in the year it is placed in service. The President proposed to increase the maximum allowable deduction from \$10,000 to \$25,000. This \$25,000 maximum would be reduced for each dollar of eligible equipments' cost above \$200,000. Thus, no expense deduction would be allowed when the cost of eligible equipment exceeds \$225,000.
- C. Simplify the tax laws so that most small businesses can file their returns on one or two pages. This includes:

- **AMT Relief for Business Tax Preferences**

Under the President's proposal, certain business preferences and adjustments arising from qualifying small corporations (including adjustments for depreciation, depletion, intangible drilling costs and other expenses) would no longer be subject to alternative minimum tax. In addition, active participants in qualifying unincorporated businesses would not be required to include these preferences and adjustments in determining their individual AMT.

- **Inflation-adjusted inventory accounting rules**

Taxpayers with gross receipts under \$10 million could elect to use an inflation-adjusted FIFO (First In, First Out) method of accounting for inventory. Inventories would be indexed using inflation adjustment factors based on an overall price index, such as the Consumer Price Index, to eliminate the effects of inflation from the determination of taxable income.

- **Exemption from uniform capitalization rules**

The President's proposal exempts taxpayers with gross receipts under \$10 million from the uniform rules governing capitalization of direct and indirect costs associated with the production of property. In addition, very small producers (those with gross

- Eliminating the special aggregation rules that apply to retirement plans for self-employed individuals.

### III. Helping Small Businesses Get Access to Credit

#### A. Providing Assistance Through the SBA.

- In 1992 the Administration provided a record \$6 billion in loan authority to permit the SBA to guarantee small business loans.
- Under the New England Lending and Recovery Project, the SBA restructures small business loans held by the FDIC as a result of bank failures.

#### B. Encouraging Bank Lending.

- The Administration has worked with bank regulators and conducted extensive meetings with bankers, examiners, and borrowers nationwide to increase the availability of funds. Earlier this month, Treasury Secretary Brady met with top banking industry executives to encourage a strong focus on small business lending.
- The Administration has also worked with bank regulators in issuing over 30 regulatory changes to increase credit availability.

#### C. Opening Up Equity Markets to Small Business.

The President's regulatory review and moratorium has led to a series of small business initiatives by the Securities and Exchange Commission, including:

- Allowing issuers of "seed capital" offerings to issue up to \$1 million per year in securities and be exempt from SEC registration requirements;
- Raising from \$1.5 million to \$5 million the ceiling on Regulation A limited public offerings, using simplified disclosure procedures; and
- Fostering investment by mutual funds in small businesses.

D. Providing Disaster Assistance.

More than \$2 billion in loan authority has been provided this fiscal year to help small businesses recover from the effects of devastating natural disasters, including Hurricanes Andrew and Iniki and the Los Angeles riots. The SBA has streamlined the application process.

IV. **Helping Small Businesses Expand Employment and Increase Productivity**

A. Supporting Innovative Research.

The Administration supports or has proposed a number of measures to increase investment in research and development, including:

- Making the Research & Experimentation tax credit permanent; and
- Doubling the percentage of Federal R&D budget that is set aside for small business under the Small Business Innovation Research (SBIR) program from 1.25 percent to 2.5 percent.

Today President Bush directed agencies participating in the SBIR program to implement a Commercialization Assistance Project. The project will place participating small businesses in contact with established companies to improve the skills necessary to access credit.

B. Improving the Quality of Our Workforce.

The President has proposed to revolutionize American education through his America 2000 program, and to streamline, expand and improve the accountability of Federal job training programs.

C. Reforming Our Legal System.

President Bush has proposed and supported legislation to reform our civil justice system, particularly in the areas of product liability and tort law, to encourage early settlement of disputes, adopt the "Loser Pays" rule to require the loser to pay the winner's legal fees in certain circumstances, and to limit excessive punitive damage awards.

D. Providing Disaster Assistance.

More than \$2 billion in loan authority has been provided this fiscal year to help small businesses recover from the effects of devastating natural disasters, including Hurricanes Andrew and Iniki and the Los Angeles riots. The SBA has streamlined the application process.

IV. **Helping Small Businesses Expand Employment and Increase Productivity**

A. Supporting Innovative Research.

The Administration supports or has proposed a number of measures to increase investment in research and development, including:

- Making the Research & Experimentation tax credit permanent; and
- Doubling the percentage of Federal R&D budget that is set aside for small business under the Small Business Innovation Research (SBIR) program from 1.25 percent to 2.5 percent.

Today President Bush directed agencies participating in the SBIR program to implement a Commercialization Assistance Project. The project will place participating small businesses in contact with established companies to improve the skills necessary to access credit.

B. Improving the Quality of Our Workforce.

The President has proposed to revolutionize American education through his America 2000 program, and to streamline, expand and improve the accountability of Federal job training programs.

C. Reforming Our Legal System.

President Bush has proposed and supported legislation to reform our civil justice system, particularly in the areas of product liability and tort law, to encourage early settlement of disputes, adopt the "Loser Pays" rule to require the loser to pay the winner's legal fees in certain circumstances, and to limit excessive punitive damage awards.

- Eliminating the special aggregation rules that apply to retirement plans for self-employed individuals.

### III. Helping Small Businesses Get Access to Credit

#### A. Providing Assistance Through the SBA.

- In 1992 the Administration provided a record \$6 billion in loan authority to permit the SBA to guarantee small business loans.
- Under the New England Lending and Recovery Project, the SBA restructures small business loans held by the FDIC as a result of bank failures.

#### B. Encouraging Bank Lending.

- The Administration has worked with bank regulators and conducted extensive meetings with bankers, examiners, and borrowers nationwide to increase the availability of funds. Earlier this month, Treasury Secretary Brady met with top banking industry executives to encourage a strong focus on small business lending.
- The Administration has also worked with bank regulators in issuing over 30 regulatory changes to increase credit availability.

#### C. Opening Up Equity Markets to Small Business.

The President's regulatory review and moratorium has led to a series of small business initiatives by the Securities and Exchange Commission, including:

- Allowing issuers of "seed capital" offerings to issue up to \$1 million per year in securities and be exempt from SEC registration requirements;
- Raising from \$1.5 million to \$5 million the ceiling on Regulation A limited public offerings, using simplified disclosure procedures; and
- Fostering investment by mutual funds in small businesses.

D. Expanding and Opening Foreign Markets.

The Small Business Administration and the Department of Commerce have provided information, counseling, training and financing to thousands of small businesses who seek to export their products to new markets overseas.

E. Creating Enterprise Zones

President Bush has proposed to create enterprise zones in inner cities and rural areas that suffer from a lack of economic opportunities for their residents. A number of tax incentives would be provided for enterprise zone workers, investors and businesses, including an employee wage credit, expensing of certain stock investments, and an exclusion of most capital gains.

V. Clearing Away the Regulatory Maze

The Administration has announced several reforms that will reduce the costs and burdens imposed on small businesses in complying with the Federal tax system.

A. Reducing the Costs of the Payroll Tax System.

Several initiatives will reduce administrative costs for the more than 3.5 million small employers who must report employment taxes, including:

- Permitting up to 75 percent of all employers to make payroll tax deposits once a month, and to make those deposits electronically;
- Creating a new simplified Federal employment tax form for small businesses;
- Establishing a single wage-reporting system to eliminate duplicate filing of Form W-2 and other payroll tax information; and
- Allowing employers to verify employees' tax identification numbers by telephone.

B. Reduce Other Tax-Related Burdens.

Additional reforms will allow:

- Deductibility of Preparation Fees. On April 1, 1992, the IRS released a ruling allowing more than 16 million sole proprietors, including farmers, to

deduct business-related tax preparation fees as a business expense rather than as a limited itemized deduction.

- Joint Federal-State Filing. The IRS is working with States on a pilot program for the joint electronic filing of Federal and State tax returns. In 1992, the IRS implemented this program State-wide in South Carolina and on a more limited basis in six other States. The IRS expects to add additional States during the coming year.
- Educational Initiatives for Small Businesses. In the past year, the IRS has informally contacted over 150,000 small businesses having difficulty complying with Federal tax deposit requirements. The IRS is now working with these taxpayers, outside the formal audit and enforcement context, to address compliance concerns.

## VI. Helping Small Businesses Provide for Their Workers

Small businesses need help in providing benefits that will give their employees economic security. These benefits include:

### A. Affordable Health Care.

Eighty five percent of workers and dependents without health insurance work for firms with fewer than 100 employees. The President's Comprehensive Health Reform Plan would:

- Allow small employers to form Health Insurance Networks to give small employers the purchasing clout of a large group;
- Require insurers to offer insurance to all small groups if they sell health insurance to any small groups. Insurers would also be required to offer insurance to all members of the group and could no longer exclude particular individuals who the insurer thought would have high medical expenses;
- Ensure affordable insurance rates for small groups with one or more very sick individuals, initially through rate limitations and, over time, through risk-pooling; and

deduct business-related tax preparation fees as a business expense rather than as a limited itemized deduction.

- Joint Federal-State Filing. The IRS is working with States on a pilot program for the joint electronic filing of Federal and State tax returns. In 1992, the IRS implemented this program State-wide in South Carolina and on a more limited basis in six other States. The IRS expects to add additional States during the coming year.
- Educational Initiatives for Small Businesses. In the past year, the IRS has informally contacted over 150,000 small businesses having difficulty complying with Federal tax deposit requirements. The IRS is now working with these taxpayers, outside the formal audit and enforcement context, to address compliance concerns.

## VI. Helping Small Businesses Provide for Their Workers

Small businesses need help in providing benefits that will give their employees economic security. These benefits include:

### A. Affordable Health Care.

Eighty five percent of workers and dependents without health insurance work for firms with fewer than 100 employees. The President's Comprehensive Health Reform Plan would:

- Allow small employers to form Health Insurance Networks to give small employers the purchasing clout of a large group;
- Require insurers to offer insurance to all small groups if they sell health insurance to any small groups. Insurers would also be required to offer insurance to all members of the group and could no longer exclude particular individuals who the insurer thought would have high medical expenses;
- Ensure affordable insurance rates for small groups with one or more very sick individuals, initially through rate limitations and, over time, through risk-pooling; and

D. Expanding and Opening Foreign Markets.

The Small Business Administration and the Department of Commerce have provided information, counseling, training and financing to thousands of small businesses who seek to export their products to new markets overseas.

E. Creating Enterprise Zones

President Bush has proposed to create enterprise zones in inner cities and rural areas that suffer from a lack of economic opportunities for their residents. A number of tax incentives would be provided for enterprise zone workers, investors and businesses, including an employee wage credit, expensing of certain stock investments, and an exclusion of most capital gains.

V. Clearing Away the Regulatory Maze

The Administration has announced several reforms that will reduce the costs and burdens imposed on small businesses in complying with the Federal tax system.

A. Reducing the Costs of the Payroll Tax System.

Several initiatives will reduce administrative costs for the more than 3.5 million small employers who must report employment taxes, including:

- Permitting up to 75 percent of all employers to make payroll tax deposits once a month, and to make those deposits electronically;
- Creating a new simplified Federal employment tax form for small businesses;
- Establishing a single wage reporting system to eliminate duplicate filing of Form W-2 and other payroll tax information; and
- Allowing employers to verify employees' tax identification numbers by telephone.

B. Reduce Other Tax-Related Burdens.

Additional reforms will allow:

- Deductibility of Preparation Fees. On April 1, 1992, the IRS released a ruling allowing more than 16 million sole proprietors, including farmers, to

- Permit the self-employed to deduct 100 percent of their health care insurance premiums as opposed to the 25 percent they currently are permitted to deduct.

**B. Tax Incentives for Family Leave Policies.**

President Bush has proposed to provide tax credits to businesses with fewer than 500 employees that adopt non-discriminatory leave policies related to childbirth, adoption or serious family health problems. The employer would be eligible for a tax credit equal to 20 percent of the cash wages that the employer provided (or would have provided) to the employee during the period of family leave, up to a maximum of \$20 of credit per business day and a maximum of \$1,200 of credit per employee per year. The employer must continue to provide health benefits and other employment protections and benefits to employees on family leave.

**C. Retirement Security.**

- In July 1992, the President signed legislation increasing pension portability and enhancing retirement security for workers who change jobs by permitting workers to rollover their accrued pension benefits directly into another retirement plan or an Individual Retirement Account.
- The President also proposes to:
  - Reduce and simplify the administrative requirements for pension plans offered by small employers to encourage them to extend coverage to those not currently covered;
  - Permit tax-exempt institutions and state and local governments to establish 401(k) retirement savings plans for their employees; and
  - Simplify the rules for administering 401(k) plans and repealing special tax breaks that discourage retirement savings.

## SMALL BUSINESS TAX INITIATIVES

Small businesses are the engine of growth in our economy, creating two-thirds of new U.S. jobs. During the 1980s, small businesses added about 12.5 million additional workers, while employment in Fortune 500 companies actually declined. From 1988 to 1990, small businesses created more than 3 million jobs--the entire net increase in the nation's job growth for that period in the private, nonfarm sector.

This progress in job creation by small business is held back by three impediments--a high cost of capital, a paperwork burden brought on by unnecessary regulation, and high costs of providing employee benefits. The Bush Administration is addressing these impediments in a set of specific tax policy changes. These changes complement the Administration's efforts in other areas to assist small businesses.

### *Reducing the Cost of Capital*

- Increase section 179 limit on the cost of equipment that can be expensed from \$10,000 to \$25,000 (revenue cost: \$8.4 billion over 5 years).
- Exempt tax preferences attributable to depreciation, depletion, intangible drilling costs, and certain other expenses from the AMT for small business corporations and individual taxpayers who actively participate in small business activities (revenue cost: \$1.7 billion over 5 years).
- Exempt up to 100 percent of capital gains on small business stock, and 100 percent of the gain if the proceeds are rolled over into another small business investment (revenue cost: \$0.7 billion over 5 years).
- Reduce the lowest corporate tax rate from 15 percent to 10 percent (revenue cost: \$5.5 billion over 5 years).

### *Eliminating Unnecessary Paperwork and Regulation*

- Allow expensing of the first \$2,500 of small business startup costs with the balance written off over 5 years (revenue cost: \$0.5 billion over 5 years).
- Allow small businesses to elect a new inflation-adjusted FIFO inventory accounting rule (revenue cost: \$2.6 billion over 5 years).
- Exempt small business from the uniform capitalization and long-term contract accounting rules (revenue cost: \$0.3 billion over 5 years).
- Allow small businesses to establish a small business model pension plan. This plan will allow employees to defer up to \$3,000 in contributions if the employer matches a portion

of their contribution. In addition, certain other pension simplifications will apply to small businesses (revenue cost: \$0.9 billion over 5 years).

### *Reducing the High Cost of Employee Benefits*

- Allow a deduction of 100 percent of health insurance premiums for self-employed individuals (revenue cost: \$5.0 billion over 5 years).
- Provide a tax credit for small businesses that maintain a job and benefits for employees on unpaid leave for childbirth or family illness (revenue cost: \$3.1 billion over 5 years).

### *Effects of Proposals*

These proposals will have a significant effect on the lives of small business owners and their employees. Reductions in the cost of capital for small businesses will increase their ability to invest and grow. In addition, the reduction in the burden of unnecessary paperwork will redirect small business' resources away from form creation to product and job creation. For example, the new small business tax proposals will:

- Reduce the cost of capital and increase the cash flow of more than *4.8 million small businesses* by a total of *about \$2 billion each year* by liberalizing expensing.
- Reduce the cost of capital and increase the cash flow of *850,000 small corporations* by *more than \$1 billion each year* by reducing their corporate tax liability.
- Decrease unproductive recordkeeping and tax return preparation time by small businesses across our country of *over 160 million hours each year*.
- Reduce the regulatory burden for small businesses by *eliminating 225 pages of regulatory guidance* from consideration in determining their tax liabilities.
- Permit *950,000 small businesses* to benefit directly from the \$2,500 startup cost expensing allowance (this represents 5.5 percent of all small businesses).
- Eliminate depreciation computations and permit direct expensing through corporate tax for all new equipment acquisitions by *4.8 million small businesses* (this represents 26 percent of all small business).
- Entitle *5 million small businesses* to index inventories under a simplified method to eliminate permanently the effects of inflation from their computations of gross income from the sales of their products (this represents 28 percent of all small businesses).

- Relieve *2 million small businesses* from time-consuming cost allocation and capitalization requirements, which differ from their financial reporting requirements, done solely for purposes of determining their tax liabilities (this represents 11.5 percent of all small businesses).
- Relieve *150,000 small business owners and 10,000 small corporations* from costly recordkeeping and filing requirements caused by the alternative minimum tax.
- Expand opportunities for small businesses to adopt qualified pension plans through promoting the use of master and model small business plans, thus reducing the professional fees that small businesses incur in establishing these plans, the filing fees associated with adopting the plans, the administrative costs of implementing and maintaining the plans, and the annual filing requirements for the plans.

of their contribution. In addition, certain other pension simplifications will apply to small businesses (revenue cost: \$0.9 billion over 5 years).

### *Reducing the High Cost of Employee Benefits*

- Allow a deduction of 100 percent of health insurance premiums for self-employed individuals (revenue cost: \$5.0 billion over 5 years).
- Provide a tax credit for small businesses that maintain a job and benefits for employees on unpaid leave for childbirth or family illness (revenue cost: \$3.1 billion over 5 years).

### *Effects of Proposals*

These proposals will have a significant effect on the lives of small business owners and their employees. Reductions in the cost of capital for small businesses will increase their ability to invest and grow. In addition, the reduction in the burden of unnecessary paperwork will redirect small business' resources away from form creation to product and job creation. For example, the new small business tax proposals will:

- Reduce the cost of capital and increase the cash flow of more than *4.8 million small businesses* by a total of *about \$2 billion each year* by liberalizing expensing.
- Reduce the cost of capital and increase the cash flow of *850,000 small corporations* by *more than \$1 billion each year* by reducing their corporate tax liability.
- Decrease unproductive recordkeeping and tax return preparation time by small businesses across our country of *over 160 million hours each year*.
- Reduce the regulatory burden for small businesses by *eliminating 225 pages of regulatory guidance* from consideration in determining their tax liabilities.
- Permit *950,000 small businesses* to benefit directly from the \$2,500 startup cost expensing allowance (this represents 5.5 percent of all small businesses).
- Eliminate depreciation computations and permit direct expensing through corporate tax for all new equipment acquisitions by *4.8 million small businesses* (this represents 26 percent of all small business).
- Entitle *5 million small businesses* to index inventories under a simplified method to eliminate permanently the effects of inflation from their computations of gross income from the sales of their products (this represents 28 percent of all small businesses).

## SMALL BUSINESS TAX INITIATIVES

Small businesses are the engine of growth in our economy, creating two-thirds of new U.S. jobs. During the 1980s, small businesses added about 12.5 million additional workers, while employment in Fortune 500 companies actually declined. From 1988 to 1990, small businesses created more than 3 million jobs--the entire net increase in the nation's job growth for that period in the private, nonfarm sector.

This progress in job creation by small business is held back by three impediments--a high cost of capital, a paperwork burden brought on by unnecessary regulation, and high costs of providing employee benefits. The Bush Administration is addressing these impediments in a set of specific tax policy changes. These changes complement the Administration's efforts in other areas to assist small businesses.

### *Reducing the Cost of Capital*

- Increase section 179 limit on the cost of equipment that can be expensed from \$10,000 to \$25,000 (revenue cost: \$8.4 billion over 5 years).
- Exempt tax preferences attributable to depreciation, depletion, intangible drilling costs, and certain other expenses from the AMT for small business corporations and individual taxpayers who actively participate in small business activities (revenue cost: \$1.7 billion over 5 years).
- Exempt up to 100 percent of capital gains on small business stock, and 100 percent of the gain if the proceeds are rolled over into another small business investment (revenue cost: \$0.7 billion over 5 years).
- Reduce the lowest corporate tax rate from 15 percent to 10 percent (revenue cost: \$5.5 billion over 5 years).

### *Eliminating Unnecessary Paperwork and Regulation*

- Allow expensing of the first \$2,500 of small business startup costs with the balance written off over 5 years (revenue cost: \$0.5 billion over 5 years).
- Allow small businesses to elect a new inflation-adjusted FIFO inventory accounting rule (revenue cost: \$2.6 billion over 5 years).
- Exempt small business from the uniform capitalization and long-term contract accounting rules (revenue cost: \$0.3 billion over 5 years).
- Allow small businesses to establish a small business model pension plan. This plan will allow employees to defer up to \$3,000 in contributions if the employer matches a portion

92-

**DRAFT**

Immediate

D.J. Caulfield  
202-205-6742**SBA STREAMLINES MINORITY PROGRAM; EASES ENTRY, CONTRACT PROCESS**

WASHINGTON -- As part of President Bush's plan for overall government deregulation, Administrator Patricia Saiki of the U.S. Small Business Administration (SBA) today announced plans to streamline the agency's Minority Small Business (MSB) program to increase efficiency and broaden participation.

"This business development program, targeted to minorities, must be more inclusive and it must deliver its services in a more timely fashion," said Saiki.

The reorganization, which requires some Congressional approval, will ease eligibility and procurement regulations, increase federal contracting opportunities and target delivery of SBA business development services.

Saiki unveiled the proposal at a briefing also attended by Judith Watts, associate administrator for the Office of Minority Small Business and Capital Ownership Development (MSB&COD). This office directs the agency's key minority-oriented commercial initiatives, the 8(a) business development program and 7(j) management and technical assistance program.

Once the plan is approved, new 8(a) applicants will notice an immediate improvement from a more flexible and realistic eligibility standard, a move intended to boost enrollment far beyond today's level of slightly more than 4,000 firms. An individual firm's success from that point on largely will be decided by its own abilities and resources, coupled with business development assistance provided by the SBA.

**DRAFT**

The SBA's participation in the awarding of federal contracts will also be affected.

"Now," said Saiki, "all 8(a) contracts involve the SBA administratively, a disincentive to federal buyers looking to negotiate quickly and directly. The new procedures will remove the SBA from this administrative role, simplifying the process and encouraging wider use of 8(a) throughout the federal system."

The creation of a federal government-wide small disadvantaged business (SDB) procurement program with mandated goals will bring about new, expanded contracting opportunities.

In conjunction with this expansion in marketplace, the SBA proposes to do away with the requirement that 8(a) contracts exceeding a \$3 million threshold (\$5 million for manufacturing) be competed among 8(a) firms. The agency sees this as limiting the 8(a) company's opportunity to gain valuable experience competing in this newly-created market.

Other recommendations include:

- Establishing a pilot 8(a) graduate assistance program whereby firms that left the program and now compete successfully in the economic mainstream mentor current 8(a) participants;
- Targeting 7(j) management and technical assistance to 8(a) firms in four specific areas, marketing assistance, proposal preparation, accounting systems and industry specific technical expertise; and
- Replacing the two stages of 8(a) participation (a four-year development and five-year [maximum] transition phase) with only one level and offer all program benefits to all participants throughout the nine-year term.

###

## FACTS ABOUT U.S. SMALL BUSINESS

DAN,  
FYI  
Todd B

### Small businesses are the engine that propels the economy.

Small businesses (i.e., less than 500 employees) today employ more than 50 percent of the U.S. work force, account for 44 percent of all sales, generate 39 percent of the GNP, comprise 99 percent of all businesses in the U.S. and have been responsible for over half (55 percent) of the country's technical and industrial innovations since the second World War.

### Small business fueled the rapid expansion in job creation.

- Small businesses create two of every three jobs in the economy.
- During the 1980s, small businesses added about 12.5 million additional workers, while the Fortune 500 companies' employment actually declined by a total of 3.1 million jobs.
- Over one-tenth (13 percent) of the labor force -- 15.6 million workers -- are self-employed (that includes part-time self-employment).
- From 1988 to 1990, small businesses created more than 3 million jobs -- the entire net increase in the nation's job growth for that period in the private, non-farm sector.
- The SBA estimates that 71 percent of future employment in the fastest growing industries (e.g., medical care, business services and the environment) is likely to come from small businesses.

### Small businesses are the catalyst for innovation -- the driving force of a dynamic economy.

- Much of the innovation in this country comes from small businesses. Small firms produce about 2.4 times as many innovations per employee as large firms.

### Small businesses will enable the U.S. to become an export superpower.

- Forty percent of all U.S. exporters are small businesses.
- Every billion dollars in exports creates 26,000 new jobs.

Small businesses play an important role in our Nations manufacturing sector.

- In 1991, 98 percent of all manufacturing firms were small businesses -- 83 percent of all manufacturing firms employed less than 50 workers.
- Last year, 63 percent of all manufacturing jobs were located in small businesses -- close to one in every five (18 percent) manufacturing jobs were in firms that employed less than 50 workers.
- Between 1985 and 1991, small manufacturers (less than 100 workers) created over 200,000 net new jobs.

Minorities and women have been the principal beneficiaries/participants in the growth of small businesses.

Small business provides the best opportunity for economic empowerment to this country's fastest-growing and most dynamic groups -- minorities and women.

**Blacks:**

- During the 1980s, the number of Black-owned businesses grew by almost 40 percent, from just over 300,000 to 424,000.
- The number of Black-owned manufacturing businesses more than doubled from 1982 to 1987, from 3,707 to 8,004.

**Hispanics:**

- The most recent Census Bureau statistics show more than 422,000 Hispanic-owned businesses nationally, an increase of 81 percent from 1982.
- The number of Hispanic-owned businesses rose 80.5 percent from 1982 to 1987. This rate of growth is almost six times the rate for all businesses (14 percent), from 233,975 in 1982 to 422,373 in 1987.

**Asians:**

- Between 1982 and 1987, the number of businesses owned by Asian Americans and Pacific Islanders rose 89.3 percent.
- The number of businesses owned by Vietnamese Americans increased more than five-fold from 1982 to 1987, from 4,989 to 25,671.

Women:

- Women are starting businesses at twice the rate of men.
- 30 percent of all small businesses in the U.S. are women-owned. If the trend continues, nearly 48 percent of all small businesses will be women-owned by the turn of the century.
- The total number of businesses owned by women increased about 58 percent from 1982 to 1987. This rate of growth is more than four times the rate for all businesses (14 percent).
- Women-owned businesses continue to demonstrate their growing importance as providers of jobs for American workers. Between 1982 and 1987, the number of women-owned businesses with paid employees nearly doubled. As of 1987, women-owned businesses employed over three million workers.

## CREDIT AVAILABILITY AND SMALL BUSINESS

### Working To Reverse the Credit Crunch

- The Administration has worked with bank regulators and has conducted extensive meetings with bankers, examiners, and borrowers all over the U.S. to increase the availability of funds.
  - This week Treasury Secretary Brady met with bank CEO's to urge them to act more like bankers and open up their lending windows to sound borrowers.
  - The Administration has called for banks to do "more lending and less investing in government securities."
- The Administration has worked with bank regulators to issue over 30 regulatory changes in order to increase credit availability:
  - President Bush has directed that bank examiners conduct their valuation of real estate based on the ability to generate income, not on liquidation value.
  - President Bush has taken action to end over-zealous bank examinations.

### Opening Up Equity Markets to Small Businesses

- The President's Regulatory Relief Effort led to a series of small business initiatives implemented by the Securities and Exchange Commission:
  - allowing issuers of "seed capital" offerings to issue up to \$1 million per year in securities and be exempt from SEC registration requirements.
  - raising from \$1.5 million to \$5 million the ceiling on Regulation A limited public offerings, using simplified disclosure procedures.
  - providing new simplified reporting systems and firms for initial public offerings (IPOs), as well as for repeat offerings of small companies.
  - fostering investment by mutual funds in small businesses by: (a) increasing the amount of securities that may be raised without registration by certain types of investment companies specializing in small businesses and (b) permitting mutual funds to increase the percentage of assets that may be invested in the illiquid securities of small businesses.

## SUGGESTED SPEECH INSERT ON CREDIT AVAILABILITY

...we need the entrepreneurial spark that small businesses provide. But entrepreneurs can't do it alone. They need the credit to set up shop and then to expand. They don't look for a handout -- just a chance to give a good return on investment.

I know that small businesses have had a tough time borrowing. We've been fighting the credit crunch in every possible way. First, we urged the Federal Reserve Board to lower interest rates. Then we met with nearly every bank regulator in the country, and told them that banks must be able to lend to good borrowers. We made 30 separate regulatory changes to remove federal barriers to sound lending. Government overregulation should not stand in the way of creating new businesses and jobs.

We took the message to the banks as well. Just this week Secretary Brady met with bank CEOs from around the country and urged them to do more lending and less investing in government securities. Banks must live up to their responsibilities. Savings must be plowed back into the community to create jobs.

Then we took the message to Wall Street. Working with the SEC, we made it easier for small companies to sell shares by eliminating the paperwork requirements that drive up the cost of getting investors to buy into your dream.

Churchill once said to America, "Give us the tools and we will finish the job." This is the cry of entrepreneurs. We hear your voice. And every day we're pushing aside the barriers that stand in the way of building your business.

Regu Pardon.

Rec'd 9<sup>00</sup> AM  
9/22/92

Encouraging Entrepreneurial Capitalism:  
Strengthening Small Business

I. Introduction: The Challenge

Historians will record the twentieth century as the American Century. It was in this century that the United States first became actively engaged around the world. Throughout this century, we have sought to advance two ideals - democracy and free enterprise -- that have served us well for more than two hundred years.

Today, in country after country, given the choice, people have chosen these two ideals as the path they want to pursue. We have just completed the greatest mission of this American century -- the triumph of democratic capitalism over imperial communism.

Despite these victories in the marketplace of ideas, many Americans are anxious about the future. Sluggish economic growth in the United States, Europe, and Japan has fueled many of these concerns.

We sense the epic changes at work in the world and in the economy, the uneasiness felt in the democracies who have served as our partners.

For America to be safe and strong, we must move confidently to meet the defining challenge of the 1990s: to win the economic competition in an integrated global economy, and provide Americans with prosperity and economic security. We must be a military superpower, an economic superpower, and an export superpower.

My Agenda for American Renewal states that we need to look forward -- to open new markets, prepare our people to work, strengthen our families, save and invest so that we can win. Our renewal depends on economic growth -- but growth not for the few at the expense of the many, not for the present at the expense of the future.

In our country we have always prized an entrepreneurial capitalism that grows from the bottom up, not the top down; a prosperity that begins on Main Street and extends to Wall Street -- not the other way around.

One of our great strengths is our capacity to innovate, to adjust, to change, to redeploy our resources to their most efficient uses. The economic future will belong to those

nations most able to innovate and adapt. Those burdened by bigness often sacrifice quickness and agility for size.

Entrepreneurial capitalism is the sparkplug for America's economic engine. Its energy depends on creating a climate that encourages creativity, rewards innovation, promotes flexibility, and requires competition. Small businesses are essential in helping America meet the challenge of an integrated world economy.

## II. The Context: The Role of Small Business in the Economy

Small business has long played an important role in the U.S. economy. Small businesses, those businesses with fewer than 500 employees, today employ more than 50 percent of the U.S. work force.

They account for 44 percent of all sales and generate 39 percent of the GDP. Thirteen percent of our labor force -- 15.6 million workers -- are self-employed.

Small businesses are a crucial element of our nation's manufacturing sector. In 1991, 98 percent of all manufacturing firms were small businesses.

Last year, 63 percent of all manufacturing jobs were located in small businesses -- close to one in every five (18 percent) manufacturing jobs were in firms that employed less than 50 workers. Between 1985 and 1991, small manufacturers with less than 100 workers created over 200,000 net new jobs.

## III. Recognizing Our Strengths

Small business is one of the strengths of the U.S. economy. It contributes to our economic well being in four important respects.

First, our success in creating jobs is in large part attributable to the vitality of our small businesses. Small business is the engine that propels the economy.

- Small businesses create two-thirds of our new jobs.
- During the 1980s, small businesses added about 12.5 million additional workers, while employment in Fortune 500 companies actually declined.
- From 1988 to 1990, small businesses created more than 3 million jobs -- the entire net increase in the nation's job growth for that period in the private,

non-farm sector.

Second, small businesses are a catalyst for innovation -- the driving force in a dynamic economy. Small firms produce about 2.4 times as many innovations per employee as large firms. They have been responsible for over half (55 percent) of the country's technical and industrial innovations since the second World War.

Third, small businesses will enable the U.S. to become an export superpower. Forty percent of all U.S. exporters are small businesses. Every billion dollars in exports creates 20,000 new jobs.

Fourth, the dynamism of small business has provided an avenue of advancement for minorities and women. During the 1980s, the number of Black-owned businesses grew by almost 40 percent, and the number of Black-owned manufacturing establishments more than doubled from 1982 to 1987.

Likewise, the most recent Census bureau statistics show more than 422,000 Hispanic-owned businesses nationally, an increase of 81 percent from 1982. The rate of growth of Hispanic-owned businesses is almost six times the rate for all businesses. Between 1982 and 1987, the number of businesses owned by Asian Americans and Pacific Islanders rose 89.3 percent.

Women are starting businesses at twice the rate of men. Thirty percent of all small businesses in the U.S. are owned by women. If the trend continues, nearly 48 percent of all small businesses will be owned by women by the turn of the century.

#### IV. Helping Small Businesses Get Started

My Agenda for American Renewal encourages the entrepreneurial spirit of our private businesses. It offers pursue tax, economic and social policies that give incentives for entrepreneurship, rather than discouraging it.

This is common sense. When government permits individuals to keep the rewards of their success, they will keep trying until they succeed. But when government exacts a higher price for entrepreneurship, it undermines the incentive for individuals to start new businesses and create jobs.

That is why I want to cut the capital gains tax and index it for inflation. But in the case of small businesses, I propose to go one step further and cut the tax on capital gains from small business start-ups to zero. These changes would permit small business owners to keep the economic rewards they have earned in return for the risks they have taken, giving

them a greater incentive to undertake those risks.

Some potential entrepreneurs are deterred by the high initial costs of starting a company. Under our tax laws, they can only deduct those expenses over many years.

I propose changing the tax laws to allow individuals to deduct up to \$2,500 of those start-up costs in the first year, when those costs hit small business owners the hardest. (\$0.5 billion)

These economic incentives should help. But sometimes direct financial assistance is required, particularly for those who may be unable to obtain credit to start a business from traditional financing institutions.

I recently signed legislation to reform the Small Business Investment Company (SBIC) program. The legislation creates a new \$250 million program designed to provide equity-type financing to small businesses with high growth potential. Under the new program, SBICs will be better able to make equity investments in small firms wanting to develop and market their visionary ideas.

In order to fill that need, the Small Business Administration started a \$45 million program earlier this year to provide unsecured short-term loans in small amounts -- up to \$25,000 -- to budding entrepreneurs or small businesses that would like to expand.

Finally, my Administration is seeking new ways to help those who might wish to start a small business. The Small Business Administration and the Department of Housing and Urban Development, working in partnership, recently agreed to start a pilot program in Atlanta to assist public housing residents and other low-income residents in the neighborhood to start their own businesses.

Under the program, the SBA and HUD provide managerial, technical and financial assistance to residents who are interested in starting or expanding a business to provide services for the housing project or its residents, including maintenance and custodial services, appliance repairs, security services, lawn care, child care or transportation services.

## V. Helping Small Businesses Get Access to Credit

Small businesses need adequate access to credit. Entrepreneurs can't do it alone. They need credit to set up shop and then to expand. They are not looking for a handout, but a chance to give a good return on investment.

In 1992 we have provided a record \$6 billion in loan authority to permit the Small Business Administration to guarantee small business loans. This is 50 percent above the 1991 level.

More than \$2 billion in loan authority has been provided this fiscal year to help small businesses recover from the effects of devastating natural disasters including Hurricanes Andrew and Iniki and the Los Angeles riots. The Small Business Administration has initiated steps to streamline the application process so that businesses are able to get back on their feet again without delay.

I know that many small businesses have had a tough time borrowing. We have been fighting the credit crunch in every possible way. First, we worked with the Federal Reserve Board to lower interest rates. Interest rates are now at their lowest levels in twenty years.

Then we met with nearly every bank regulator in the country, and told them that banks must be able to lend to good borrowers. We made thirty separate regulatory changes to remove federal barriers to sound lending. Government overregulation should not stand in the way of creating new businesses and jobs.

Earlier this year, I initiated the New England Lending and Recovery Project in order to respond to severe credit crunch problems in that area. Under this project, the Small Business Administration has been working with the Federal Deposit Insurance Corporation (FDIC) to review the performing loans in their portfolio. The goal is to identify loans that could be restructured or refinanced under the SBA's Section 7(a) loan program, thus averting a possible foreclosure action on the loan by the FDIC. This initiative has provided much needed assistance to save small businesses and the workers they employ.

We took the message to the banks as well. Last week Secretary Brady met with bank CEOs from around the country to discuss credit market conditions and to encourage a strong focus on small business lending.

We have directed bank examiners to conduct their valuation of real estate based on the ability to generate income, not on its liquidation value.

Then we took the message to Wall Street. Working with the Securities and Exchange Commission, we are making it easier for small companies to sell shares by eliminating the paperwork requirements that drive up the cost of getting investors.

First, issuers of "seed capital" offerings will be able to issue up to \$1 million annually in securities exempt from SEC

registration requirements.

Second, the SEC is raising from \$1.5 million to \$5 million the maximum amount of securities that can be issued in a limited public offering using simplified disclosure procedures.

Third, the SEC has expanded its shelf registration rules to allow up to 450 additional small and medium sized companies to register securities offerings only once every two years. These steps could increase available investment capital by \$1 trillion.

Finally, the SEC is adopting rules to foster investment in small businesses by mutual funds.

## VI. Helping Small Businesses Reduce the Cost of Capital

If small business is to accelerate its role as an engine for creating jobs we must bring down the cost of capital by reducing costly tax and regulatory burdens. Our task is two fold: reduce capital costs directly and reduce the paperwork burden that fall so heavily on small businesses.

I am proposing a five-year \$20 billion initiative to achieve these two objectives. This initiative includes:

- ✓ • Reducing the corporate tax rate for small businesses from 15 percent to 10 percent; (\$5.5 billion)
- Increasing the current expensing limit from \$10,000 to \$25,000; (\$8.4 billion)
- ✓ • Eliminating capital gains taxes on newly issued small business stock; (\$0.7 billion)
- ✓ • Permitting the immediate write-off of up to \$2,500 of the front end costs of organizing a new business; (\$0.5 billion) and
- ✓ • Simplifying the tax laws so that most small businesses can file their returns on one or two pages. (\$4.9 billion)

This simplification will grant Alternative Minimum Tax relief for preferences arising from active participation in a small business; allow small businesses to elect inflation-adjusted inventory accounting rules; exempt small businesses from uniform capitalization and long-term contract rules; and enhance and simplify pension rules for small businesses.

Winston Churchill once said to America: "Give us the tools and we will finish the job." This is the cry of entrepreneurs. We hear your voice. Every day we are pushing aside the barriers that stand in the way of building your businesses and creating new jobs.

## VII. Helping Small Businesses Expand Employment and Increase Productivity

Small businesses today face a new competitive environment -- challenged not only by competitors in their neighborhood, their city and throughout the Nation, but also by competing firms from around the world. In the new global economy, each of our companies -- from the largest to the smallest -- must have the tools they need not only to compete, but to win.

The ability of small businesses to grow and compete in the global economy depends on their ability to innovate, increase productivity, attract and retain highly-skilled workers and find new markets for their products. The Federal government can do its part by encouraging investment in R&D, supporting efforts to improve the quality of our workforce, reforming our legal system and opening foreign markets for American products and services.

### A. Supporting Innovative Research

In order to be the world's economic leader tomorrow, we must invest in research and development and foster new technologies today. That is why I want to make the research and experimentation tax credit permanent. This credit, which was adopted in 1981 to encourage increased private R&D spending, has been renewed periodically for a year or two at a time. It is time to create predictable rules small businesses can count on when making R&D investment decisions by renewing it permanently.

Our Small Business Innovation Research (SBIR) program fosters the pioneering spirit of small businesses in research and development activities. Under the SBIR program, eleven major Federal agencies set aside a percentage of their R&D funds for contracts with small firms.

My Administration strongly supports increasing the portion of the Federal R&D budget set aside for small business from 1.25 percent to 2.5 percent. Congress should pass this legislation immediately. Since the program began ten years ago, more than \$2.2 billion in Federal R&D funding has been directed to small businesses.

One of the goals of the SBIR program is to encourage small firms to develop products and technologies that have commercial

applications. At least one in four SBIR award winners has achieved commercial sales or expects that commercial sales will occur.

## B. Improving the Quality of Our Workforce

In the 21st century, our greatest national resource will be our people. Materials, machines, and methods are also important, but it is the American worker who will remain the key to our economic security. Since the workplace of the 21st century will be constantly changing, we need a workforce that is skilled and adaptable.

Those industries showing the fastest rate of employment growth include many small-business-dominated industries that require highly-trained workers: engineering, biotechnology, architectural, business and recreation services and automotive repair. Those growing industries with a skilled workforce will have an advantage in the new global marketplace.

That is what my American 2000 program is all about. It includes four crucial elements:

- Accountability.

Our students can't beat world class competition if they can't meet world class standards. We are moving ahead with the development of these standards in math, science, English, history, geography, arts and civics. And we need voluntary national achievement tests to measure the progress of our students in meeting these standards.

- Innovation.

We need break-the-mold New American Schools that will transform our classrooms by developing and implementing the latest in technology and ideas for teaching our students.

- Flexibility.

We need to give schools the flexibility to become educational entrepreneurs --to figure out the best ways to motivate our children, use technology, include parents and involve new types of teachers.

- Competition and Choice.

We must give parents the ability to choose which school their children will attend -- public, private or religious.

We must prepare workers for the prospect of changing jobs and learning new skills many times throughout the course of a

productive life. In January 1992, I announced a plan to streamline the Federal job training system through "one-stop shopping" in every community. Experience has demonstrated that the most effective training and placement services are those closely developed with local employers through private industry councils. That way the training is designed to develop skills that employers know they will need.

My expanded job training proposal has three key features:

- Universal coverage, so all dislocated workers will have access to basic transition assistance and training support;
- Skill grant vouchers of up to \$3000 to help meet the costs of adding new skills and training; and
- A tripling of the resources currently devoted to training and worker adjustment, an allocation of \$10 billion over five years.

I have also proposed a specially-targeted Youth Skills Initiative. The Initiative includes creation of a new Youth Training Corps to provide economically and socially disadvantaged young people with intensive vocational training, and a National Youth Apprenticeship Program to provide skills training for young people not planning to attend college.

### **C. Reforming Our Legal System**

America has suffered a civil litigation explosion. Over the past 30 years, Federal lawsuits have almost tripled. Instead of being fast, fair and affordable, our civil justice system is slow, expensive, and putting us at a global disadvantage.

The cost of litigation affects businesses of every size. Long delays in resolving disputes waste valuable judicial resources, force early settlement by those who cannot afford to wait, discourage those who have meritorious suits, and encourage frivolous suits by those who hope to leverage unjust settlements. High punitive damage awards are passed on to consumers through higher prices, job cuts, higher insurance premiums, and fewer new products.

The major obstacle to reform is, simply put, trial lawyers. I support product liability reform legislation to confront the trial lawyers head on. It would stop wide variation among states' product liability rules; stop important products from being kept off the market; stop excessive litigation costs with more money going to lawyers than to injured consumers; cut excessive insurance rates; and end excessive consumer costs.

My "Access to Justice Act of 1992" is intended to restore fairness and efficiency to the nation's civil justice system through: alternatives to Federal civil trials such as alternative dispute resolution; incentives for pre-litigation settlement, including pre-complaint notification; and a "loser pays" rule requiring the loser to pay the winner's legal fees in suits involving Federal diversity jurisdiction.

We also need to continue our work with the States to encourage fundamental change at the State and local level.

#### **D. Expanding and Opening Foreign Markets**

America is an exporting nation. ~~In~~ 1991, we regained the position of the world's number one exporter. Even more impressive, a relatively small percentage of American firms are responsible for most U.S. exports. Fifteen percent of U.S. firms account for nearly 85 percent of U.S. exports.

Small American businesses represent an immense, largely untapped source of export capacity. Today, small businesses have begun to see the potential that lies in selling their goods and services to eager markets abroad. My Administration has been active in making that dream a reality.

Through the programs of the Small Business Administration (SBA) and the Department of Commerce, we have provided information, counseling, training and even financing to thousands of small businesses who are dealing for the first time with the challenges of the international marketplace.

The Department of Commerce has held over thirty international trade conferences and seminars across the country to work with small businesses, provide information they need to market their products overseas, and identify U.S. government programs and sources of financing that can help them get started. In addition, the Commerce Department's Matchmaker program has introduced hundreds of small businesses to foreign markets, arranging for them to meet directly with potential foreign buyers for their products.

The SBA has encouraged small businesses to take advantage of its Export Revolving Line of Credit program. This special pilot project provides a revolving working capital line of credit to help small manufacturers bridge the gap between receipt of orders for their goods and receipt of payment. Export loans under the Line of Credit program jumped from \$4.85 million in 1990 to over \$26 million in 1991. In the first three quarters of 1992, the SBA extended \$28 million in loans to small exporters under this program.

All SBA loans to exporters increased from \$42 million in 1990 to \$123 million in 1991, with an additional \$195 million

in loans during the first three quarters of 1992.

Of course, it is the private sector that must lead the charge in taking advantage of opportunities to market American products abroad. But where government can help in opening markets and making those first steps a little easier, we will continue to do so.

#### **E. Creating Enterprise Zones**

Our inner cities and rural areas suffer from a lack of economic opportunities for their residents. In order to entice individuals to establish small businesses in these areas, I have proposed creating enterprise zones. Workers employed by enterprises in the zone would be eligible for a tax credit on wages. Inner city entrepreneurs starting businesses and small investors who start or purchase businesses located in enterprise zones would be entitled to deduct up to \$50,000 on their personal income taxes each year, and would not be taxed on capital gains resulting from their investment.

These measures will promote entrepreneurship and job creation in economically distressed urban and rural communities.

### **VIII. Clearing Away the Regulatory Maze**

If small businesses are to thrive and prosper, they must be free to compete without the burden of unnecessary and restrictive Federal regulation. We are working to create a business environment in which regulations addressing legitimate health and safety concerns are balanced with the need to strengthen economic growth and job creation.

In my State of the Union Address last January, I announced, and have since extended through August 28, 1993, a regulatory reform initiative which places a moratorium on new Federal regulations that stifle economic growth. I also instructed Federal agencies to look for ways to modify existing regulations that impose a special economic burden on small business.

In addition, we have undertaken several reforms to reduce the costs and burdens imposed on small businesses in complying with the Federal tax system.

#### **A. Reducing the Costs of the Payroll Tax System**

Last May my Administration announced several initiatives that will reduce administrative costs for the more than 3.5 million small employers who must report employment taxes.

Currently, many small employers must make payroll tax deposits as often as twice a week, using paper coupons. This time-consuming, inefficient system must be simplified. So we propose to allow as many as 75 percent of all employers to deposit payroll taxes once a month, and to make those deposits electronically.

These simplifications will reduce substantially the costs to employers, particularly small businesses, of complying with payroll tax regulations. In addition, these changes are expected to reduce payroll tax penalties by more than 20 percent.

The IRS is developing a new simplified employment tax form that will eliminate information ordinarily relevant only to large businesses. The IRS anticipates the new form will be available by the first quarter of 1994.

It is also inefficient and unacceptable to expect employers to file employment tax forms for each employee with the IRS, the Social Security Administration, and State and local tax agencies. So we are creating a new Single Wage Reporting System that would require only a single filing, thereby saving substantial administrative costs.

Finally, by 1993, the IRS plans to save employers from needless paperwork and correspondence with the IRS by permitting employers to verify employees' tax identification numbers (such as a social security number) by telephone.

## **B. Reducing Other Tax-Related Burdens**

We are also working to reduce the burdens on small businesses in complying with other aspects of the Federal tax system. The Internal Revenue Service is allowing sole proprietors, including farmers, to deduct business-related tax preparation fees as a business expense rather than as a limited itemized deduction.

The IRS is also working with States on a pilot program for the joint electronic filing of Federal and State tax returns. To help small businesses deal with the complexities of the tax system, the IRS has informally contacted over 150,000 small businesses having difficulty complying with Federal tax deposit requirements. The IRS is now working with these taxpayers, outside the formal audit and enforcement context, to address compliance concerns. In addition, during 1991 the IRS conducted over 2,400 Small Business Tax Education Workshops and seminars which were attended by more than 80,000 executives.

## **IX. Helping Small Businesses Provide for Their Workers**

In order to attract and retain good workers, small businesses need to be able to afford to provide the benefits that will give their employees economic security. Three key areas of concern to many workers are health benefits, family leave policies and pension benefits.

### **A. Affordable Health Care for Small Businesses and the Self-Employed**

Our current health care system provides high quality, high-tech medicine, but at an unacceptable price: prices have increased at a rate two to three times the rest of the economy; thirty-five million Americans have no health insurance and current practices leave workers fearful of changing jobs because they may lose their health insurance.

My comprehensive program to reform our health care system includes provisions that allow small businesses to reduce their health insurance costs by pooling their purchasing power. By joining together to form Health Insurance Networks, small employers can have the same market clout and market sophistication of the biggest players in the health care marketplace. Group purchasing can reduce health insurance costs by as much as 16 percent through economies of scale, lower administrative costs and greater leverage to negotiate better rates with insurers.

Small employers also face the possibility of skyrocketing insurance premiums, or the inability to obtain any health insurance at all, if even one employee or employee family member is seriously ill. My plan guarantees insurability so that people with "preexisting" illnesses cannot be denied a job or health coverage on the job.

Our health care plan guarantees affordable coverage through a two-phase process. In the short term, we will limit the difference in premiums that an insurer may charge to groups with different health risks, so that no employer has to pay astronomical insurance premiums. In the next phase, we will create risk pools both for small businesses and for individuals and families receiving tax credits for health insurance. Health plans insuring a sicker than average population would receive a net transfer from the risk pool while other insurers will be net payers into the pool.

My plan will also benefit the self-employed, permitting them to deduct 100 percent of their health care insurance premiums as opposed to the 25 percent they currently are permitted to deduct. (\$5.0 billion) This is fair and treats them similarly to other businesses.

I believe we can provide access to affordable health care for all Americans, while preserving choice for patients and their families in selecting doctors, hospitals, health care programs, and employment. My approach relies on the private sector to deliver health care services. But I would make the market work for us by enhancing competition, which will cut costs.

#### **B. Incentives for Family Leave Policies**

A growing number of families have two wage-earners or are headed by a single parent. As a result, it is more difficult for individuals to balance the demands of their job with the need to care for a seriously ill or injured family member, or to take time off to have a child or ~~adopt~~ one.

Employers may face significant costs from lost production, lost business opportunities, or other costs as the result of extended employee absences. These costs are particularly high for small and medium businesses that may not be able easily to shift employees to cover for the absent worker or to hire a temporary replacement. These smaller companies are also more likely to experience severe economic consequences if they do not quickly replace absent workers.

Since employers frequently must place limits on employee absences due to the economic costs of providing leave, some employees find themselves faced with choosing between their employment and the serious medical or personal needs of their families.

I propose to provide tax incentives to encourage businesses that employ fewer than 500 employees to adopt flexible leave policies related to childbirth, adoption or serious family health problems. Small employers who provide family leave to their employees would be eligible for a refundable tax credit of 20 percent of compensation to the employee during the period of family leave, up to a maximum of \$100 a day in wages and benefits. The maximum credit per employee would be \$1,200 per year. The employer must continue to provide health benefits and other employment protection and benefits to employees on family leave and must provide leave on a nondiscriminatory basis. (\$3.1 billion)

My approach helps our smallest businesses provide family leave. This is the group of workers who most need the help. In contrast, the bill supported by many in Congress would only affect employees in businesses with more than fifty employees.

#### **C. Retirement Security**

Many Americans rely on their pension to provide them with a secure source of income during their retirement years. But many employees of small businesses are not so fortunate. Only

24 percent of small firm employees have pension coverage; the rest -- some 26 million individuals -- have no pension at all.

Even those employees with pensions often lose accrued benefits as retirement income when they change jobs prior to retirement age. Current law gives workers the incentive to cash in their benefits -- get a lump-sum payment -- rather than to roll the money over into another retirement plan or an IRA.

I am determined to turn those incentives around -- to make it easy for workers to take the pension benefits they have earned in one job to the next. Earlier this year, I was proud to sign into law a bill that makes pensions portable. It permits workers to transfer their accrued pension benefits from their old job directly to an IRA or their new employer's pension plan, if that plan accepts transfers.

The new law also imposes a 20 percent mandatory withholding penalty on lump-sum payments of pension benefits that are not transferred directly to a new retirement account. By encouraging preservation of retirement savings, we can ensure a more secure future for working men and women.

I also want to help the millions of employees without pensions by creating a new, simplified retirement program for small businesses, and by allowing State and local governments and tax-exempt organizations to establish 401(k) retirement plans. At the same time, we will simplify the rules for administering retirement plans. By reducing administrative costs, more small companies and organizations will be able to afford to provide pensions for their employees.

## X. Two Paths

We stand at a crossroads where two paths diverge in markedly different directions. They represent competing conceptions of the course our country should pursue.

### Taxes

Our path promises to strengthen America's small businesses through reducing the burden of taxes in order to stimulate investment, research and development, and economic activity. It would increase expensing for investments in equipment, help businesses get started, and reduce capital gains to encourage risk-taking.

My opponent's path relies on substantial increases in taxes on small business -- taxes on so-called "high income" individuals, three quarters of whom have income from small business activity or family farms; payroll taxes to pay for health care; requiring employers to spend 1.5 percent of

payroll for training -- all of which would drain profits, reduce investment, and restrain the growth of jobs.

### Regulatory Burden

Our path promises a comprehensive program to simplify and ease the burden of regulations on small businesses and to eliminate those that are unnecessary. It would modify existing regulations that impose a special economic burden on small business while fending off expensive new mandates. It would reform our product liability laws and civil justice system to reduce the cost of insurance to small businesses and the hidden tax of needless litigation.

My opponent's path relies on government mandates and regulations as the appropriate means for extensive government intervention in the economy and accepts our current liability laws and civil justice system as an inevitable cost of doing business in America.

### Health Care

Our path promises to assist those who work for small businesses by helping these businesses secure access to affordable health insurance, by permitting the self-employed to deduct the health insurance premiums they pay as other businesses do, and by providing credits and deductions for those who need it in order to purchase affordable health insurance.

My opponent's path relies on a mandated pay-or-play health care scheme that effectively amounts to a doubling of the payroll tax for most small businesses and that would quickly cascade into ever more government-provided health care.

### Family Leave

Our path promises to expand family leave to small businesses by providing tax credits to offset the costs of family and medical leave, while leaving decision making to employers and employees.

My opponent's path relies on a government mandate that sets inflexible leave requirements for companies with more than 50 employees, excludes employees of the smallest businesses, and imposes a hidden tax on employees of medium-sized businesses.

### Access to Credit

Our path promises a concerted effort to keep interest rates low and to facilitate the flow of credit to small businesses. It would reduce the cost of capital to small businesses so that they can make needed investments to expand their capacity and increase their productivity.

My opponent's path relies on government direction of additional resources to make investments in selected industries.

#### Worker Training

Our path promises to revolutionize education and job training while providing worker adjustment assistance for all dislocated workers.

My opponent's path would mandate worker training while imposing what amounts to a 1.5 percent payroll tax on small business.

We face a choice between change that trusts people and change that relies on greater government intervention in managing and directing economic activity and resources. By choosing our path that trusts people, we can reach our goal of a \$10 trillion economy by the first years of the 21st Century. We can succeed as an economic and export superpower. We can win the economic competition. We can renew our nation for the next American century.

**CLOSE HOLD***R. Baker***DRAFT**

Encouraging Entrepreneurial Capitalism:  
Strengthening Small Business

I. Introduction: The Challenge

Historians will record the twentieth century as the American Century. It was in this century that the United States first became actively engaged around the world. Throughout this century, we have sought to advance two ideals that have served us well for more than two hundred years.

Today, in country after country, given the choice, people have chosen these two ideals -- democracy and free enterprise -- as the path they want to pursue. We have just completed the greatest mission in the lifetime of our country -- the triumph of democratic capitalism over imperial communism.

Despite these victories in the marketplace of ideas, many Americans are anxious about the future. Sluggish economic growth in the United States, Europe, and in Japan has fueled many of these concerns.

We sense the epic changes at work in the world and in the economy, the uneasiness felt in the democracies who have served as our partners.

For America to be safe and strong, we must move confidently to meet the defining challenge of the 1990s -- in the economic competition in an integrated global economy and provide Americans with prosperity and economic security. We must be a military superpower, an economic superpower, and an export superpower.

My agenda for renewal asks that we look forward -- to open new markets, prepare our people to work, strengthen our families, save and invest so that we can win. Our renewal depends on economic growth -- but growth not for the few at the expense of the many, not for the present at the expense of the future.

In a country we have always prized an entrepreneurial spirit that grows from the bottom up, not the top down; a process that begins on Main Street and extends to Wall Street -- not the other way around.

One of our great strengths is our capacity to innovate, to adjust, to change, to redeploy our resources to their most efficient uses. The economic future will belong to those nations most able to innovate and adapt. Those burdens by

Photo Copy Preservation

bigness often sacrifice quickness and agility for size.

Entrepreneurial capitalism involves creating a climate that encourages creativity, rewards innovation, promotes flexibility, and requires competition. Small businesses must play a crucial part in America meeting the challenge of an integrated world economy.

## II. The Context: Role of Small Business in the Economy

Small business has long played an important role in the U.S. economy. Small businesses, those businesses with fewer than 500 employees, today employ more than 50 percent of the U.S. work force. ✓

They account for 44 percent of all sales and generate 39 percent of the GDP. Thirteen percent of our labor force -- 15.6 million workers -- are self-employed. ✓

Small businesses are a crucial element of our nation's manufacturing sector. In 1991, 98 percent of all manufacturing firms were small businesses -- 83 percent of all manufacturing firms employed fewer than 50 workers. *mtg.*

Last year, 63 percent of all manufacturing jobs were located in small businesses -- close to one in every five (18 percent) manufacturing jobs were in firms that employed less than 50 workers. Between 1985 and 1991, small manufacturers (less than 100 workers) created over 200,000 net new jobs.

## III. Recognizing Our Strengths

Small business is one of the strengths of the U.S. economy. They contribute to our economic well being in four important respects.

First, our success in creating jobs is in large part attributable to the strength of our small businesses. Small business is the engine that propels the economy.

- Small businesses create two thirds of our new jobs. ✓
- During the 1980s small businesses added about 12.5 million additional workers, while employment in Fortune 500 companies actually declined. ✓
- From 1988 to 1990, small businesses created more than 3 million jobs -- the entire net increase in the nation's job growth for that period in the private, non-farm sector. ✓

Photo Copy Preservation

NOT  
COPY  
EMPHASIZE

### Photo Copy Preservation

Second, small businesses are a catalyst for innovation -- the driving force in a dynamic economy. Small firms produce about 2.4 times as many innovations per employee as large firms. They have been responsible for over half (55 percent) of the country's technical and industrial innovations since the second World War.

Third, small businesses will enable the U.S. to become an export superpower. Forty percent of all U.S. exporters are small businesses. Every billion dollars in exports creates 20,000 new jobs. ←

Fourth, the dynamism of small business has provided an avenue of advancement for minorities and women. During the 1980s, the number of Black-owned businesses grew by almost 40 percent, and the number of Black-owned manufacturing establishments more than doubled from 1982 to 1987.

Likewise, the most recent Census bureau statistics show more than 422,000 Hispanic-owned businesses nationally, an increase of 81 percent from 1982. The rate of growth of Hispanic-owned businesses is almost six times the rate for all businesses. Between 1982 and 1987, the number of businesses owned by Asian Americans and Pacific Islanders rose 89.3 percent.

Women are starting businesses at twice the rate of men. Thirty percent of all small businesses in the U.S. are owned by women. If the trend continues, nearly 48 percent of all small businesses will be owned by women by the turn of the century. ||

38% -  
to  
half of  
all  
businesses  
to  
be  
owned  
by  
women

#### IV. Helping Small Businesses Get Started

My Agenda for American Renewal calls for measures to encourage the entrepreneurial spirit of our private businesses. We must pursue tax, economic and social policies that give incentives for entrepreneurship, rather than discouraging it.

This is common sense. When government permits individuals to keep the rewards of their success, they will keep trying until they succeed. But when government exacts a higher price for entrepreneurship, it undermines the incentive for individuals to start new businesses and create jobs.

That is why I want to cut the capital gains tax and index it for inflation. But in the case of small businesses, I propose to go one step further and cut the tax on capital gains from small business start-ups to zero. These changes would permit small business owners to keep the economic rewards they have earned in return for the risks they have taken, giving them a greater incentive to undertake those risks.

use this

Nov 6

## Photo Copy Preservation

Some potential entrepreneurs are deterred by the high initial costs of starting a company. Under our tax laws, they can only deduct those expenses over many years. I propose changing the tax laws to allow individuals to deduct up to \$2,500 of those start-up costs in the first year, when those costs hit small business owners the hardest. (\$0.5 billion)

These economic incentives should help. But sometimes direct financial assistance is required, particularly for those who may be unable to obtain credit to start a business from traditional financing institutions.

In order to fill that need, the Small Business Administration started a \$15 million program earlier this year to give unsecured loans in small amounts -- up to \$25,000 -- to budding entrepreneurs or small businesses that would like to expand.

Finally, my Administration is seeking new ways to help those who might wish to start a small business. The Small Business Administration and the Department of Housing and Urban Development, working in partnership, recently agreed to start a pilot program in Atlanta to assist public housing residents and other low-income residents in the neighborhood to start their own businesses.

Under the program, the SBA and HUD provide managerial, technical and financial assistance to residents who are interested in starting or expanding a business to provide services for the housing project or its residents, including maintenance and custodial services, appliance repairs, security services, lawn care, child care or transportation services.

### V. Helping Small Businesses Get Access to Credit and Reduce the Cost of Capital

Small businesses need adequate access to credit. Entrepreneurs can't do it alone. They need credit to set up shop and then to expand. They are not looking for a handout, but a chance to give a good return on investment.

This year we have authorized a record \$6 billion in loan authority to permit the Small Business Administration to guarantee small business loans. This is percent above the 1991 level.

I know that many small businesses have had a tough time borrowing. We have been fighting the credit crunch in every possible way. First, we worked with the Federal Reserve Board to lower interest rates. Then we met with nearly every bank regulator in the country, and told them that banks must be able

## Photo Copy Preservation

to lend to good borrowers. We made thirty separate regulatory changes to remove federal barriers to sound lending. Government overregulation should not stand in the way of creating new businesses and jobs.

We took the message to the banks as well. Last week Secretary Brady met with bank CEOs from around the country and urged them to do more lending and less investing in government securities. Banks must live up to their responsibilities. Savings must be plowed back into the community to create jobs.

We have directed bank examiners to conduct their valuation of real estate based on the ability to generate income, not on its liquidation value.

Then we took the message to Wall Street. Working with the Securities and Exchange Commission, we made it easier for small companies to sell shares by eliminating the paperwork requirements that drive up the cost of getting investors.

Winston Churchill once said to America: "Give us the tools and we will finish the job." This is the cry of entrepreneurs. We hear your voice. Every day we are pushing aside the barriers that stand in the way of building your business.

If small business is to accelerate its role as an engine for creating jobs we must bring down the cost of capital by reducing costly tax and regulatory burdens. Our task is two fold: reduce capital costs directly and reduce the paperwork burden that fall so heavily on small businesses.

I am proposing a five-year \$20 billion initiative to reduce the cost of capital for our small businesses. This initiative includes six elements:

- Reducing the corporate tax rate for small businesses from 15 percent to 10 percent. (\$5.5 billion)
- Increasing the current expensing limit from \$10,000 to \$25,000; (\$8.4 billion)
- Granting Alternative Minimum Tax relief for preferences arising from active participation in a small business; (\$1.7 billion)
- Eliminating capital gains taxes on newly issued small business stock; (\$0.7 billion)
- Allowing small businesses to elect inflation-adjusted inventory accounting rules; (\$2.6 billion)
- Exempting small business from uniform capitalization and long-term contract rules. (\$0.3 billion)

## Photo Copy Preservation

*2 points*

Enhancing and simplifying pension rules for small business. (\$0.9 billion)

### VI. Helping Small Businesses Expand Employment and Increase Productivity

*NOT down the block - around the world*

Small businesses today face a new competitive environment -- challenged not only by competitors in their neighborhood, their city and throughout the Nation, but also by competing firms from around the world. In the new global economy, each of our companies -- from the largest to the smallest -- must have the tools they need not only to compete, but to win.

The ability of small businesses to grow and compete in the global economy depends on their ability to innovate, increase productivity, attract and retain highly-skilled workers and find new markets for their products. The Federal government can do its part by encouraging investment in R&D, supporting efforts to improve the quality of our workforce, reforming our legal system and opening foreign markets for American products and services.

#### A. Supporting Innovative Research

In order to be the world's economic leader tomorrow, we must invest in research and development and foster new technologies today. That is why I want to make the research and experimentation tax credit permanent. This credit, which was adopted in 1981 to encourage increased private R&D spending, has been renewed periodically for a year or two at a time. It is time to create predictable rules small businesses can count on when making R&D investment decisions by renewing it permanently.

Our Small Business Innovation Research (SBIR) program fosters the pioneering spirit of small businesses in research and development activities. Under the SBIR program, eleven major Federal agencies set aside a percentage of their R&D funds for contracts with small firms.

*4.5*

Under my Administration, the portion of the Federal R&D budget set aside for small business has doubled from 1.25 percent to 2.5 percent. Since the program began ten years ago, more than \$2.2 billion in Federal R&D funding has been directed to small businesses.

One of the goals of the SBIR program is to encourage small firms to develop products and technologies that have commercial applications. At least one in four SBIR award winners has achieved commercial sales or expects that commercial sales will

*B.I.*

## photo Copy Preservation

access to basic transition assistance and training support; (2) skill grant vouchers of up to \$3000 to help meet the costs of adding new skills and training; and (3) a tripling of the resources currently devoted to training and worker adjustment, an allocation of \$10 billion over five years.

I have also proposed a specially-targeted Youth Skills Initiative. The Initiative includes creation of a new Youth Training Corps to provide economically and socially disadvantaged young people with intensive vocational training, and a National Youth Apprenticeship Program to provide skills training for young people not planning to attend college.

### C. Reforming Our Legal System

America has suffered a civil litigation explosion. Over the past 30 years, Federal lawsuits have almost tripled. Instead of being fast, fair and affordable, our civil justice system is slow, expensive, and putting us at a global disadvantage.

The cost of litigation affects businesses of every size. Long delays in resolving disputes waste valuable judicial resources, force early settlement by those who cannot afford to wait, discourage those who have meritorious suits, and encourage frivolous suits by those who hope to leverage unjust settlements. High punitive damage awards are passed on to consumers through higher prices, job cuts, higher insurance, and fewer new products.

My product liability reform legislation confronts the trial lawyers head on. I want to stop wide variation among states' product liability rules; stop important products from being kept off the market; stop excessive litigation costs with more money going to lawyers than to injured consumers; cut excessive insurance rates; and end excessive consumer costs.

My "Access to Justice Act of 1992" is intended to restore fairness and efficiency to the nation's civil justice system through: alternatives to Federal civil trials such as alternative dispute resolution; incentives for pre-litigation settlement, including pre-complaint notification; and a "loser pays" rule requiring the loser to pay the winner's legal fees in suits involving Federal diversity jurisdiction.

We also need to continue our work with the States to encourage fundamental change at the State and local level.

### D. Expanding and Opening Foreign Markets

America is an exporting nation. In 1991, we regained the position of the world's number one exporter. Even more impressive, a relatively small percentage of American firms are

## Photo Copy Preservation

occur.

### B. Improving the Quality of Our Workforce

In the 21st Century, our greatest national resource will be our people. Materials, machines, and methods are also important, but it is the American worker who will remain the key to our economic security. Since the workplace of the 21st Century will be constantly changing, we need a workforce that is skilled and adaptable.

Those industries showing the fastest rate of growth in employment in the decade between 1977-1987 included many small-business-dominated industries that require highly-trained workers: engineering, architectural, business and recreation services and automotive repair. Those growing industries with a skilled workforce will have an advantage in the new global marketplace.

That is what my American 2000 program is all about. It includes four crucial elements. The first is accountability. Our students can't beat world class competition if they can't meet world class standards. We are moving ahead with the development of these standards in math, science, English, history, geography, arts and civics. And we need voluntary national achievement tests to measure the progress of our students in meeting these standards.

The second is innovation. We need break-the-mold New American Schools that will transform our classrooms by developing and implementing the latest in technology and ideas for teaching our students.

The third is flexibility. We need to give schools the flexibility to become educational entrepreneurs --to figure out the best ways to motivate our children, use technology, include parents and involve new types of teachers.

The fourth is competition and choice. We must give parents the ability to choose which school their children will attend -- public, private or religious.

We must prepare workers for the prospect of changing jobs and learning new skills many times throughout the course of a productive life. In January 1992, I announced a plan to streamline the Federal job training system through "one-stop shopping" in every community. Experience has demonstrated that the most effective training and placement services are those closely developed with local employers through private industry councils. That way the training is designed to develop skills that employers know they will need.

My expanded job training proposal has three key features:  
(1) universal coverage, so all dislocated workers will have

## Photo Copy Preservation

responsible for most U.S. exports. Fifteen percent of U.S. firms account for nearly 85 percent of U.S. exports. ] ✓

Small American businesses represent an immense, largely untapped source of export capacity. Today, small businesses have begun to see the potential that lies in selling their goods and services to eager markets abroad. My Administration has been active in making that dream a reality.

Through the programs of the Small Business Administration (SBA) and the Department of Commerce, we have provided information, counseling, training and even financing to thousands of small businesses who are dealing for the first time with the challenges of the international marketplace. The Department of Commerce has held over thirty international trade conferences and seminars across the country to work with small businesses, to provide information they need to market their products overseas, and to identify U.S. government programs and sources of financing that can help them get started. In addition, the Commerce Department's Matchmaker program has introduced hundreds of small businesses to foreign markets, arranging for them to meet directly with potential foreign buyers for their products.

The SBA has encouraged small businesses to take advantage of its Export Revolving Line of Credit program. This special pilot project provides a revolving working capital line of credit to help small manufacturers bridge the gap between receipt of orders of their goods and receipt of payment. Export loans under the Line of Credit program jumped from \$4.85 million in 1990 to over \$26 million in 1991. In the first three quarters of 1992, the SBA extended \$28 million in loans to small exporters under this program. ] ✓

All SBA loans to exporters increased from \$42 million in 1990 to \$123 million in 1991, with an additional \$195 million in loans during the first three quarters of 1992.

Of course, it is the private sector that must lead the charge in taking advantage of opportunities to market American products abroad, but where government can help in opening markets and making those first steps a little easier we will continue to do so.

### E. Creating Enterprise Zones

Our inner cities and rural areas suffer from a lack of economic opportunities for their residents. In order to entice individuals to establish small businesses in these areas, I have proposed creating enterprise zones. Workers employed by enterprises in the zone would be eligible for a tax credit on wages. Inner city entrepreneurs starting businesses and small investors who start or purchase businesses located in enterprise zones would be entitled to deduct up to \$50,000 on

## Photo Copy Preservation

- Simplify the Reporting of Federal Employment Taxes. The IRS is developing a simplified new form, Form 941EZ, that is expected to reduce substantially the compliance burdens of more than 3.5 million small employers. The new form, which the IRS anticipates will be available by the first quarter of 1994, will eliminate information that is ordinarily relevant only to large businesses.

The development of Form 941EZ follows other IRS initiatives designed to simplify forms for small businesses. In 1990, the IRS introduced a simplified version of the form for reporting Federal unemployment taxes. This new form is now used by approximately 700,000 small employers at an estimated annual savings of up to 10 million taxpayer hours.

- Enable Employers to Deposit Payroll Taxes Electronically. Last year, employers filed over 80 million paper coupons to accompany Federal payroll tax deposits of almost \$850 billion. The IRS is testing a program to allow employers to make payroll tax contributions directly to a designated Treasury account. This experimental, voluntary program has been made available to employers in South Carolina, Florida and Atlanta, Georgia.

- Establish a Single Wage Reporting System. Traditionally, employers must file employment tax forms for each employee with the IRS, the Social Security Administration, and State and local tax agencies. The IRS, Social Security Administration and the Department of Labor recently agreed to develop jointly a new Single Wage Reporting System.

The new system would require only one filing, thereby saving substantial administrative costs. The Federal agencies will work closely with State organizations in refining and implementing this system.

- Offer an On-Line Tax Identification Number Matching Service. The IRS plans to establish a service to allow employers to verify employees' tax identification numbers (such as a social security number) through a telephone call. This service will eliminate an employer's need to engage in burdensome paperwork and correspondence with the IRS. The IRS anticipates that this program will be made available to all employers in the 1993.

## Photo Copy Preservation

their personal income taxes each year, and would not be taxed on capital gains resulting from their investment.

These measures will promote entrepreneurship and job creation in economically distressed urban and rural communities.

### VII. Clearing Away the Regulatory Maze

If small businesses are to thrive and prosper, they must be free to compete without the burden of unnecessary and restrictive Federal regulation. We are working to create a business environment in which regulations addressing legitimate health and safety concerns are balanced with the need to strengthen economic growth and job creation.

In my State of the Union Address last January, I announced, and have since extended through August 28, 1993, a regulatory reform initiative which places a moratorium on new Federal regulations that stifle economic growth. I also instructed Federal agencies to look for ways to modify existing regulations that impose a special economic burden on small business.

In addition, we have undertaken several reforms to reduce the costs and burdens imposed on small businesses in complying with the Federal tax system.

#### A. Reducing the Costs of the Payroll Tax System

Last May my Administration announced several initiatives that will reduce administrative costs for the more than five million employers who must report employment taxes. The reforms will:

- Simplify the Payroll Tax Deposit System. The Internal Revenue Service (IRS) and Department of the Treasury will publish a proposed regulation that will enable as many as 75 percent of all employers to make payroll tax deposits once-a-month, replacing the current rules which require many employers to make deposits as often as twice a week. Larger employers can deposit payroll taxes on a fixed day of the week, depending on the payroll date.

These simplifications will reduce substantially the costs to employers, particularly small businesses, of complying with payroll tax regulations. In addition, these changes are expected to reduce payroll tax penalties by more than 20 percent.

## Photo Copy Preservation

### B. Reducing Other Tax-Related Burdens

We are also working to reduce the burdens on small businesses in complying with other aspects of the Federal tax system. These reforms will allow:

- Deductibility of Preparation Fees. On April 1, 1992, the IRS released a ruling allowing more than 16 million sole proprietors, including farmers, to deduct business-related tax preparation fees as a business expense rather than as a limited itemized deduction.
- Joint Federal-State Filing. The IRS is working with States on a pilot program for the joint electronic filing of Federal and State tax returns. In 1992, the IRS implemented this program on a State-wide basis in South Carolina and on a more limited basis in six other States. The IRS expects to add additional States during the coming year.
- Participation in Educational Initiatives for Small Businesses. In the past year, the IRS has informally contacted over 150,000 small businesses having difficulty complying with Federal tax deposit requirements. The IRS is now working with these taxpayers, outside the formal audit and enforcement context, to address compliance concerns. In addition, during Fiscal Year 1991 the IRS conducted over 2,400 Small Business Tax Education Workshops and seminars which were attended by more than 80,000 executives.

### VIII. Helping Small Businesses Provide for Their Workers

In order to attract and retain good workers, small businesses need to be able to afford to provide the benefits that will give their employees economic security. Three key areas of concern to many workers are health benefits, family leave policies and pension benefits.

#### A. Affordable Health Care for Small Businesses and the Self-Employed

Our current health care system provides high quality, high-tech medicine, but at an unacceptable price: spending has increased at a rate two to three times the rest of the economy; thirty-four million Americans have no health insurance and millions more are afraid to change jobs for fear of losing

## Photo Copy Preservation

their health insurance.

My comprehensive program to reform our health care system includes provisions that encourage small businesses to reduce their health insurance costs by pooling their purchasing power. By joining together to form Health Insurance Networks, small employers can have the same market clout and market sophistication of the biggest players in the health care marketplace. Group purchasing can reduce health insurance costs by as much as 15 percent through economies of scale, lower administrative costs and greater leverage to negotiate better rates with insurers.

Small employers also face the possibility of skyrocketing insurance premiums, or the inability to obtain any health insurance at all, if even one employee is seriously ill. My plan guarantees insurability so that people with "preexisting" illnesses cannot be denied a job or health coverage on the job.

Our health care plan guarantees affordable coverage through a two-phase process. In the short term, we will limit the difference in premiums that an insurer may charge to groups with different health risks, so that no employer has to pay astronomical insurance premiums. In the next phase, we will create risk pools both for small businesses and for individuals and families receiving tax credits for health insurance. Health plans insuring a sicker than average population would receive a net transfer from the risk pool where other insurers will be net payers into the pool.

My plan will also benefit the self-employed, permitting them to deduct 100 percent of their health care insurance premiums as opposed to the 25 percent they currently are permitted to deduct. (\$5.0 billion) This is fair and treats them similarly to other businesses.

I believe we can provide access to affordable health care for all Americans, while preserving choice for patients and their families in selecting doctors, hospitals, health care programs, and employment. My approach relies on the private sector to deliver health care services. But I would make the market work for us by enhancing competition, which will cut costs.

### B. Incentives for Family Leave Policies

A growing number of families have two wage-earners. As a result, it is more difficult for individuals to balance the demands of their job with the need to care for a seriously ill or injured family member, or to take time off to have a child or adopt one.

Employers may face significant costs from lost production,

## Photo Copy Preservation

lost business opportunities, or other costs as the result of extended employee absences. These costs are particularly high for small and medium businesses that may not be able easily to shift employees to cover for the absent worker or to hire a temporary replacement. These smaller companies are also more likely to experience severe economic consequences if they do not quickly replace absent workers.

Since employers frequently must place limits on employee absences due to the economic costs of providing leave, some employees find themselves faced with choosing between their employment and the serious medical or personal needs of their families.

I propose to provide tax incentives to encourage businesses that employ fewer than 500 employees to adopt flexible leave policies related to childbirth, adoption or serious family health problems. Small employers who provide family leave to their employees would be eligible for a tax credit of 20 percent of the cash wages that the employer provided (or would have provided) to the employee during the period of family leave, up to a maximum of \$100 a day. The maximum credit per employee would be \$1,200 per year. The employer must continue to provide health benefits and other employment protection and benefits to employees on family leave and must provide leave on a nondiscriminatory basis. (\$3.1 billion)

### C. Retirement Security

Many Americans rely on their pension to provide them with a secure source of income during their retirement years. But many employees of small businesses are not so fortunate. Only 24 percent of small firm employees have pension coverage; the rest -- some 26 million individuals -- have no pension at all.

Even those employees with pensions often lose accrued benefits as retirement income when they change jobs prior to retirement age. Current law gives workers the incentive to cash in their benefits -- get a lump-sum payment -- rather than to roll the money over into another retirement plan or an IRA.

I am determined to turn those incentives around -- to make it easy for workers to make their pensions portable and take the pension benefits they have earned in one job to the next. Earlier this year, I was proud to sign into law a bill that permits workers to transfer their accrued pension benefits from their old job directly into an IRA or their new employer's pension plan, if that plan accepts transfers. The new law also imposes a 20 percent mandatory withholding penalty on lump-sum payments of pension benefits that are not transferred directly to a new retirement account. By encouraging preservation of retirement savings, we can ensure a more secure future for retiring workers.

## Photo Copy Preservation

I also want to help the millions of employees without pensions by creating a new, simplified retirement program for small businesses, and by allowing State and local governments and tax-exempt organizations to establish 401(k) retirement plans. At the same time, we will simplify the rules for administering retirement plans. By reducing administrative costs, more small companies and organizations will be able to afford to provide pensions for their employees.

### IX. Two Paths

We stand at a crossroads where two paths diverge in markedly different directions. They represent competing conceptions of the course our country should pursue.

#### Taxes

One path promises strengthening America's small businesses through reducing the burden of taxes in order to stimulate investment, research and development, and economic activity. It would increase expensing for investments in equipment, help businesses get started, and reduce capital gains to encourage risk-taking.

The other path relies on substantial increases in taxes on small business -- taxes on so-called "high income" individuals, three quarters of whom have income from small business activity or family farms; payroll taxes to pay for health care; payroll taxes for training, all of which would drain profits, reduce investment, and restrain the growth of jobs.

#### Regulatory Burden

One path promises a comprehensive program to simplify and ease the burden of regulations on small businesses and to eliminate those that are unnecessary. It would modify existing regulations that impose a special economic burden on small business while fending off expensive new mandates. It would reform our product liability laws and civil justice system to reduce the cost of insurance to small businesses and the hidden tax of needless litigation.

The other path relies on government mandates and regulations as the appropriate means for extensive government intervention in the economy and accepts our current liability laws and civil justice system as a inevitable consequence of doing business in America.

#### Health Care

## Photo Copy Preservation

One path promises assisting those who work for small businesses by helping these businesses secure access to affordable health insurance, by permitting the self-employed to deduct the health insurance premiums they pay as other businesses do, and by providing credits and deductions for those who need it in order to purchase health insurance.

The other path relies on a mandated play-or-pay health care scheme that effectively amounts to a doubling of the payroll tax for most small businesses and that would quickly cascade into ever more government provided health care.

## Family Leave

One path promises to expand family leave to small businesses by providing tax credits to offset the costs of family and medical leave while leaving decision making and responsibility to employers and employees.

The other path relies on a government mandate that excludes employees of the smallest businesses and imposes a hidden tax on employees of medium-sized businesses.

## Access to Credit

One path promises a concerted effort to keep interest rates low and to facilitate the flow of credit to small businesses. It would reduce the cost of capital to small businesses so that they can make needed investments to expand their capacity and increase their productivity.

The other path relies on government direction of additional resources to make investments in selected industries.

## Worker Training

One path promises to revolutionize education and job training while providing worker adjustment assistance for all dislocated workers.

The other path would mandate worker training while imposes what amount to a 1.5 percent payroll tax on small business.

At bottom we face a choice between change that trusts people and change that relies on greater government intervention in managing and directing economic activity and resources. It is a choice worth considering carefully as we prepare for the next American century.

# Possible Leaders.

#1

Entrepreneurial capitalism is the sparkplug for America's economic engine. Its energy depends on creating a climate that encourages creativity, rewards innovation, promotes flexibility, and requires competition. Small businesses are essential in helping America meet the challenge of an integrated world economy.

#2

When government permits individuals to keep the rewards of their success, they will keep trying until they succeed. But when government exacts a higher price for entrepreneurship, it undermines the incentive for individuals to start new businesses and create jobs.

That is why I want to cut the capital gains tax and index it for inflation. But in the case of small businesses, I propose to go one step further and cut the tax on capital gains from small business start-ups to zero.

#3A

Small businesses need adequate access to credit. Entrepreneurs can't do it alone. They need credit to set up shop and then to expand. They are not looking for a handout, but a chance to give a good return on investment.

#3B

If small business is to accelerate its role as an engine for creating jobs we must bring down the cost of capital by reducing costly tax and regulatory burdens. Our task is two fold: reduce capital costs directly and reduce the paperwork burden that fall so heavily on small businesses.

#3C/4A

Winston Churchill once said to America: "Give us the tools and we will finish the job." This is the cry of entrepreneurs. We hear your voice. Every day we are pushing aside the barriers that stand in the way of building your businesses and creating new jobs.

#4B

The ability of small businesses to grow and compete in the global economy depends on their ability to innovate, increase productivity, attract and retain highly-skilled workers and find new markets for their products. The Federal government can do its part by encouraging investment in R&D, supporting

efforts to improve the quality of our workforce, reforming our legal system and opening foreign markets for American products and services.

#4C

In the 21st century, our greatest national resource will be our people. Materials, machines, and methods are also important, but it is the American worker who will remain the key to our economic security. Since the workplace of the 21st century will be constantly changing, we need a workforce that is skilled and adaptable.

#5A

Small American businesses represent an immense, largely untapped source of export capacity. Today, small businesses have begun to see the potential that lies in selling their goods and services to eager markets abroad. My Administration has been active in making that dream a reality.

#5B

If small businesses are to thrive and prosper, they must be free to compete without the burden of unnecessary and restrictive Federal regulation. We are working to create a business environment in which regulations addressing legitimate health and safety concerns are balanced with the need to strengthen economic growth and job creation.

#5C

In order to attract and retain good workers, small businesses need to be able to afford to provide the benefits that will give their employees economic security. Three key areas of concern to many workers are health benefits, family leave policies and pension benefits.

I believe we can provide access to affordable health care for all Americans, while preserving choice for patients and their families in selecting doctors, hospitals, health care programs, and employment. My approach relies on the private sector to deliver health care services. But I would make the market work for us by enhancing competition, which will cut costs.

#6

We stand at a crossroads where two paths diverge in markedly different directions. They represent competing conceptions of the course our country should pursue.

We face a choice between change that trusts people and change that relies on greater government intervention in

managing and directing economic activity and resources. By choosing our path that trusts people, we can reach our goal of a \$10 trillion economy by the first years of the 21st Century. We can succeed as an economic and export superpower. We can win the economic competition. We can renew our nation for the next American century.

# CLOSE HOLD

# DRAFT

## Encouraging Entrepreneurial Capitalism: Strengthening Small Business

### I. Introduction: The Challenge

Historians will record the twentieth century as the American Century. It was in this century that the United States first became actively engaged around the world. Throughout this century, we have sought to advance two ideals that have served us well for more than two hundred years.

Today, in country after country, given the choice, people have chosen these two ideals -- democracy and free enterprise - - as the path they want to pursue. We have just completed the greatest mission in the lifetime of our country -- the triumph of democratic capitalism over imperial communism.

Despite these victories in the marketplace of ideas, many Americans are anxious about the future. Sluggish economic growth in the United States, Europe, and in Japan has fueled many of these concerns.

We sense the epic changes at work in the world and in the economy, the uneasiness felt in the democracies who have served as our partners.

For America to be safe and strong, we must move confidently to meet the defining challenge of the 1990s: to win the economic competition in an integrated global economy, and provide Americans with prosperity and economic security. We must be a military superpower, an economic superpower, and an export superpower.

My agenda for renewal asks that we look forward -- to open new markets, prepare our people to work, strengthen our families, save and invest so that we can win. Our renewal depends on economic growth -- but growth not for the few at the expense of the many, not for the present at the expense of the future.

In our country we have always prized an entrepreneurial capitalism that grows from the bottom up, not the top down; a prosperity that begins on Main Street and extends to Wall Street -- not the other way around.

One of our great strengths is our capacity to innovate, to adjust, to change, to redeploy our resources to their most efficient uses. The economic future will belong to those nations most able to innovate and adapt. Those burdened by

business often sacrifice quickness and agility for size.

Entrepreneurial capitalism involves creating a climate that encourages creativity, rewards innovation, promotes flexibility, and requires competition. Small businesses must play a crucial part in America meeting the challenge of an integrated world economy.

## II. The Context: Role of Small Business in the Economy

Small business has long played an important role in the U.S. economy. Small businesses, those businesses with fewer than 500 employees, today employ more than 50 percent of the U.S. work force.

They account for 44 percent of all sales and generate 39 percent of the GDP. Thirteen percent of our labor force -- 15.6 million workers -- are self-employed.

Small businesses are a crucial element of our nation's manufacturing sector. In 1991, 98 percent of all manufacturing firms were small businesses -- 83 percent of all manufacturing firms employed fewer than 50 workers.

Last year, 63 percent of all manufacturing jobs were located in small businesses -- close to one in every five (18 percent) manufacturing jobs were in firms that employed less than 50 workers. Between 1985 and 1991, small manufacturers (less than 100 workers) created over 200,000 net new jobs.

## III. Recognizing Our Strengths

Small business is one of the strengths of the U.S. economy. They contribute to our economic well being in four important respects.

First, our success in creating jobs is in large part attributable to the strength of our small businesses. Small business is the engine that propels the economy.

- Small businesses create two thirds of our new jobs.
- During the 1980s small businesses added about 12.5 million additional workers, while employment in Fortune 500 companies actually declined.
- From 1988 to 1990, small businesses created more than 3 million jobs -- the entire net increase in the nation's job growth for that period in the private, non-farm sector.

Second, small businesses are a catalyst for innovation -- the driving force in a dynamic economy. Small firms produce about 2.4 times as many innovations per employee as large firms. They have been responsible for over half (55 percent) of the country's technical and industrial innovations since the second World War.

Third, small businesses will enable the U.S. to become an export superpower. Forty percent of all U.S. exporters are small businesses. Every billion dollars in exports creates 20,000 new jobs.

Fourth, the dynamism of small business has provided an avenue of advancement for minorities and women. During the 1980s, the number of Black-owned businesses grew by almost 40 percent, and the number of Black-owned manufacturing establishments more than doubled from 1982 to 1987.

Likewise, the most recent Census bureau statistics show more than 422,000 Hispanic-owned businesses nationally, an increase of 81 percent from 1982. The rate of growth of Hispanic-owned businesses is almost six times the rate for all businesses. Between 1982 and 1987, the number of businesses owned by Asian Americans and Pacific Islanders rose 89.3 percent.

Women are starting businesses at twice the rate of men. Thirty percent of all small businesses in the U.S. are owned by women. If the trend continues, nearly 48 percent of all small businesses will be owned by women by the turn of the century.

#### IV. Helping Small Businesses Get Started

My Agenda for American Renewal calls for measures to encourage the entrepreneurial spirit of our private businesses. We must pursue tax, economic and social policies that give incentives for entrepreneurship, rather than discouraging it.

This is common sense. When government permits individuals to keep the rewards of their success, they will keep trying until they succeed. But when government exacts a higher price for entrepreneurship, it undermines the incentive for individuals to start new businesses and create jobs.

That is why I want to cut the capital gains tax and index it for inflation. But in the case of small businesses, I propose to go one step further and cut the tax on capital gains from small business start-ups to zero. These changes would permit small business owners to keep the economic rewards they have earned in return for the risks they have taken, giving them a greater incentive to undertake those risks.

Some potential entrepreneurs are deterred by the high initial costs of starting a company. Under our tax laws, they can only deduct those expenses over many years. I propose changing the tax laws to allow individuals to deduct up to \$2,500 of those start-up costs in the first year, when those costs hit small business owners the hardest. (\$0.5 billion)

These economic incentives should help. But sometimes direct financial assistance is required, particularly for those who may be unable to obtain credit to start a business from traditional financing institutions.

In order to fill that need, the Small Business Administration started a \$15 million program earlier this year to give unsecured loans in small amounts -- up to \$25,000 -- to budding entrepreneurs or small businesses that would like to expand.

Finally, my Administration is seeking new ways to help those who might wish to start a small business. The Small Business Administration and the Department of Housing and Urban Development, working in partnership, recently agreed to start a pilot program in Atlanta to assist public housing residents and other low-income residents in the neighborhood to start their own businesses.

Under the program, the SBA and HUD provide managerial, technical and financial assistance to residents who are interested in starting or expanding a business to provide services for the housing project or its residents, including maintenance and custodial services, appliance repairs, security services, lawn care, child care or transportation services.

#### **V. Helping Small Businesses Get Access to Credit and Reduce the Cost of Capital**

Small businesses need adequate access to credit. Entrepreneurs can't do it alone. They need credit to set up shop and then to expand. They are not looking for a handout, but a chance to give a good return on investment.

This year we have authorized a record \$6 billion in loan authority to permit the Small Business Administration to guarantee small business loans. This is 50 percent above the 1991 level.

I know that many small businesses have had a tough time borrowing. We have been fighting the credit crunch in every possible way. First, we worked with the Federal Reserve Board to lower interest rates. Then we met with nearly every bank regulator in the country, and told them that banks must be able

to lend to good borrowers. We made thirty separate regulatory changes to remove federal barriers to sound lending. Government overregulation should not stand in the way of creating new businesses and jobs.

We took the message to the banks as well. Last week Secretary Brady met with bank CEOs from around the country and urged them to do more lending and less investing in government securities. Banks must live up to their responsibilities. Savings must be plowed back into the community to create jobs.

We have directed bank examiners to conduct their valuation of real estate based on the ability to generate income, not on its liquidation value.

Then we took the message to Wall Street. Working with the Securities and Exchange Commission, we made it easier for small companies to sell shares by eliminating the paperwork requirements that drive up the cost of getting investors.

Winston Churchill once said to America: "Give us the tools and we will finish the job." This is the cry of entrepreneurs. We hear your voice. Every day we are pushing aside the barriers that stand in the way of building your business.

If small business is to accelerate its role as an engine for creating jobs we must bring down the cost of capital by reducing costly tax and regulatory burdens. Our task is two fold: reduce capital costs directly and reduce the paperwork burden that fall so heavily on small businesses.

I am proposing a five-year \$20 billion initiative to reduce the cost of capital for our small businesses. This initiative includes six elements:

- Reducing the corporate tax rate for small businesses from 15 percent to 10 percent. (\$5.5 billion)
- Increasing the current expensing limit from \$10,000 to \$25,000; (\$8.4 billion)
- Granting Alternative Minimum Tax relief for preferences arising from active participation in a small business; (\$1.7 billion)
- Eliminating capital gains taxes on newly issued small business stock; (\$0.7 billion)
- Allowing small businesses to elect inflation-adjusted inventory accounting rules; (\$2.6 billion)
- Exempting small business from uniform capitalization and long-term contract rules. (\$0.3 billion)

- Enhancing and simplifying pension rules for small business. (\$0.9 billion)

## VI. Helping Small Businesses Expand Employment and Increase Productivity

Small businesses today face a new competitive environment -- challenged not only by competitors in their neighborhood, their city and throughout the Nation, but also by competing firms from around the world. In the new global economy, each of our companies -- from the largest to the smallest -- must have the tools they need not only to compete, but to win.

The ability of small businesses to grow and compete in the global economy depends on their ability to innovate, increase productivity, attract and retain highly-skilled workers and find new markets for their products. The Federal government can do its part by encouraging investment in R&D, supporting efforts to improve the quality of our workforce, reforming our legal system and opening foreign markets for American products and services.

### A. Supporting Innovative Research

In order to be the world's economic leader tomorrow, we must invest in research and development and foster new technologies today. That is why I want to make the research and experimentation tax credit permanent. This credit, which was adopted in 1981 to encourage increased private R&D spending, has been renewed periodically for a year or two at a time. It is time to create predictable rules small businesses can count on when making R&D investment decisions by renewing it permanently.

Our Small Business Innovation Research (SBIR) program fosters the pioneering spirit of small businesses in research and development activities. Under the SBIR program, eleven major Federal agencies set aside a percentage of their R&D funds for contracts with small firms.

Under my Administration, the portion of the Federal R&D budget set aside for small business has doubled from 1.25 percent to 2.5 percent. Since the program began ten years ago, more than \$2.2 billion in Federal R&D funding has been directed to small businesses.

One of the goals of the SBIR program is to encourage small firms to develop products and technologies that have commercial applications. At least one in four SBIR award winners has achieved commercial sales or expects that commercial sales will

occur.

## B. Improving the Quality of Our Workforce

In the 21st Century, our greatest national resource will be our people. Materials, machines, and methods are also important, but it is the American worker who will remain the key to our economic security. Since the workplace of the 21st Century will be constantly changing, we need a workforce that is skilled and adaptable.

Those industries showing the fastest rate of growth in employment in the decade between 1977-1987 included many small-business-dominated industries that require highly-trained workers: engineering, architectural, business and recreation services and automotive repair. Those growing industries with a skilled workforce will have an advantage in the new global marketplace.

That is what my American 2000 program is all about. It includes four crucial elements. The first is accountability. Our students can't beat world class competition if they can't meet world class standards. We are moving ahead with the development of these standards in math, science, English, history, geography, arts and civics. And we need voluntary national achievement tests to measure the progress of our students in meeting these standards.

The second is innovation. We need break-the-mold New American Schools that will transform our classrooms by developing and implementing the latest in technology and ideas for teaching our students.

The third is flexibility. We need to give schools the flexibility to become educational entrepreneurs --to figure out the best ways to motivate our children, use technology, include parents and involve new types of teachers.

The fourth is competition and choice. We must give parents the ability to choose which school their children will attend -- public, private or religious.

We must prepare workers for the prospect of changing jobs and learning new skills many times throughout the course of a productive life. In January 1992, I announced a plan to streamline the Federal job training system through "one-stop shopping" in every community. Experience has demonstrated that the most effective training and placement services are those closely developed with local employers through private industry councils. That way the training is designed to develop skills that employers know they will need.

My expanded job training proposal has three key features: (1) universal coverage, so all dislocated workers will have

access to basic transition assistance and training support; (2) skill grant vouchers of up to \$3000 to help meet the costs of adding new skills and training; and (3) a tripling of the resources currently devoted to training and worker adjustment, an allocation of \$10 billion over five years.

I have also proposed a specially-targeted Youth Skills Initiative. The Initiative includes creation of a new Youth Training Corps to provide economically and socially disadvantaged young people with intensive vocational training, and a National Youth Apprenticeship Program to provide skills training for young people not planning to attend college.

### C. Reforming Our Legal System

America has suffered a civil litigation explosion. Over the past 30 years, Federal lawsuits have almost tripled. Instead of being fast, fair and affordable, our civil justice system is slow, expensive, and putting us at a global disadvantage.

The cost of litigation affects businesses of every size. Long delays in resolving disputes waste valuable judicial resources, force early settlement by those who cannot afford to wait, discourage those who have meritorious suits, and encourage frivolous suits by those who hope to leverage unjust settlements. High punitive damage awards are passed on to consumers through higher prices, job cuts, higher insurance, and fewer new products.

My product liability reform legislation confronts the trial lawyers head on. I want to stop wide variation among states' product liability rules; stop important products from being kept off the market; stop excessive litigation costs with more money going to lawyers than to injured consumers; cut excessive insurance rates; and end excessive consumer costs.

My "Access to Justice Act of 1992" is intended to restore fairness and efficiency to the nation's civil justice system through: alternatives to Federal civil trials such as alternative dispute resolution; incentives for pre-litigation settlement, including pre-complaint notification; and a "loser pays" rule requiring the loser to pay the winner's legal fees in suits involving Federal diversity jurisdiction.

We also need to continue our work with the States to encourage fundamental change at the State and local level.

### D. Expanding and Opening Foreign Markets

America is an exporting nation. In 1991, we regained the position of the world's number one exporter. Even more impressive, a relatively small percentage of American firms are

responsible for most U.S. exports. Fifteen percent of U.S. firms account for nearly 85 percent of U.S. exports.

Small American businesses represent an immense, largely untapped source of export capacity. Today, small businesses have begun to see the potential that lies in selling their goods and services to eager markets abroad. My Administration has been active in making that dream a reality.

Through the programs of the Small Business Administration (SBA) and the Department of Commerce, we have provided information, counseling, training and even financing to thousands of small businesses who are dealing for the first time with the challenges of the international marketplace. The Department of Commerce has held over thirty international trade conferences and seminars across the country to work with small businesses, to provide information they need to market their products overseas, and to identify U.S. government programs and sources of financing that can help them get started. In addition, the Commerce Department's Matchmaker program has introduced hundreds of small businesses to foreign markets, arranging for them to meet directly with potential foreign buyers for their products.

The SBA has encouraged small businesses to take advantage of its Export Revolving Line of Credit program. This special pilot project provides a revolving working capital line of credit to help small manufacturers bridge the gap between receipt of orders of their goods and receipt of payment. Export loans under the Line of Credit program jumped from \$4.85 million in 1990 to over \$26 million in 1991. In the first three quarters of 1992, the SBA extended \$28 million in loans to small exporters under this program.

All SBA loans to exporters increased from \$42 million in 1990 to \$123 million in 1991, with an additional \$195 million in loans during the first three quarters of 1992.

Of course, it is the private sector that must lead the charge in taking advantage of opportunities to market American products abroad, but where government can help in opening markets and making those first steps a little easier we will continue to do so.

#### **E. Creating Enterprise Zones**

Our inner cities and rural areas suffer from a lack of economic opportunities for their residents. In order to entice individuals to establish small businesses in these areas, I have proposed creating enterprise zones. Workers employed by enterprises in the zone would be eligible for a tax credit on wages. Inner city entrepreneurs starting businesses and small investors who start or purchase businesses located in enterprise zones would be entitled to deduct up to \$50,000 on

their personal income taxes each year, and would not be taxed on capital gains resulting from their investment.

These measures will promote entrepreneurship and job creation in economically distressed urban and rural communities.

## VII. Clearing Away the Regulatory Maze

If small businesses are to thrive and prosper, they must be free to compete without the burden of unnecessary and restrictive Federal regulation. We are working to create a business environment in which regulations addressing legitimate health and safety concerns are balanced with the need to strengthen economic growth and job creation.

In my State of the Union Address last January, I announced, and have since extended through August 28, 1993, a regulatory reform initiative which places a moratorium on new Federal regulations that stifle economic growth. I also instructed Federal agencies to look for ways to modify existing regulations that impose a special economic burden on small business.

In addition, we have undertaken several reforms to reduce the costs and burdens imposed on small businesses in complying with the Federal tax system.

### A. Reducing the Costs of the Payroll Tax System

Last May my Administration announced several initiatives that will reduce administrative costs for the more than five million employers who must report employment taxes. The reforms will:

- Simplify the Payroll Tax Deposit System. The Internal Revenue Service (IRS) and Department of the Treasury will publish a proposed regulation that will enable as many as 75 percent of all employers to make payroll tax deposits once-a-month, replacing the current rules which require many employers to make deposits as often as twice a week. Larger employers can deposit payroll taxes on a fixed day of the week, depending on the payroll date.

These simplifications will reduce substantially the costs to employers, particularly small businesses, of complying with payroll tax regulations. In addition, these changes are expected to reduce payroll tax penalties by more than 20 percent.

- Simplify the Reporting of Federal Employment Taxes. The IRS is developing a simplified new form, Form 941EZ, that is expected to reduce substantially the compliance burdens of more than 3.5 million small employers. The new form, which the IRS anticipates will be available by the first quarter of 1994, will eliminate information that is ordinarily relevant only to large businesses.

The development of Form 941EZ follows other IRS initiatives designed to simplify forms for small businesses. In 1990, the IRS introduced a simplified version of the form for reporting Federal unemployment taxes. This new form is now used by approximately 700,000 small employers at an estimated annual savings of up to 10 million taxpayer hours.

- Enable Employers to Deposit Payroll Taxes Electronically. Last year, employers filed over 80 million paper coupons to accompany Federal payroll tax deposits of almost \$850 billion. The IRS is testing a program to allow employers to make payroll tax contributions directly to a designated Treasury account. This experimental, voluntary program has been made available to employers in South Carolina, Florida and Atlanta, Georgia.

- Establish a Single Wage Reporting System. Traditionally, employers must file employment tax forms for each employee with the IRS, the Social Security Administration, and State and local tax agencies. The IRS, Social Security Administration and the Department of Labor recently agreed to develop jointly a new Single Wage Reporting System.

The new system would require only one filing, thereby saving substantial administrative costs. The Federal agencies will work closely with State organizations in refining and implementing this system.

- Offer an On-Line Tax Identification Number Matching Service. The IRS plans to establish a service to allow employers to verify employees' tax identification numbers (such as a social security number) through a telephone call. This service will eliminate an employer's need to engage in burdensome paperwork and correspondence with the IRS. The IRS anticipates that this program will be made available to all employers in the 1993.

## **B. Reducing Other Tax-Related Burdens**

We are also working to reduce the burdens on small businesses in complying with other aspects of the Federal tax system. These reforms will allow:

- Deductibility of Preparation Fees. On April 1, 1992, the IRS released a ruling allowing more than 16 million sole proprietors, including farmers, to deduct business-related tax preparation fees as a business expense rather than as a limited itemized deduction.
- Joint Federal-State Filing. The IRS is working with States on a pilot program for the joint electronic filing of Federal and State tax returns. In 1992, the IRS implemented this program on a State-wide basis in South Carolina and on a more limited basis in six other States. The IRS expects to add additional States during the coming year.
- Participation in Educational Initiatives for Small Businesses. In the past year, the IRS has informally contacted over 150,000 small businesses having difficulty complying with Federal tax deposit requirements. The IRS is now working with these taxpayers, outside the formal audit and enforcement context, to address compliance concerns. In addition, during Fiscal Year 1991 the IRS conducted over 2,400 Small Business Tax Education Workshops and seminars which were attended by more than 80,000 executives.

## **VIII. Helping Small Businesses Provide for Their Workers**

In order to attract and retain good workers, small businesses need to be able to afford to provide the benefits that will give their employees economic security. Three key areas of concern to many workers are health benefits, family leave policies and pension benefits.

### **A. Affordable Health Care for Small Businesses and the Self-Employed**

Our current health care system provides high quality, high-tech medicine, but at an unacceptable price: spending has increased at a rate two to three times the rest of the economy; thirty-four million Americans have no health insurance and millions more are afraid to change jobs for fear of losing

their health insurance.

My comprehensive program to reform our health care system includes provisions that encourage small businesses to reduce their health insurance costs by pooling their purchasing power. By joining together to form Health Insurance Networks, small employers can have the same market clout and market sophistication of the biggest players in the health care marketplace. Group purchasing can reduce health insurance costs by as much as 16 percent through economies of scale, lower administrative costs and greater leverage to negotiate better rates with insurers.

Small employers also face the possibility of skyrocketing insurance premiums, or the inability to obtain any health insurance at all, if even one employee is seriously ill. My plan guarantees insurability so that people with "preexisting" illnesses cannot be denied a job or health coverage on the job.

Our health care plan guarantees affordable coverage through a two-phase process. In the short term, we will limit the difference in premiums that an insurer may charge to groups with different health risks, so that no employer has to pay astronomical insurance premiums. In the next phase, we will create risk pools both for small businesses and for individuals and families receiving tax credits for health insurance. Health plans insuring a sicker than average population would receive a net transfer from the risk pool while other insurers will be net payers into the pool.

My plan will also benefit the self-employed, permitting them to deduct 100 percent of their health care insurance premiums as opposed to the 25 percent they currently are permitted to deduct. (\$5.0 billion) This is fair and treats them similarly to other businesses.

I believe we can provide access to affordable health care for all Americans, while preserving choice for patients and their families in selecting doctors, hospitals, health care programs, and employment. My approach relies on the private sector to deliver health care services. But I would make the market work for us by enhancing competition, which will cut costs.

#### **B. Incentives for Family Leave Policies**

A growing number of families have two wage-earners. As a result, it is more difficult for individuals to balance the demands of their job with the need to care for a seriously ill or injured family member, or to take time off to have a child or adopt one.

Employers may face significant costs from lost production,

lost business opportunities, or other costs as the result of extended employee absences. These costs are particularly high for small and medium businesses that may not be able easily to shift employees to cover for the absent worker or to hire a temporary replacement. These smaller companies are also more likely to experience severe economic consequences if they do not quickly replace absent workers.

Since employers frequently must place limits on employee absences due to the economic costs of providing leave, some employees find themselves faced with choosing between their employment and the serious medical or personal needs of their families.

I propose to provide tax incentives to encourage businesses that employ fewer than 500 employees to adopt flexible leave policies related to childbirth, adoption or serious family health problems. Small employers who provide family leave to their employees would be eligible for a tax credit of 20 percent of the cash wages that the employer provided (or would have provided) to the employee during the period of family leave, up to a maximum of \$100 a day. The maximum credit per employee would be \$1,200 per year. The employer must continue to provide health benefits and other employment protection and benefits to employees on family leave and must provide leave on a nondiscriminatory basis. (\$3.1 billion)

### C. Retirement Security

Many Americans rely on their pension to provide them with a secure source of income during their retirement years. But many employees of small businesses are not so fortunate. Only 24 percent of small firm employees have pension coverage; the rest -- some 26 million individuals -- have no pension at all.

Even those employees with pensions often lose accrued benefits as retirement income when they change jobs prior to retirement age. Current law gives workers the incentive to cash in their benefits -- get a lump-sum payment -- rather than to roll the money over into another retirement plan or an IRA.

I am determined to turn those incentives around -- to make it easy for workers to make their pensions portable and take the pension benefits they have earned in one job to the next. Earlier this year, I was proud to sign into law a bill that permits workers to transfer their accrued pension benefits from their old job directly into an IRA or their new employer's pension plan, if that plan accepts transfers. The new law also imposes a 20 percent mandatory withholding penalty on lump-sum payments of pension benefits that are not transferred directly to a new retirement account. By encouraging preservation of retirement savings, we can ensure a more secure future for retiring workers.

I also want to help the millions of employees without pensions by creating a new, simplified retirement program for small businesses, and by allowing State and local governments and tax-exempt organizations to establish 401(k) retirement plans. At the same time, we will simplify the rules for administering retirement plans. By reducing administrative costs, more small companies and organizations will be able to afford to provide pensions for their employees.

## **IX. Two Paths**

We stand at a crossroads where two paths diverge in markedly different directions. They represent competing conceptions of the course our country should pursue.

### Taxes

One path promises strengthening America's small businesses through reducing the burden of taxes in order to stimulate investment, research and development, and economic activity. It would increase expensing for investments in equipment, help businesses get started, and reduce capital gains to encourage risk-taking.

The other path relies on substantial increases in taxes on small business -- taxes on so-called "high income" individuals, three quarters of whom have income from small business activity or family farms; payroll taxes to pay for health care; payroll taxes for training, all of which would drain profits, reduce investment, and restrain the growth of jobs.

### Regulatory Burden

One path promises a comprehensive program to simplify and ease the burden of regulations on small businesses and to eliminate those that are unnecessary. It would modify existing regulations that impose a special economic burden on small business while fending off expensive new mandates. It would reform our product liability laws and civil justice system to reduce the cost of insurance to small businesses and the hidden tax of needless litigation.

The other path relies on government mandates and regulations as the appropriate means for extensive government intervention in the economy and accepts our current liability laws and civil justice system as an inevitable consequence of doing business in America.

### Health Care

One path promises assisting those who work for small businesses by helping these businesses secure access to affordable health insurance, by permitting the self-employed to deduct the health insurance premiums they pay as other businesses do, and by providing credits and deductions for those who need it in order to purchase health insurance.

The other path relies on a mandated play-or-pay health care scheme that effectively amounts to a doubling of the payroll tax for most small businesses and that would quickly cascade into ever more government provided health care.

### Family Leave

One path promises to expand family leave to small businesses by providing tax credits to offset the costs of family and medical leave while leaving decision making and responsibility to employers and employees.

The other path relies on a government mandate that excludes employees of the smallest businesses and imposes a hidden tax on employees of medium-sized businesses.

### Access to Credit

One path promises a concerted effort to keep interest rates low and to facilitate the flow of credit to small businesses. It would reduce the cost of capital to small businesses so that they can make needed investments to expand their capacity and increase their productivity.

The other path relies on government direction of additional resources to make investments in selected industries.

### Worker Training

One path promises to revolutionize education and job training while providing worker adjustment assistance for all dislocated workers.

The other path would mandate worker training while imposes what amount to a 1.5 percent payroll tax on small business.

At bottom we face a choice between change that trusts people and change that relies on greater government intervention in managing and directing economic activity and resources. It is a choice worth considering carefully as we prepare for the next American century.

Small business is one of the most effective ways to bring minority Americans into the economic mainstream. That's why later today, Pat Saiki will release our plan to streamline the SBA's Minority Small Business program to bring economic opportunity to entrepreneurs all across America.

[[And tomorrow, Pat's going to go on to South Florida, to kick off what we call the Green Line ~~program~~ -- a program we test-marketed up in New England -- <sup>which will</sup> ~~to~~ provide a revolving line of credit to help small companies bridge the gap between production and payment. This Green Line initiative should be especially helpful to small firms seeking to get back to "business as usual" after Hurricane Andrew.]]

Fourth, we've got to help small business hire new workers and increase productivity. / Small businesses -- like every employer in America -- will benefit from education reforms like America 2000 -- from our expanded job training initiatives / from enterprise zones / and legal reform that ends the sky's-the-limit lawsuits that can drive a small business into bankruptcy. But even all of that is not enough.

That's why I support aggressive new export promotion programs to help small businesses crack new markets abroad, and create new jobs here at home. / You see, in the 21st Century, America must be not just a military superpower, but an economic superpower -- an export superpower. Right now, a fraction of America's companies -- 15 percent -- account for 85 percent of America's exports. We've got to open new markets for America's

Fulbright clerk, Sen. For. Rel. Comm.

THE WHITE HOUSE

WASHINGTON

(junior yr.)

~~grad.~~

19<sup>6</sup>4

28

1946

b.

grad H.S. 1964

clerk

#1

Getown →  
during college

grad. class of '68

---

→ While in college, he  
worked in the mail room  
of the

Jr. yr. → fullbright  
(Gtown)

junior yr. clerk

1967 - on Campaign

---



## North Carolina Business Can't Afford Bill Clinton

### New Taxes

- In 1993, Bill Clinton's new mandates and taxes would cost \$101 billion, fully 54% of 1991 U.S. business profits.

- Clinton's new mandates and taxes will include, but are not necessarily limited to:

- a 1.5% payroll tax for worker retraining → only apply to firms w/ 50+ employees ← Carney said Clinton said this
- a 7-9% payroll tax to finance his "pay or play" health insurance plan
- a CAFE Standard of 45 mpg
- a minimum wage indexed to inflation
- a new top tax rate of 36%, falling heavily on small business owners
- new taxes on in-state foreign businesses

### Clinton's New Bureaucracies

- Clinton's new bureaucracies mean more regulation and government intrusion:
  - a "health standards board" to regulate universal access health insurance
  - a "national information network" linking every home, business, lab, classroom and library into a national network
  - a staff to solicit, supervise and manage monies collected for the Rebuild America Fund which will tap private sector and pension fund assets
  - a national network of community development banks to manage inner-city lending and "mobilize" private lenders
  - a national industrial planning bureaucracy to pick industry "winners and losers"
  - a worker retraining bureaucracy to collect new taxes and enforce Clinton's new mandate program

### New Business Costs

- The new 8.5 to 10.5% payroll taxes will hit businesses not currently providing Clinton-style health insurance and worker training. Since wages account for slightly more than 50% of an average company's expenses, these payroll taxes will increase overall costs of the affected firms by 4.5 to 5.5%.
- Increased costs also will result from: an indexed minimum wage (\$360 annually per employee), a 45 mpg CAFE standard and 12 weeks of mandated family leave.

## Falling Profits

- Increased costs of 4.5 to 5.5% could eliminate profits:
  - The average return on sales among retailers is 2%.
  - The average return on sales among manufacturer is 4%.

## Hardest Hit: Small Businesses and Their Employees

- Small businesses and their employees will be hit hardest:
  - Their markets often are too competitive to raise prices.
  - They've already cut costs to the bone.
- Small businesses will face a tough choice: fire people or close down.
- Here are two examples of how the Clinton Plan would affect small businesses:
  - 57% of small businesses with 5 to 9 employees have annual sales of \$100,000 to \$500,000. A 2% profit margin gives the latter a \$10,000 profit.

Clinton's new taxes would cost \$23,000 to \$28,000 annually. That means firing at least 1 employee.

- 54% of small businesses with 10 to 19 employees have annual sales of \$500,000 to \$1 million. A 2% profit margin gives the latter a \$20,000 profit.

Clinton's new taxes would cost \$46,000 to \$56,850 annually. That means firing at least two or three employees.

## Is Small Business Important to North Carolina?

- The big increase in costs would cut out the heart of North Carolina's economy, small business:
  - 25% of the state's workforce, or 638,000 people, work in businesses with fewer than 20 employees
  - 40% of the state's workforce, or 1 million people, work in businesses with fewer than 50 employees
  - 37% of North Carolina retailers have fewer than 20 employees; 21% have fewer than 10.
  - 21% of North Carolina manufacturers have fewer than 100 employees; 11% have fewer than 50.

*If you're like most small business.*

## Who Are the Victims of Clinton's Taxes?

- Clinton's taxes will affect the retail businesses on Main Street -- your friends and neighbors. For example:

- Among more than <sup>24</sup>4,800 North Carolina grocery stores employing 78,000 people at an annual payroll cost of \$689 million, nearly 70% employ less than 10 people.
- Among nearly 3,535 North Carolina furniture stores employing nearly 23,000 people at an annual payroll cost of \$337 million, 81% employ fewer than 10 people.

Other small businesses profiled in the Appendix include laundries, book stores, hardware stores, beauty shops, movie theaters, sporting goods stores and repair shops.

- Manufacturers will not be spared. For example:

- North Carolina's 11,600 building trades companies employ more than 91,000 people and have an annual payroll of \$1.6 billion. 81% of these sub-contractors -- carpenters, electricians, etc. -- employ fewer than 10 people.
- More than 700 North Carolina fabricated metal firms employ 31,000 people on an annual payroll of \$676 million. 58% have fewer than 20 workers.

Other small manufacturers profiled in the Appendix include food processing firms, lumber products, furniture, printing & publishing, and trucking and warehousing.

## Taxes on In-State Foreign Firms

- Clinton plans to raise \$9 billion in 1993, and \$45 billion over the next four years, by ending alleged tax avoidance by foreign firms operating in the U.S. But tax experts say his plan will raise only \$1-\$3 billion.
- To hit his tax target, Clinton will then have to raise other taxes costing more U.S. jobs and cutting investment:
  - The taxes projected annually would nearly equal the 1989 net income (\$9 billion) of these firms, which employ 4.7 million Americans.
  - In North Carolina, foreign firms employed 180,000 people in 1990, and have invested \$13.8 billion in the state.

1989  
Census data  
most  
incorrect  
part.

4 of 5  
recomp



# National Republican Congressional Committee

To: CAROL AARHUS

From: JOE LOUGHRAN (202) 479-7050 Ext

Date: 9/21/92 Total # of Pages: 9 pp

Comments: COPY DAN.  
JOE CAN READ "WHITE" NUMBERS  
THAT PROBABLY WON'T PRINT  
GIVEN FAX RESOLUTION !

URGENT       "F.Y.I." ONLY       CONFIRM RECEIPT

## Confidentiality Notice

The document accompanying this telecopy transmission contains information belonging to the sender which is confidential and may be legally privileged. The information is intended only for the use of the individual or entity named above. If you are not the intended recipient, you are hereby notified that any disclosure, copying, distribution or the taking of any action in reliance on the contents of this telecopied information is strictly prohibited. If you received this telecopy in error, please immediately notify us by telephone to arrange for return of the original document to us.

*Richard Billmire  
479-7000*

## Data Sources

### Part I: A Business Profile

#### o Business Information

Information for "Goods & Services" and "% Total State Product" comes from "Gross State Product by Industry, 1977-89," Survey of Current Business, December 1991, Edward A Trott, Jr., Ann E. Dunbar, and Howard Friedenber.

#### o Payroll Information

Information on "Annual Payroll" and "Total Employees" comes from County Business Patterns, 1988 and 1989, Bureau of the Census, 1992. (Henceforth "County")

The technical citation is: County Business Patterns, 1988 and 1989 on CD-ROM/ prepared by Data Access and Use Staff, Data User Services Division, Bureau of the Census, Washington, 1992.

**Note:** The 1989 business census information on industry employment was used--rather than the 1990 census--because it is from the same database as the business establishment size, etc., information used later in the study.

#### o Small Business Employment

These figures are derived from the County data; i.e. totals for different sized establishments are summed, and divided by all business totals.

### Part II: The Clinton Plan

#### o Clinton Business Mandates & Taxes

"A National Economic Strategy for America," (ANESA), June 21, 1992, is the source for all quotes concerning:

Worker Retraining  
45 MPG CAFE Standard  
Pension Fund

Universal Health Insurance  
Family & Medical Leave  
New User Fees

Data Sources are as cited, except for derived total on the Minimum Wage.

The \$360-a-year Minimum Wage cost was derived from information contained in the study, "Putting People Out of Work," prepared by the Minority Staff of the Joint Economic Committee. The JEC estimated that an a minimum wage indexed to inflation would equal an hourly increase of 18 cents per hour. Assuming a 50-week, 2,000 hour work-year, the annual increase would equal \$360 per effected employee.

o New Bureaucracies

All information derived from "ANESA."

### Part III: The Clinton Plan/Impact on Individual Business

o Computing Clinton's Added Business Costs

"Payrolls average 53% of total costs" was derived using the following formula:

(Labor costs as % of total costs)  
x (Wages as % of total employee compensation)    OR  
 = Wages as % of total costs.

$$\begin{array}{r} .70 \\ \times .75 \\ \hline = .525 \end{array}$$

The data for this computation comes from several sources:

- Labor costs account for about 70% of business costs. (Source: Michael Boskin, National Economists Club, 3/31/92)
- Wages were assumed to equal 75% of total employee compensation. This figure was derived using the non-union and small firm data listed below because it would be more representative of the smaller businesses addressed in this study:

The annual BLS report on employee compensation released every March shows that the 1991 average was 71.8% figure for all private sector employees (BLS Employment Cost Index, June 29, 1992, as reported in *BNA Daily Report for Executives*, June 30, 1992).

Wages as a % of compensation were 64.6% for union workers and 73.6% for non-union workers. (Ibid)

An earlier BLS study showed that in 1989, wages as a % of compensation varied by firm size: 69.3% for firms with more than 500 workers, 72.1% for firms with 100-499 workers, and 74.7% for firms with 1-99 employees. (Wayne Shelly, "Compensation and Working

Conditions" BLS, August 1991, as reported in *BNA Pensions & Benefits Daily*, Oct. 3, 1991.)

The figure for retailers was 77.3% in March 1987. (Donald Wood, *Survey of Current Business*, November, 1987.)

The increase in total costs is obtained by multiplying 8.5% and 10.5% by 53% to yield 4.4625% and 5.5125%, respectively. Those figures were rounded to 4.5% and 5.5%.

o **Small Business Income Statement**

Sales figures by size firm were found in The State of Small Business, 1991, Table A.35, page 157.

Income Statement figures used in the computation are cited or derived, except for the 2% return on sales figure which is described below.

o **(Name of State) Retailers/(Name of State) Manufacturers**

\$ Goods & Services, \$ Annual Payroll, and number of employees statistics obtained from each state's County publication. These figures are displayed in Part I, but rounded in this section.

Small Retail Operations/Small Manufacturers Figures are replicated or derived--through addition and division operations--from County publication for each respective state.

"Examples" data on the various retail and manufacturing firms was also derived from the County publication for each state.

o **Return on Sales**

Retailers' Return on Sales of 2% sources (separately summarized below) include:

1) The Bureau of the Census tracks "Profits per dollars of sales" for retail corporations, as published in the Statistical Abstract of the United States, 1991 (Chart No. 909, page 549).

2) *Fortune* magazine's "Return on Sales" for retailers in its "Service 500" series, published in its early June issue.

### Historical Return on Sales for Retailers

	91	90	89	88	87	86	85	84	83	80
<u>SAUS</u>	1.0	1.1	1.9	2.0	2.2	2.3	2.2	2.6	2.7	1.7
<i>Fortune</i>	1.7	1.7	2.4	2.5	2.4	2.4	2.7	2.9	2.6	

Manufacturers' Return on Sales of 4% sources (separately summarized below) include:

1) The Economic Report of the President (ERP) shows "Profits after income taxes per dollar of sales" in its tables describing corporate profits and finance. The average for all manufacturing corporations from 1980 through 1989 is 4.51%, ranging from a low of 3.5% (1982) to a high of 6.0% (1988).

2) In its spring issue, *Fortune* shows "Return on Sales" figures for *Fortune 500* companies in more than 20 industry groups. The median return on sales for all the "500's" manufacturing companies was 4.37% from 1985 through 1991 period, ranging between 1991's low of 3.2% to 1988's high of 5.5%.

Industry medians from this series were matched to similar industries profiled in the appendix.

### Historical Return on Sales for Retailers

	91	90	89	88	87	86	85	84	83	82	81
ERP		4.0	5.0	6.0	4.9	3.7	3.8	4.6	4.1	3.5	4.7
Fort	3.2	4.1	4.7	5.5	5.1	4.1	3.9				

#### o Foreign Firms Operating in (State)

"Joint Committee on Taxation ... raise only \$1 billion."

Letter of July 15, 1992 from JCT to Sen. Pete Domenici, R-NM. The Senate Budget Committee minority reported its findings in its weekly "Budget Bulletin," noting that the Clinton proposal to reform Section 482, "would raise \$1 billion over four years---not \$45 billion." (Source: Congress Daily, National Journal, July 27, 1992.)

o **The Cost to American Business**

Statement: "... entire 1989 net income of foreign firms operating in the U.S. In 1990, they lost \$4.9 billion." Source: "U.S. Affiliates of Foreign Companies: Operations in 1990", Steve D. Bezirgianian, Survey of Current Business, May 1992, pages 45-62. The information, rounded to the nearest \$100 million, is displayed in Table 1 of the article.

Statement: "... employed 4.7 million Americans ..." This information is also displayed in Table 1 of the above-mentioned Survey of Current Business article.

o **The Cost to (State)**

The 1990 employment information reflecting non-bank U.S. affiliates is contained in Table 5 of: "U.S. Affiliates of Foreign Companies: Operations in 1990," Steve D. Bezirgianian, Survey of Current Business, May 1992, pages 45-62.

The value of plant and equipment for each state is for 1989 and is from: Foreign Direct Investment in the United States, Preliminary 1989 Estimates, Table D-12, U.S. Department of Commerce, Economics and Statistics Administration, BEA, August 1991.

Region I	3,065,589	9.9	54,856,873	14.8	59.5	156.3
Region II	30,900,154	9.1	59,527,163	8,811,175	43.1	99.3
Region III	37,319,189	8.3	95,305,837	10,992,286	11.5	63.5
Region IV	66,605,226	8.8	94,584,181	10,567,665	11.2	72.7
Region V	73,456,559	7.9	71,402,085	7,837,310	11.0	105.8
Region VI	57,683,340	7.6	35,975,862	4,282,596	11.9	76.5
Region VII	26,636,767	7.4	21,108,325	2,130,293	10.1	217.0
Region VIII	16,337,108	10.8	140,129,909	22,157,109	15.8	115.3
Region IX	64,684,469	8.6	29,779,462	3,287,562	11.0	
Region X	17,823,850					

Note: Detail may not add to totals due to disclosure rules regarding the release of information for specific taxpayers. SBA regions, which correspond to federal regions, are defined as follows: Region I: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont; Region II: New Jersey, New York; Region III: Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, West Virginia; Region IV: Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, Tennessee; Region V: Illinois, Indiana, Michigan, Minnesota, Ohio, Wisconsin; Region VI: Arkansas, Louisiana, Missouri, Oklahoma, Texas; Region VII: Iowa, Kansas, Missouri, Nebraska; Region VIII: Colorado, Montana, North Dakota, South Dakota, Utah, New Mexico; Region IX: Arizona, California, Hawaii, Nevada; and Region X: Alaska, Idaho, Oregon, Washington. Data for 1988 are preliminary.

Source: Special tabulations prepared by the U.S. Department of the Treasury, Internal Revenue Service, under contract to the U.S. Small Business Administration, Office of Advocacy, December 1990.

Nonfarm Sole Proprietorships by Gender 1977-1988

Year	Women-Owned Businesses	All Businesses <sup>1</sup>	Men-Owned Businesses
1988	4,610,951	15,158,567	10,027,537
1987	4,462,264	14,548,946	9,576,494
1986	4,121,352	13,798,340	9,243,927
1985	3,738,107	13,296,751	9,078,651
1984	3,382,769	12,495,141	8,643,431
1983	3,254,248	11,781,015	8,064,812
1982	2,942,366	11,170,204	7,787,830
1981	2,780,277	10,545,337	7,480,655
1980	2,535,240	9,730,019	6,928,659
1979	2,341,397	9,343,603	6,749,382
1978 <sup>2</sup>	2,121,060	8,878,705	6,502,283
1977	1,900,723	8,413,806	6,255,184
Average Annual Percent Change, 1977-1988	8.4	5.5	4.4

<sup>1</sup>Includes jointly owned nonfarm sole proprietorship businesses. Therefore, women-owned and men-owned nonfarm sole proprietorships will not sum to total.

<sup>2</sup>1978 data represent a weighted average.

Source: Special tabulations prepared by the U.S. Department of the Treasury, Internal Revenue Service, under contract to the U.S. Small Business Administration, Office of Advocacy, December 1990.

Businesses by SBA Region and State, 1982 and 1987

	1987	Percent Change, 1982-1987	Rank
097	51,592	48.5	34
770	53,505	45.5	39
080	87,658	62.7	15
746	32,285	41.9	46
370	89,411	55.9	25
762	12,747	39.1	48
770	12,689	44.7	42
367	13,374	42.8	44
072	29,810	56.3	23
393	10,796	28.6	50
085	60,367	72.6	6
562	539,821	57.9	19
115	11,696	50.5	31
576	18,831	61.3	17
189	13,976	47.3	35
103	18,973	41.6	47
179	58,941	45.6	38
96	90,285	52.3	29

U.S. Business Administration, Office of Advocacy, from the Bureau of the Census, Women-Owned Business, 1987 (Washington Office, 1990), Table 2.

Women-Owned Businesses with and without Paid Employees by SBA Region and State, 1982 and 1987

	Firms With Employees		Firms Without Employees	
	1982	1987	1982	1987
				Percent Change, 1982-1987
US Total	311662	618148	2300939	52.0
Connecticut	4,405	9,297	31,045	66.3
Maine	1,693	4,003	12,780	55.9
Massachusetts	5,459	13,885	57,703	69.0
Rhode Island	1,031	2,488	7,001	71.8
New Hampshire	1,383	3,855	10,529	79.1
Vermont	1,093	2,508	6,951	62.5
New Jersey	8,997	19,389	54,246	80.6
New York	21,290	43,729	155,195	55.4
Delaware	821	1,782	4,881	62.8
District of Columbia	760	1,230	8,133	20.0
Maryland	4,797	10,288	43,574	64.3
Pennsylvania	13,653	25,631	92,506	53.2
Virginia	6,335	13,755	50,547	59.6
West Virginia	2,297	3,668	13,433	40.6
Alabama	4,621	9,184	26,235	48.0
Florida	16,755	29,496	108,637	67.4
Georgia	6,821	14,459	46,433	58.5

Women-Owned Businesses with and without Paid Employees by SBA Region and State, 1982 and 1987—Continued

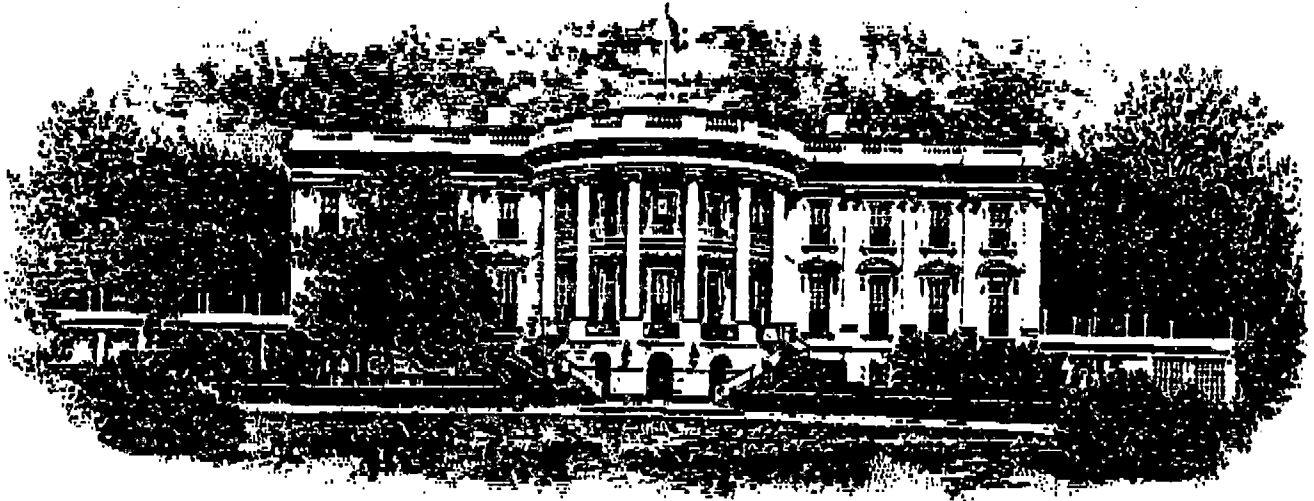
State	Firms With Employees		Firms Without Employees	
	1982	1987	1982	1987
Kentucky	4,888	8,595	31,570	44,859
Mississippi	3,597	6,109	16,814	22,867
North Carolina	7,401	15,166	49,893	78,366
South Carolina	3,760	7,524	23,295	35,080
Tennessee	6,254	11,168	38,389	56,280
Illinois	13,380	25,464	96,898	151,593
Indiana	9,210	16,571	52,805	73,378
Michigan	10,507	16,565	76,626	115,393
Minnesota	6,087	12,368	50,147	75,769
Ohio	12,180	22,007	90,339	132,077
Wisconsin	6,768	12,192	37,625	54,993
Arkansas	3,699	6,415	20,764	29,054
Louisiana	5,227	8,386	33,088	47,466
New Mexico	2,283	4,182	14,004	21,215
Oklahoma	5,050	8,609	44,143	55,081
Texas	21,026	40,421	178,732	257,717
Iowa	4,704	8,600	31,313	44,992
Kansas	4,091	7,102	32,679	46,323
Missouri	6,906	13,458	47,180	74,200
Nebraska	2,889	5,048	19,857	27,237

State	Firms With Employees		Firms Without Employees	
	1982	1987	1982	1987
Colorado	6,113	12,750	51,257	76,661
Montana	1,825	3,256	10,937	14,491
North Dakota	1,209	2,268	7,561	10,421
South Dakota	1,286	2,233	8,121	11,141
Utah	1,604	3,885	17,208	25,925
Wyoming	1,222	1,993	7,166	8,803
Arizona	3,729	8,942	31,306	51,620
California	35,861	73,164	318,811	486,657
Hawaii	1,246	2,804	13,167	49,292
Nevada	1,321	2,869	10,355	15,962
Alaska	790	1,929	6,699	12,047
Idaho	1,557	3,026	11,846	15,897
Oregon	5,111	9,529	35,368	49,412
Washington	6,409	13,218	52,887	77,067

Source: Adapted by the U.S. Small Business Administration, Office of Advocacy, from the U.S. Department of Commerce, Bureau of the Census, Women-Owned Businesses, 1987 (Washington, D.C.: U.S. Government Printing Office, 1990), Table 2.

THE WHITE HOUSE

WASHINGTON



FACSIMILE TRANSMITTAL SHEET

DATE 9.22.92

TO DAN Mc GROARTY

FAX NUMBER 6218

OFFICE NUMBER 2930

NUMBER OF PAGES INCLUDING COVER 4

*Carol*

FROM J. HERZMANN (P. PORTER)

COMMENTS \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

OFFICE NUMBER 2705

**SBA**

U.S. Small Business  
Administration

**NEWS**

For More Information, Contact:

Mike Stanler  
(305) 870-6003

SBA number

92-63  
September 24, 1992

**SBA NEW "GREEN LINE" CREDIT PROJECT CAN IMPROVE ACCESS  
TO WORKING CAPITAL FOR FLORIDA'S SMALL BUSINESSES**

MIAMI, Fla. -- An innovative and revamped revolving credit program test-marketed in New England for the past 18 months will be made available in South Florida to help commercial lenders deal with the working capital needs of small businesses devastated by Hurricane Andrew, U.S. Small Business Administration (SBA) Administrator Patricia Saiki said today.

The program, the Green Line, provides SBA guarantees on lines of credit of up to five years extended by commercial lenders to small businesses. Under the Green Line Program, SBA can provide guarantees on up to 85 percent of revolving credit lines up to \$750,000 to small businesses that cannot otherwise get such financing.

"Commercial credit -- in particular reliable shorter-term credit -- was very difficult to get for small businesses even before Hurricane Andrew hit," said Saiki.

"Now, a month after the storm struck, the need for liquidity is that much greater, and people and businesses are suffering," she said. "The extraordinary needs of the area require a certain degree of creativity, and that's what we're going to do."

-- MORE --

The Green Line is designed to secure financing to cover the revolving credit needs inherent in the manufacturing and contracting process, especially financing receivables to bridge the payment cycle between production and payment for goods and services delivered.

"The Green Line can help lead the way in rebuilding this region's economy and assist financial institutions, small businesses and their employees get back up on their feet," she said.

"The Green Line will help preserve jobs and create new ones and give the citizens of South Florida access to the financial tools they need to rebuild their economy," Saiki said. "I am very optimistic about this project, and I believe we will see the first fruits of this effort in the next six weeks."

"This program will help keep businesses open, get their employees working again and help manufacturers and contractors get the financing they need to produce and deliver their products," Saiki said.

A revolving line of credit allows a borrower to obtain funds as needed from a pre-approved credit account and repay the borrowed funds on a regular repayment schedule. It is designed to help small businesses finance their accounts receivable and inventory, and allows continuous borrowing and repayment during the maximum five-year period of the loan.

An early version of the program was launched as a pilot project in New England in May 1991, and was made available through lenders with experience in asset-based lending.

-- MORE --

Administrator Saiki has expanded it to include states in SBA Regions IV and VI. Besides Florida, Region IV includes Alabama, Georgia, North Carolina, South Carolina, Tennessee, Kentucky and Mississippi. Region VI includes Texas, New Mexico, Louisiana, Oklahoma and Arkansas.

The SBA guarantee covers up to 85 percent or \$750,000 -- whichever is less -- of the credit line. Maximum credit limits for individual loans will be set according to a formula based on 80 percent of the value of accounts receivable and 50 percent of the value of inventory, with repayment schedules based on the collection of receivables.

The borrower's inventory and accounts receivable are pledged as collateral. Interest rates are negotiable between lenders and borrowers, but cannot be more than 2.75 percentage points over the prime rate.

The SBA's definition of small businesses includes more than 99 percent of the businesses in the United States. To see if you qualify, or for more information about the program, contact your nearest SBA District Office's finance division. The office nearest to the declared Hurricane Andrew disaster area is in Coral Gables (305) 563-5533.

The Green Line Project is unrelated to SBA's Disaster Assistance Loan Program, which has been making hurricane recovery loans to South Florida businesses, homeowners and renters since Aug. 26.

####