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Message to the Congress Reporting on the State of Small Business

May 6, 1999

To the Congress of the United States:

I am pleased to present my fifth annual report on the state of small business. In 1996, the year covered by this report, more than 23.2 million small business tax returns were filed. A record 842,000 new small employers opened their doors and new incorporations hit a record high for the third straight year. Corporate profits, employment compensation, and proprietorship earnings all increased significantly. Industries dominated by small firms created an estimated 64 percent of the 2.5 million new jobs.

Small businesses represent the individual economic efforts of our Nation's citizens. They are the foundation of the Nation's economic growth: virtually all of the new jobs, 53 percent of employment, 51 percent of private sector output, and a disproportionate share of innovations come from small firms. Small businesses are avenues of opportunity for women and minorities, first employers and trainers of the young, important employers of elderly workers, and those formerly on public assistance. The freedom of America's small businesses to experiment, create, and expand makes them powerhouses in our economic system.

An Unprecedented Record of Success

Looking back to the 1986 White House Conference on Small Business, one of the top priorities on the small business agenda was deficit reduction. Small business capital formation efforts had been undermined by interest rates driven sky-high by the demand for funds to service the growing national debt. Today I'm proud to say we've done what was thought nearly impossible then. This year we have converted the deficit to a surplus—and the budget deficit is no longer the issue it once was.

And my Administration is committed to continuing the dramatic growth of the small business sector. We continue to pay close attention to the perspectives and recommendations of America's small business owners. The 1995 White House Conference on Small Business sent a list of 60 recommendations to my Administration and the Congress—the result of a year-long series of conferences and a national meeting on the concerns of small firms. In their 1995 recommendations, the small business delegates told us they need less onerous regulation, estate tax relief for family-owned businesses, and still more access to capital to start and expand their businesses.

On each of these fronts, and on many others, impressive steps have been taken. I have signed 11 new laws that address many of the delegates' concerns. In fact, meaningful action has been taken on fully 86 percent of the 1995 White House Conference on Small Business recommendations.

Easing the Tax Burden

The Taxpayer Relief Act, which I signed in 1997, includes wins for small businesses and the American economy in the form of landmark tax reform legislation. The law will provide an estimated $20 billion in tax relief to small business over the next 10 years. It extends for three years the exclusion from taxable income of money spent by an employer on education for an employee. The unified gift and estate tax credit will increase the amount excluded from taxation on a transferred estate to $1.3 million for small family-owned businesses.

The new law expands the definition of a home office for the purpose of deducting expenses to include any home office that is the business' sole office and used regularly for essential administrative or management activities.

And capital gains taxes are reduced from 28 percent to 20 percent. This will help small businesses by encouraging investments in businesses that reinvest for growth rather than investments in companies that pay heavy dividends. The law also improves the targeted capital gains provisions relating specifically to small business stocks. Moreover, small corporations are exempted under the new law from alternative minimum tax calculations. This provision saves about 2 million businesses from complex and unnecessary paperwork.

Capital for Small Business Growth

One of the Small Business Administration's (SBA) highest priorities is to increase small business access to capital and transform the SBA into a 21st century leading-edge financial institution. The SBA's credit programs—including the 7(a) business loan guarantee program, the Section 504 economic development loan program, the microloan program, the small business investment company program, the disaster loan and surety bond programs—provide valuable and varied financial assistance to small businesses of all types. The Small Business Lending Enhancement Act of 1995 increased the availability of funds for SBA's lending programs. In the 7(a) program in fiscal year 1997 alone, with approximately 8,000 bank and nonbank lenders approved to participate, 45,288 loan guarantees valued at $9.5 billion were approved as of September 1997.

My Administration developed community reinvestment initiatives that revised bank regulatory policies to encourage lending to smaller firms. When combined with lower interest rates, this led to a sizable increase in commercial and industrial lending, particularly to small businesses. And in the first year of implementation under the Community Reinvestment Credit Act, new data were collected on small business loans by commercial banks. The SBA's Office of Advocacy has been studying and publishing its results on the small business lending activities of the Nation's banks.

And the Office of Advocacy launched a nationwide Internet-based listing service—the Angel Capital Electronic Network (ACE–Net) to encourage equity investment in small firms. ACE–Net provides information to angel investors on small dynamic businesses seeking $250,000 to $3 million in equity financing.

Reforming the Regulatory Process

The Small Business Regulatory Enforcement Fairness Act (SBREFA), fully implemented in 1997, gives small businesses a stronger voice where it's needed—early in the Federal regulatory development process. The law provides for regulatory compliance assistance from every Federal agency and legal remedies where agencies have failed to address small business concerns in the rulemaking process.

The new process is working. Agencies and businesses are working in partnership to ensure that small business input is a part of the rulemaking process. In the summer of 1997, for example, the Occupational Safety and Health Administration, in conjunction with the SBA's Office of Advocacy, convened four regional meetings with small firms to discuss a safety and health program under development.

Small firms are also witnessing more agency compliance assistance once regulations are in effect. Agencies are routinely providing compliance guides and lists of telephone numbers and e-mail addresses for small business assistance.

And the law provides for a national ombudsman and 10 regional regulatory fairness boards to make it simple for small businesses to share their ideas, experiences, and concerns about the regulatory enforcement environment. The ombudsman and boards are addressing many concerns expressed by small firms in dealing with regulating agencies.

Expanding Technology and Innovation

Initiatives like the Small Business Innovation Research Program, the Small Business Technology Transfer Program, and the National Institute of Standards and Technology's Manufacturing Extension Partnership and Advanced Technology Program were put in place in the 1980s to channel more Federal funding to small business research and to help small businesses move ideas from the drawing board to the marketplace. Clearly, progress has been made; much remains to be done. New Internet-based initiatives like the Access to Capital Electronic Network and the U.S Business Advisor are designed to help many more small businesses make the connections they need to commercialize their innovative technologies.

Enhancing International Trade and Federal Procurement Opportunities

During my Administration, our Nation has led the way in opening new markets, with 240 trade agreements that remove foreign barriers to U.S.-made products. Measures

aimed at helping small firms expand into the global market have included an overhaul of the Government's export controls and reinvention of export assistance. These changes have cleared a path for small businesses to enter the international economy.

To make certain that small companies can do business with the Government, my Administration and the Congress have streamlined the Federal procurement process through administrative changes and the Federal Acquisition Reform Act of 1996. The changes instituted in these reforms are cost-effective for the Government and are intended to enable businesses to compete more effectively for Government contracts worth billions of dollars.

I am pleased that the SBA has instituted a new electronic gateway to procurement information, the Procurement Marketing and Access Network, or Pro-Net. This database on small, minority-owned, and women-owned businesses will serve as a search engine for contracting officers, a marketing tool for small firms, and a link to procurement opportunities.

The Human Factor

My Administration is moving to anticipate 21st century demands on our most important resource—our people. As a recent report by the SBA's Office of Advocacy points out, small businesses employed more people on public assistance in 1996 than did large businesses. Our Welfare to Work Partnership has already had positive results—we've moved two million Americans off welfare two full years ahead of schedule. And we are enlisting the help of more and more small business people to expand that record of success.

We want to educate and train a work force that will meet all our future global competition. For those in the work force or moving into it, I recently signed legislation that consolidated the tangle of training programs into a single grant program so that people can move quickly on their own to better jobs and more secure futures. The Balanced Budget Act of 1997 encourages employers to provide training for their employees by excluding income spent on such training from taxation. The SBA has also increased training opportunities for businesses by funding new export assistance centers and women's business centers across the country.

Women have been starting their own businesses at a dramatic rate in recent years. More than 6 million women-owned proprietorships were in operation in 1994, a phenomenal 139 percent increase over the 2.5 million that existed in 1980. But it is also women who are most affected by the lack of adequate child care. The SBA's Office of Advocacy has found that while small firms value the benefits of child care as much as large businesses, small businesses have been less likely to offer this benefit than large firms for a variety of reasons related to cost. The bottom line is that we've got to raise the quality of child care and make it more affordable for families. I have proposed tax credits for businesses that provide child care and a larger child care tax credit for working families.

I am pleased that so many Americans of all races and nationalities are asserting their economic power by starting small businesses. This report documents the growth: the number of businesses owned by minorities increased from 1.2 million to almost 2 million in the 5-year period from 1987 to 1992. The Federal Government has a role in widening the circle of economic opportunity. Programs are in place to ensure that socially and economically disadvantaged businesses have a fair chance in the Federal procurement marketplace. The share of Federal contract dollars won by minority-owned firms has remained at 5.5 percent for two years running—up from less than 2 percent in 1980. And recently the SBA and the Vice President announced new small business lending initiatives directed to the Hispanic and African American small business communities to give these Americans better access to the capital they need.

We have been working for the past 5 years to bring the spark of enterprise to inner city and poor rural areas through community development banks, commercial loans in poor neighborhoods, and the cleanup of polluted sites for development. The empowerment zone and enterprise community program offers significant tax incentives for firms within the zones, including a 20 percent wage credit and another $20,000 in expending and tax-

exempt facility bonds. Under the leadership of the Vice President, we want to increase the number of empowerment zones to give more businesses incentives to move into these areas.

Future Challenges

America's small business community is both the symbol and the embodiment of our economic freedom. That is why my Administration has made concerted efforts to expand small business access to capital, reform the system of Government regulations to make it more equitable for small companies, and expand small business access to new and growing markets.

This is an important report because it annually reflects our current knowledge about the dynamic small business economy. Clearly, much is yet to be learned: existing statistics are not yet current enough to answer all the questions about how small, minority-owned, and women-owned businesses are faring in obtaining capital, providing benefits, and responding to regional growth or downsizing. I continue to encourage cooperative Government efforts to gather and analyze data that is useful for Federal policy-making.

I am proud that my Administration is on the leading edge in working as a partner with the small business community. Our economic future deserves no less. The job of my Administration, and its pledge to small business owners, is to listen, to find out what works and to ensure a healthy environment for small business growth.

William J. Clinton

The White House,
May 6, 1999.

Message to the Congress Transmitting a Report on Telecommunications Payments to Cuba

May 6, 1999

To the Congress of the United States:

As required by section 1705(e)(6) of the Cuban Democracy Act of 1992, 22 U.S.C. 6004(e)(6), as amended by section 102(g) of the Cuban Liberty and Democratic Solidarity (LIBERTAD) Act of 1996, Public Law 104–114, 110 Stat. 785, I transmit herewith a 6-month periodic report on telecommunications payments made to Cuba pursuant to Department of the Treasury specific licenses.

William J. Clinton

The White House,
May 6, 1999.

Remarks on Departure for Houston, Texas, and an Exchange With Reporters

May 7, 1999

The President. Good morning. Tomorrow I will be visiting some of the communities that were so terribly damaged by the tornadoes this week. Our thoughts and prayers are with the people of Oklahoma, Kansas, and Texas, with the people of Tennessee who also endured terrible storms and destruction.

Before I leave, I'd like to make comments on a couple of other matters. First, on the new economic report issued today: We received more good news for our working families. Unemployment is 4.3 percent, with 234,000 new jobs added last month alone. African-American unemployment is at its lowest level on record. And real wages, after declining 4.3 percent in the 12 years before I took office, have now risen over 6 percent in the last 6 years. The American economy continues to see a remarkable combination of strong growth, job creation, and low inflation. Our economic strategy continues to be the right strategy for prosperity, and it is the one we should follow as we work to strengthen Social Security and Medicare for the 21st century.

It's worth remembering that the move from economic stagnation to sustained prosperity is not the only turnaround our Nation has seen in the last 6 years. We also see the crime rate falling, the welfare rolls falling, the teen pregnancy rate falling, drunk driving going down, a host of other social ills now easing, even though for so long they seemed destined only to worsen.

The American people, in homes and communities all across this country, are working hard at the grassroots level to turn around