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THE FUTURE OF SMALL BUSINESS: WHAT LIES AHEAD? WHAT ISSUES NEED TO BE ADDRESSED?

HEARING

BEFORE THE

SUBCOMMITTEE ON
GOVERNMENT PROGRAMS AND OVERSIGHT

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

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THE FUTURE OF SMALL BUSINESS: WHAT LIES AHEAD? WHAT ISSUES NEED TO BE ADDRESSED?

THURSDAY, SEPTEMBER 28, 2000

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT PROGRAMS
AND OVERSIGHT,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:04 a.m., in room 2360, Rayburn House Office Building, Hon. Roscoe G. Bartlett [chairman of the Subcommittee] presiding.

Chairman BARTLETT. If our witnesses would take their places at the table.

We will call to order this Subcommittee on Government Programs and Oversight of the House Committee on Small Business. Good morning and welcome to this hearing of the Subcommittee on Government Programs and Oversight of the Committee on Small Business. A special welcome to those who have come some distance to participate. The hearing will look into the future of small business in the United States and those issues of vital concern to the small business community and Main Street, America. It is small businesses that are the engine driving the present economic prosperity by spurring the creation of new enterprises, by producing new job opportunities, and by being leaders in technology and innovation.

Congress needs to keep in constant touch with the needs and concerns of the small business community. This hearing will provide an opportunity to learn of those issues of most concern and those that will affect the future of small business in the United States.

Another focus of the hearing is to obtain your recommendations about how to best promote and sustain an enterprise friendly economy that rewards those who start and grow small businesses. Suggestions with respect to legislation to assist small businesses would be most welcome. Also, your views with respect to any burden created by Federal regulations and paperwork together with suggestions for improvements would be most helpful. There are a number of questions that can be asked. How can the present economic conditions be sustained? Has the prosperity touched every segment of the small business community or are there segments of the small business community that need assistance? If so what kind of assistance? Should the assistance come from the private or public sec-

tors? How effective are the private solutions and government programs in addressing these needs?

As previously pointed out, small businesses have been leading the economy both in innovation and job creation. It is hoped that the hearing will help to answer these and other questions. For example, what is needed to maintain this record well into the 21st century?

Why the emphasis on small businesses? For the simple reason that small businesses are presently the main engine driving the economy of this country. It is a statistical fact that small businesses are the creators of new jobs and the stimulus behind our present economic prosperity.

Independently owned businesses, the free market economy in this country with fewer than 500 employees and many with far fewer than that, created 76 percent of the new jobs from 1991 to 1995, employed 53 percent of the private nonfarm workforce, contributed 47 percent of all sales in the country, are responsible for 51 percent of the private gross domestic product and produce 55 percent of innovations. Small businesses produce twice as many both product innovations and significant innovations per employee as compared to larger firms.

Those who work in Washington, D.C. need your views. The Committee on Small Business welcomes your testimony. I look forward to a lively and informative discussion. Thank you again for being here today.

In a former life I was a small business person. I am one of perhaps 30 or 35 Members of Congress who were ever a member of NFIB. I have read your testimony with great interest. You know, if small business people were running this country we wouldn't have to be having this hearing, and I would hope that more of our small business people will get into politics and eventually into Congress, because what you want for our future will benefit every one of the people in this country, not just small business people. Thank you very much for coming to our hearing this morning.

We will turn now to our witnesses. Our witnesses are Mr. James Blann, Senior Vice President of the American Express Company; Mr. John Hexter, Chairman, National Small Business United; Mr. Woodrow McCutchen, Executive Director of the Association of Small Business Development Centers; Mr. Giovanni Coratolo, Director of the Small Business Council, U.S. Chamber of Commerce; Mr. Ken Yancey, Executive Director, Service Core of Retired Executives, SCORE; Anthony Raimondo, Chairman and CEO, Behlen Manufacturing Company, National Association of Manufacturers.

Thank you all very much for agreeing to come and participate in this hearing. We will began with Mr. Blann.

STATEMENT OF JAMES BLANN, SENIOR VICE PRESIDENT, AMERICAN EXPRESS COMPANY

Mr. BLANN. Good morning. Mr. Chairman, as you said, my name if Jim Blann. I am the Senior Vice President of American Express Small Business Services. I am very, very honored to be here today. The testimony I am about to provide represents the voices of tens of thousands of small business owners who have played a part in a program we at American Express Small Business Services have

conducted since March of this year, and that program is called Voices From Main Street.

My testimony will focus on the workforce needs of small business owners because it was this issue that was identified as their number one priority. And most specifically, I will focus on the fact that small firms say today's labor force suffers from a severe skills gap that inhibits their ability to continue to grow and prosper.

Let me step back for a minute and describe our program. Once again it is called Voices From Main Street, and it was signed to help small business owners interact on a national level and discuss the issues most important to them. And small business owners across the country have responded in a powerful way through a number of channels that we have provided. We conducted two national research surveys in February and May that included respondents numbering 2200 small business owners. We created a Website and are getting many thousands of hits from small business owners. We have conducted a number of national Web chats. We put together a nationally televised one-hour small business forum on CNN that aired May 24 and we have had several Web cast town halls. So this has been a pretty good significant effort in terms of trying to get small business owners to get their issues heard within the country.

We have launched this program because despite, frankly, the terrific work of organizations like those sitting here today in this room, too often the concerns and needs of the small business owner are overwhelmed by the voices of other constituencies. Small businesses, as you said, Chairman Bartlett, are the backbone of American economy and given the contributions they make to this country the situation that we are describing regarding the workforce are truly perilous. You no doubt are aware, as you pointed out, that small businesses employ about half the country's workforce, account for about half of the country's private sector output, and are by far the majority of net new jobs added to the economy over the last few years.

Additionally, I would point out that many large companies are affected tremendously by the rise and fall of small firms. My group alone at American Express serves almost 3 million small businesses and, very frankly, the survival and success of small business is extremely important to big business.

Now let me get back to what small firms have told us about the current labor shortage and how it is very troublesome for them. Small businesses often don't have the resources to recruit, compensate and train a qualified workforce, resources often available to larger companies, companies like mine. And when you compound this disadvantage with the gap in the skills that are coming through in the workforce needed by the small business community, it is fair to say that the situation is reaching crisis proportions. And two of the most significant findings from the Voices program were, first, that most small businesses are dissatisfied with the country's workforce skills. Only a third of small businesses owners say they are extremely or very satisfied with the skills of employees and potential employees. And, second, small businesses owners say that despite the emergence of the Internet economy it is not the computer or technical proficiency that their employees need,

but more basic soft skills, basic written communications, verbal skills and interpersonal skills, much more fundamental skills that are lacking in the workforce that is coming towards small business.

Mr. Chairman, this situation has truly, we believe, reached a crisis level for small business owners. And the small business community is telling us that they need a better equipped workforce or the entrepreneurial renaissance that has driven so much growth within the economy will wither.

What are some potential solutions? Well, small businesses narrowed their short-term priorities to two ideas that I would like to open for discussion this morning. The first idea is for more internships for teenagers. The majority of employees in the small business workforce have only a high school education. So that means we need to aggressively pursue connecting more secondary and vocational schools to the small business community.

The second potential initiative is creating more readily accessible information on those existing training programs that work well. When we asked entrepreneurs if they were aware of local programs designed to improve workforce skills, only about 40 percent said they knew of a program in their community.

The sad thing is that many good programs do exist that could help small business owners today. Created at the state, county and local levels through a combination of school administrators and business groups, many of those programs unfortunately just aren't widely promoted or easily accessible.

One immediate action could be providing small business owners with a single convenient place for them to find out about those existing local programs, and one way to possibly get at that would be to have the SBA add to its Website a place where educational institutions and small business owners could come together to promote their programs, share experiences and expand on best practices. We at American Express are prepared to assist in the creation of such a site or perhaps to utilize our Voices From Main Street program to help with this.

We also would welcome the opportunity to work with the Committee to hold Internet based Committee hearings on this issue to allow more small businesses from the small business community to provide their direct input, and that is very possible with the Internet today. Small business owners also know they have a responsibility to get involved. They are looking for opportunities to assist local schools and other institutions in preparing the next generation for the working world, and a broader discussion with other Members of Congress involved might be a next step.

In closing, solutions will not be easy. Most small firms need help right now, but small business owners are aware of the fact that the problem requires both short-term solutions and long-term planning. They also tell us that solutions do not necessarily require more legislation or the creation of new Federal programs. In fact, solutions that require a lot of paperwork or are difficult to access would not be widely used.

In closing, I would like to thank you for providing us at American Express the opportunity to share with you some of what small business owners have told us through the Voices program, and I am happy to explain more about the research we have conducted,

and I look forward to helping you help small businesses overcome this dilemma.

Thank you.

[Mr. Blann's statement may be found in appendix.]

Chairman BARTLETT. Thank you very much. I am pleased that Mr. Danny Davis, ranking member of our Subcommittee, has joined us. Now we turn to John Hexter, Chairman of National Small Business United.

STATEMENT OF JOHN HEXTER, CHAIRMAN, NATIONAL SMALL BUSINESS UNITED

Mr. HEXTER. Thank you, Chairman Bartlett, Mr. Davis. My name is John Hexter, and I am the Chairman of National Small Business United. While I am the President of my own business consulting firm, Hexter and Associates in Cleveland, Ohio, I am here today as the representative of our more than 65,000 NSBU members and over 23 million small business owners across this great land. I have been immersed in the issues affecting small business, most recently as a member of the SBA's reg fair program under the Small Business Regulatory Enforcement Fairness Act and as a delegate to the past two White House conferences on small business. My clients are all small businesses.

Mr. Chairman, this hearing is a grand opportunity to explore ways to assure the small business sector continues to drive this wonderful American economic miracle into the 21st century. We are pleased you have invited some of us here who operate in the proverbial trenches to express our views today. Let me focus on those issues our members have stressed as their most immediate concerns.

In my working activities with any number of small business related organizations, I am able to get a sense of what concerns small businesses have across a number of sectors and regions in the country. While I speak about changes that need to be enacted in the future, I would like to point out there is a chance, at least in some cases, that legislation could be passed before the end of this Congressional session.

Next I will discuss a few items that relate more to longer term goals and initiatives that we believe our government should address to facilitate the preservation and growth of the economic engine we call small business.

Finally, If I am brave enough, I would like to take a moment for some predictions concerning the future of small business, first what needs to be done now.

Annually NSBU convenes a membership meeting to solicit grass roots input on issues of immediate importance to small business, and NSBU's board is charged with pursuing solutions to those topics. What follows is our six immediate issues.

Certain provisions of the Ticket to Work Act and Work Incentives Improvement Act of 1999 require small businesses to pay all of the capital gains taxes resulting from the sale of their businesses in the first year, even if payments for the sale are spread over several years. This requirement inserted at the last minute targets small firms and family firms. The smaller the business, the more likely that a sale of the business could cost more in taxes in the first or

second or even third year that those installments would cover. The installment sale tax provision is a huge impediment and a disincentive to those firms seeking to expand by acquiring other firms and makes a sale impossible for business owners who have an urgent need to exit their businesses. NSBU is appalled that this provision ever appeared in the 1999 act; that is, negative consequences we overlooked and ignored, and we are still awaiting appropriate redress in this Congress.

There are a number of bills in both the House of Representatives and the Senate that would correct what was placed in the 1999 law. They enjoyed broad based bipartisan support. What is particularly troubling to me as a small business owner is that such an initiative can have such broad support and still not be enacted.

Second, as a nation we have collectively wrung our hands over the number of people without health insurance. The current presidential campaigns are replete with advertisements and proposals to address this issue. It isn't rocket science to know that if you tax a behavior you will get less of it. Taxing health insurance benefits is simply bad public policy. Why our Congress doesn't provide immediate tax relief for the health care benefits provided to the self employed is a mystery to me and a particularly troublesome issue for the members of NSBU.

Third, NSBU as well as a number of other small business associations is vehemently opposed to the Occupational Safety and Health Administration's proposed ergonomic standards and health and safety rules as they are currently drafted. We support legislation that would delay OSHA's effort to promulgate final rules before independent, sound and peer-reviewed scientific analyses have been conducted. We are not saying that ergonomic legislation is always a bad thing or even unnecessary. OSHA should go back to the drawing board and come back with a proposal that can work and be equitably enforced. OSHA must be prevented from going ahead full speed with a set of rules that have not been generally accepted in the scientific community.

Mr. Chairman, let me digress to explain a basic conflict I have observed in my role as a SBREFA reg fair panel member. I view so much of the Federal and regulatory enforcement as founded on a false premise, that managers and we small business owners are in conflict with our employees. Small businesses and family farms most often operate on tight margins and employ family and friends from the community. To deliberately put family and friends at risk makes no sense at all. As I will mention again later, as Jim already mentioned, the single biggest impediment to the future of small business in America is lack of skilled workers able to deal with the greater complexity of the work place. It is a fundamental flaw in the enforcement of our laws when the regulators whom our tax dollars pay presume we want to harm our workers and wreck our environment.

Next NSBU supports the SBA's Office of Advocacy. NSBU supports S. 1346, sponsored by Senator Kit Bond. The approach in that legislation does a great deal to protect this office. We also support expanding its role to include assessment of the effectiveness of the Federal subsidy and assistance program for small business, the impact of Federal regulations on small business and the devel-

opment or strengthening of minority women owned and other small firms.

According to a recent study released by the Office of Advocacy, their work in dealing with agencies through SBREFA have saved small firms over $5.3 billion in fiscal 1999 alone and they tell us that is a drop in the bucket.

Elimination of the death tax. Finally, Mr. Chairman, I have saved perhaps the most important issue for last. In our country there exists something called the estate tax. This defies all logic. Individuals and partners who own and operate small businesses and farms who have worked all their lives to leave a legacy for their children and grandchildren are being asked when they die to give a significant portion of those assests to the federal and state and local government. For many, their business is the largest asset they have to support their families after death. The death tax can currently remove up to 55 percent, more than half, of their assets. The same government that erects unnecessary barriers to entrepreneurship, the same government that won't allow us to treat health insurance benefits on an equal basis with other workers, the same government that taxes us on earnings of our employees, the same government that doesn't believe we care for the safety and health of our employees and the very same government that buries us in paperwork regulations then through the death tax takes up to 55 percent of what is left after we have worked with diligence and discipline to earn and save.

These are American values? Is it any wonder that the small business sector is ambivalent about the role of the government in the American economy? Relief from the death tax is a pressing issue for those of us who are aging baby boomers considering how to provide for our retirement and for our future economic health.

So what needs to happen? Well, the big issue is a complete and thorough examination of the Code of Federal Regulations, no small task. It needs to be undertaken with the intent, the expressed intent of identifying and eliminating conflicting laws, rules and regulations that overlap and contradict one another. Conflicting laws and regulations should trigger an enforcement exception until the government resolves the conflict and the burden should be removed from the target of the enforcement action. Only then will our government employees and officials understand that they work for us, not the other way around.

The sheer weight of enforcement action is often an unbearable burden for small business. The small business community is also desperately in need of a complete overhaul of our Nation's tax system. NSBU has come to believe that the income tax system is broken beyond repair. We have endorsed a form of the national sales tax called the fair tax, which would replace all Federal income payroll and gift and estate taxes.

I commend to you NSBU's testimony before Mr. Manzullo's Subcommittee just three weeks ago and our testimony before the Ways and Means Committee last April.

I promised you some predictions and, if you will bear with me just a tad longer, I believe I have some valuable insight for your consideration. Earlier this year along with American Express, IBM and RISEbusiness, NSBU published a report entitled. "The Future

of Small Business Trends for a New Century." Copies are here on the table. I know that they have been distributed. I would like to take a moment to briefly touch on five items in that report.

The demographics of the labor force will change dramatically over the next few years. Over the long term the shortage in quantity and quality of labor will be one of the most important constraints on economic growth.

I mention this issue, Jim mentioned this issue, others will mention this issue. The workforce in this country is shrinking. Population growth has recently slowed to about 1 percent a year and in the next 6 years the younger portion of the labor force, our new workers if you will, will shrink by nearly 2 million workers, creating significant competition for those employees.

Three, the workforce in this country is changing, not just shrinking. By 2006, not too many years out, women will account for almost half of the labor force. Non-Hispanic whites will account for 73 percent of the labor force, down from 80 in 1996. Small business men and women will have to change their thinking about hiring and retaining employees of different cultures, races and ethnicity.

Four, labor demands has shifted dramatically. Good job growth will occur in professional, managerial and high level sales in the serve and technology sectors. Increasing demand for more easily trained workers—the issue you raised Jim about basic skills—has resulted in a huge increase in the demand for college educated employees.

Small business will likely have to step up the level of training. This is the last item. Small business will likely have to step up the level of training for their existing workforce to retain employees with technical proficiencies, hire a greater number of older workers, and create more flexible and family friendly work policies.

Department of Labor regulations from which government agencies and Congress are often exempt regularly impede our efforts to be flexible and family friendly employers.

In conclusion, Mr. Chairman, I would like to be able to report to you that the future of American business entrepreneurship is bright because of the benign role of the government at all levels. That is not the way it is, however. The role of government as it relates to the small business sector is like a beaver. It gets in the middle of the stream and builds a dam. Only with the continuing support of the Office of Advocacy and the ongoing involvement of diligent representatives like you can we expect to thrive without significant change in the attitude and role of the governmental regulators.

I thank you for your time and attention, and I look forward to further discussion.

[Mr. Hexter's statement may be found in appendix.]

Chairman BARTLETT. Thank you very much for your testimony. Now we turn to Mr. McCutchen.

STATEMENT OF WOODROW C. McCUTCHEN, EXECUTIVE DIRECTOR, ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

Mr. MCCUTCHEN. Good morning, chairman Bartlett, Ranking Member Davis. I am Woody McCutchen. I am the President of the

Association of Small Business Development Centers. Our SBDC network operates in all of the 50 States, the District of Columbia, Guam, Puerto Rico, the Virgin Island and American Samoa. With more than 1,000 services centers nationwide, we provide services to more than 650,000 existing and aspiring entrepreneurs each year.

First, Mr. Chairman, I would like to thank you for having this hearing and for inviting the ASBDC to participate. I am going to digress from my written testimony because I see no need to recite the statistics that you have already so eloquently stated that demonstrate that small business continue to drive this economy. If we hope to continue with the strong economic growth that we are currently experiencing, it is essential that we maintain a climate where small businesses can continue to flourish. You will find as we go down the table, Mr. Chairman, that a lot of the priority issues are repeated in our testimony, and I would like to give some slight nuances on some of those issues. And of course we have found also that the number one concern for small firms right now is the ability to find and maintain skilled workers. Work force development is the one overriding issue that our counselors find when we meet with thousands of small businesses each year. The documented shift in labor demand towards professional, managerial and high level sales jobs and the services and technology sectors complicate this shortage of trained workers and make this a very urgent issued that needs to be addressed for our small firms.

Another important shift though, Mr. Chairman, has to do with the shift in business ownership, and what we have found out is that baby boomers own a significant percentage of sole proprietorships and partnerships. That means that in the coming years there will be an increasing number of small business closures if those baby boomers are not given some assistance with ease of succession. The SBDC plans to address this issue by providing increased succession planning in our training activities for small businesses. But again as the first two speakers have mentioned, the ability to turn your businesses over to your children is impacted by the tax regulations.

Technology represents significant challenges and represents significant opportunities for small businesses. However, those firms that are slow to acquire the technology skills that they need will find themselves really significantly behind the curve. To address that question, the ASBDC is planning to launch a major professional development effort for our counselors and trainers to make sure that we have the skills to provide credible and viable e-commerce and e-business advice to our clients. And we plan to make this training available to SBA field staff so that we are coming from the same page when we address our clients.

Mr. Chairman, despite the changes in technology and the changes in the demographic makeup of the workforce and in the demographic makeup of aspiring entrepreneurs, some things remain unchanged. One of the things that we have been discussing in our network has to deal with the definition of what a technology business is versus a nontechnology business, and we contend that right now there is no such thing as a nontechnology business. And we plan to emphasize in our training not the fact that we are going to provide services to only high technology firms, we plan to pro-

vide services to businesses that need to effectively utilize technology to start to grow and to succeed.

The other issues that all of our clients talk about have to do with taxes, have to do with business regulations and the impossibility of surviving the regulatory maze that businesses face. Our association looks forward to the day that H.R. 4946 becomes law and to cooperating with Congress and other regulatory compliance assistance providers in assuring that our Nation's small businesses have ready access to the regulatory and compliance assistance that they need.

I what to talk about another area, Mr. Chairman, and that is access to capital. Business financing in this country has traditionally been asset-based financing. One of the characteristics of this new economy, this new technology, is that it pays a premium not to bricks and mortar, but to ideas. So that when we talk about access to capital for small businesses we need to look at underwriting criteria and business evaluation criteria, because how do you place a value on an idea? What is the value of intellectual property rights? What do you use to collateralize that financing?

Those are the issues that are important to us and to our small businesses.

I have heard a couple of our earlier speakers talk about the need for education that addresses the needs for small businesses. It is interesting, Mr. Chairman, that 47 of our 57 SBDCs are university based or higher education based. In earlier testimony before you, we talked about the need of utilizing young people as interns in small firms to bring to those small firms the technology skills and the comfort with technology that those young people have. We think that the idea of interns will not only provide access to technology education for small businesses, it will provide those small businesses with access to a potential workforce. And we think that the extension of the SBDC program and the educational needs of small businesses below the secondary level down into the junior high schools, down into the high schools is going to be an important factor for small businesses.

Mr. Chairman, again I am really happy to be here this morning, and I appreciate the opportunity to speak before this hearing. I will be happy to answer any questions you have later. Thank you.

[Mr. McCutchen's statement may be found in appendix.]

Chairman BARTLETT. Thank you very much. Let us to turn now to Mr. Giovanni Coratolo, Director of the Small Business Council, U.S. Chamber of Commerce. Thank you very much for being with us.

STATEMENT OF GIOVANNI CORATOLO, DIRECTOR OF THE SMALL BUSINESS COUNCIL, U.S. CHAMBER OF COMMERCE

Mr. CORATOLO. Thank you very much. Good morning, Chairman Bartlett and Congressman Davis. It is a pleasure to be here. I am Giovanni Coratolo, Director of Small Business Policy for the U.S. Chamber of Commerce. Chairman Bartlett, we applaud this Subcommittee's dedication and interest in sustaining the economic expansion that has been led by the Nation's 24 million small businesses. These are business owners who are faced with the daily challenges of a dwindling labor supply, overaggressive Federal reg-

ulatory agencies, a tax code that penalizes savings and investment, and an increasingly litigious society and competitors from an expanding global marketplace. Yet these small business men and women in spite of obstacles have emerged as the primary vehicle by which the new economy has grown and prospered.

In order to project the future, it is important to touch a little on the past. Looking back to the fifties and sixties large goods producing companies dominated the world economic power structure. We lived in a culture that based prosperity on the premise, so goes General Motors, so goes the economy. It was only several decades ago when our big businesses started to sputter that we sent observers to Japan to understand how they were able to build a bigger big business, and many prognosticated the decline of the United States as an economic world power was inevitable.

It was only during the last decade that the answer to our national revitalization became apparent. This was found within the entrepreneurial spirit of our small businesses. The trend for big business is now to downsize and become more entrepreneurial. It is the small businesses that are credited with being the driving force for technological change and productivity growth. They are the crucial barometers for economic and social well-being.

Now countries are sending observers here not to find out how we are running General Motors but how we are fueling the growth and proliferation of our small businesses. Our corporate heroes are not those that created jobs from the penthouse of high office buildings but those that launched enterprises from their basements and garages.

At the U.S. Chamber of Commerce we have identified five policy areas that are critical to the impact of the future of small business. I will list those priorities and underneath each in your written testimonies are an example or number of examples or specifics I won't go into for the sake of time.

Number one, as we have heard here, to provide small business access to a quality workforce. In order to assure the future growth of small businesses we must provide a level playing field for small businesses to hire, train and retain a qualified workforce. According to a recently released survey by the U.S. Chamber of Commerce, workforce issues are a top priority for Chamber members, and that study is also included in your written comments. We have to make sure that we solve the health care issue so that small businesses are capable of competing with larger businesses for workers and the solution to benefits will do that.

We have to make sure our school system—we look at businesses as a customer to the education system, and that is a profound difference from where it is now.

Change tax policy. In order to ensure the strength and vitality of our small enterprises we must promote a tax policy that allows small businesses the opportunity to reinvest more money in the growth and continuation of their businesses and not in the growth of big government. As you heard here a number of tax issues, I won't repeat them.

Eliminate needless burdensome Federal regulations. Many small businesses' efforts to expand their enterprises are hampered by the yoke of needless regulations promulgated by overaggressive govern-

ment agencies, and there again I won't list the number that are there. There are many on the books and many are proposed to be passed.

Number four, stop frivolous lawsuits against small business. Outlandish punitive damages are crafted to force large settlements regardless of the small business' degree of responsibility for the harm.

And lastly give small business the opportunity to compete in a global economy. With the advent of technology the world is increasingly a global marketplace. We must allow small businesses to compete in today's complex and sophisticated world market as unrestricted as their international competitors. In our tendencies to regulate and tax our new economy small businesses, our first goal must be to do no harm. In old economy businesses fixed assets and physical location determined success. For today's businesses intangible assets such as knowledge, entrepreneurial spirit, management and innovation are key determinants for market strength. In order to sustain continued growth within our new economy, new policy must reflect sensitivity to the paradigm shift, especially in regards to the small business community.

The growth and vitality of new economy enterprises have been based on a steady flow of venture capital and the ability to merge with other companies to complement forces for market strength and stability. Currently FASB is proposing to eliminate the longstanding use of the pooling of interest method of accounting for business combinations in favor of purchase accounting. If allowed to proceed, this will have a chilling effect on the ability of small technology businesses to grow and compete in a fast moving new economy.

Another defining issue that will determine the course of small business in our knowledge based society is privacy. With technological ability to track and gather information on individual and group preferences where do you draw the line in regarding this potential powerful information?

As innovation drives success with the new economy, small businesses are in need for the understanding and means to protect their research and inventions through patent protection. Often small businesses are unaware of complicated processes by which these safeguards needs to be used. In some cases funding becomes a barrier.

In closing, Mr. Chairman, within the headquarters of the U.S. Chamber of Commerce we have a meeting room called the International Hall of Flags, where hanging from the walls are flags from entrepreneurs of the 16th century, Sir Frances Drake, Magellan, Columbus, just to name a few. Funded by the nobility of their time and navigating by the stars, they risked their life and limb to sail the oceans in search of trade and prosperity.

Today's entrepreneurs have traded their massive ships for laptop computers, funded by venture capitalists and navigating with Netscape, they fly their Website home pages high and sail the worldwide sea of the Internet in search of global trade routes at the speed of light. Policies that promote, protect and encourage the entrepreneurial spirit of our small business community will allow them to continue to lead the exploration of new frontiers in the fu-

ture and provide the United States with unprecedented prosperity. How congress answers this call will determine the success or failure of these modern day Magellans.

Again I want to thank the chairman and Congressman Davis for having the Chamber testify today. Thank you.

[Mr. Coratolo's statement may be found in appendix.]

Chairman BARTLETT. Thank you very much for your testimony.

We now turn to Mr. Yancey. I have had a long time feeling that most things are done better in the private sector than in government and in SCORE we have a wonderful marriage of the private sector and government. So I welcome Mr. Yancey.

STATEMENT OF KEN YANCEY, EXECUTIVE DIRECTOR, SERVICE CORPS OF RETIRED EXECUTIVES (SCORE)

Mr. YANCEY. Thank you, Chairman Bartlett. Mr. Chairman, Mr. Davis, my name is Ken Yancey, and I am the Executive Director of the Service Corps of Retired Executives, better known as SCORE. Thank you for inviting me to testify before you today.

SCORE does not survey its small business clients regarding challenging issues related to starting and running a small business. However, we can offer comments based on anecdotal and anonymous information regarding our clients' needs. I will pass on some of the findings of the National Commission on entrepreneurship, NCOE, published in their 2000 report entitled "Building Companies, Building Communities: Entrepreneurs in the New Economy." Patrick Von Bargen, Executive Director of NCOE, has made copies of the report available to the members of the Committee and more information about NCOE is available at their Website *www.NCOE.org*.

In this robust economy with low employment, complicated by a shift to a knowledge-based economy, finding and retaining quality people is a major challenge for entrepreneurs, as you have heard from all of the previous speakers. The challenge is at all levels, including management, technical and entry level positions.

Additionally, the NCOE study brings up the challenge of too few workers that are ready to work, referring to competence and attitude of many individuals entering the workforce, including the basics of commitment and courtesy. Improving math and science curriculum in grades K through 12 and technology training would have a positive impact on the future workforce.

The NCOE study provides potential solutions, including hiring employees from the growing population of senior citizens and taking advantage of telecommuting. Access to capital has been a challenge for small firms for years. Today there is significant venture capital for funding available for technology related, high growth start-ups. This is not true for small business start-ups and existing businesses in traditional industries, particularly companies with capital requirements less than $1 million. Most of these small start-up entrepreneurs use personal funds, second mortgages, friends and family or credit cards to finance their ventures. The Small Business Administration is attempting to address the needs of this segment of the small business economy with the SBA Low-Doc loan, the SBA Express loan program and the SBA MicroLoan program.

The need for small business-related technical assistance, mentoring and networking opportunities are also very important for today's entrepreneurs. SCORE and other programs such as the Small Business Development Centers and the Women's Business Centers offer free or low cost access to this type of entrepreneurial support. SCORE serves over 300,000 existing and aspiring entrepreneurs each year and has served over 4.5 million since its inception. With continued support from the Small Business Administration and the Congress, SCORE plans to increase its outreach efforts to America's entrepreneurs. This expansion will come online through greater availability of SCORE's e-mail counseling now available at the SCORE Website at *www.SCORE.org*.

We are planning the development of new online community applications where small business owners can learn from SCORE counselors as well as from each other. SCORE is also working on distance learning opportunities with private sector alliance partners such as the Kaufman Center for entrepreneurial Leadership, Visa U.S.A., Equalfooting.com and Staples.com. Additionally, SCORE plans to improve the availability of one-to-one counseling through the expansion of chapters into fast growing areas of the communities where they already serve as well as outreach to underserved and rural communities.

Mr. Chairman the 11,400 volunteer members of SCORE are committed to assisting in the success of small and growing companies across the country and to those individuals that wish to start a business.

Again, thank you for your support of SCORE and for inviting me to testify today.

[Mr. Yancey's statement may be found in appendix.]

Chairman BARTLETT. Thank you very much.

And now Mr. Anthony Raimondo, Chairman and CEO, Behlen Manufacturing Company, National Association of Manufacturers.

STATEMENT OF ANTHONY F. RAIMONDO, CHAIRMAN AND CEO, BEHLEN MANUFACTURING COMPANY, ON BEHALF OF NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. RAIMONDO. Thank you, Mr. Chairman, Congressman Davis. I am very pleased to be here this morning. My name is Tony Raimondo, and I am very impressed with how the chairman could pronounce that first time around. Thank you, Mr. Chairman. I am President and CEO of a metal fabricating company in Columbus, Nebraska called Behlen Manufacturing. I am here this morning to testify on behalf of the National Association of Manufacturing, the NAM.

We represent 18 million people who make things in America. We are the Nation's largest and oldest multi-industry trade association. The NAM represents 14,000 member companies, 10,000 of which are small and mid-sized, which is a category that I would fit. We also represent 350 member associations serving manufacturing and employees in every industrial sector in all 50 states. We are headquartered in Washington, DC. And have ten additional offices across the country.

Although I am submitting written testimony, I would like to highlight briefly the top issues facing American small manufactur-

ers. Specifically, I want to discuss the pro-growth and pro-workers issues that will benefit the American small business community and overall economy.

America's economy has expanded impressively over the past 18 years with only one relatively mild downturn in the entire period. At the NAM we are proud of the disproportionately large contribution American manufacturers have made to that expansion. We continue to have an impact in GDP that was similar in the Industrial Era. That is another whole story that I would like to share some thoughts on at another time.

Coupled with the fiscal restraint of recent years, our booming economy has filled Federal coffers beyond expectations and yielded the first Federal surplus of more than a generation.

The NAM believes that the Federal tax code is the single largest obstacle to continued strong economic growth. Federal tax laws need to be reformed and replaced with a pro-growth code. At the same time we realize this effort remains a daunting one. Consequently, under the code itself there is need for fundamental change. We believe that certain pro-growth incentives need to be incorporated into the otherwise anti-growth tax code. For our small and medium sized companies, the most important tax policy priority is what you have heard earlier, the repeal of the current estate and gift tax regime, sometimes known as the death tax, and lower tax rates for S-corps.

The importance of repealing the death tax to our small and medium sized companies is no surprise as business spends on average a staggering $52,000 a year on estate tax planning. The time and money spent preparing for the death tax similarly do not help a business in any way. This diversion of valuable human and financial capital achieves absolutely no economically useful purpose. It does not increase productivity, expand the workforce or put new products on the shelf. A business pays this cost every year, not just at some uncertain future date when an even bigger bill comes due.

Our members would much prefer spending this money on new technology, business expansion and additional employees. The death tax can be devastating to the transition between generations in a family owned business. A Vermont life insurance company study indicates that few than one in three family owned companies survives the next generation. Furthermore, the 55 percent estate tax does not allow much room to breather. Very few businesses or business owners have that kind of liquidity, and almost no manufacturing company does.

Currently there are some special estate tax breaks on the books for small businesses but qualifying for the family owned business exclusion is difficult, if not impossible. Business owners must constantly monitor whether they meet the stringent ownership and participation requirements in the law, often a time consuming and expensive endeavor. If the government determines after the fact, that is, after the owner's death, that these requirements have not been met, the full estate bill is due and all those dollars have been wasted.

Complete repeal of the death tax is the best solution for a pro-growth economy and for family owned manufacturing companies and all other small businesses that are creating jobs and securing

future for their employees, as you described so well, the engine of our economy.

As I have noted, the death tax is devastating to the small business community. So are proposed worker safety regulations that do more harm than good.

Another issue that would adversely affect small business is OSHA's $18 billion ergonomics regulation. This proposed regulation is a window into OSHA's soul, clearly trying to reach beyond the workplace even into the home to regulate.

Worker safety is one of the top priorities in my factory and for all members of the NAM. I know—and in this script I say—all of my employees. I would just like to give you a brief thumbnail sketch. Behlen has grown in 15 years and I had the opportunity to acquire the company from 300 employees to 1500 employees. We export product to over 50 nations. Our people are very involved. We call them partners in progress. No time clocks, honor system, profit sharing and productivity sharing. We truly are partners with our employees. We work together and our best safety programs are led by our partners in progress.

So the work environment has changed, and I am not alone on this. The overall injury and illness rate is currently at its lowest level since the Bureau of Labor Statistics began reporting the information in the 1970's. In spite of BLS's data showing that repetitive stress injuries, MSDs, have declined by 24 percent since 1944 and despite the lack of consensus in the scientific and medical communities on the causes of MSDs, OSHA is moving aggressively forward with ergonomics regulation and ignoring the intent of Congress. Employers covered by OSHA's proposed rule, which was published in the Federal Register in November 1999, would be responsible for taking measures to reduce all MSDs, including carpal tunnel syndrome, neck and back strains, by initiating and maintaining a basic ergonomics program once a single injury is reported in a facility. OSHA considers an injury work related if working conditions contributed to the injury or even if non-work factors contributed as well.

Further, while typical Workers Compensation rules currently cover two-thirds of an employees pay while he or she is out, the OSHA rule will require workers to be paid at 90 percent of their pay if they are claiming an ergonomic injury. OSHA has in effect created a most favored injury status for ergonomics. If covered employers must set up an ergonomics program to control work-related MSDs which must include the following, and it is a long list of employee hazards and what have you that I am sure you're aware of, so I will skip that.

In October of 1998, Congress approved $890,000 for the National Academy of Sciences to conduct an independent peer-reviewed analysis of the available science on MSDs. The NAM opposes the rule and urges OSHA to wait until the evidence is in before moving forward.

I would like to thank Chairman Barlett and Congressman Davis and the Subcommittee for the opportunity to discuss on behalf of NAM issues that will impact the future of small business. We hope that our recommendations to best promote and sustain an enterprise friendly economy for small manufacturers are helpful, and we

look forward to working with Congress on these various issues. Although our written list of concerns are lengthy, we are up to the task to work with Congress and the administration to encourage economic growth for our Nation's small businesses, particularly in the manufacturing sector.

I would be pleased to answer any questions and once again thank you for this opportunity.

[Mr. Raimondo's statement may be found in appendix.]

Chairman BARTLETT. Thank you very much for your testimony. Without objection, your written testimony will be made a part of the permanent record. As you heard, some bells went off and we have a bit more than 10 minutes before a vote. What I proposed to do is recognize Mr. Danny Davis for any statement he wishes to make and for whatever questions and comments he might have. I don't know if you want to begin before we vote or if you want to rush to vote and come back.

Mr. DAVIS. Let me, if I could, Mr. Chairman, just in case something gets all fouled up and given the fact that this is in all probability our last hearing for this session, I first of all wanted to commend you and also want to express how delighted I am to work with you through this session. I certainly appreciate the manner in which you have not only provided leadership but the manner in which you have conducted the business of the Committee.

As I listened to the testimony of all our witnesses, I was struck by the eloquence in terms of some of the terminology, OSHA's soul, all of these Magellan like global pursuits, but I really was struck by two issues that you raised. One is the workforce availability and the difficulty of finding the type of workers that you fell would be necessary, and maybe there is time for at least a comment on that.

What is happening to us as a nation is that we are having this much difficulty finding a skilled, desirable workforce given some of the areas of tremendous unemployment that exists. And so if maybe there is enough time for at least a comment on that question.

Yes.

Mr. HEXTER. Let me respond at two levels, first of all as a former employer. As I say, I am a sole practitioner now. I am relieved I am a former employer. The problem which Mr. Blann referred to, which we all have encountered, is that the basic skills are lacking, not the technical skills. We can teach a new employee how our businesses work. We can't teach them to read or write, to come to work on time, to put their best efforts in, to pace themselves through the day so the work gets done, and those are issues which I would suggest are not being taught or learned in K through 12. Now whether it is the flaw of the teaching cadre, the whole core of teachers who don't seem to understand those issues—and I can't believe that is so—or it is the inability to reach out to those people early enough to teach them that this is what life is about, they get their education, forgive me, from the television.

Mr. DAVIS. Anyone else.

Mr. BLANN. I would like to expand on what John just said. I am not an expert but I have heard about a program with junior achievement that some of our employees at American Express are involved in where the program operates within local high schools

and gives students, adolescents, exposure to what the business world is about. And apparently from what I hear from people, employees at American Express that are involved in these programs, the kids at the schools get very excited about this and do get a taste of what the real world is about. And that, it feels like, is an example of a partnership between the private and public sector that is working and maybe ought to receive more focus to get at this issue.

Mr. DAVIS. Yes.

Mr. CORATOLO. 50 percent of our Nation goes to college and only 50 percent of that 50 percent graduates. Our educational system at times focus too much or, well, I should say is in balance in the sense that it focuses so much on the college graduate and not enough on the person that is not going to college that needs these skills for the business world. I think our education system has to be more oriented toward the fact that businesses are customers of the education system and regardless of whether they elect to go to college or stay on to work without college degree, they have to be educated to the degree that it is going to help business function.

Mr. DAVIS. Well, let me say—I know we have got to go, Mr. Chairman—I think that this is really incredible and requires in-depth analysis and thinking in terms of what is happening not only to or education system but what is happening to our value system. And how do we transform desirable values so that individuals simply understand that as they get ready to enter the work. I know I have a press conference that I have to participate in, but I will definitely try to come back, Mr. Chairman, because I am very interested in this.

Chairman BARTLETT. Thank you. We will recess the hearing briefly for what appears to be only a single vote. We will return shortly to continue. Thank you very much.

[Recess.]

Chairman BARTLETT. We will reconvene our Committee hearing. Let's spend a few minutes talking about the subject that all of you mentioned as the number one concern, the subject that was approached by my colleague, Dr. Davis, and Danny Davis is a Ph.D., and so he is familiar with the education process, and we chatted about this on the way to the vote, and that is the availability of skilled labor. When he asked how come, you responded that a major factor in this is our education system. What has happened? My father, who was born in 1895, could extract the cube root by the long hand method by the time he was in the sixth grade. By the time I got to school my professor told me that you got square root by the trial and error method. Now I knew better than that because I learned at home how to do the long hand method. I can still do it, by the way, in spite of calculators and how easy it is to do with calculators.

But what has happened to our education system? Just recently there was a test of 19, graduates of 19 countries, high school graduates. We—I am sorry, 21 countries. We came out 19th in that. We were thankful for Sri Lanka and Cyprus. They were the only two countries whose graduates scored lower than ours. What has happened and what do we do to fix it?

Mr. MCCUTCHEN. Mr. Chairman, let me take a stab at that. It has to do with attitudes. And success in the K through twelve system is measured by the percentage of those youngsters who get into college. You get into college based on how you perform on standardized tests, not based on what you know. Once you get to college the success of the college is measured based upon the number of major corporation that you have coming in to do recruiting trips and as a result of those recruiting trips the dollar value of support you get from the major corporations. So what is missing in this whole scenario are the issues, the concerns, the needs of small business.

My wife works for a major computer company. She is a technical recruiter. They have the resources to assign professional human resources people to individual universities to go in, maintain a relationship and recruit their best and brightest students for their big corporations. Small firms don't have those resources. And I think that one of the issues has to be again alerting not only the colleges and universities but the K through 12 systems that if the small firms' needs are not being met there will be no jobs for those young people who are going through the system.

So I think a lot has to do with how we measure success in our education system and to make sure that that measurement includes providing a skilled workforce for the sector of our economy that provides most of the jobs.

Chairman BARTLETT. There are two things that our education institutions can do, and I taught for 24 years and twelve of those were in a community college. One of the things that we can do is to provide specific skills that are needed. In the community college we did a lot of that. We partnered with industry. What do you need? We will set up a course to provide the kind of workforce people that you need to meet your demands.

But the other thing that education does, and that is the thing that almost every one of you mentioned in your testimony, the skills that are really needed is not what you can do in front of the computer or what you do in front of that lathe or milling machine, but it is basic communication skills. It is interpersonal relationships. It is the fundamental things that schools used to teach like reading, writing and arithmetic.

Now I am a strong opponent of minimum wage increases and the reason for that is I want to provide that opportunity on the first rung of the economic ladder for those young people, and they are mostly young people, who need it most. And flipping hamburgers at McDonald's is a good job for a young person because it teaches them, and several of you have mentioned what it teaches them. It teaches them to show up on time. It teaches them to work while they are there. It teaches them to do what they are told. It teaches them to be responsive to the needs of the customer. Now these are all the kind of skills that you are looking for in people, isn't it? And those skills are learned, some of them learned probably better at McDonald's than they are learned in the school environment, which is why I am so opposed to increasing the minimum wage because nobody works at minimum wage in my district. But there are some places where people do come in at minimum wage and I don't want to cut off the bottom rung of that economic ladder.

Other comments. Yes, sir.

Mr. HEXTER. Let me give you an anecdote because of your connection to the junior college environment. I was privileged to sit through a meeting—this was in northern Ohio—and one of the speakers was talking about the difficulty, the dividing line between those who pass algebra and those who do not pass algebra in terms of success down the road, whether it was academic success or just work success, and they were becoming the math skills issue. I took exception to that because I think algebra is the first time that our students are confronted with solving a problem, solving an unknown. This is taught as a math issue, not as a life skills issue. If you cannot get through solving for an unknown in a mathematical sense, you are not learning to think.

We need to reorient the whole process into forcing the thought process and evaluating the thought process as part of our educational outcomes. We don't do that. We ask for answers and go on to the next question instead of evaluating the thought process, and it is very difficult. Teachers aren't skilled to do that. It is hard work. But we can teach our employees to think, and that is what we have to have when we come to work, the ability to solve a problem. Otherwise we can replace them with a machine.

That is really what has driven the automation and productivity because we have replaced them with machines. The more you raise the minimum wage, the more likely a machine can do the job.

Chairman BARTLETT. I spent a day in Carroll County in our district and part of that day I spent at Mirada. That is an auto parts manufacturing plant. The raw material comes in in the morning and at a 20-minute time slot in the afternoon it has to appear on the assembly line or they get economically punished for that. So it is a very demanding business. They have replaced people that unload skids with a robot that unloads the skids.

Mr. HEXTER. Exactly right.

Chairman BARTLETT. Now that is a very low demand in terms of skill but because they couldn't depend on the workforce that robot never calls in sick. It never gets an injury that would require several days off. And in the afternoon I went to another industry there and they hired the severely mentally handicapped. And they bid competitively for their jobs and they paid their workers on the basis of their productivity. I remember the things they were doing. One of the things they were doing—you go into a store, you see that little vending machine that has those plastic things with fuzzy things in it and you put a quarter in and get it out and one of the workers there, he had a box of little plastic balls and he had another box of little fuzzy things and he was putting the fuzzy things in the plastic balls and that is what he was doing. There were some others that were assembling the mulled cider things. You have the mulled cider in a plastic bag and you have the card board thing that you staple on that tells the buyer how to make mulled cider. The third group were collating a little pamphlet. It had six pages in it and I think there were eight people collating that. Six of them sat in a line with the page in front of them in a box. The seventh of them went down the line, each one of them put their page in the box as it went down and then the eighth one stapled it at the end. They were now collating these little pamphlets. The end of the

week they got paid for what they did. I was there at payday, and I will tell you of the pride of these people when they come up and got their pay check. The severely handicapped got those contracts by bidding competitively. In our campaign, and my son ran our campaign for a lot of cycles, we do a lot of mailings. We have a local school for handicapped children. We did a lot of our mailing through them. They would stuff the envelopes, and to get the job they competed with a local mail shop that did the whole thing with automated procedure and one guy stood there to fix the machine in case it did not work. But these kids in the school did the job and they did it at the same price as the mechanical mail house did it, and I thought what a contrast in these two jobs. At Mirada they were replacing every worker they could with automation. And I went to the other job and they were going out of their way to find things for people to do because they knew that work was therapeutic, that it was good for people. And I thought that somewhere in our society we have to have a healthy balance between these two things. How do we get there? What is so wrong with our education system that we are scoring near the bottom as we compete with every other country, every other major industrial country and some of them not very major industrial countries in the world?

Other comments, suggestions. Yes, Mr. Blann.

Mr. BLANN. I am not an education expert but I believe that parents are a part of the educational system, and so I think it is a little broader than just the school systems. And those same people coming into the workforce that small businesses are saying are not qualified for what the economy needs are increasingly becoming parents. And if you just fast forward from that, think about what kind of educational environment they are probably providing for their young children.

So I think we need to think beyond kind of the school systems within the country but the social systems, the family environment that kids are growing up in.

And just another thought, it is far easier I think to teach a young child to read and to communicate than to try to teach an adult retroactively. So it takes a long time, meaning it is going to take a number of years for that to then flow into the workforce to help small business, to help the economy, but I think we need to think long term on that in terms of how we are going to turn this around, not just what we are going to do tomorrow.

Chairman BARTLETT. You mention it is far easier to teach young people. It is an astounding fact but I have heard it from several psychologists, by the time you are three you will know half of all the things you will ever know and that is in spite of really a high tech society. If you think about what the three-year-old has learned, they know half of things that you will ever learn. You mention the role of the family. I am pretty politically incorrect when it comes to education. I spent 24 years there. I think involving the family is the single most important thing we can do for education, which is why I am so supportive of school choice. I don't really like vouchers. It is not the government's money. They have no business doing it, giving it back to you with some strings attached. I want a tax credit. For those who do not make enough money to get a tax credit, I have no problem with a voucher for

them. I think that everybody in our society needs to have the kind of options that our President and Vice President had. By the way, neither one of them sent their kids to a public school, but both of them want to deny those who need private schools the most; that is, the poorer people in our society, want to deny them the right to send their kids to a private school. I think involving the family is the most important thing we can do.

I went with Steve Forbes to a school in Baltimore and it was right in the ghetto area of Baltimore, and they got their kids from exactly the same socioeconomic level as the public schools around them. Every one of their kids when he graduates from high school is accepted in three colleges and has a scholarship, at least one scholarship. That is a requirement for graduation. You aren't ready to graduate unless three colleges have accepted you and you are good enough to get a scholarship. And he does it for less than half the price of the public schools. And I was there at graduation. It was not a graduation, it was a celebration. And he gave the diploma to the parents, who then gave it to the graduate, recognizing the essential role that parents play in the education process.

And I asked him how do you do it. He said, well, we won't accept the kid until the family has made a commitment to the education process. Now the school that the family chooses that is different from the public school that the kid has gone to may be no better and it doesn't matter if it is no better. The education the kid gets is going to be a whole lot better because the family has an involvement in the process. They will find a place for the kid to study. They will turn off the television. They will ask is your homework done. They will help him if it is not done.

I think involving the family is the single most important thing to do for education. I am not sure that throwing more money at education solves it. If you think about what education systems do with more money, it is not reading, writing and arithmetic. The additional money tends to be spent on things that compete with reading, writing and arithmetic. A band, more athletics, put a uniform on a little girl, teach her to twirl a baton, put her on a bus, put her in a parade. These are great things, but they are not reading, writing and arithmetic.

Our economic competitors in engineering, Japan, their children spend twice as many hours studying the three R's. We are bright but we are not that bright that we will keep up to them when we spend only half as many hours studying the three R's.

Other comments on where we are in education relative to jobs and what we can do about it? Yes, sir.

Mr. RAIMONDO. I would share, Mr. Chairman, that there is another partnership there that seems to be working and it is very, very critical in our new global challenges, the business-education partnership. The School to Career, the School to Work program especially if you are in a smaller community getting the kids out into the work environment, interning was mentioned earlier, but just getting them out to the work environment so they understand the skill, the needs, the team interfacing, the people skills is very, very important. I chair that School to Career program in Nebraska and it is just been one of the most positive issues both in retaining the brighter students and all of the students in the community because

they understand what the jobs are that are available in their community, if that is a librarian, that the dynamics are changing there, or a welder or an accountant, whatever it is. The kids benefit tremendously. It changes their level of interest when they start to know what these jobs really are.

In the business world I think we have had a disconnect between education and business as we have grown through the last century because business has not involved their employees as much. We have gone through some mass productions where people could walk in the door and theoretically people could say they asked me to leave my brains at the front door. Business has changed totally on that subject. We need each and every person to change globally with this. We need their thinking, their involvement.

So business is much more critical than it has ever been because our needs have changed. We need to partner with the education world if we can support School to Work or School to Career, which funding is drying up. Somehow we have to get that partnership continuing to make a difference in our students' lives.

So we at NAM and my experiences in Nebraska chairing that has been very positive to get partnered with the schools, get the kids into business and see the specific jobs, and it has made a big difference.

Chairman BARTLETT. You mention welding. I would like to spend a moment talking about welding and that kind of job. There are enormous shortages of workers for these trade skills.

Mr. RAIMONDO. Exactly right.

Chairman BARTLETT. And the reason for that I think is that there is a perception in our society and in our schools that these are not good careers, that only the poor learners go into those jobs. And the truth today is—and I had a small business, I was a land developer and home builder and I still have a lot of friends in that business. What they tell me is the kids they get can't read and write adequately so they can even start teaching them the technical skills they need.

But what we need to do to turn this around in our society is to tell our teachers and tell our families that these are very rewarding careers. I enjoy working with my hands. I enjoyed building. At the end of the day if I have done it right, a hundred years from now it is still going to be here. You do not have that kind of satisfaction, I think, sitting in front of a keyboard. What you have done today nobody is going to care about six months from now, let alone a hundred years from now most probably. So there is a lot of real reward in these kinds of jobs. But we aren't getting our young people going into those jobs. And you have to not only be good with your hands, you have to also be bright. You can't do it today if you are not smart. And so these are very special kids that in addition to being smart and being able to handle the intellectual parts of it, they are also very good with their hands.

How do we change that culture so our schools and families are promoting these as rewarding and desirable careers? Yes, sir.

Mr. CORATOLO. One other thing I want to point out. Small businesses do not compete on the same playing field with big businesses when it comes to benefits like health insurance and pension benefits. I hear from a lot of small businesses. They have lost work-

ers to these larger businesses that actually pay less for health care, that pay less for pension benefits. And I know there are bills now to streamline the pension process or provide small business with easier administrative skills. I think in the future we are going to have to look toward providing small business with the same level playing field and buying these types of benefits for their workers so they don't have workers matriculating to the larger businesses that through the economies of scale afford better benefits.

And the solution to the health care crisis in America is another area that we have to address in order to help small business. Two-thirds of those uninsured really work for small businesses. So those are areas that really play into the need to acquire help for small business.

Chairman BARTLETT. The health care insurance companies through no fault of their own, it began with the interference of government and wage and price controls after World War II, but now they are violating the basic premise of insurance. That is share the risk. What they are trying to do is to avoid the risk. That is not why you have insurance to avoid the risk. You have insurance to share the risk. Somehow I hope it can be done without government intervention. The industry needs to understand that they have a responsibility to share the risk and when they do that, then it won't cost more for a small business person to enroll the employees. Now it does, and it does because the insurance companies are trying to cherry pick and avoid the risk. And to the extent that one of them does it, the other one has to do it or he is disadvantaged because he has to charge a higher premium if he is trying to share the risk rather than to avoid the risk.

I would like to challenge the industry to fix that problem before bungling government tries to fix it for them. You know, you mentioned those who are uninsured. Of the 55 million uninsured, about 40 percent of those are simply in between jobs. And if we had true portability, and true portability will come when the employee owns the policy and not the employer.

And that started with government meddling when they tried to fix, legislate wage and price controls after World War II and employers couldn't offer more money and they offered benefits. I have no idea why they chose health insurance. They could have chosen your car payment or your kids' education or life insurance, but they chose health insurance. And out of that grew the Big Blues, which for many years were essentially a regulated utility, a regulated monopoly. Then others came in and it is now somewhat more competitive.

But still most insurance policies are owned by the employer rather than the employee. It is part of recompensing the employee. If you put in their pay check the net amount of what it cost you to buy their insurance and they get the 100 percent deduction, which would fix the problem of the discrepancy between the big employer who is 100 percent, and the small employer who is getting little or nothing. What is it, 30 percent now? And by and by it is going up more than that. But it should be 100 percent.

So, if we fix that portability problem by the employee owning the policy, immediately 40 percent of all the uninsured drop out. Roughly another 40 percent of those are young people, who are in-

vincible and they don't need insurance because they are not going to get sick. So they don't buy it. They would rather have a better car and better furniture.

And I don't criticize their decision because when they do a financial statement they are worth significantly less than nothing because they are renting their apartment. They are paying for their furniture, which is used and they pay for their car which is used. If they sold their furniture and sold the car they could not pay the debts on it. They are worth less than nothing financially. It is a reasonable risk for them to say if I get sick I will go bankrupt. There is little stigma involved with going bankrupt today.

So we need to change this culture. I have a simple solution to that. You can't avoid your health bill by going bankrupt. We will hound you for the rest of your life for your health bills. Tomorrow they will go out and buy health insurance. We need to motivate them to do the right thing. They shouldn't be moving the burden of their health care onto those who buy health care insurance through their employer or through their own policy.

The other 20 percent represent workers who work for somebody who can't pay it. If we force them to pay it they simply won't have a job and the job will move to the Pacific Rim. I have no problem providing health care for those people. I want to provide for all of those people that are moving from welfare to work. A family of four on welfare lives as well as if you made $23,600 a year. That is $11 on something gross pay, $7 on something take home. Few people who leave welfare to go into the workforce make 11 bucks an hour in their first job. They ought to live at least as well working as they lived on welfare and I want to provide babysitting for them. I want to provide health care insurance for them. They won't always be there. They will get seniority. They acquire new skills. They will move up.

But I think work is therapeutic. My grandmother always said that an idle mind is the devil's workshop. And you look at where most of the problems are in our society, it is idle minds. After you have worked eight hours hard and come home you are probably not up to mischief, are you? I think work is good for our society and very therapeutic.

I remember a poem my mother used to recite. "There is nothing like work to put flavor in pie" was one of the lines in it. And when you are tired enough and hungry enough everything tastes good, doesn't it?

Other comments.

Regulations. You mentioned regulations and one of you—I forget who it was—why we have regulations. It is because government—I think it was Mr. Raimondo, is that correct? When I started running for office now 9 years ago, I said that there were two premises for regulations, both of which I reject. One premise is that every employer, every manufacturer, every provider is inherently greedy and evil and they are going to abuse their employees and abuse the public, and we have to make sure they do not do that. I was an employer. The health and well-being of my employees was more important to me than any bureaucrat in Washington. If I lost a member of my team, I was hurting. If I went out and brought somebody else off the market to come in, he was not a member of the team.

My guys worked from morning to night and never needed to speak to each other because they knew what they were doing, what the next step was. When I injected a stranger in there, that cut my productivity. I didn't want to do that.

The other premise is every consumer is incredibly stupid and they will hurt themselves. They will buy the wrong thing. They will do the wrong thing. They will stick their hand in the meat grinder and it is obligatory on the part of government to protect these stupid people so they won't hurt each other. I think we need education. I am all for truth in advertising. I want labels on everything I buy, so I know what is in it, but after that I want to make my decisions, thank you. If you look at all of our regulations, are they not based on one or both of these two premises, both of which I think are easily rejected?

Yes sir.

Mr. RAIMONDO. I think it is also changing, Mr. Chairman. You are absolutely right. Even in business in the old hierarchy model or control model we used to absolutely know that people wouldn't work unless we controlled them, and all of these dynamics are very interesting to watch it change. We threw away time clocks in my company in 1984 and people continually looked at me and thought I was absolutely nuts and it would never work. And I say why do you have time clocks? Who is going to cheat? Three to 5 percent of your people. So we have all the regulations and all the rules. We threw away the rules and 3 to 5 percent of the people, they shouldn't be there if they are a problem child or whatever you want to call them. And it has worked just wonderfully. We are an employer of choice because of some of that trust and respect.

Chairman BARTLETT. What do you call your employees?

Mr. RAIMONDO. Partners in progress.

Chairman BARTLETT. Good deal. They are called associates and partners in progress. They are called almost anything other than employees, aren't they, in small businesses that are really moving.

Mr. RAIMONDO. That is right, Mr. Chairman, it is very exciting. We make these rules and regulations for the problem child that is not the good solid employee that is going to help us grow together and partner with us.

Chairman BARTLETT. How do we answer the critics that tell us when we pass this legislation that permits more skilled immigrants to come in that we are taking jobs away from Americans? My answer to that is that these companies cannot stay here if they cannot find the skilled workers and they will ultimately pick up and go to where they can find the skilled workers and the other American jobs that are here will disappear when they do that. This is not legislation that is threatening American jobs. This is legislation that is protecting American jobs. But we need your help in getting that message out.

Mr. RAIMONDO. That is good. They are protecting and supplementing. It is a very positive way to approach it, Mr. Chairman. Very positive way. And it is a very critical issue for us. With all the skills shortages and labor shortages, we need that supply coming in.

I once listened to a manufacturer that said, well, if there is a wage benefit for 5 years I will go to Mexico, but you don't see that

happening. We can compete right here. Our company ships products, as I mentioned, to over 50 nations and we ship it all right out of Columbus, Nebraska, which is in the heart of the country. So we add the travel to the ports and then overseas and we can still compete.

Chairman BARTLETT. In the district I have the honor of representing, there is a tannery. They make leather for upscale Toyota cars. Now this is a very labor intensive industry. There is almost nothing that is automated in that industry, and they are successfully competing with companies all over the world. So it can be done here. But they do it with a workforce that is really a part of management. And when they were having trouble meeting their deadlines and they were air freighting the product over to Japan, whatever profits they might have made were gone when they paid that bill, Toyota came over here to show them how to rearrange their production lines. No new equipment. Nothing new except the philosophy. A team philosophy. It is very interesting when you see the people that are there, all with Japanese names, none of which I understood, but the workers understood them. And productivity went up enormously. The workers were part of teams. It was fun. They were competing with each other. This is a very labor intensive industry, and every year when I go to their picnic, I compliment them. One year they got from Toyota two awards, an award for doing it better and an award for doing it cheaper. It is easier to do one of those at a time, but it is tough to do both of those at a time. They got two major awards from Toyota. So it can be done.

We are progressively losing our manufacturing jobs to overseas. I know people who believe that this is just fine. The smokestacks are disappearing. It is good for the environment. We are moving to a service based economy, but if I push this to the extreme I have trouble understanding how we have a viable economy if all we do is cut each other's hair. Don't we need manufacturing?

Mr. RAIMONDO. Actually, Mr. Chairman, the media will tell you what you are sharing but in the real world manufacturing continues to retain the position of 21 percent, in that range, of GDP from the Industrial Era, as we call it. It is one of the most misunderstood subjects. The media says there is less jobs in manufacturing. Well, that is exactly right because we are leading the Nation in productivity gains. So today we continue with 21 percent GDP contribution.

Chairman BARTLETT. With fewer and fewer people.

Mr. RAIMONDO. With fewer and fewer people. Our jobs are getting more technical, the productivity is going up. We are leading the Nation with productivity gains in the 4, 5, and 6 percent range, and it is a very exciting environment to be in manufacturing. We have regained our global competitiveness.

Chairman BARTLETT. But still last month we had the biggest trade deficit in our trade history. If that is repeated month after month, it is nearly $400 billion a year trade deficit. Shouldn't we be doing more manufacturing here? A lot of it is oil, I understand that, but that which is not oil is primarily manufactured goods which is coming in here, isn't it.

Mr. RAIMONDO. A lot of it is textiles and oil, you are absolutely right. In the hard goods side we are holding our own extremely well. Of course in the technology side we are holding, the computer world we are holding our own very well. But manufacturing jobs are strong and growing again and the perception—we have a factbook that we will send you, which is just a wonderful profile on the real facts in manufacturing, how we use technology, how we integrate it to get a return on investment in productivity, and the kind of growth—the last couple of years our contribution percent of the growth has been in the 29 percent range of GDP, just looking at the growth segment. So we need to do a much better job.

We will get you a factbook, and I am sure you will enjoy it with your interest and your background, sir.

Chairman BARTLETT. Who in your community are the most popular kids in your high schools?

Mr. RAIMONDO. The quarterback on the football team.

Chairman BARTLETT. You have got it. Those who excel in the areas that are important to their future and our future really are—oh, what is the word I want to use? They were squares when I was a kid. What are they now? They are nerds or geeks. Are those the right words? And they really, you know they can't date the pretty girls and they aren't popular in school. How do we change the culture so that what is important, is important.

Mr. MCCUTCHEN. You know, Mr. Chairman, one of the things we have been talking about are the skills that we need in our workers. And if you look at those skills, those skills are identical to the skills that you need to be a business owner. And I think one of the ways that we need to change the culture is to start educating our young people at a much earlier age that the purpose of education is not just to prepare you to get a job. It is to prepare you to have alternatives. And one of the most viable alternatives is to own a business, so that when you see a Harty plumbing truck driver you are not looking at a plumber who works for somebody else. That may be a plumber that works for himself. I think if we start educating our children much earlier—we suffer from what I call the syndrome of preaching to the choir, and all of us on this panel and you and many of the people in this room can recite the statistics about small businesses and the importance of small businesses in this economy because we work with it every day.

We know where the jobs are coming from. People who are in education don't know that. They have no idea. So there is no emphasis in education on the importance of owning a business. And I think if we start providing that kind of education to our young people at an earlier age, a lot of these things will correct themselves.

Chairman BARTLETT. I visited a fourth grade class a little bit ago and one of the kids there knew the difference between an anthropologist and a paleontologist. Now that kid should have been a real hero in that school. I am sure he wasn't. That is pretty impressive that a fourth grader even knows the difference between a paleontologist and an anthropologist. I am sure that he was not the most popular kid in that school. But I am dreaming of the day when he is the most popular kid in the school because that is the kind of skill that will serve him for the rest of his life.

I am concerned about this for two reasons. One of them is that in the short term the fact that we cannot turn out quality graduates from our schools is threatening our economic superiority. You cannot now hire the kind of young people you need to continue your business drive. So in the short term it threatens our economic competitiveness globally. If you go to any of our graduate schools in the technical area, two-thirds to three-fourths of all of the students there are foreign students and most of them Orientals.

Have you been there? I see several of you are nodding your head in assent. In the long run this is a threat to our national security because we cannot continue to have the world's best military unless we have the world's best scientists, mathematicians, and engineers. I worked eight years for IBM, and I guess I left there about 1975. We knew at IBM that we at IBM and our country ran the risk of losing this superiority in computers for a very simple reason, losing it to Japan. Every year little Japan was turning out more and better scientists, mathematicians and engineers. IBM knew they were not going to be able to compete in this global market if they could not have access to the same quality and quantity that the Japanese had access to. Fortunately, that got turned around but they are still fierce competitors. A little country. We are a super giant as compared to a country like that.

So in the long term I have national security concerns. We have got to turn this around because ultimately if somebody else is consistently turning out more and better scientists, mathematicians and engineers will they not eventually have a better military than you have? So I think this is a vital concern to every American.

As we end this Congress and go into the next Congress, it is very appropriate that we focus on the kinds of things that we are focusing on today. What have benefited small business, what do we need to do to make sure that we have a climate there that continues this economic growth?

We just want to make sure, in closing, that we have discussed all of the factors that are important to you all. I think the number one factor was the workforce, the quantity and quality of the workforce, and a part of that was education and what we need to do about that.

By the way, an open-ended question to people in general. What do you think is the biggest problem in America today? More of them mention education than any other. To their credit, and I take hope in this, the number two item that they were concerned about is the moral climate in our country. They are concerned about that. I think that is good. We talked about regulations and one of you mentioned that OSHA on balance does more harm than good. There is an old country saying, "I don't think I would do that; the juice ain't worth the squeezing."

I think that is true of many, many government regulations. The juice ain't worth the squeezing. A more professional way of saying that is they don't meet any cost-benefit criteria. They cost more to implement it than you benefit from it. And we really need to take a hard look. I have a Ph.D. in biological sciences. I ended up getting 20 patents. I am the only person in Congress with patents, I think. I have been in the small business community. But we really

need to change this regulatory environment. It is eating the soul out of our small business people particularly.

I wanted to ask, in closing, your help on one small aspect of this, and that is taxes. And many of you mentioned, I think one of you mentioned SBREFA, which I am very supportive of, and the Office of Advocacy. There is a joke that they always tell an audience that always gets a rise from the audience. It is about the guy that comes and knocks on the door and says I am from the government and I am here to help you. And almost everyone busts out laughing when they tell that. Jerry Glover is the head of the Office of Advocacy. Nobody laughs when Jerry says that. When he says "them," he is talking about government bureaucrats. When he says "us," he is talking about the small business community.

We have got to do something to reduce this regulatory burden. I am a biologist. I really am an environmentalist. I give low scores to environmental scoring groups because everything they think is an environmental bill I think is a bill which infringes on individual property rights and creates more oppressive government regulations. I think we can help the environment without doing that. But we need your help in educating all the people you interface with, so we can have a majority in Congress to roll back some of these oppressive regulations that are disadvantageous to our society as a whole.

Now I don't know of a single conservative who wants to drink dirty water and breathe impure air. All of us are environmentalists to that extent. But we need your help in getting education out to the people so that they understand what is working and what is not working.

Now the one thing I wanted to talk about was adding the IRS to the SBREFA panel process. Right now that process requires that when EPA and OSHA comes out with a new rule, that they have to convene a panel to determine how hurtful that is going to be to small businesses, and they have to then modify that rule so it will not unduly affect small businesses. They don't, IRS doesn't have to do that. And one of the rules that they came out with, which was killing small businesses, was the option that they have to determine whether you report on the cash basis or accrual basis. And I see some heads nodding in assent. If you are between, what, one million and five million gross sales—and we had small business people sitting where you are sitting who were nearly in tears because they were devastated and being put out of business—and the IRS guy sat there and I asked him at the end of the day when that business is finally liquidated will it make any difference to the taxpayer how much tax was collected whether he operated on an accrual basis or a cash basis. He said, no, it wouldn't. At the end of the day you collect exactly the same amount of tax. I said, then why are you hassling our small business people? Why would you do this if at the end of the day—and by the way, the government tomorrow is going to be just as anxious for more money as the government today. So you know delaying the collection of those taxes a year or two is not going to hurt our country because the one thing governments love to do is to collect and spend money. We would—like to move the House bill which was passed by this Committee and the Senate bill which was passed and came back to us

a bit more than a year ago and it sits at the desk. We would be very happy if you would look at that bill and very quickly, because we don't have much more time in the session, and tell us if this is a bill that would work because if it is we want to pressure our leadership have a vote in the House. It is S. 1156.

Yes, sir.

Mr. CORATOLO. The United States Chamber of Commerce does endorse S. 1156 and we would be fully in back of anything the House would do——

Chairman BARTLETT. If you all as quickly as you can could get us a letter supporting this. If you will converse with your colleagues at the table and if all of you could sign a letter, and we will find somebody to type it for you before you leave here if you wish. I want to get this on the floor as quickly as possible. It is sitting there. It would be an enormous benefit to small business to know that the IRS is not going to be able in the future to lay regulations on them that are onerous without them having a voice at the table. So if you could do that, work with your colleagues and if before you left here if you could get us something in writing, I will take that to Dick Armey and see if we can get that on the floor.

Okay. Are there other comments or suggestions before we close the meeting?

I want to thank you all very much for your contribution. This record will be read by a lot of people. Your comments were from my perspective right to the point. And please help us with the letter of support for S. 1156 so we can get it moving as quickly as possible. Thank you all very much for your testimony and we are adjourned.

[Whereupon, at 12:10 p.m., the Subcommittee was adjourned.]

APPENDIX

OPENING STATEMENT

CHAIRMAN ROSCOE G. BARTLETT SUBCOMMITTEE ON GOVERNMENT PROGRAMS AND OVERSIGHT HOUSE COMMITTEE ON SMALL BUSINESS

Good morning and welcome to this hearing of the Subcommittee on Government Programs and Oversight of the Committee on Small Business. A special welcome to those who have come some distance to participate.

The hearing will look into the future of small business in the United States and those issues of vital concern to the small business community and main street America. It is small businesses that are the engine driving the present economic prosperity by spurring the creation of new enterprises, by producing new job opportunities, and by being leaders in technology and innovation.

Congress needs to keep in constant touch with the needs and concerns of the small business community. This hearing will provide an opportunity to learn of

those issues of most concern and those that will affect the future of small business in the United States.

Another focus of the hearing is to obtain your recommendations about how best to promote and sustain an enterprise-friendly economy that rewards those who start and grow small businesses. Suggestions with respect to legislation to assist small businesses would be most welcome. Also, your views with respect to any burden created by Federal regulations and paperwork - together with suggestions for improvements - would be most helpful.

There are a number of questions that can be asked. How can the present economic conditions be sustained? Has the prosperity touched every segment of the small business community or are there segments of the small business community that need assistance? If so, what kind of assistance? Should the assistance come from the private or public sectors? How effective are the private solutions and government programs in addressing these needs? As previously pointed out, small businesses have been leading the economy both in innovation and job creation. It is hoped that the hearing will help to answer these and other questions, e.g., - What is needed to maintain this record well into the 21st century?

Why the emphasis on small businesses? For the simple reason that small businesses are presently the main engine driving the economy of this country. It is a statistical fact that small businesses are the creators of new jobs and the stimulus behind our present economic prosperity.

Independently owned businesses - the free market economy in this country - with fewer than 500 employees - and many with far fewer than that:

- **created 76 percent of the net new jobs from 1991 to 1995**
- **employ 53 percent of the private non-farm workforce**
- **contributed 47 percent of all sales in the country**
- **are responsible for 51 percent of the private gross domestic product, and**
- **produced 55 percent of innovations - small businesses produce twice as many both product innovations and significant innovations per employee as large firms.**

Those who work in Washington, D.C. need your views. The Committee on Small Business welcomes your testimony. I look forward to a lively and informative discussion. Thank you again for being here today.

House Small Business Subcommittee Testimony of:
Jim Blann
Senior Vice President
American Express Small Business Services

Sept. 28, 2000

My name is Jim Blann. I am the senior vice president of American Express Small Business Services. The testimony I am about to provide represents the voices of tens of thousands of small business owners who have played a part in a program we have conducted this year called "Voices from Main Street."

My testimony will focus on the work force needs of small business owners, because it was this issue that was identified as their number one priority. Most specifically, I will focus on the fact that small firms say that today's labor force suffers from a severe skills gap that inhibits their growth and profitability.

Voices from Main Street was designed to help small business owners interact on a national level and discuss the issues most important to them. Small business owners have responded in a powerful way through a variety of channels we provided, including;

- two national surveys,
- a web site,
- national web chats,
- a nationally televised one-hour program produced by CNN,
- and web cast town halls

American Express launched this program because despite the remarkable work of the organizations sitting here today, too often the concerns and needs of the Main Street entrepreneur are drowned out by the voices of other constituencies. Small businesses are the backbone of the American economy. Given the contributions they make to this country, the situation we are dealing with is perilous.

You no doubt are aware of how small businesses employ half of the country's private work force and account for half of the country's private sector output. Additionally, I want to point out that many large companies are affected tremendously by the rise and fall of small firms. My group alone at American Express serves more than 2 million small businesses. Very frankly, the survival and growth of small business is extremely important to big businesses.

Now, let me tell you what small firms told us about the current labor shortage and how it is especially troublesome for them.

Small businesses often don't have the resources to recruit, compensate and train a qualified work force, resources often available to larger companies. When you compound this disadvantage with a gap in the skills needed by the small business community, it is fair to say that the situation is reaching crisis proportions. Two of the most significant findings from this program include:

1. Most small businesses are dissatisfied with this country's workforce skills. Only 1/3rd of small business owners say they are very or extremely satisfied with the skills of their employees and potential employees, according to one of our Voices surveys.
2. Small business owners say that despite the emergence of the Internet economy, it is not computer or science proficiency their employees need, but the basic soft skills, like verbal and written communications and interpersonal skills.

Mr. Chairman, ladies and gentlemen, this situation has truly reached a crisis level for small business owners across the country. The small business community is telling us that they need a better equipped work force, or the entrepreneurial renaissance that has driven so much of this country's record economic expansion will wither.

What are some potential solutions? Small businesses narrowed their short-term priorities to two ideas that I would like to open for discussion this morning.

The first idea is more internships for teenagers. The majority of employees in the small business work force have only a high school education, so that means we need to aggressively pursue connecting more secondary and vocational schools to the small business community.

The second potential initiative is creating more readily accessible information on those existing training programs that work well. When we asked entrepreneurs if they were aware of local programs designed to improve work force skills, only 40 percent said they knew of a program in their community.

The sad thing is that many good programs exist that could help small business owners today. Created at the state, county and local levels, through a combination of school administrators and business groups, many of these programs unfortunately just aren't widely promoted.

One immediate action could be providing small business owners with a single convenient place for them to find out about existing local programs. For example, the SBA could perhaps add to its web site a place where educational institutions and small business owners could come together to promote their programs, share experiences and expand best practices. American Express is prepared to assist in the creation of such a site or to perhaps utilize the Voices from Main Street web site.

We also would welcome the opportunity to work with the committee to hold Internet-based committee hearings on this issue to allow the American small business community to provide more direct input.

Small business owners know they have a responsibility to get involved. They are looking for opportunities to assist local schools and other institutions in preparing the next generation for the working world, and a broader discussion with other members of Congress involved might be a next step.

Solutions will not be easy. Most small firms need help right now. But small business owners are cognizant of the fact that the problem requires both short-term solutions and long-term planning.

Small business owners also tell us that the solutions do not necessarily require legislation or the creation of new federal programs. In fact, solutions that require more paperwork or are inconvenient to access and manage will not be widely used and will not improve the situation for most small firms.

I thank you for providing American Express the opportunity to share with you what small business owners have told us. I am happy to explain more about the research we have conducted. And I look forward to helping you help small businesses overcome this critical dilemma.

TESTIMONY OF JOHN HEXTER

CHAIRMAN OF

NATIONAL SMALL BUSINESS UNITED

Regarding the
Future of Small Business in America

Before the House Committee on Small Business
Subcommittee on Government Programs and Oversight

September 28, 2000

Chairman Bartlett and Members of the Subcommittee:

My name is John Hexter, and I am Chairman of National Small Business United. I am also the president of my own business consulting firm, Hexter and Associates. I am very pleased to be here today to share my views on the future of small business, and what can be done to ensure that this current unprecedented era of economic expansion lasts well into the 21st century. I am also pleased that you, Mr. Chairman, are interested in getting real input up-front from small business owners on the critical issues facing our community. The leadership role you have taken as a member of the Small Business Committee at large and as chairman of this subcommittee is remarkable. Since small business is the engine of the nation's economy, it seems reasonable that someone should check the oils and plugs every once in a while, and you are doing that. Thanks again for inviting me here today to testify.

National Small Business United (NSBU) represents over 65,000 small businesses in all fifty states. Our mission is to work with elected and administrative officials in Washington to improve the economic climate for small business growth and expansion. We work on a bi-partisan and pro-active basis. We believe that small business issues cut across party lines and affiliations. In addition to individual small business owners, the membership of our association includes local, state, and regional small business associations across the country.

First, I would like to discuss a number of issues that we at NSBU feel are of immediate concern to small business owners. These are issues that we feel should be addressed in the 107th

Congress in order to protect and "tune-up" the engine of our robust economy. These are also issues that I feel particularly qualified to address as a small business consultant. In my work and activities with any number of small business-related organizations, I am able to get a sense of what concerns small business have across a number of sectors and regions of the country. While I speak about changes that need to be enacted in the future, I would like to point out that, in many cases, there is chance, at least in some cases, that legislation could be passed before the end of this Congressional session.

Next, I would like to discuss a few items that relate more to long-term goals and initiatives that our government should consider in providing relief to small firms. And finally, I would like to take a moment to make some predictions concerning the future of small business.

WHAT NEEDS TO BE DONE NOW

Recently, NSBU boardmembers, trustees, and affiliates met in my home city of Cleveland, Ohio, to get an update on legislative issues of critical importance to our membership. Earlier in the year, this same group (and many others) voted on ten items that we felt needed to be addressed in this Congress. I would like to take a moment to briefly touch on each of these items, as they are critical to the continued viability to small firms in our nation.

A. Installment Plan Tax Repeal

As you may be aware, Mr. Chairman, certain provisions of the Ticket to Work and Work Incentives Improvement Act of 1999 required small business to pay all of the capital gains taxes resulting from the sale of their businesses in the first year, even if payments for the sale are spread out over several years. Obviously, this requirement hurts small firms a great deal. There is a great possibility that a small firm could pay more in taxes in the first year than they would receive in installments in the first year, or even past the first year into the second and third years. This provision serves to discourage those firms who are seeking to expand by acquiring other firms, and makes a sale impossible for many business owners who have an urgent need to exit their businesses. If there is any provision that limits the ability of small firms to grow through merger and acquisition, then certainly, that qualifies as a barrier to the continued growth of this country.

There are a number of bills in both the House of Representatives and the Senate that would correct what was placed in the 1999 law, and they enjoy broad-based bipartisan support. What is particularly troubling to me as a small business owner is that such an initiative can have such broad support and yet remain unchanged.

B. Tax Relief for Self-Employed Individuals

If this country is going to make a commitment to small business, if we as a nation are going to encourage entreprenuership, and buy into the idea that individuals with a great ideas can hang out

their own shingle and start their own enterprises, then it makes sense to this small businessperson that they should be encouraged by their government. Paying tax on health insurance isn't the way to foster economic development.

Many small businesspersons starting their own firms start out on very small financial margins and, in addition, to borrowing money assume a great of credit card debt.[1] Any sort of relief to help Americans operate their own firms would be helpful, and 100% deductibility of health insurance is a good way to help enterprising individuals get started.

C. Retraction of the Proposed Ergonomics Standard

NSBU, as well as a number of other small business associations, is entirely opposed to the Occupational Safety and Health Administration's proposed ergonomics standards and health and safety rules as they are currently drafted. We support legislation that would delay OSHA's efforts to promulgate final rules before independent, sound and peer-reviewed scientific analyses have been conducted.

Mr. Chairman, a wise man once said that a kingdom divided against itself cannot stand. Well, through the ergonomics regulation, the government is assuming that small businesses are waging an internal war – management vs. employees – and such a conflict not only makes no practical business sense, it goes against the conventions of common sense. Small businesses usually operate

on very tight margins, hire family and friends from the community, and have fewer than 25 employees.[2] Only the most unwise of businesses would put their firms in danger by hiring employees, training them, and then placing them in an unsafe work environment. Aside from placing friends and family in danger, it doesn't make economic sense for a business to hire people, have them get hurt, and go through the expense of having to try and find new employees to train. And believe me, in today's tight labor market, finding good help is not only hard to find, but hard to find, train, and retain. No one wants to work for a business that doesn't take care of its workers.

However, our government assumes that we want an unsafe workplace. We are not saying that any ergonomics is always a bad thing, or even unnecessary. What the small businesses needs is a set of clear, easily understood rules and regulations the average person can follow. OSHA has not provided that. The agency should "go back to the drawing board" and come up with a plan that works not go ahead full speed with a set of rules that have not been generally accepted in the scientific community.

D. The Small Business Administration's Office of Advocacy

NSBU supports the SBA's Office of Advocacy and supports legislation that would strengthen the office by expanding its role to undertake advocate actions on behalf of small business, including an assessment of the effectiveness of Federal subsidy and assistance programs for small business,

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[1] Small Business Administration, Office of Advocacy, 2000
[2] Small Business Administration, Office of Advocacy, 2000

the impact of Federal regulations on small business, and the development and strengthening of minority, women-owned, and other small firms. NSBU supports S.1346, sponsored by Sen. Kit Bond, as we feel the approach in that legislation does a great deal to protect this office, while still retaining its current position as an effective advocate for small business within the executive branch. Having such an advocate is important for the future of small businesses in this country. In fact, according to a recent study released by the Office of Advocacy, their work on dealing with agencies in attempting to mitigate the adverse financial impacts on small firms through the Small Business Regulatory Enforcement Fairness Act has saved small firms over $5.3 billion dollars in fiscal year 1999 alone.[3]

E. Elimination of the Death Tax

Mr. Chairman, I have decided to discuss perhaps the most important issue last. In our country, there exists something called the estate tax. This tax defies all logic. Individuals who own and operate small businesses, who have worked all of their lives to leave a legacy for their children and grandchildren, are being asked when they die to give a significant portion of those assets to the Federal government. The same government that establishes barriers to entreprenuership, the same government that won't allow you to deduct health insurance, the same government that taxes you on your employees, the same government that doesn't trust you to take care of the safety and health of your employees, and the very same government that

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[3] Small Business Administration Office of Advocacy 2000

buries you in paperwork and regulations, then wants most of what you have broken your back to earn and save.

This issue should be addressed right away, if we as a nation are going to discuss ways to protect small businesses. Let's make it easier to pass businesses on to our children and other heirs. Let's keep family businesses family businesses. That's how you protect small firms in this county and allow for continued economic expansion.

WHAT NEEDS TO HAPPEN SOON

A complete and thorough examination of the United States Code of Federal Regulations needs to be undertaken with the express intent of identifying and eliminating conflicting laws, rules and regulations that overlap and contradict one another. Laws and regulations should be published in plain English. Conflicting laws and regulations should trigger an enforcement exception until the government resolves the conflict and the burden should be removed from the target of the enforcement action. Only then will our government employees and officials understand that they work for us, not the other way around.

The sheer weight of a threat of enforcement action is often an unbearable burden for small business. We don't have the resources to defend ourselves when the government gets aroused.

I am aware of current initiatives that seek to address some of these regulations, but Mr.

Chairman, some of these laws and rules are woven so intricately and in such a confusing manner, no one knows what is going on. I know that you are a former small business owner, and can relate to the struggles I am speaking of.

There is a myriad of regulations that the average small businessperson has to deal with. Let's say that a particular small firm is in the construction business. This business is subject to over-lapping regulations from city and municipal authorities, county regulators, and local zoning ordinances. After that, he has to deal with federal health and safety regulations. And, what his local OHSA officer tells him may not be in sync with the regional authority recommends. After this, he could be subject to Environmental Protection Agency stormwater regulations, which again, my not be in sync with Army Corps of Engineers rules. There has to be a way for the government to wade through this mess and separate the wheat from the chaff – the rules that are necessary for the ones that are superfluous.

The small business community is also desperately in need of a complete overhaul of our nation's tax system. NSBU has come to believe that the income tax system is broke and cannot be fixed. We have endorsed a form of a national sales tax called the Fair Tax, which would replace all federal income, payroll, and gift and estate taxes. While we don't have the time or space here to go into all of the particulars, I would commend to you NSBU's testimony before Mr. Manzullo's subcommittee just three weeks ago, and also our testimony before the Ways and Means Committee on April 11 of this year.

WHAT THE FUTURE HOLDS

Earlier this year NSBU, along with American Express, IBM, and RISEbusiness, published a report entitled, "The Future of Small Business: Trends for a New Century." I have provided copies of this document for you and other members of the Subcommittee. While it is obviously not necessary for me to describe in detail all of the issues and topics in the report, I would like to take a moment to briefly touch on a number of items:

1. The demographics of the U.S. labor force will change dramatically over the next few years. Over the long-term the shortage in the quantity and quality of labor will be one of the most important constraints on economic growth.
2. The workforce in this county is shrinking. Population growth has recently slowed to about 1% per year, and in the next 6 years, the younger portion of the labor force will shrink by nearly 2 million workers, creating significant competition for employees.
3. The workforce in this country is changing. By 2006, women will account for 47% of the labor force, non-Hispanic whites will account for 73% of the labor force (down from 80% in 1996). Small businessmen will have to change their thinking about hiring and retaining employees of different cultures, races, and ethnicity.
4. Labor demand has shifted dramatically towards jobs in professional, managerial, and high-level sales in the service and technology sectors. Increasing demand for more easily-trained workers has resulted in a huge increase in demand for college-educated employees.
5. Small business will likely have to step up the level of training of their existing workforce to

retain employees with technical proficiencies, hire a greater number of older workers, and create more family-oriented work policies for married employees.

This concludes my testimony, and I would be happy to answer any questions that you have at this time.

PREPARED TESTIMONY OF

WOODROW MCCUTCHEN

PRESIDENT AND CEO

ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT PROGRAMS AND OVERSIGHT

COMMITTEE ON SMALL BUSINESS

UNITED STATES HOUSE OF REPRESENTATIVES

SEPTEMBER 28, 2000

PREPARED TESTIMONY OF

WOODROW MCCUTCHEN

PRESIDENT AND CEO

ASSOCIATION OF SMALL BUSINESS DEVELOPMENT CENTERS

Chairman Bartlett, Ranking Member Davis and members of the subcommittee, I am Woodrow McCutchen, President of the Association of Small Business Development Centers (ASBDC). Founded in 1979, the Association represents the fifty-seven Small Business Development Center (SBDC) programs located in all 50 states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands.

The SBDC network has over 1,000 service centers nationwide providing accessible business assistance services to the nation's small business owners and aspiring entrepreneurs. Over 5,500 SBDC counselors from coast to coast provide business management assistance education and training to approximately 650,000 small business owners, and pre-venture clients annually. In addition, the program responds to tens of thousands of phone, and email inquiries for information every year.

At the outset Mr. Chairman I would like to thank you for inviting the ASBDC to participate in this hearing today. The American economy is experiencing the longest period of uninterrupted growth in history. Today's economic climate has spurred an unprecedented interest in entrepreneurship. Studies indicate that one in twelve Americans is seeking to start a business. As you and your subcommittee colleagues are so well aware, small businesses account for 99.7

percent of the nation's employers. Small businesses employ 53 percent of the nation's work force. They contribute 47 percent of the sales in this country and are responsible for 50 percent of the private gross domestic product.

Small businesses are leading the way in job creation. They have created two-thirds of the net new jobs in the country since the mid 1970's. The number of workers employed by Fortune 500 companies has declined in the last decade while the number of workers employed by small businesses has rapidly increased. Clearly, when we are talking about the American economy there is nothing small about small business.

If we hope to continue with the strong economic growth we are currently experiencing, it is essential that we maintain a climate where small businesses can continue to flourish. That is why this hearing is so important as this subcommittee seeks to "look into the future of small business in the United States and those issues of vital concern to the small business community and main street America."

Mr. Chairman, our program's counselors meet face to face with thousands of small business owners and would be small business owners daily. From those encounters we have a unique opportunity to hear first hand what is on their mind. While many small businesses are doing well, others are facing challenges.

There is no question that small businesses are very concerned about their ability to find new employees. With 4% unemployment, there is tremendous competition for skilled and capable employees. Large businesses, because of economies of scale, are often in a better position to

offer potential employees more attractive wage scales and particularly more attractive benefits packages.

The documented shift in labor demand toward professional, managerial and high level sales jobs in the services and technology sectors has come face to face with a shortage of trained workers. To meet the need for trained workers, the economy is increasingly relying on immigrant workers. Businesses large and small are deeply concerned about the quality of work force preparation that is occurring in our secondary schools and colleges. The demand for college trained workers in an economy that is shifting from manufacturing to services is widening the earnings gap between high-school and college graduates.

More and more small businesses are going to have to retrain their existing workforce because of the growing shortage of workers with technical skills. Declining birth rates between 1970 and 1990 will mean a decline in the number of younger workers in the years ahead. Advancing technology has left many older workers unprepared for the jobs available in an increasingly technology driven economy. The nation's workforce is rapidly aging. The number of workers 45-64 will increase sharply in the decade from 1996 to 2006.

With baby boomers owning a very significant percentage of sole proprietorships and partnerships, the small business economy is going to face a dramatic transition in business ownership over the next decade. As a result the number of small business closures could increase sharply.

Technological innovations have in many instances allowed smaller companies to compete more efficiently with larger firms. However, many aspiring entrepreneurs need training in basic computer skills and e-commerce, both business to business (B2B) and business to consumer (B2C). If the SBDC network is going to be able to fully address the changing needs of our client base, it is going to have to upgrade the skills of its counseling force. To insure that the SBDC network is meeting the needs of its clients the ASBDC is planning to launch a major professional development effort for its counselors in the area of e-commerce.

Technological innovations have already proven to be a tremendous boon to small businesses. The impact on small businesses of the personal computer and the Internet are almost immeasurable and the full impact has not yet been realized. These technologies are revolutionizing the way small businesses advertise, find employees, find customers, reach suppliers, control inventories, track receivables and handle their accounting. We all know about the exponential growth of e-commerce sales to consumers. However, some studies indicate that the growth of B2B sales may grow even more rapidly in the next half decade, reaching nearly $3 trillion or more by 2003.

Technological innovation is creating enormous opportunities for small businesses but it is also creating enormous challenges. Many small businesses that do not adapt may find themselves unable to compete with those firms who demonstrate a greater capacity to adapt. Older, established small businesses, whose owners do not retrain themselves and their workforce, may experience higher rates of business failure.

There is agreement that technology offers enormous opportunities to small business owners and aspiring entrepreneurs. However, those who find themselves on the wrong side of the digital divide, whether due to age, economic status, or some other reason, may find themselves seriously handicapped when they try to start a small business. Growing concern about the digital divide and efforts to address the problem may have very real implications for who and who will not be successful entrepreneurs in the future.

Significant demographic changes are occurring both in who owns small businesses in America and who aspires to start a small business. Roughly one-third of small business owners are women and women are involved in roughly one-third of business startups. Women however comprise close to 42% of SBDC clients. It is estimated that minorities start approximately 25% of new businesses and this tracks almost exactly the percentage of SBDC clients who are minorities. It can reasonably be expected that startups by minorities will increase as the minority share of the labor force increases over the next decade.

Some expect the rate of new business startups to begin to decline temporarily in the next few years with the projected decline in the number of workers in the 25-44 year old age group. However, with the marked shift in the economy to service-producing firms, the nation could experience an increase in business startups due to the lower capital requirements of service based businesses. There are also indications that retirees may be increasingly interested in home-based businesses. Approximately 50% of the self-employed are home based, accounting for approximately 5 million home based businesses.

Despite changes in technology and changes in the demographic makeup of the workforce and of aspiring entrepreneurs, some things remain fairly constant. The old saying about death and taxes being the only certainties has a clear applicability to the concerns of small business owners.

Surveys of small business attitudes seem to repeatedly document that small business owners are very concerned about taxes and about passing on their businesses to their heirs. Surveys indicate that a majority of small business owners believe the tax code is too complicated and that the code should be simplified. A recent GAO study documents that the IRS is failing to collect tens of billions of dollars from small businesses annually, not because of tax avoidance but because of a lack of understanding of the tax code by small business owners. Surveys by groups like NFIB indicate strong support among small businesses for estate tax reform.

A recent Arthur Andersen study conducted for National Small Business United confirms what other surveys are reporting, that health care reform is of paramount interest to small and medium business owners. Small business owners are apparently very concerned about the continuing increase in health insurance premiums. They worry about how they can afford to continue offering their employees health coverage and they worry how they can attract workers if they do not.

Surveys also indicate a strong concern among small business owners with regard to government regulations. When we talk with SBDC counselors, it is not uncommon to hear that SBDC clients are willing to comply with regulations, if they only knew what was expected of them. Small businesses, the majority with fewer than 5 employees, do not have the luxury of full time in

house legal counsel like large businesses. Nor do they have the inclination to burn the midnight oil reading the thousands of pages in the Federal Register.

Regulatory compliance is an essential part of starting a business. It does a restaurant owner no good to build a facility only to learn subsequently that his facilities do not comply with OSHA, EPA or ADA regulations. Unfortunately, the SBDC program has not had the resources to provide the level of regulatory compliance assistance that so many of our clients need. We are very encouraged by the House passage on September 26 of HR 4946, the Small Business Regulatory Assistance Act of 2000. This action by the House of Representatives shows a growing awareness on the part of Congress of the desperate need for regulatory compliance assistance by America's small business firms. We appreciate the leadership of Congressman Davis, Chairman Talent, Congresswoman Velazquez, Congressmen Sweeney, Congressman English, Congressmen McIntosh, Congresswoman Kelly, Congressman Terry and so many other members of the House Small Business Committee who played an important role in moving HR 4946 successfully through the House.

Congress has invested substantial sums in the SBDC's nationwide infrastructure. In light of the fact that the SBDC network sees between 600,000 and 700,000 small business owners and aspiring entrepreneurs annually, we believe it only makes sense to utilize the SBDC program as a delivery system for small business regulatory compliance assistance. We look forward to the day that HR 4946 becomes law and to cooperating with Congress and other regulatory compliance assistance providers in assuring that the nation's 23 million small businesses have ready access to the regulatory compliance assistance they need and deserve.

Access to capital has always been and will continue to be of critical importance to the nation's small business community. Small businesses have benefited from relatively low interest rates in recent years. Significant changes in financing have occurred as a strong economy has resulted in enormous pools of venture capital for dot coms and others innovative entrepreneurial endeavors. Increasingly small business firms are utilizing non-bank sources of finance. And we are seeing the Internet increasingly used as a means of capital distribution.

While there are exciting changes taking place in financing, there are also reports of meaningful increases in the percentage of business loans that are characterized as "problem" loans. While low compared the years in which the banking system experience grave problems it remains to be seen whether recent data is a portent of problems to come

High oil prices are much in the news these days. Certainly high energy prices are a real concern to SBDC clients and all small businesses. High energy costs can impact small business firms in terms of their utility bills, cost of raw materials, transportation costs, etc. Anything that increases operating costs poses economic uncertainty for small businesses.

SBDCs certainly do not have easy answers to many of the concerns that we hear from our clients whether it be high energy prices, high taxes, excessive regulation, rapidly changing technology etc. However, SBDCs can and do provide consulting and training that allow our clients to better understand how to better manage their businesses for improved profitability.

The SBDC program is proud of its twenty year history during which we have served more than 8 million small business counseling and training clients. We are proud of the contribution our

clients make to the nation's economy. And we are proud that through daily contact with America's entrepreneurs, the SBDC program is able to gain first hand information such as I have presented to you today regarding trends and concerns in the small business community. I hope the information I have shared with the sub-committee will be helpful as you seek to develop policies and programs that are beneficial to the small business community and all Americans.

I will be glad at this time Mr. Chairman to try and respond to any questions you or other members of the committee may have.

Statement of the U.S. Chamber of Commerce

ON: THE FUTURE OF SMALL BUSINESS

TO: HOUSE SMALL BUSINESS
SUBCOMMITTEE ON PROGRAMS AND OVERSIGHT

DATE: THURSDAY, SEPTEMBER 28TH, 2000

BY: MR. GIOVANNI CORATOLO
DIRECTOR, SMALL BUSINESS POLICY
U.S. CHAMBER OF COMMERCE

The Chamber's mission is to advance human progress through an economic, political and social system based on individual freedom, incentive, initiative, opportunity and responsibility.

The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector, and region.

More than 96 percent of the Chamber's members are small businesses with 100 or fewer employees, 71 percent of which have 10 or fewer employees. Yet, virtually all of the nation's largest companies are also active members. We are particularly cognizant of the problems of smaller businesses, as well as issues facing the business community at large.

Besides representing a cross-section of the American business community in terms of number of employees, the Chamber represents a wide management spectrum by type of business and location. Each major classification of American business -- manufacturing, retailing, services, construction, wholesaling, and finance -- numbers more than 10,000 members. Also, the Chamber has substantial membership in all 50 states.

The Chamber's international reach is substantial as well. It believes that global interdependence provides an opportunity, not a threat. In addition to the U.S. Chamber of Commerce's 85 American Chambers of Commerce abroad, an increasing number of members are engaged in the export and import of both goods and services and have ongoing investment activities. The Chamber favors strengthened international competitiveness and opposes artificial U.S. and foreign barriers to international business.

Positions on national issues are developed by a cross-section of Chamber members serving on committees, subcommittees, and task forces. Currently, some 1,800 business people participate in this process.

Statement
on the
FUTURE OF SMALL BUSINESS IN AMERICA
before the
HOUSE SMALL BUSINESS
SUBCOMMITTEE ON PROGRAMS AND OVERSIGHT
for the
U.S. CHAMBER OF COMMERCE
by
GIOVANNI CORATOLO
September 28, 2000

Chairman Bartlett and members of the Subcommittee, I am Giovanni Coratolo, Director of Small Business Policy for the U.S. Chamber of Commerce. The U.S. Chamber of Commerce is the world's largest business federation, representing more than three million businesses and organizations of every size, sector and region. Over ninety-six percent of the Chamber members are small businesses with fewer than 100 employees. Chairman Bartlett, we applaud this Subcommittee's dedication and interest in sustaining the economic expansion that has been led by the nation's 24 million small businesses.

I am here today representing the Chamber's small business membership. These are business owners who are faced with the daily challenges of a dwindling labor supply, over-aggressive federal regulatory agencies, a tax code that penalizes savings and investment, an increasingly litigious society, and competitors from an expanding global marketplace. Yet these small-business men and women in spite of obstacles, have emerged as the primary vehicle by which the new economy has grown and prospered. As we transition from an industrial-based society to a knowledge-based society, it is important note that the restrictive, one size fits all policies of the past, will not provide the

needed flexibility for small business to continue to be the breeding ground for innovation and entrepreneurship.

Small business is the avenue by which all that are willing to sow the time and efforts of their labor are able to reap the benefits of financial empowerment. Small business ownership is the vehicle by which millions, including women, minorities and immigrants access the American Dream by creating for themselves the seeds of opportunity. New companies have come from every sector of the economy and every part of the country. It is small business that has facilitated the information revolution in our society and has provided us with a standard of living unparalleled in history.

In order to project the future of small business, it is important to touch a little on how far we have come. By the end of the last century as we entered the age of the industrial revolution, it was thought that the larger the business the better. Increases in efficiency and productivity could only be achieved through the largest businesses and in return our economy would flourish and prosper due to the economies of scale.

Looking back even to the 1950's and 1960's, large goods producing companies dominated the world economic power structure. We lived in a culture that based prosperity on the premise, "So goes General Motors, so goes the economy." When the possibility of the collapse of Chrysler, one of the sacred cows of the industrial marketplace, threatened our economic serenity, the government was quick to provide a financial bailout. And when the president of Chrysler demonstrated the leadership to provide the economic turnaround for this organization, there were many among us that felt this qualified him for the presidency of our nation.

It was only several decades ago, when our big businesses started to sputter, that we sent observers to Japan to understand how they were able to build a better big business. And many prognosticated the decline of the United States as an economic world power was inevitable.

It was only during the last decade that the answer to our national revitalization became apparent. This was found within the entrepreneurial spirit of our small businesses. The trend for big business is now to downsize and become more entrepreneurial. Small businesses are flourishing and we have had the longest peacetime prosperity in the history of our nation. It is the small businesses that are credited with being the driving force for technological change and productivity growth. They are the crucial barometers for economic and social well being.

Now countries are sending observers here not to find out how we are running General Motors, but how we are fueling the growth and proliferation of our small businesses. Our corporate heroes are not those that created jobs from the penthouse of high office buildings, but those that launched enterprises from their basements or garages. Most of the net new jobs in the last 5 years have come from small business not from their larger counterparts.

Policies that encourage the growth of entrepreneurship and small business are the fundamental building blocks for assuring continued prosperity for the United States as we move forward into the 21st century. A rising tide raises all ships. At the U.S. Chamber of Commerce we have identified five policy areas that will have a critical impact on the continued future prosperity of small enterprises.

1. **Provide Small Businesses Access To A Quality Workforce** –

In order to assure the future growth of small business, we must provide a level playing field for small businesses to hire, train and retain a qualified workforce. According to a recently released survey by the U.S. Chamber of Commerce, workforce issues are a top priority for Chamber members. Meeting the challenges of hiring qualified workers in today's mobile workforce requires a multifaceted approach that allows employer flexibility.

- Improve affordable access to quality health care for small business owners and their employees.
- Reduce unnecessary complication and limitations in administering a pension plan.
- Demand changes in our educational system to improve the quality of the work force.
- Ease restrictions on visas that limit those qualified from entering our workforce.
- Fight government-mandated minimum wage increases that eliminate jobs to those who need them the most.
- Allow small businesses the flexible use of stock options as employee incentives.

2. Change Tax Policy –

In order to assure the strength and vitality of small enterprises, we must promote a tax policy that allows small business the opportunity to reinvest more money in the growth and continuation of their businesses and not in the growth of big government.

- Eliminate the burdensome estate and gift tax that heavily penalizes savings and investment, especially in family-owned businesses.
- Reinstate the installment tax option for accrual basis taxpayers. Repeal has had a chilling effect on the ability for a business owner to sell their business.
- Repeal the alternative minimum tax (AMT)

- Repeal the FUTA tax surcharge on payroll.
- Increase flexibility in the use of the independent contractor designation
- Provide more flexibility in the use of cash method of accounting for small businesses.
- Allow 100% deductibility this year of health insurance premiums for the self employed.
- Work to reduce the complex and burdensome subchapter S rules that impedes the growth of small business.

3. Eliminate Needless Burdensome Federal Regulations –

Many small business efforts to expand their enterprises are hampered by the yoke of needless regulations promulgated by over aggressive government agencies. The burdens of compliance on Small Business are 50% more than for larger businesses – with questionable benefits.

- Eliminate OSHA's proposed unscientific ergonomics standard that will cost small business billions of dollars to implement while subjecting them to large penalties due to arbitrary procedure and vague compliance guidelines.
- Stop the flow of costly government mandates on small business.
- Oppose efforts to expand unemployment insurance to include unpaid family medical leave.
- Eliminate a proposed federal procurement rule that would "blacklist" companies for eligibility to receive government contracts based on arbitrary and subjective records of compliance with other agencies.
- Add the IRS to the list of government agencies, including EPA and OSHA, that must subject their proposed regulations affecting small business to a review panel process in order to determine their impact.

4. Stop Frivolous Lawsuits Against Small Business –

Outlandish punitive damages are crafted to force large settlements regardless of the small businesses' degree of responsibility for the harm. Most small business owners earn less than $50,000 annually. One lawsuit – frivolous or not – can put a small business out of business.

- Cap punitive damage awards on small business.
- Make small businesses liable to the plaintiff only for the loss allocated in direct proportion to the percentage of responsibility for the harm caused.
- Protect innocent product sellers from lawsuits in which the manufacturer was the cause of the harm being litigated.
- Fight provisions in proposed health-care legislation that allow for small business liability.

5. Give Small Businesses The Opportunity To Compete In A Global Economy

With the advent of technology the world is increasingly a global marketplace. We must allow small businesses to compete in today's complex and sophisticated world market as unrestricted as their international competitors.

- Work to open new markets for U.S. goods and services.
- Promote the ability of the U.S. to move toward free and fair trade through continued negotiations.

In our tendencies to regulate and tax our new economy small businesses, our first goal must be to do no harm. In old economy businesses, fixed assets and physical location determined success. For today's businesses, intangible assets such as knowledge, entrepreneurial spirit, management, and innovation are key determinants for

market strength. In order to sustain continued growth within our economy, new policy must reflect sensitivity to this paradigm shift, especially in regards to our small business community.

The growth and vitality of our new economy enterprises have been based on a steady flow of venture capital and the ability to merge with other companies to complement forces for market strength and stability. Currently the Financial Accounting Standards Board, FASB, is proposing to eliminate the longstanding use of the "pooling of interest" method of accounting for business combinations in favor of purchase accounting. If allowed to proceed, this will have a chilling effect on the ability of small technology businesses to grow and compete in fast moving new economy.

Under the pooling method, the balance sheets of each partner in the merger are simply added together. The new entity reports the combined historical book value. Under purchase accounting, one firm must be designated the acquirer and the other the acquiree. The acquired firm's identifiable assets are valued at current fair market value, and the difference between the fair market value of those assets and the purchase price is recorded as an intangible asset – goodwill. The financial statement of the combined entity is reported as the combination of the acquiring firm's historical book value and the acquired firm's fair market value plus the goodwill. The goodwill then must be "written-off" or charged against reported income. As a result, under purchase accounting, there is a subsequent drag on reported earnings. The magnitude of this drag will depend upon the proportion of intangible assets in the acquired firm.

Another defining issue that will determine the course of small business in our knowledge-based society is privacy. With the technological ability to track and gather

information on individual and group preferences, where do you draw the line in regulating this potentially powerful information? Also, with the ability to understand individual strengths and frailties of human character through the use of gene mapping, how do you regulate employers in using this information? How business, congress, and the public grapple with the solution to these emerging issues will have a large impact on the future vitality of small business.

As innovation drives success within the new economy, small businesses are in need for the understanding and the means to protect their research and inventions through patent protection. Often small businesses are unaware of the complicated process by which these safeguards need to be used. In some cases funding becomes a barrier to protecting the value of their findings.

How we resolve these and other issues will determine the survival and growth of our small business community and ultimately the continuation of our economic prosperity. In closing, within the headquarters of the U.S. Chamber of Commerce we have a meeting room called the "International Hall of Flags" where hanging from the walls are the flags of the entrepreneurs of the 16th century (Sir Francis Drake – Magellan – Columbus – Amerigo Vespucci – Just to name a few). Funded by the nobility of their time and navigating by the stars, they risked life and limb to sail the oceans in search of trade and prosperity.

Today's entrepreneurs have traded in their massive ships for laptop computers. Funded by venture capitalists and navigating with Netscape they fly their web site home

pages high and sail the worldwide sea of the Internet in search of global trade routes at the speed of light. Policies that promote, protect and encourage the entrepreneurial spirit of our small business community will allow them to continue to lead the exploration of new frontiers in the future and provide the United States with unprecedented prosperity. How Congress answers the call will determine the success or failure of these modern-day Magellans.

I again that want to thank the Chairman for having this hearing and for inviting the Chamber to testify.

Center for Workforce Preparation

Workforce Issues: A Top Priority for Chamber Members

It is clear that for America to remain competitive and prosperous, we must expand the pool of available workers and ensure that all workers are as well trained and productive as possible.

Tom Donohue, President and CEO
U. S. Chamber of Commerce

Chamber members see workforce development as a top priority today and expect to for at least the next three years.

Chamber members are concerned about workforce development because of worker shortage/low unemployment, economic development, and the need to upgrade incumbent worker skills.

Chambers are taking increasingly active and high profile workforce roles in the community—as information resources, as leaders and advocates of workforce issues, as conveners of workforce stakeholders, and to a lesser degree, as advisors to elected officials.

Chambers are developing innovative workforce products, tools and processes that could aid other chambers and workforce stakeholders.

Workforce velopment: A Growing Priority

Workforce development is increasingly on the minds of employers. In fact, workforce development is one of the top employment issues of the 21st century.

The Bureau of Labor Statistics estimates that in the decade from 1996 to 2006, employment needs will increase 14 percent—demanding 18.5 million additional workers to fill new positions. During that same period, the population of workforce age Americans (age 20 to 64) is expected to increase only 10 percent.

Employment is at an all time high and the unemployment rate is the lowest in 29 years. Across the industry segments, employers are experiencing tight labor markets—from technology, to manufacturing, to construction, to transportation, to fast foods and other services.

Chamber executives are reflecting the growing concerns of their members. In 1998, when asked at a meeting of the 100 largest state and metro chamber executives, 59 percent responded that workforce and education were their members' number one issue. Only one year later, concern over this issue was at 82 percent—a 23 percent increase.

In the fall of 1999, the Center for Workforce Preparation, a not-for-profit affiliate of the U.S. Chamber of Commerce, surveyed a select group of more than 300 chambers of commerce. Its goal—a "snapshot" of workforce

issues and priorities. The survey results further reinforced the message:

Workforce development is a growing and critical priority of chambers of commerce nationwide.

- For 95 percent of chambers responding, *workforce development is a priority for members.*
- 95 percent of those chambers also reported that *workforce development has grown as a priority for members over the last two years.*
- And, more than 98 percent expect *workforce development to remain or grow as a member priority for at least the next three years.*

About the Survey

The Center for Workforce Preparation (CWP) is charged with establishing the U.S. Chamber as the leader in workforce development strategies so that the employees of its members are fully equipped to compete in the 21st century economy. Since 1990, CWP has helped state and local chambers better engage in workforce development and promoted quality education by providing tools, models and best practices.

In 1998, CWP joined with two other national organizations—Jobs for The Future and the National Association of Manufacturers' Center for Workforce Success—with support from the Ford Foundation and the Annie E. Casey Foundation. Their mission: to develop, test and disseminate an innovative strategy to create a new workforce for the new economy. This effort, known as the **Workforce Innovation Networks,** or **WINs,** is focusing on strategies dealing with some of the conditions and challenges businesses are facing in the new economy that serve as constraints to growth and efficiency:

Today's Conditions and Challenges

The inability to find and retain qualified workers is a key threat to the survival of small businesses.

The shortage of capable workers is among the most pressing short-term recruitment challenges for manufacturers.

Advancing technology requires entry-level workers to possess increasingly sophisticated skills.

Many employees lack the skills companies need to remain competitive and retain their market share.

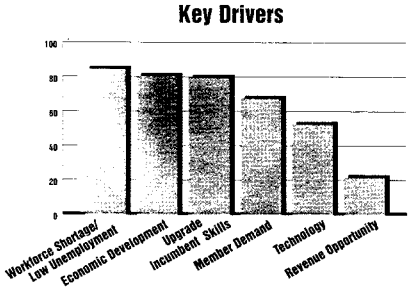
The current skill shortage is predicted to be exacerbated over the next 15 years as approximately 40 million workers retire or are eligible for retirement.

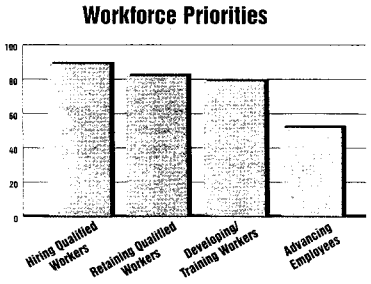
The fall 1999 survey, produced under WINs, had a 64 percent response rate. The 300 chambers surveyed had previously been identified as having programs or initiatives related to workforce development and had expressed an interest in the work of CWP. The survey was intended to provide a "snapshot" of chamber members' interest in workforce development issues. This report examines the survey results.

Economic Development—A Key Driver

In the past, many employers have equated workforce development with social service or "second chance" systems. But today, employers understand that workforce development has significant economic development implications. When chambers were asked to explain their interest in workforce development, economic development issues were clearly on their minds: 83 percent of chambers responding listed **workforce shortage/low unemployment**, 81 percent listed **economic development** and 80 percent listed the need to **upgrade incumbent skills.**

The fact that chambers recognize the clear messages surfacing from their members was reflected in the next most important driver—68 percent noted **demand from members** as an important issue. Despite the overwhelming emphasis on the need for high-skilled workers, only 53 percent listed **technology** as an issue. Listed last by 22 percent of chambers was **opportunity for additional revenue.**





A Many Faceted Approach

Filling immediate needs by **hiring qualified workers**, in which 89 percent of chambers expressed interest, is certainly a top priority for most employers. But chambers are increasingly realizing that wider and deeper needs exist. Employers, employees and communities all benefit by addressing the broader needs that include **retaining/sustaining qualified workers** (82 percent), **developing/training workers** (79 percent) and **advancing employees in the workplace** (52 percent).

Needs Across the Workplace

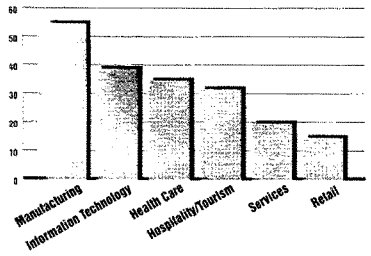
Workforce development needs transcend a wide variety of industries. While **manufacturing** (55 percent) tops the list of industries chambers indicated as having workforce needs, other significant industries are **information technology** (39 percent), **health care** (35 percent) and **hospitality/tourism** (32 percent). **Services** and **retail** were listed respectively by 20 and 15 percent of chambers.

Workforce needs, however, are not clear-cut. Responses reflected the increasingly blurred lines among traditional occupational sectors, with technology needs reaching across all sectors. For example, some chambers noted the need for technical workers in manufacturing and health care.

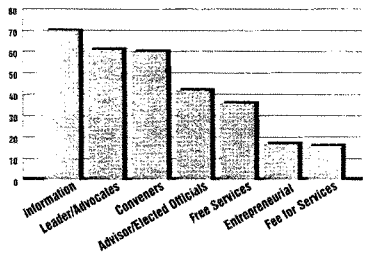
New Role for Chambers

Some 70 percent of chambers surveyed are applying their traditional role as an **information resource** to workforce development. Chambers are also using other traditional roles to serve their members in the areas

Workplace Needs



Chamber Roles



of workforce development—as **leader/advocates** (61 percent), **conveners** (60 percent) and **advisors to elected officials** (42 percent).

However, chambers across the nation are realizing the need for innovative, effective initiatives to help their members meet workforce development challenges, enhance the economic viability of communities and improve the quality of life for citizens. Thirty-six percent of chambers surveyed indicated they provide **free workforce development services**; 16 percent **charge a fee for services**. In addition, 17 percent of chambers indicated they engage in **entrepreneurial activities** relating to workforce development.

Of those responding, 42 percent of chambers have a **not-for-profit affiliate** that is dedicated to workforce issues. Several are in the process of forming such an affiliate. Still others indicated that they collaborate with **a not-for-profit workforce affiliate**, such as a community college or community-based organization. This movement may indicate that an increasing number of chambers realize the advantages to their members and their communities of taking a proactive role in workforce development issues.

A Sharing Network

Chambers engaged in workforce development activities clearly do not wish to work in isolation. When queried about useful tools and opportunities, 85 percent indicated that **models of what works and best practices** from other communities would be helpful. Sixty-one percent would like help with **communications and marketing** and 58 percent indicated an interest in using **websites**. In addition, 77 percent said they would be interested or would consider **using Internet technology to access information and resources on workforce development**.

Dozens of chambers indicated they had **workforce development programs or tools** that would be of interest to other chambers:

Workforce Programs & Tools

- *Model Workforce Programs/Processes*—on school-to-career, welfare-to-work, one-stop development, job ladders, skill development, strategic planning, public-private partnerships
- *Workforce Investment Act Programs*—model for transitioning from PIC to WIA, website
- *Training Services/Resources*—gap training, resource services, skills development center, curriculum, sector-specific training program (information technology, customer services, construction, manufacturing)

- *Resources Development/ Sustainability*—fee for services, innovative approaches to public training grants
- *Web-based Databases/Resources*—business-education website, internet databases, Nationjob.com, computer database of training services
- *Labor Market Information*—job profiling, "skill gap" reporting
- *Communications and Awareness*—marketing videos, posters, direct mail, fact sheets

This "snapshot" survey further emphasizes that chambers throughout the country are realizing their critical role in developing and shaping a workforce development system by taking a broad, policy-oriented role and serving as a coordinator, convener and independent broker.

About CWP

The U.S. Chamber of Commerce is the world's largest business federation, representing nearly three million companies, 3,000 state and local chambers, 850 business associations, and 87 American chambers of commerce abroad.

The CWP offers a variety of workforce development strategies for chambers of commerce interested in helping members and communities hire, sustain, train and advance workers. These provide information, resources and networking opportunities on issues including Workforce Innovation Networks (WINs), the Workforce Investment Act, school-to-work and welfare-to-work transition, Job Corps, workplace literacy, and helping employers hire employees with disabilities.

To learn more about workforce issues and how your chamber can become involved, visit CWP's website at www.uschamber.com/cwp/ or call 202/463-5525.

SCORE®

Counselors to America's Small Business

Statement

of

W. Kenneth Yancey, Jr.

Executive Director

Service Corps of Retired Executives Association (SCORE)

to the

Subcommittee on Government Programs and Oversight
Committee on Small Business
U.S. House of Representatives

September 28, 2000

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W. Kenneth Yancey,Jr.
Executive Director
Service Corps of Retired
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Statement
to the
Subcommittee on Government Programs and Oversight
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Mr. Chairman, my name is W. Kenneth Yancey, Jr. and I am the Executive Director of the Service Corps of Retired Executives Association (SCORE).

Thank you for inviting me to testify before this committee on the future of small business and the issues of greatest concern to small business. I would like to take this opportunity to thank the Government Programs and Oversight Subcommittee of the Small Business Committee for its vigorous support of the SCORE program. As you know, SCORE's mission is to assist small start- up and growing businesses.

As a brief overview, SCORE was established in 1964 and is a not-for-profit association. SCORE is now made up of more than 11,400 mostly retired, as well as working men and women who volunteer their time to assist small business owners and aspiring entrepreneurs. Many SCORE volunteers are veterans of America's armed services. SCORE now operates 380 chapters located across the country in every state and in the District of Columbia, Puerto Rico and the U.S. Virgin Islands. SCORE volunteers represent over 500,000 years of business experience. They provided over one million hours of service to the small business community in fiscal year 1999. That free service is the approximate equivalent of a firm with 500 full-time employees.

SCORE counselors provide advice on many aspects related to small business. They advise on how to:

- start a business
- operate a business
- grow a business
- buy a business
- sell a business

In fiscal year 1999, the services provided by SCORE volunteers reached over 306,000 different businesses and individuals, which is an increase of 10% over the same period last year. In serving these entrepreneurs, SCORE conducted over 266,000 one-to-one counseling sessions and 5,925 workshops or seminars. Of the total, 29% reported already being in business and 71% were new to business.

SCORE also serves clients through its award-winning Web site at www.score.org. In addition to excellent "how to" articles and content from companies such as *Inc.* Magazine and the Kauffman Center for Entrepreneurial Leadership, users will find the "find SCORE" section of the site, which allows visitors to locate the SCORE chapters nearest them by entering their zip codes. In addition, visitors will have access to our free "email counseling" services. Through the "Get Email Counseling " function, entrepreneurs may enter their questions through a key word search and then choose from a list of counselors with the specific expertise or experience that suits their needs. Counselors respond to email inquires within 48 hours. Today SCORE has approximately 800 counselors available online and conducts almost 8,000 free email counseling sessions each month. The site also includes links to programs from the Small Business Administration through its web site at www.sba.gov and links to other useful sites across the World Wide Web.

SCORE does not survey clients regarding challenging issues related to starting and running a small business, however, we can offer comments based on anecdotal and anonymous information provided by our clients. I will pass on some of the findings of the National Commission on Entrepreneurship (NCOE) published in its July 2000 report titled "Building Companies, Building Communities: Entrepreneurs in the New Economy." Patrick Von Bargen, executive director of NCOE, has made copies of the report available to the members of the committee and more information about NCOE is also available on its web site, NCOE.org. I will also draw on my own personal experience as an entrepreneur.

In this robust economy with low unemployment, complicated by the shift to a knowledge-based economy, finding and retaining quality people is a major challenge to entrepreneurs. The challenge is at all levels including management, technical and entry level. The NCOE study sites specific regional issues including the lack of a critical mass of new businesses in a community. In this situation a potential executive fears relocating to a community without a critical mass in the event things do not work out and the executive must find another job. Additionally, the NCOE study also brings up the challenge of too few workers that are "ready to work", referring to the competence and attitude of many high school graduates, including the basics of commitment and courtesy.

Access to capital has been a challenge for small firms for years. Today, there is significant venture capital funding available for technology-related, high-growth start-ups. This is not true for small business start-ups and existing businesses in traditional industries, particularly small start-up companies with requirements of less than $1 million. Most of these small start-ups use personal funds, second mortgages, friends and family or credit cards to finance their ventures. The Small Business Administration is

attempting to address the needs of this segment of small businesses with the SBA Low-Doc loan, SBA Express loan and the SBA MicroLoan Program.

The need for small business-related technical assistance, mentoring and networking is also very important to today's entrepreneur. SCORE and other programs, such as the Small Business Development Centers, offer free or low-cost access to this type of entrepreneurial support. As I previously mentioned, SCORE served over 300,000 existing or aspiring entrepreneurs in fiscal year 1999 and has served over 4.5 million since its inception. With continued support from the Small Business Administration and the Congress, SCORE plans to increase its outreach efforts to America's entrepreneurs. This expansion will come online through greater availability of email counseling, and the development of new online community development applications, and distance learning opportunities with private sector alliance partners, such as the Kauffman Center for Entrepreneurial Leadership, Visa U.S.A., Equalfooting.com and Staples.com. Additionally, SCORE plans to expand the availability of one-to-one counseling through the expansion of chapters into fast-growing areas of the communities in which they operate as well as outreach to under-served and rural communities.

Again, I would like to thank the Committee and you, Chairman Bartlett, for you support of SCORE and for inviting me to testify today.

SCORE®

Counselors to America's Small Business

SCORE Appropriations
(1993 to date)

Fiscal Year	*Amount*
1993	$3.082
1994	$3.5
1995	$3.25
1996	$3.25
1997	$3.3
1998	$3.5
1999	$3.5
2000	$3.5

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NAM National Association of Manufacturers

MANUFACTURING MAKES AMERICA STRONG

Testimony

of Anthony F. Raimondo

President and CEO, Behlen Mfg. Company
on behalf of The National Association of Manufacturers

before the Subcommittee on Government Programs and Oversight,
Committee on Small Business
U.S. House of Representatives

on The Future of Small Business in the United States

September 28, 2000

1331 Pennsylvania Avenue, NW • Washington, DC 20004-1790
(202) 637-3000 • Fax (202) 637-3182 • www.nam.org

Manufacturing:

The Key to Economic Growth

- The United States was rated number one in global competitiveness by the Switzerland-based Institute for Management Development by a wide margin — almost 20 percent above its closest competition, Singapore and nearly twice as high as traditional economic rivals, Germany and Japan.

- U.S. manufacturing productivity growth averaged more than 4 percent during 1996 and 1997 — roughly one-third higher than the trend since the early 1980s and nearly three times as great as the rest of the economy.

- U.S. manufacturing's direct share of the Gross Domestic Product (GDP) has remained remarkably stable at 20 percent to 23 percent since World War II. Manufacturing's share of total economic production (GDP plus intermediate activity) is nearly one-third.

- Manufacturing is responsible for two-thirds of the increase in U.S. exports, which have grown to 12.9 percent up from 11.4 percent in 1986.

- No sector of the economy, including the government, provides health care insurance coverage to a greater percentage of its employees. Average total compensation is almost 20 percent higher in manufacturing than in the rest of the economy.

- Technological advance accounts for as much as one-third of the growth in private-sector output, and as much as two-thirds of growth in productivity. The lion's share of this comes from the manufacturing sector, which accounts for more than 70 percent of the nation's total for research and development.

Testimony of

Anthony F. Raimondo
Chairman & Chief Executive Officer
Behlen Mfg. Company
On behalf of the
National Association of Manufacturers

Before the
Subcommittee on Government Programs and Oversight
Committee on Small Business
U.S. House of Representatives

On
The Future of Small Business in the United States

September 28, 2000

Chairman Bartlett, members of the Subcommittee, my name is Tony Raimondo, president and CEO of Behlen Mfg. Company, Columbus, Nebraska. I am here to testify on behalf of the National Association of Manufacturers. The NAM – 18 million people who make things in America – is the nation's largest and oldest multi-industry trade association. The NAM represents 14,000 member companies (including 10,000 small and mid-sized manufacturers) and 350 member associations serving manufacturers and employees in every industrial sector and all 50 states. We're headquartered in Washington, D.C., and we have 10 additional offices across the country.

Specifically, I want to discuss the pro-growth and pro-worker issues that would benefit America's small business community and overall economy. America's economy has expanded impressively over the past 18 years, with only one relatively mild downturn in the entire period. At the NAM, we are proud of the disproportionately large contribution American manufacturers have made to that expansion. Coupled with the

fiscal restraint of recent years, our booming economy has filled federal coffers beyond expectations and yielded the first federal budget surplus in more than a generation.

The NAM believes that the federal tax code is the single largest current obstacle to economic growth. Federal tax laws need to be reformed and replaced with a pro-growth code. We realize that this effort is a daunting one. Consequently, until the code itself is fundamentally changed, we believe that certain pro-growth incentives need to be incorporated into an otherwise anti-growth tax code. For our small and mid-sized members, two of the most important incentives are repeal of the current estate and gift tax regime, sometimes known as the death tax, and a reduction in tax rates for S-corporations.

Death Tax Repeal

The importance of repealing the death tax to our small and mid-sized members is no surprise since they spend, on average, a staggering $52,000 a year on estate-tax planning. The time and money spent preparing for the death tax simply do not help a business in any other way. This diversion of valuable human and financial capital achieves absolutely no economically useful purpose. It does not increase productivity, expand the workforce or put new products on the shelf. A business pays this cost every year, not just at some uncertain future date when an even bigger bill comes due.

Our members would much prefer spending this money on new technology, business expansion and additional employees. Moreover, for about two-thirds of these companies, if the present owner died tomorrow, plans for expansion would be delayed, substantially curtailed or abandoned. For nearly one-third of our members, heirs would have to sell all or part of the business to pay the estate tax.

The death tax can be devastating to the transition between generations in a family-owned business. A Vermont Life insurance company study indicates that fewer than one in three family-owned companies survives to the next generation. The 55-percent estate tax rate does not allow much room to breathe. Very few businesses or business owners have that kind of liquidity, and almost no manufacturer does.

Currently there are some special estate-tax breaks on the books for small businesses, but qualifying for the family-owned business exclusion is difficult, if not impossible. Business owners must constantly monitor whether they meet the stringent ownership and participation requirements in the law, often a time-consuming and expensive endeavor. If the government determines after the fact, that is, after the owner's death, that these requirements have not been met, the full estate tax bill is due.

Complete repeal of the death tax is the best solution for a pro-growth economy and for family-owned manufacturing companies and other small businesses that are creating jobs and a securing future for their employees.

S-Corporation Tax Rates

About 41 percent of our small and mid-sized members operate as S-corporations and tax-rate relief for S-corps is another tax law change that would have a positive impact on the ability of our small and mid-sized companies to grow. Congress originally created S-corps to offer small business owners an efficient and cost-effective way of doing business. Up until recently, lawmakers' efforts were extremely successful. For almost 40 years, S-corps contributed significantly to the country's economic growth. However, this positive trend was derailed in 1993, when the top *individual* tax rate was increased.

The 1993 Omnibus Budget Reconciliation Act raised the highest marginal tax rate for individuals from 31 percent to 39.6 percent - almost six percentage points higher than the comparable C-corp rate, which remained at 34 percent. Consequently, S-corps - as pass-through entities - now pay a higher tax rate than C-corps on income that is reinvested in their businesses.

The tax law changes enacted in 1993 represents a stark departure from Congress' strong support for S-corps, since they actually discourage small business owners from reinvesting earnings back into their companies. Income earned by similar sized C-corps that is retained and invested in the company is taxed at a maximum rate of 34 percent, while income reinvested in an S-corp is taxed at a maximum rate of 39.6 percent. To put it simply, S-corp owners now pay a higher tax than C-corps on money used to develop new products, enter new markets and hire additional employees.

Reducing the tax rate on S-corps would restore the benefits of S-corps and encourage entrepreneurs who are trying to grow their businesses.

Sales of Small Businesses: Restricting the Use of Seller Financing

Another tax-related issue that I wanted to bring to the attention of this committee is a provision enacted in late 1999, which prohibits the use of the installment method by accrual-basis taxpayers. This tax law change is having a significant negative impact on sales of small enterprises. In some cases, the sale prices of businesses have plummeted. Other sales have collapsed.

The installment method is used in approximately 9out of 10 small business sales for a variety of reasons, including the ability to spread the capital gains tax payment over the life of the sale. But the installment method has benefits beyond those related to taxes.

For sellers, it enables them to be more flexible in structuring the sale and to get a higher price for the business. For buyers, it allows them to purchase a business for which bank financing is unavailable. The installment method also ensures that the seller will continue to have a financial interest in the ongoing success of the business. For smaller enterprises that tend to have more of their total value attributed to good will, this assurance is often necessary for the sale to proceed.

The NAM supports reinstatement of the installment sales rule. H.R. 3081, which passed the House on March 9, 2000, would restore the ability of small businesses to use this rule. The Senate in July 2000, voted twice on amendments that would restore the installment sales provision, but these amendments were stripped out of the underlying legislation before final passage. We urge the Subcommittee to push for enactment of this provision in 2000.

Ergonomics

Worker safety is one of the top concerns in my factory – and for the members of the NAM. I know all of my workers personally. They are like family to me and providing a safe work environment has been a team effort for many years. That said, the overall injury and illness rate is currently at its lowest level since the Bureau of Labor Statistics (BLS) began reporting this information in the 1970s. In spite of BLS data showing that musculoskeletal disorders, also known as MSDs, have declined by 24 percent since 1994, and despite the lack of consensus in the scientific and medical communities on the causes of MSDs, OSHA is moving aggressively forward with an ergonomics regulation and ignoring the intent of Congress.

Employers covered by OSHA's proposed rule – which was published in the *Federal Register* on Nov. 23, 1999 – would be responsible for taking measures to reduce all MSDs, including carpal tunnel syndrome and neck and back strains, by initiating and maintaining a basic ergonomics program once A SINGLE injury is reported in their facility. OSHA considers an injury "work related" if working conditions contributed to the injury, even if non-work factors contributed as well. Further, where typical workers' compensation rules currently provide two-thirds of an employee's pay while out of work, OSHA's rule will require workers to be paid at 90 percent of their pay if claiming an ergonomic injury. OSHA has, in effect, created a "most favored injury" status for ergonomics.

If covered, employers must set up an ergonomics program to control "work-related" MSDs that must include the following elements: (1) management leadership and employee participation; (2) hazard identification and information; (3) job hazard analysis and control; (4) training; (5) medical management; and (6) program evaluation. In October 1998, Congress approved $890,000 for the National Academy of Sciences (NAS) to conduct an independent, peer-reviewed analysis of the available science on MSDs. The NAM opposes the rule and urges OSHA to wait until all the evidence is in before moving forward.

Health-Care Liability

Health-care costs have jumped dramatically in the past decade. However, recent attempts at controlling costs, like the Dingell-Norwood Patients' Bill of Rights, will do nothing to make health insurance more affordable and accessible to those without coverage. Its mandates, bureaucratic involvement and lawsuit provisions will so raise

costs that more and more Americans will find health insurance beyond their reach. By the Congressional Budget Office's own conservative estimates, the Patients' Bill of Rights will raise premium costs by as much as 4.1 percent per person, per year, and will increase the number of uninsured by nearly 2 million.

Worse, the bill's provision that allows employers to be sued for health-plan decisions will cause many employers – who voluntarily offer this important benefit – to drop insurance coverage for employees rather than risk exposure to a business-killing lawsuit. This is bad news for small businesses. Despite claims to the contrary, the Patients' Bill of Rights allows any employer who exercises "discretionary authority" over the company health plan to be sued. The truth is that basically all employers exercise such authority in managing their health plans, thereby leaving themselves open to potentially costly and draining litigation.

In an NAM survey of 1,000 companies of all sizes, nearly 40 percent indicated that they would drop health coverage for employees if exposed to lawsuits for health plan decisions. An additional 58 percent noted that such provisions cause "great concern." Nearly all expressed concern about health-care inflation, with three-quarters predicting cost increases of 10 percent or more in the absence of federal legislation. Yet, virtually all manufacturers currently provide health care benefits to employees (more than any other sector, including the government) and plan to continue doing so unless rising costs and the threat of lawsuits force them to drop benefits. Many others will be forced to reduce benefits or increase employee's share of coverage costs.

While it is true that there are cases where the health-care system clearly fails, it is also true that vast majority of Americans receive timely, high-quality health care when

they need it. Poll after poll shows that some 90 percent of Americans are satisfied with their health-insurance plans and the government's own statistics show that 97 percent of all health care claims are paid without incident. Why, then, are we gripped by a "sky is falling" mentality towards health care recently? We shouldn't pass laws based on the 3 percent of Americans who dispute a health claim at the peril of the tens of millions of Americans who currently enjoy health care coverage.

So what should we do? First, we need to provide for fair and timely independent review of disputed claims, expediting the process where appropriate, so that conflicts can be resolved efficiently and with as little delay as possible. The NAM has long believed that we should let market forces, not government mandates, rectify any problem areas within the health-care system.

Trade

Small manufacturers are also focused on aggressively expanding our markets overseas. With final passage of Permanent Normal Trade Relations (PNTR) with China, I wanted to highlight an important part of the debate that generally has been overlooked: Trade is vitally important to small American companies. Smaller companies will benefit from increased trade with China just as much as their larger counterparts. In fact, the U.S. Commerce Department has found that a startling 82 percent of all firms exporting to China are smaller companies, accounting for 35 percent of the dollar value of all U.S. exports to China.

Our experience at the NAM is that small and mid-sized exporting companies are aggressive in increasing their sales abroad. In 1989, roughly half of the NAM's small and mid-sized member companies said they export. Today, 80 percent fall into that

category. In 1989, only 4 percent of those members earned more than 25 percent of their revenue from exporting and another 4 percent earned between 11 percent and 25 percent. Today, those percentages have more than doubled to 9 percent and 11 percent, respectively.

On the investment front, 13.8 percent of NAM's small and mid-sized member companies have a plant or other investment (acquisition, equity interest or joint venture) outside the United States. In 1995, only 9.2 percent had an overseas investment. That represents a 50 percent increase in just five years.

What has this dramatic trade and investment expansion meant to our economy? By any measure, the American economy and American workers have thrived in the past decade, due in no small part to trade.

- More than 12 million American workers' jobs are linked to trade. Unemployment has fallen to below 4 percent, its lowest level in over 30 years.
- Millions more work for companies that aren't directly involved in trade but for supply companies that are.
- 25 percent of the more than 12 million new jobs added in the U.S. economy during the 1990s has come from exports.
- Companies that do export create jobs almost 20 percent faster than non-exporting companies; they pay, on average, 15 percent more, provide benefits 40 percent higher and are 10 percent less likely to go out of business.
- Over the past decade, exports have contributed 25 percent of America's overall economic growth.

- U.S. share of world exports has increased by 20 percent in the past 10 years. Trade -- exports and imports -- now represents about 25 percent of U.S. GDP. America is the world's largest exporter.

The fact is the health and wealth of small manufacturers and the well-being of the American worker are directly tied to the world economy. Ninety-six percent of the world's population live outside the United States. We can't afford to shut ourselves out of the world marketplace. To continue growth and prosperity, we must sell to the world, as well as to ourselves.

So how can we expand trade opportunities for small manufacturers? Significant foreign barriers to free and open commerce still remain in the world, particularly outside the industrial countries. The NAM believes the elimination of these impediments worldwide should be a top trade priority both for the White House and Capitol Hill. Manufactured goods comprise 90 percent of U.S. merchandise exports, and emphasis should be placed on removing barriers facing manufactured goods trade. The NAM urges an ambitious agenda of multilateral, regional, bilateral and sectoral approaches with the intention of obtaining as much new market access as possible.

Hours of Service

One regulation currently being promulgated gravely concerns manufacturers of all sizes, and that is the hours-of-service rule that the Department of Transportation published on May 2, 2000. For example, the proposal would place restrictions on the ability of drivers to operate commercial vehicles between midnight and 6:00 a.m. If finalized, this rule would severely disrupt just-in-time operations, particularly for those

factories that operate 24 hours a day. The proposed final rule is deficient in its analysis of trade-offs, or so-called substitution risks.

For example, it does not take into account that there already is a shortage of qualified truck drivers. Are deliveries to be scaled back if they were to occur before 6:00 a.m., or will less-qualified drivers be hired? If it is the latter, then the DOT should have considered the well-known fact that most accidents involving trucks occur with less-experienced drivers – yet it failed to do so. Another trade-off not considered by the DOT is clean-air attainment. If replacement drivers cannot be found for pre-6:00 a.m. shipments, then those trucks would be forced into congested rush hours. In addition to the safety implications, what is the effect on clean air goals of trucks belching exhaust while idling in stalled traffic? This rule is a prime example of where Rep. Sue Kelly's proposal to authorize the General Accounting Office to scrutinize the promulgation of rules early in the process would be helpful. While I am not a regulatory expert, I understand that many people who are have expressed the opinion that this rule never should have been returned for publication from the Office of Management and Budget.

Legal Reform

Small businesses – and small manufacturers in particular – have been very disappointed that legal reform measures have not been enacted into law. We appreciate, however, that the House has forwarded to the Senate H.R. 1875, the Interstate Class Action Jurisdiction Act; H.R. 2005, the Workplace Goods Job Growth and Competitiveness Act; and H.R. 2366, the Small Business Liability Reform Act. H.R. 1875 would allow nationwide class-action lawsuits to be removed to federal court where there is diversity of citizenship between the parties; H.R. 2005 would establish an

18-year statute of repose for workplace, capital goods; and H.R. 366 would establish a national standard of clear and convincing evidence before punitive damages could be awarded against firms with fewer than 25 full-time employees, and caps these damages at the lesser of three times compensatory damages or $250,000. H.R. 2366 also protects product sellers and renters from liability simply for being in the chain of distribution or for owning the product. In the current tort system, smaller businesses face the potential of bankruptcy with even one frivolous lawsuit that receives a favorable jury award. These measures would help to level the playing field.

Regulatory Improvement

As with legal reform, smaller businesses have been frustrated with Congress' inability to pass any regulatory improvement measures. Again, as with legal reform, the NAM recognizes that the House has done its part by sending to the Senate H.R. 350, the Mandates Information Act of 1999; H.R. 391, the Small Business Paperwork Reduction Act Amendment of 1999; and H.R. 1074, the Regulatory Right-to-Know Act. H.R. 350 would allow a point of order against an unfunded mandate of $100 million or more on the private sector; H.R. 391 would allow a waiver for most first-time, technical paperwork violations that cause no harm; and H.R. 1074 would require the Office of Management and Budget to provide a yearly accounting of the costs and benefits of federal regulatory programs.

Small manufacturers also want to thank Rep. Sue Kelly for her hard work in support of H.R. 4924, the Truth in Regulating Act, which would establish an office within the General Accounting Office to promote better congressional oversight and accountability in the promulgation of regulations. As note above, it would have been

helpful to have this office to analyze the proposed DOT hours-of-service rulemaking. (GAO has issued a limited report, but it could have been even more effective had the provisions of H.R. 4924 been in effect.) The NAM – and particularly its small manufacturers – hopes that any or all of these measures will be forwarded to the President, since the burden of regulatory compliance falls disproportionately on smaller businesses.

EPA Avalanche Coming Through the Backdoor

Small manufacturers care about the environment. We live, work and are raising our children in the same community. Clear air and water are fundamental to the people of Columbus, Nebraska, and to our employees. So is fair and open government. However, according to an Aug. 25, 2000, *Washington Post* article, "the Clinton Administration is working feverishly to issue a host of new regulations supported by environmentalists and other liberal-leaning groups but opposed by many business and industry organizations." The article cites the White House's determination to circumvent the rulemaking and legislative approval processes in order to accomplish its regulatory goals. Especially enthusiastic is the Environmental Protection Agency (EPA), with a reported 67 regulatory actions expected before this Administration's January exit. The NAM is seeking this list from EPA through a Freedom of Information Act (FOIA) request submitted on August 28, 2000.

This list manifests the combined effects of two serious problems of Administrative excess: 1) the now routine (and bipartisan) "midnight" rulemaking rush as a President's term draws to a close; and 2) the Administration's increasingly serious efforts to promulgate rules without using the notice-and-comment protections required

under the Administrative Procedures Act (APA). The negative synergy of these two trends disrupts the regulatory process and creates uncertainty within the regulated communities.

The EPA's "backdoor rulemaking," or the practice of pushing through policy objectives under the guise of guidances and interpretations without proper administrative procedures, has become commonplace during the past year. It is faster (no proposals or notices) and easier (no comments to address or analyses required by law or executive order such as small business impact, cost/benefit analysis or unfunded mandate impacts). For example, in December 1999, the EPA published an interim guidance on air emissions under the CERCLA, which purported to interpret a liability provision without express or implied authority from Congress. The EPA followed a flawed process, clearly in violation of the APA, by issuing the guidance without responding to industry comments in related rulemakings.

Another example involves the EPA's controversial new source review (NSR) program, which requires major stationary sources to undergo review for environmental controls if the source builds new plants or makes "non-routine" changes to existing operations resulting in significant increases in emissions. Previously, the EPA unilaterally changed the definition of "routine maintenance and repairs" under the long-standing NSR regulation, without a rulemaking or guidance, through an "enforcement alert" on its Web site. Now, the EPA may be rushing to promulgate an unsound NSR rule by the end of this year. In a related area, the EPA's plan to change a New Source Performance Standard (NSPS) regulatory definition through "binding" interpretation was met with resistance by several industry associations, including the NAM.

The next few months promise to be busy, as the EPA gears up for its last push to regulate, guide and enforce. Michael Baroody, NAM's senior vice president, policy, communications and public affairs, summed it up best in his February 2000 testimony before the House Subcommittee on National Economic Growth, Natural Resources and Regulatory Affairs. "One has the sense that the Administration, perhaps having gotten in its final year an intimation of its own mortality, is in a bit of a rush to make policy by Administrative fiat where it has failed to do so by legislative means or by following the regular regulatory order." The NAM will strive in Congress, in the courts and with the next Administration to protect economic growth and manufacturers' competitiveness from EPA's zealous - and often illegal - policy-making through the backdoor.

Energy Supply Concerns

Small manufacturers are also deeply concerned about the recent media coverage concerning the spike in energy prices. On August 17, NAM released its "Statement of Concern on Energy Supply Policies." The statement focused on the need for the federal government to pay more attention to crafting policies that would encourage - rather than discourage - adequate energy supplies at competitive prices over the long term. The statement, which was reported in several trade publications, developed as a result of a number of NAM member companies making the NAM staff aware of their concerns and experiences with spikes in prices of natural gas, electricity and petroleum over the past year.

The NAM will work actively with this Administration and Congress in the time remaining, and with the presidential and congressional candidates to urge them to attend

to the seriousness of these problems and the need for prompt action to meet these concerns.

Conclusion

I would like to thank Chairman Bartlett and the Subcommittee for the opportunity to discuss issues concerning small business on behalf of the National Association of Manufacturers. We hope that our recommendations to best promote and sustain an enterprise-friendly economy for small manufacturers are helpful and we look forward to working with the Congress on these various issues. Our list of concerns is lengthy, but we are up to the task to work with Congress and the Administration to encourage economic growth for our nation's small businesses – particularly in the manufacturing sector.

Curriculum Vitae

Tony Raimondo, chairman and CEO of Behlen Mfg. Company, Columbus, Nebraska, is on the board of directors at the National Association of Manufacturers. His company was the 1994 national winner for *Inc. Magazine* as "Turnaround Entrepreneur of the Year." Currently, he is a member of the Federal Reserve (10 District) Presidents Economic Advisory Council.

Setting Standards for Excellence

Comments by Malcolm O'Hagan
President, National Electrical Manufacturers Association
for the
House Committee on Small Business
Subcommittee on Government Programs and Oversight
Hearing On
"The Future of Small Business in America"
September 28, 2000

The National Electrical Manufacturers Association (NEMA) is pleased to submit the following comments on the important matters of the future of U.S. small business and of increasing U.S. small business exports.

NEMA is the largest trade association representing the interests of U.S. electrical industry manufacturers. Founded in 1926 and headquartered in Rosslyn, Virginia, its approximately 450 member companies manufacture products used in the generation, transmission, distribution, control, and use of electricity. These products, by and large unregulated, are used in utility, industrial, commercial, institutional and residential installations. Through the years, electrical products built to standards that both have and continue to achieve international acceptance have effectively served the U.S. electrical infrastructure and maintained domestic electrical safety. Annual shipments exceed $100 billion in value.

NEMA's mission is to improve the competitiveness of its member companies by providing services of high quality that will impact positively on standards, government regulation and market economics. With this in mind, we launched the NEMA Global Strategy a year and a half ago in an effort to promote worldwide acceptance of our members' products, including those built to U.S. standards, as well as to facilitate member companies' marketing and trade activities.

NEMA members, the vast majority of whom are small- to medium-sized enterprises, very much want to increase their international sales. Many already do significant amounts of business in Europe and Canada, and they see their businesses expanding into many other markets as well. To help them expand in this direction, last year NEMA won a three-year, $400,000 Market Development Cooperator Program (MDCP) grant from the Department of Commerce to support the launching of our new offices in Brazil and Mexico. The MDCP is an innovative, public/private partnership whose grant budget of only $2 million should be expanded so that more organizations can enjoy its benefits. We are now open for business in both Sao Paulo and Mexico City.

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NEMA looks forward to continuing its close cooperation with the Department of Commerce on this project.

NEMA already has very healthy working relations with the USG in other respects as well. For example, last year we collaborated closely with the National Institute for Standards and Technology (NIST) in co-sponsoring a successful seminar on "Electrical Safety for the Americas", and we look forward to cooperating with NIST again on some upcoming similar events involving officials from the Asia-Pacific region. Most recently, at the behest of the Office of the U.S. Trade Representative (USTR) we were pleased to take part several days ago in the latest meeting of the Sub-Committee on Standards and Conformance of the Asia-Pacific Economic Cooperation (APEC) forum. And beyond these bigger events, let me add that NEMA staff also maintains excellent day-in, day-out working relations in a number of ways such as by serving on some of the Commerce Department's Industry Sector and Functional Advisory Committees.

Yet, despite the good start our Global Strategy's good start, there is still tremendous room for progress on all the above fronts and we welcome future opportunities to work with the U.S. Government towards making it happen. Here are some examples of topics where our members are looking to Washington for further assistance, partnership and leadership:

Monitoring, Enforcement and Overseas Presence: The USG needs to do more than simply reach favorable accords; it also needs to be vigilant in making sure that other countries live up to their commitments to foster openness, transparency and competition. In this regard, our view is that the Commerce Department's Standards Attache program should be expanded and fully funded; we are pleased that four Attaches are in place, but believe that this program could be far more ambitious. Likewise, we greatly appreciate the assistance provided by Foreign Commercial Service (FCS) offices abroad, and hope that FCS activities will receive ample support in the years ahead.

Tariff Elimination: The world-wide elimination of tariffs on electrical products is a basic NEMA goal. We therefore urge the U.S. Government to pursue multilateral tariff elimination for electrical products, be it via the energy sector of the WTO Accelerated Tariff Liberalization (ATL) initiative, or via regional groups and/or other opportunities as they arise. NEMA has also asked the USG to seek complete elimination of tariffs on batteries in general, as well as the accelerated phase-out of tariffs on batteries going into Mexico in particular. Finally, NEMA has also urged the USG to push for completion of the second phase of the International Technology Agreement (ITA-2), which would eliminate tariffs on a wide range of IT items including some NEMA products.

Government Procurement: NEMA very much wants to see a multilateral agreement to make government procurement more open and transparent. Preferences for local companies on the part of host governments, as well as a lack of transparency in awarding contracts, have served to unfairly exclude U.S. companies on countless occasions. It is time for us to finally be able to compete on equal footing.

Mutual Recognition Agreements (MRAs): The use of MRAs should be limited and considered as an alternative for conformity assessment needs -- and then only applicable to federally regulated products such as medical devices. MRAs are not the answer to conformity assessment needs in non-regulated areas; if anything, they serve to encourage the creation of unnecessary product-related regulation. In this regard, while we strongly objected to the inclusion of an electrical safety annex in the U.S. MRA with the European Union a few years ago, we are pleased that the Administration has either excluded electrical products from subsequently negotiated MRAs or refused to sign on to any such accords which include them.

"International Standards": A U.S. priority need is continue working to dispel the misinterpretation that the use of the term "international standards" in the WTO treaty on Technical Barriers to Trade (TBT) applies only to International Electrotechnical Commission (IEC), International Standards Organization (ISO) and International Telecommunications Union (ITU) standards. This misinterpretation can be disadvantageous to U.S. businesses' efforts to sell in global markets. Moreover, the importance of openness and transparency are lost when focus is only on those three standards bodies.

Voluntary Standards: The use of voluntary standards should be encouraged over mandatory government regulations -- even when public safety and health, national security and environmental obligations are involved. Such voluntary standards can be best developed with government playing a supporting role in the standards development process. International trade is facilitated when buyers and sellers determine which standards meet their needs.

Conformity Assessment: International conformity assessment should be voluntary and market-driven, featuring national treatment for imports, with cooperative testing agreements as appropriate between pertinent testing bodies in respective countries. Such accords have already been initiated in several cases with the intent of enabling the shipment of products without repetitive testing.

Expanding Market Access: The World Trade Organization (WTO) should focus on accords that reduce, for example, tariffs, customs regulations, government subsidies and preferences for local companies. Furthermore, trade agreements need to be vigorously enforced to ensure that other countries live up to their commitments to foster openness and competition.

Reduction in Technical Barriers to Trade (TBTs): NEMA supports the concepts outlined in the WTO TBT Agreement and believes that all countries should implement, to the fullest extent, the obligations outlined in the TBT. These obligations include: a standards development process that is transparent and includes participants from all interested parties; a conformity assessment system that upholds the principles of most-favored nation treatment (meaning equal treatment in all countries); and national treatment (meaning equal treatment of domestic and foreign products, as well as test laboratories conducting conformity assessment services) in the application of testing and certification

procedures. A sector-specific dialogue may be an appropriate way to facilitate discussion of issues associated with the TBT accord.

World Trade Organization Negotiations: As we all know, the new WTO Round of trade negotiations got off to an inauspicious non-start in Seattle at the end of last year, but negotiations will continue and NEMA urges U.S. officials to keep the electrical industry considerations above in mind during what will in all likelihood be a long and arduous process.

Thank you for your consideration of these remarks. Pursuit of the above priorities is crucial if the U.S. Government truly wants to boost export impact for U.S. small- and medium-sized enterprises, especially in the electrical sector. We look forward to working closely with you on these and other matters of industry concern.