THE WHITE HOUSE

Office of the Press Secretary

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TO THE CONGRESS OF THE UNITED STATES:

The success of the American economy is critically dependent upon preservation of real opportunity for small business. Historically, small business has provided much of the growth in jobs and innovation as well as being the supplier of services and deliverer of goods to virtually every farm, village, town and city in our nation. Although there are many definitions of small business, the one agreed upon by the 1980 White House Conference on Small Business was that of businesses employing 500 employees or less. Currently, approximately 15 million businesses, or 99 percent, of the total number of businesses fall into this category.

Small businesses are a complex mixture of a wide variety of ownership types, sizes and locations. Published statistics from the Internal Revenue Service show that most small businesses are sole proprietorships. Still, significant numbers of partnerships and corporations are also small. Bureau of the Census statistics show that small businesses appear in all industry categories: manufacturing, transportation, insurance, wholesale and retail trade, and every other kind of industry. Small businesses vary in size: many have no employees (reflecting either family-owned and operated or individually-owned and operated businesses); over two million have between one and 20 paid employees. They are located all across our nation; many are in our large cities but a significant portion are in small towns. In truth, our small businesses are as diverse and disparate as our population.

This Administration is committed to assuring unrestricted access for small business to all segments of our economy. By unleashing small business from the burdens of unnecessary taxation and regulation, we enable men and women small business owners to increase their contributions to our society's economic and employment growth. In addition, we will continue to help expand the opportunities of today's struggling business aspirants, disadvantaged ethnic and racial groups, and to blend their skills and abilities in creating a better life for themselves and a stronger America.

It is the objective of this statement to describe how this Administration is establishing an economic environment conducive to small business formation and growth. It first describes the economic contributions of small business. Second, it explores the foundations of this Administration's small business policies. And last, examines problems and policies of special interest to small business.

This statement draws from the accompanying Report on Small Business and Competition which contains data and information provided by the Small Business Administration.

I. THE ROLE OF SMALL BUSINESS IN THE ECONOMY

The roots of the American economy are to be found in the history of small business. In America's early years virtually all businesses were small. It was not until the advent of the industrial revolution in this country that large

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(OVER)

businesses emerged to take advantage of economies of scale in production, distribution, and marketing. Since the 19th century, the share of our national output of goods and services accounted for by small business has declined. The decline leveled off during the 1950's, with small business responsible for producing just over half of all private production. In the early 1960's, small business' share began another decline, and today it is responsible for slightly less than half of the production of goods and services in our economy. Clearly, the recent turmoil experienced by our economy also has taken a toll on the fortunes of small business.

Despite these trends, small business plays a key role in the U.S. economy. The contributions of small business to innovation and employment have been particularly noteworthy. In 1976, research for the National Science Foundation showed small business had been a more prolific source of innovations per research and development dollar than medium or large business. Inventors have often chosen to market their innovations through small business. Small business is, after all, ideally suited for such ventures by virtue of its greater flexibility and greater willingness to assume substantial risks in the pursuit of potentially large rewards.

Most small firms are labor intensive, and over half of our labor force is currently employed by small businesses. Small businesses remain among the leaders in employment creation. According to research at the Massachusetts Institute of Technology, between 1969 and 1976, more than 86 percent of new jobs were provided by small businesses employing fewer than 500 employees. Some eighty percent of new jobs were provided by firms having 100 employees or less. Almost 66 percent of the new jobs were provided by businesses with fewer than 20 employees, and of the jobs provided by small businesses, 75 percent were attributable to firms that were less than five years old.

Small business has also played an important role in providing economic opportunities for minorities and women, both as employees and as entrepreneurs. Minority-owned business enterprises are predominately small businesses. Minorities control about 4 percent of all businesses and are concentrated in industries affording easy entry such as retail trade, services, and construction. Women control about 5 percent of all businesses and are also in those industries affording easy entry.

Given our nation's economic difficulties we cannot afford to ignore the resources and potential contributions of small business enterprises. Their innovative spirit, their flexibility to meet new challenges, are crucial to our economic progress. At the same time, the employment and entrepreneurial opportunities presented by this sector are too important to be less than fully realized. The bottom line is quite straightforward: America needs small business formation and growth.

II. THE FOUNDATIONS OF SMALL BUSINESS POLICY

The basic problem of the United States economy is that it is not growing fast enough. Since 1973, the U.S. economy has grown at a real rate of less than 2.4 percent, barely two-thirds of the 3.8 percent real growth rate experienced

from 1950 to 1973, and far below the 4.5 percent rate achieved between 1962 and 1969. Why are we not growing? An important reason is that sources of growth have been obstructed by past Federal policy errors. Those errors involve the tax code and its interaction with inflation, the excessive appropriation of resources by the government, and distortions in the use of resources by unwise government intervention in the workings of the free market.

The fundamental tenets of small business policy are thus quite clear. Government should promote a strong, vibrant, private economy with policies that primarily rely upon free market forces to organize and allocate our economic resources. Economic growth and full employment must be restored while reducing inflation and interest rates, and, at the same time, Federal impediments to the free and efficient use of resources must be reduced or eliminated. The end result should be an economy characterized by free and open markets giving all of its participants the opportunity to contribute to, and share in, the high and rising standard of living such a system will produce.

The Economic Recovery Program

The cornerstone of our initiative for the small business sector is our four-part Economic Recovery Program. No other set of actions by this government is as likely to correct the errors of the past and have such a pervasive and lasting positive effect on small business. It consists of the following:

1. A cooperative effort with the independent Federal Reserve Board to achieve a moderate and steady monetary policy to end inflation. Our goal is to reduce high interest rates and remove disincentives produced by the interaction of inflation with the tax code.

2. A regulatory reform program to reduce the inefficiencies and enormous costs that are holding back production and raising prices.

3. An incentive-oriented tax policy designed to increase work effort, saving, and investment.

4. A stringent budget policy designed to return resources to the private sector for investment and growth.

Monetary policy has been aimed primarily at reducing inflation. Our goal is a moderate and steady growth of the money supply at rates consistent with stable prices. The excessive money growth of the 1970's has left us with double digit inflation. That inflation has increased interest rates to record levels. Lenders have had to add an inflation premium to the real interest rate in order to protect their principal from erosion. They have also had to add a risk premium to compensate for the increased uncertainty of sharp and sudden policy changes and wild market swings such as have occurred in the past three years.

Generally high interest levels, coupled with wide swings in interest rates, have been a source of special concern for small business. More stable monetary policy is needed to make financial markets more predictable and to prevent discontinuities in the availability of capital. This will result in lower, less volatile interest rates.

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Regulatory relief is needed to reduce unnecessary costs imposed by government. Government regulations, including paperwork, have become a major source of market interference, reducing competition and efficiency within most industries. Moreover, regulations often have disproportionately adverse effects on small businesses, and the result is all too frequently an impaired ability of small businesses to compete effectively.

Fiscal policy has been aimed at promoting real growth. Lower production costs and more goods on the shelves help combat inflation, but the main purpose of the tax and spending reductions is to improve the incentives to work, save, and invest. Over the years, inflation has destroyed incentives by raising marginal tax rates on individuals and businesses, thereby reducing the rewards to labor and capital. Both the business and personal tax reductions in the Economic Recovery Tax Act of 1981 (ERTA) are essential elements in restoring these rewards to promote growth.

Small business will benefit from the general individual tax rate reductions and the indexing of tax brackets after 1984. Millions of small businesses are partnerships, proprietorships and Subchapter S corporations, the income from which is taxed at personal rates. In addition, the personal rate reductions will help restrain increases in labor costs, a prime concern of labor intensive small businesses. Small businesses will benefit from other features of ERTA as well. Among the more important provisions will be the Accelerated Cost Recovery System, the ability to expense limited amounts of depreciable assets, increases in the Investment Tax Credit for used property, lower corporate tax rates for small businesses, increases in the allowance for accumulated earnings, and simplified last-in-first-out (LIFO) inventory accounting. The estate tax reductions in ERTA significantly enhance the ability of small, family-owned enterprises to be perpetuated beyond the present generation, instead of being liquidated to meet excessive estate tax obligations. Other important provisions include the expansion of the funding limitations of the Keogh Plan and individual retirement accounts (IRAs). These provisions are helpful to small business in that they allow for increased tax deductions for the more profitable businesses, and at the same time generate more capital for institutions to lend to small business.

Spending restraint is needed to return the real and financial resources now being absorbed by the government to the private sector for use in investment and growth. The capital needs of the private sector, and of small business in particular, have been squeezed by the growth of the government sector. The problem manifests itself most directly in the competition for funds in the credit market, where the growing deficits must be financed.

Deficits are the evidence of the deeper problem of growth of the public sector. When purchases and financial claims of government increase relative to Gross National Product (GNP), it means fewer real and financial resources are available for use by the private sector to expand capacity and production. Improving access of small business to needed resources requires curtailing this government preemption of the country's work force, capital goods, raw materials, and productive capacity, as well as credit. Government spending "crowds out" the private sector's access to these resources whether that spending is financed by taxes or borrowing.

III. PROBLEMS AND POLICIES OF PARTICULAR INTEREST TO SMALL BUSINESS

Cyclical Sensitivity

By the very nature of their structure, resources, and to some extent the types of activities in which they participate, small firms tend to be highly susceptible to the ups and downs of overall economic activity. Small businesses have fewer resources than large businesses to survive cyclical downturns and are more likely to fail.

Return of economic growth, coupled with substantial moderation of inflation expected from implementation of our economic program, is therefore of particular interest to small business. In addition, reduction of the uncertainties associated with wide swings in Federal economic policy should result in a business climate more conducive to formation, growth, and success of small business ventures. Stabilization will pay dividends for us all but most particularly for small businesses because of their greater susceptibility to business cycles.

Inflation

For the men and women who own small businesses, inflation is a particularly serious problem. It earns this distinction essentially by exacerbating the other problems of small business, such as need for capital, the cost and availability of investment funds, and increased uncertainty concerning the behavior of the economy and the posture of economic policies. Small businesses often are in competitive markets where they tend to have little control over the costs they must pay and the prices they are able to charge, leaving them especially vulnerable to adverse price movements.

The economic program of this Administration should provide small business with relief from inflation in several ways. First, adherence to a policy of stable and limited monetary growth should eliminate the primary engine of inflation in our economy. Second, the improved incentives and reduced labor costs flowing from the reduction in Federal personal income tax rates should result in improved labor productivity, a matter of great importance to small businesses given their tendency to be labor intensive. Finally, help in controlling other costs of doing business will be derived from the elimination of unnecessary and inefficient regulatory burdens. Taken together, therefore, our policies should reduce the extent of the inflation problem at the same time the ability of small businesses to cope with the inflation problem is being enhanced.

Interest Rates

Interest rates are also a very serious problem for small business. High interest rates cause severe cash flow problems which are particularly threatening to small businesses. The heightened sensitivity to high and volatile interest rates stems from the tendency of many small businesses to be undercapitalized and/or to be facing substantial capital needs to finance growth. The volatility of interest rates associated with the higher levels also works a hardship by raising the risk associated with investment and growth. The cost of capital is a significant cost of production, and wide swings in interest rates are easily capable of producing ruinous cost structures for small businesses. Moreover, the deductibility of interest expense is of less help to small businesses since they frequently generate insufficient income (particularly new ones just starting up operations) to take full advantage of the tax deduction.

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As stated earlier, the key to lower, steadier, interest rates is a consistently lower rate of inflation. When the inflation rate is high, interest rates are pushed up directly by the need for an inflation premium to protect the real value of the loaned funds. In addition, the economic instability suggested by the presence of high rates leads to a larger risk premium as well. Because interest rates are clearly influenced by inflation, and because the rate of inflation depends heavily upon the growth rate of money, major improvement is expected through our policy of moderate growth of money and credit. Short-term movements in interest rates may evidence little progress at first, as was illustrated early in the summer of 1981, but continued easing of inflation is evidence that conditions will improve as this policy is more firmly established.

Access To Capital

There are many impediments reducing access to adequate capital, and unfortunately some of these work to the particular detriment of small business. Saving in recent years has been depressed by the interaction of inflation and the marginal tax rates. Inflation pushes taxpayers into higher income brackets which are subject to progressively higher rates of taxation. The result has been reduced incentives to save and to work. Small business has suffered not only from the general lack of saving, but also because entrepreneurs have historically looked to family and friends to supply the equity investment funds used as seed capital to form new businesses. When saving becomes difficult, these sources are materially diminished.

Small businesses also operate under something of a handicap in the competition for business funds. As mentioned earlier, small size translates into somewhat greater vulnerability thus raising the risk associated with any given investment in a small business. In addition, economies of scale tend to preclude small business participation from the more impersonal mechanisms of our financial system. Registration requirements associated with the public issuance of stock, for example, can only be afforded if the cost is spread over a large number of shares. In the same vein, loans from insurance companies, large banks, and other major sources of investment capital are rendered less economic by the costly information requirements required by the prospective lenders. Access of small businesses to investment capital is thus frequently limited to individuals and small banks which have a personal relationship with the entrepreneur.

Unfortunately, depressed saving rates and limited access are not the only problems. The past tendency of the Federal government to rapidly expand its claims on resources caused either the reduced saving rates when those claims were financed by taxation, or became a direct, competing claim on available saving if financed through deficits. That is, deficits themselves absorbed funds that would otherwise have been available for investment, making all access points to the flows of financial capital less able to meet the demands placed upon them by the private sector. Since small businesses have had relatively few access points, their hardship has been particularly acute.

The most fundamental policy to improve small business access to capital is the reduction of the governmental claims on resources expressed in the drive to curtail government spending. Spending restraint is the key element since either high taxes or borrowing would reduce the resources available to the private sector for investment and growth.

Understanding the implications of the deficits projected for the next few years, however, is somewhat more complex. The deficit alone does not determine the amount of crowding out taking place in the financial market. What matters is the relationship between the deficit and the supply of savings needed to finance it. The first thing to note, therefore, is that the recently enacted tax reductions and the new higher Keogh Plan and IRA allowances will provide a powerful stimulus to saving. Business tax reductions for 1982, for example, will increase business saving; this is money that business will not need to borrow from financial markets. Personal tax reductions should promote substantial reallocation of income from consumption to saving, in addition to the normal saving increase from income growth alone. Year-over-year, there should be an increase in total private saving from 1981 levels in excess of 60 billion dollars.

The Economic Recovery Tax Act will improve small business access to capital in other ways as well. For example, the amount of earnings which may be retained in closely held corporations without being penalized by the accumulated earnings tax has been increased from $150,000 to $250,000. The change makes it possible for the men and women who own small firms to accumulate a larger amount of investment capital without incurring an accumulated earnings tax. Another feature of ERTA is an increase in the maximum number of shareholders in Subchapter S corporations from 15 to 25 plus allowance of certain kinds of trusts to be treated as shareholders in such corporations. The provisions strengthen the attractiveness and utility of the Subchapter S provisions.

Still, the pressing need among many businesses is for equity capital, not debt. Repayment burdens of large loans, regardless of whether government or private in origin, inhibit the growth and formation of new businesses, especially those owned by women and minorities.

We recognize the need that small business has for new mechanisms of constructive finance. We also recognize that some of the mechanisms available, such as participating debentures, may require accommodative tax changes if they are to be effective.

Federal economic and financial policy plays a crucial role in small business viability. Thus, it is important that Federal departments involved in these areas be consistently sensitive to small business needs. I am directing the Commissioner of the Internal Revenue Service to include representatives of small business in advisory groups which review administration of the tax system.

Changes in Federal policy affecting financial institutions will also take into account the impact on small business needs. The trend of Federal financial reform movements has been toward providing a broader array of sophisticated financial services from strengthened and modernized institutions of all types in a competitive and cost minimizing market. These reforms should continue to insure further gains in services for depositors and borrowers of all sizes, at lowest possible cost, throughout the country as well as in financial centers. The result may well be the creation of important new access points for small business to the flows of investment capital.

Tax Incentives

The Economic Recovery Tax Act seeks to provide incentives to increase asset purchases as well as to encourage employment growth. Small business has less than one-fourth of total

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business assets, but employs over one-half of the work force. Asset-based tax incentives will provide some direct economic stimulation to small business.

As noted earlier, general reductions in the marginal personal income tax rates and tax indexing will be beneficial for small businesses. Since most small firms are labor intensive, their cost structures should benefit as the impact of the tax reduction helps restrain increases in labor costs. By reducing, if not eliminating, bracket creep, indexing will also moderate employee wage demands. Improvements in wage cost pressures will be realized by big businesses as well, but the labor intensive character of small businesses means this provision will be even more important in their case.

Small business will also benefit from the Accelerated Cost Recovery System included in ERTA. The direct share of this benefit going into small business, while important, may be relatively small since these firms use less depreciable property per dollar of sales. On the other hand, to the extent small businesses are suppliers to large capital intensive firms (and in many cases are producers of depreciable assets themselves), the capital investment favoring provisions of ERTA should improve the market and profit positions of major parts of the small business sector, e.g. firms in the construction industry.

Within ERTA there is also an extensive list of special provisions targeted specifically to small business. Small businesses will benefit from the lower tax rates on the two lowest income brackets, the simplification of LIFO inventory accounting, the increased allowance for accumulated earnings, more liberal treatment of stock option plans, the liberalization of Subchapter S provisions, expanded expensing of depreciable assets, the larger allowance for the investment tax credit on used property, and the expanded funding allowances on Keogh plans and IRAs. And family-owned and closely held small business owners are assured of continuity of ownership through the liberalized estate and gift tax laws. The aggregate amounts of the tax relief afforded by these tax provisions can involve significant reductions in marginal tax rates and thus provide powerful incentives for growth and development.

Regulation

Major increases in business regulation began during the last decade. The Occupational Safety and Health Act, the National Environmental Protection Act, the Employee Retirement Income Security Act, and others, have served important national objectives but have also introduced distortions in the operations of the free market, impeded competition, and increased costs of the regulated businesses. Most of these regulations have stipulated the same compliance requirements for small business as for large corporations. The relative burden is much greater, however, because compliance costs cannot be spread out over larger quantities of output. In short, small business has found itself at a competitive disadvantage because of the existence of efficiencies of scale in regulatory compliance.

The problem is a particularly difficult one. On the one hand, regulations frequently address important social objectives which cannot be dismissed lightly. On the other hand, their application to small business is frequently of only marginal importance to the social objectives involved, or they are applied in ways which are inappropriate in a small business context.

Nevertheless, difficult as the job may be, this Administration is committed to a major effort in regulatory reform. The problem has been approached with a two-pronged effort: regulatory relief and use of regulatory flexibility. So far

regulatory relief has been the major policy tool. During this first year, regulatory relief has been actively pursued in every regulatory agency and the number of new regulations issued has been significantly reduced.

The Presidential Task Force on Regulatory Relief has announced a number of existing regulations for in-depth Federal agency review which are considered by small businesses to be most onerous. Agencies will be expected, following their review, to propose changes in these regulations in order to lessen the regulatory burden on America's small businesses. It also is timely to accelerate the review of all existing regulations imposed on the business sector to determine whether maximum flexibility is being provided to accommodate the uniqueness of small businesses. Legislation enacted by the last Congress, the Regulatory Flexibility Act, provides the mechanism for undertaking this effort. The objective will be to assure that existing regulations do not unnecessarily impede growth and development of small businesses. At the same time, we will keep in place those regulations that are beneficial to society -- such as health and safety in the work place, and a healthy environment.

Full utilization of the provisions of the Regulatory Flexibility Act will be a principal theme of our regulatory reform efforts over the next three years. I will direct each Federal department and agency to accelerate the time for completion of the review of existing regulations as specified in the Regulatory Flexibility Act from ten to five years.

Regulatory flexibility may not be adequate to deal with the regulatory relief efforts that we have already launched in the areas of banking and finance. It is important that the interests of small business be given special attention. I am directing the Controller of the Currency and asking the Chairs of the Federal Home Loan Bank Board, the Federal Deposit Insurance Corporation, and the Federal Reserve Board to follow the Regulatory Flexibility Act guidelines for assessing the small business impact of their proposals for changing our financial institutions.

The Securities and Exchange Commission has already established an admirable record of proposing regulatory reform that will allow small business men and women to meet their equity capital needs more cheaply and easily through the issuance of equity securities. I encourage them to continue their activities.

In summary, four economic problems plague small business, cyclical sensitivity, inflation, interest rates and access to capital. We addressed these problems with our four-part Economic Recovery Program: Federal spending cuts, tax reforms, regulatory relief and stable monetary policy. The results are beginning to show -- substantial decline in inflation, a start toward long-term decline in interest rates and increases in savings to expand the supply of capital. This is not the time to deviate from our program. We are breaking the back of stagflation. We have a solid economic program and we reject pleas for "quick fixes" like those used in the past. Our program will pull us out of this slump and put us on the road to prosperity and stable growth by the latter half of this year.

Antitrust

Small businesses rely upon the free functioning of markets to compete and prosper. Our antitrust laws -- the Sherman and Clayton Acts -- protect the competitive markets upon which our free enterprise system is based. The ability of our economy to remain free of illegal and anticompetitive practices is properly a major concern of small business.

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Frequently, levels of concentration are considered an inverse barometer of the health of competition and the small business community. The concentration problem, however, may be somewhat less than meets the eye. One type of concentration, aggregate concentration (the extent to which productive assets, across all industries, are held by a limited number of firms of large size), has not been adequately documented because the statistics are less than perfect reflections of the exercise of control over establishments across industrial groupings.

Another type of concentration, market, or industrial, concentration (the extent to which total sales of a particular industry are concentrated in several or a few producers), may occur naturally where producers find economies of scale in production, distribution or marketing. History also reveals that market concentration has waxed and waned in many industries depending upon developments in technology.

There are numerous weaknesses in the statistics bearing on the concentration question. For one thing, they vary tremendously from industry to industry; the service sector is highly unconcentrated but growing, while the manufacturing sector is more concentrated and shrinking (as a share of GNP). Generalizations about market power are therefore quite difficult. Existing statistics on concentration ratios also tend to focus on manufacturing, ignoring the service, construction, and other sectors where small businesses predominate.

At the theoretical level it is also legitimate to question whether concentration ratios are, in fact, reasonable indicators of the degree of market power being wielded by the participants. Market power is, after all, determined by the availability of acceptable substitutes, barriers to entry, and the practical geographic limits of the market area. The sole dry-cleaner in a small remote town, for example, could conceivably exercise more market power than a major auto manufacturer facing international competition. In the final analysis then, it must be recognized that concentration ratios tell us very little about the competitiveness of the markets within which small businesses operate.

Antitrust policy in general, and particularly merger policy, is the specific context in which the Federal government protects the economy from illegal combinations of market power. The interests of small business are best served by an economically sensible and clearly stated merger policy that carefully examines each specific transaction, and inhibits those transactions that clearly threaten to restrain competition. The Attorney General will vigorously prosecute anticompetitive behavior -- including, where appropriate, the use of criminal sanctions -- to protect competition and eliminate artificial barriers to entry. To the extent that Federal antitrust enforcement can influence competition, this Administration will use its enforcement powers consistently and without hesitation.

This Administration also recognizes that there is a variety of economic and governmental factors which contribute to the competitive capability of small business and perhaps influence the levels of concentration observed in the economy. Tax, regulatory, and fiscal policies appear particularly critical, and are areas over which the Federal government has major influence. Our primary mission in restoring a healthy economy and the premium for hard work and entrepreneurship, is to ensure that the unconcentrated small business sectors can continue to grow.

Research and Development, and Innovation

Innovation by independent, small firms is central to a natural reduction of industrial concentration. The Federal government is the largest single purchaser of industrial research and development in our economy. Until recently, government purchased more research and development than all other buyers combined.

In its pursuit of efficiency in research and development procurement, the government has gradually concentrated its purchases in larger firms and universities. As government budgets have become tighter, procurement officers have found it more immediately efficient to spend research and development funds in fewer large contracts rather than many small contracts. At a minimum, we need to assure that the internal efficiency achieved by such procurement practices are justified since the continuation of these practices will inevitably lead to increasing market concentration, at least among suppliers of contract research and development. Last fall, I indicated my support for Senate Bill 881, the Small Business Innovation Research Act, as it was passed by the Senate. I call upon Congress to pass this Bill for my signature this year.

For small business firms, cash availability is a serious limitation on the amount of research and development they can undertake. The Economic Recovery Tax Act provides an incentive for research and experimentation by allowing a 25 percent tax credit for certain research and experimentation expenditures in excess of a three-year moving average base period. The credit will be in addition to the immediate expensing or 60 month amortization of research and experimentation expenditures permitted under present law. Thus, small businesses' ability to finance their own programs should be materially improved.

I have also requested the Attorney General to examine antitrust laws to ensure that they do not interfere with the ability of patent and copyright holders, including those in the small business sector, to reap the proper rewards for their innovative contributions.

Federal Procurement

The phrase "industrial policy" has come to mean some form of elaborate industrial planning. But our industrial policy is one of establishing and maintaining competitive markets. We remain convinced that this policy will encourage and support the viable small business sector of our economy. Consistent with this philosophy, the Administration is taking steps to encourage competition in the Federal sector.

Government Policy of Not Competing with Private Industry

The Administration has made a major priority the policy of withdrawing wherever possible from competition with private industry in providing goods and services to be used by the Federal government. Activities of all departments and agencies are being examined to see which can be converted to the private sector. For instance, in a review of 440 activities conducted by military departments, it was found that 264 of these, or 60 percent, could be turned over to private enterprise. As these and other requirements are filled by the private sector rather than government itself, a principal beneficiary will be small business.

Prompt Payment on Government Contracts

The Administration is taking action to ensure that payments are made promptly to Federal contractors. Small business contractors are least able to wait for payment and will gain

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the most from prompt payments by the government. Accordingly, we have directed that all government contracts contain clear and specific instructions as to the procedure to be followed to obtain prompt payment. Further, contracts must now state precisely when the contractor can expect to be paid. Additionally, one of the criteria we will be using to evaluate Federal employees who are involved in the payment process will be their performance in paying government vendors promptly. Again, the Administration strongly believes that Federal contract payments should be made on time. Also, we agree with the basic concept of authorizing through law the payment of penalty interest when the government unreasonably delays payment of a bill.

Export

Export trade plays a vital role in our economy. In part, it brings social benefits of our society's technology to other nations of the world and it also benefits our people with increased employment and returns to investment and helps pay for our imports. Unfortunately, small business has not participated in this activity to the fullest possible extent. Thus, our existing foreign trade promotion efforts must be more conscientiously targeted to small businesses, to assist them in access to foreign markets. I am directing the Department of Commerce in cooperation with the Small Business Administration to emphasize programs that encourage export promotion among small businesses.

Equal Business Opportunity

This Administration is committed to pursuing unrestricted access for all business persons to all segments of the economy. Clearly, women and minority community members represent the largest underutilized resource of economic activity in our nation today. We are committed to unleashing this potential by removing barriers to their participation in business ownership.

Capital availability for women and minority entrepreneurs continues to be a significant problem. This problem is being addressed at least partially by the Federal Trade Commission's recent actions to strengthen enforcement of the Equal Credit Opportunity Act.

Success of minority and women-owned business is dependent upon access to resources and knowledge of business management methods. The government has traditionally assisted minority and women business owners with management and technical assistance to help overcome social and prejudicial barriers.

In recognition of the importance of the minority business assistance programs, we have increased the program levels for SBA's Minority Small Business program and the Commerce Department's Minority Business Development Agency for fiscal year 1982 as compared to fiscal year 1981. In addition, we are proposing to Congress that these program levels be maintained in fiscal years 1983 and 1984. This includes activities such as financing for Minority Enterprise Small Business Investment Companies (MESBICs). In addition, the SBA will direct a larger portion of its guaranteed loans toward minority business owners.

We intend to expand the level of services delivered to the minority business community by improving the quality and effectiveness of service. To accomplish this, the Cabinet Council on Commerce and Trade is reviewing all government assistance programs for minority business to determine how they can be made more efficient and effective.

This Administration is dedicated to the systematic elimination of regulatory and procedural barriers which have unfairly precluded women from receiving equal treatment from Federal activities, including those activities affecting the opportunities of women in business. The Attorney General is systematically reviewing Federal laws and regulations in order to identify gender-based discrimination. He shall, on a quarterly basis, report his findings to me through the Cabinet Council on Human Resources. The Task Force on Legal Equity for Women, which I created recently by Executive Order, will then be responsible for implementing changes ordered by me.

In addition, we will ensure that the Women's Business Enterprise program in the Small Business Administration remains an effective and vital force advocating on behalf of present and potential women business owners. Also, the SBA's Office of Women's Business Enterprise will emphasize equal credit opportunity for women business owners.

Small Business Data Base

Finally, it is apparent that the small business sector remains poorly documented in statistical data. Existing Federal data derived from administrative records and data collection agencies and simply not adequate for policy analysis and decision making. Yet, we are committed to reducing the paperwork burden of small businesses and therefore reject any proposal to add data collection mechanisms to those currently in existence. At the same time, existing Federal data may be better organized and coordinated among agencies to help build a data base more suitable for small business policy making. To this end, the proposal for Federal agencies to compile statistics on business size on a comparable basis will enhance analyses of the small business sector. We are planning for agencies to provide business size data on this uniform basis. Analysis of the small business sector would also be furthered by sharing of selected data among statistical agencies, and we are examining ways of accomplishing this within the constraints of privacy and confidentiality requirements.

SBA's data base, which is drawn from commercially available data, places no additional paperwork burden upon small business, allows maintenance of confidentiality commitments to small business, and provides policy relevant data. Thus, this data base must be continued and we have given it priority in our 1983 budget proposals. I am asking the Congress to enact my budget proposal for SBA's small business data base. Also, I am requesting the SBA to increase the resources allocated to this work and to include minority and women-owned business data within its data base.

IV. SUMMARY AND CONCLUSIONS

In conclusion, the importance of the small business sector cannot and should not be ignored. For me, small business is the heart and soul of our free enterprise system. The small business sector has played, and continues to play, an important part in providing innovative drive and employment growth in the American economy. To help small business realize its full economic potential, this Administration is pursuing an economic policy aimed at getting the American economy growing again, together with programs designed to assure unrestricted access by everyone to economic resources and markets.

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The essential parts of such an economic program are already in place. An effective mechanism for achieving regulatory reform has already been established. A policy of stable, moderate, monetary restraint must be followed. A fiscal policy calling for budgetary restraint coupled with important new tax incentives for work, saving, and investment is being put into practice. Moreover, within the context of this four-part program, the major problems of particular interest to small business are being effectively addressed. These problems range from inflation, high interest rates, access to capital, and regulation to research and development, export and equal business opportunities.

This statement and the following report are the first presented to Congress as required in Title III of Public Law 96-302. It has been prepared to meet both the letter and intent of the law and provide a comprehensive description of the state of small business. It is hoped the report will establish a spirit of cooperation with Congress to assist us in jointly pursuing economic growth and prosperity through our mutual recognition of the importance of small business in America.

RONALD REAGAN

THE WHITE HOUSE,

March 1, 1982.

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