

KEYNOTE ADDRESS

SURVIVING THE 80'S

APPLEWOOD INN
GOLDEN, COLORADO - OCTOBER 23, 1980

ON BEHALF OF THE SMALL BUSINESS COMMUNITY IN GENERAL, AND MORE SPECIFICALLY THE COLORADO ^{SMALL} BUSINESS COUNCIL AND THE MOUNTAIN STATES ASSOCIATION, I WANT TO EXPRESS OUR GRATITUDE TO REPRESENTATIVE CLARE TRAYLOR FOR ORGANIZING TODAY'S SEMINAR. THANKS ALSO TO THE INDUSTRIES FOR JEFFERSON COUNTY, THE NATIONAL FEDERATION OF INDEPENDENT BUSINESS (NFIB), AND THE CHAMBERS OF COMMERCE OF WHEAT RIDGE, LAKEWOOD, ARVADA, AND EVERGREEN FOR SPONSORING TODAY'S MEETING.

IT IS A REAL HONOR FOR ME TO "KEYNOTE" THIS PROGRAM. JUST BEING ON THE SAME PROGRAM WITH OUTSTANDING PEOPLE SUCH AS YOUR MODERATORS, FRANK STARR, JIM GORMAN, AND YOUR LUNCHEON SPEAKER, MIKE McKEVITT, IS AN HONOR IN ITSELF. MANY OF US CONSIDER MIKE TO BE THE MOST EFFECTIVE SPOKESMAN AND LOBBYIST FOR SMALL BUSINESS IN THE UNITED STATES TODAY.

THE SUBJECT OF THIS SEMINAR, "SURVIVING IN THE 80'S", MIGHT WELL BE PHRASED AS A QUESTION.

AMONG THE STATISTICS WE'VE USED TO DESCRIBE THE NATIONAL SCOPE OF SMALL BUSINESS, IN ADDITION TO "97% OF ALL BUSINESSES", "OVER HALF OF ALL EMPLOYED PERSONS", ETC., HAS BEEN "SMALL BUSINESS ACCOUNTS FOR 45% OF THE GROSS NATIONAL PRODUCT". TWO YEARS AGO, THE NUMBER

CHANGED TO 43% OF THE GNP AND FROM A RECENT STUDY OF THE SMALL BUSINESS ADMINISTRATION, THERE IS EVIDENCE THAT IT INDEED HAS BEEN REDUCING AT A RATE OF 3/10THS PERCENT PER YEAR.

ON THE OTHER HAND, DURING THIS SAME PERIOD, THE PERCENT OF GNP ATTRIBUTABLE TO BIG BUSINESS HAS INCREASED IN ALMOST THE SAME AMOUNT THAT SMALL BUSINESS HAS DECREASED, WITH GOVERNMENT MAKING UP THE BALANCE. THE NUMBERS ARE - BIG BUSINESS, APPROXIMATELY 48%, AND GOVERNMENT AT ABOUT 9%.

ONE MIGHT CONCLUDE THAT THE DECREASE IN GROWTH IN OUR GNP, NOW THE LOWEST OF THE TOP FIVE INDUSTRIALIZED COUNTRIES OF THE WORLD, MAY BE LARGELY DUE TO THE DECREASE IN PERFORMANCE OF THE SMALL BUSINESS SECTOR OF OUR ECONOMY.

THIS MORNING, WE ARE GOING TO BE LOOKING AT CASH FLOW, CAPITAL MANAGEMENT, MARKETING, AND THOSE CHARACTERISTICS THAT WILL HELP US TO MANAGE OUR BUSINESSES MORE EFFECTIVELY AND SURVIVE THIS PERIOD OF CREDIT CONSTRAINTS AND HIGH INTEREST. LET ME FOCUS THEN ON THE PROBLEMS OF CAPITAL FORMATION, (AND THAT'S THE SUBJECT WE ARE REALLY CONCERNED WITH) AS INFLUENCED BY GOVERNMENT. CAPITAL FORMATION MAY BE GENERATED BOTH INTERNALLY AND EXTERNALLY. THAT IS, THROUGH GOOD MANAGEMENT, TOGETHER WITH PRODUCTS OR SERVICES WHICH THE MARKET NEEDS, WE COULD GENERATE ENOUGH EARNINGS TO ALLOW REINVESTMENT IN FACILITIES, EQUIPMENT AND PEOPLE TO CONTINUE TO GROW, RATHER THAN HAVE THOSE EARNINGS CONFISCATED FOR DISTRIBUTION BY GOVERNMENT. THAT INDEED IS THE OBJECTIVE OF INTERNAL GENERATION OF CAPITAL. EXTERNAL CAPITAL FORMATION, OF COURSE, COMES FROM DEBT OR CAPITAL FROM ADDITIONAL

OWNERS IN THE FORM OF EQUITY. YOU GIVE UP OWNERSHIP - IF YOU CAN FIND A BUYER.

IF I LEAVE YOU WITH NO OTHER THOUGHT THIS MORNING - LET IT BE THIS.
THERE IS A SERIOUS DISCRIMINATION AGAINST SMALL BUSINESS IN OUR GOVERNMENT'S BASIC TAX POLICY.

THIS WAS NOT DONE DELIBERATELY; IT IS NOT SUBVERSIVE AND NEITHER BIG GOVERNMENT, BIG LABOR, NOR BIG BUSINESS HAS CREATED THIS CIRCUMSTANCE. WE HAVE CREATED IT OURSELVES BY NOT BEING VISIBLE AT THE TAX NEGOTIATING TABLE.

THERE ARE FOUR BASIC TAX AREAS WHICH AFFECT CAPITAL FORMATION AND RESTRICT INTERNAL GROWTH.

THE FIRST IS THE BASIC TAX RATE. UNTIL THE TAX REFORMS OF 1978, THE BASIC TAX RATE WAS 20% ON THE FIRST \$25,000 AND THE MAXIMUM CORPORATE RATE OF 48% ON EVERYTHING OVER. STOP AND CONSIDER FOR A MOMENT. A GRADUATED INCOME TAX HAS ^{BEEN} APPLIED TO INDIVIDUAL RETURNS SINCE 1913. BUSINESSES WITH OVER A HALF MILLION IN PRE-TAX INCOME COULDN'T CARE LESS ABOUT THE FIRST \$25,000 OF NET INCOME. ONE MIGHT CONCLUDE THAT THIS DISCRIMINATORY TAX POLICY, UNCHANGED SINCE 1934, ^{HAS BEEN} ~~WAS~~ FOCUSED ON SMALL BUSINESS.

THE TAX REFORM ACT OF 1978 INCLUDED, FOR THE FIRST TIME, A GRADUATED INCOME TAX FOR SMALL BUSINESS. BEGINNING AT 17% ON THE FIRST \$25,000, THE PRESENT SCALE ALLOWS FIVE INCREMENTS TO REACH THE NEW MAXIMUM CORPORATE

RATE OF 46% AT \$100,000. THAT'S NOT ENOUGH. THE GRADUATED TAX BASE SHOULD BE EXTENDED TO A MILLION DOLLARS! FURTHER, IT IS DIFFICULT FOR ME TO JUSTIFY ANY TAX AT ALL BELOW THE FIRST \$10,000 TO \$25,000 OF NET INCOME. IT ALSO IS DISTURBING TO ME THAT THERE IS ANY TAX ON EARNINGS WHICH ARE REINVESTED IN FACILITIES, EQUIPMENT, OR PEOPLE ON BUSINESSES WITH NET INCOMES UNDER \$100,000.

SECOND IS THE INVESTMENT TAX CREDIT. SINCE SMALL BUSINESS IS TYPICALLY LABOR INTENSIVE AS COMPARED WITH THE CAPITAL INTENSIVE BIG BUSINESS, INVESTMENT TAX CREDITS FLOW PRIMARILY TO THE BIGGER BUSINESS SECTOR.

THIRD IS THE JOBS TAX CREDIT INTRODUCED IN MID-'77 AND REPEALED (SINCE IT WAS CHANGED TO A TARGETED JOBS TAX CREDIT) IN LATE '78. THE JOBS TAX CREDIT, A CREDIT FOR APPROXIMATELY 50% OF THE TOTAL SALARY OF A NEW EMPLOYEE COMPARED WITH THE NUMBER OF EMPLOYEES IN THE PRECEDING YEAR. WITH A CAP OF \$100,000, THIS WAS OBVIOUSLY A SMALL BUSINESS TAX RELIEF MEASURE. ALSO, GIVEN THE FACT THAT SMALL BUSINESS HAS ACCOUNTED FOR 87% OF ALL NEW JOBS, OBVIOUSLY SUCH CREDIT WOULD FLOW TO SMALL BUSINESSES. UNFORTUNATELY, THE BILL WAS COMPLICATED AND MOST SMALL BUSINESSES DID NOT REALIZE THAT IT WAS IN EXISTENCE UNTIL THE END OF THE YEAR WHEN THEIR ACCOUNTANT ADVISED THEM THAT THEY HAD TAX MONIES COMING BACK. IT WAS REPEALED (OR RATHER DILUTED SO BADLY AS TO BE INEFFECTIVE) SIMPLY BECAUSE SMALL BUSINESS WASN'T EVEN AWARE OF ITS BENEFITS UNTIL A YEAR FOLLOWING ITS AVAILABILITY.

THE FOURTH TAX ISSUE# AFFECTING CAPITAL FORMATION IS DEPRECIATION.

NOT ONLY IS OUR DEPRECIATION ALLOWANCE SERIOUSLY OUT OF DATE WITH TODAY'S RAPID CHANGES IN TECHNOLOGY WITH NECESSARY REPLACEMENT NEEDS OF CAPITAL EQUIPMENT, BUT THE ACCELERATED DEPRECIATION REGULATIONS (ADR) ARE SO COMPLICATED THAT ONLY THE MOST SOPHISTICATED ACCOUNTING DEPARTMENTS CAN TAKE ADVANTAGE OF THEM. DEPRECIATION ALLOWANCES ARE OUT OF DATE AND AFFECT BUSINESSES OF ALL SIZES. ONE OF THE HOTTEST ISSUES IN THE 96TH CONGRESS HAS BEEN THE SO-CALLED 10-5-3 DEPRECIATION BILL, OR JONES/CONABLE. WHETHER THE BILL RETAINS THAT FORM OR IS MODIFIED TO ACCOMPLISH THE SAME GENERAL OBJECTIVE, THE ENTIRE BUSINESS COMMUNITY SHOULD GET BEHIND IT AT THE BEGINNING OF THE 97TH CONGRESS.

HOW DOES SMALL BUSINESS STACK UP IN TERMS OF TAXES RELATIVE TO ITS BIGGER BROTHERS? LET ME QUOTE SOME NUMBERS OUT OF THE OFFICE OF ADVOCACY OF SBA AS PRESENTED IN A SPEECH BY MILT STEWART IN DENVER, SEPTEMBER OF LAST YEAR. AND I QUOTE, "CONSIDER BUSINESS ACCORDING TO THE SIZE OF ITS RECEIPTS, ITS GROSS SALES, AND LOOK AT ALL THE TAXES THAT A BUSINESS PAYS - FEDERAL, STATE AND LOCAL, SOCIAL SECURITY, UNEMPLOYMENT, INSURANCE, AND INCOME. FOR MANUFACTURING FIRMS ALONE (AND THIS FACTORS OUT THE ARGUMENT THAT SMALL BUSINESS IS LABOR INTENSIVE), A MANUFACTURING FIRM WITH \$50,000 TO \$100,000 IN GROSS RECEIPTS; TAXES, AS A PERCENTAGE OF ~~THEIR~~ TOTAL TAXES TO THEIR NET WORTH, IN 1974 WERE 30%. FROM THERE, THE LARGER BUSINESS GOT THE SMALLER PERCENT OF NET WORTH IN 1974, THE LATEST YEAR FOR WHICH WE HAD DATA. FOR MANUFACTURERS OF VARIOUS SIZES, IT BROKE DOWN THIS WAY: \$100,000 TO \$500,000 - 23.5%; \$500,000 TO \$1 MILLION - 21.3% \$1 TO \$5 MILLION - 19.9%; \$10 TO \$50 MILLION - 16.9%; \$50 TO \$100 MILLION - 13.6%; OVER \$1 BILLION - 11.5%. THAT'S LIKE SAYING THAT

A THOUSAND DOLLARS OF NET WORTH, IF YOU HAVE INVESTED IN A BILLION DOLLAR CORPORATION, IS TAXED ON A CURRENT BASIS BY ALL LEVELS BY GOVERNMENT AT THE RATE OF 11.5%. THAT SAME THOUSAND DOLLARS IN A BUSINESS THAT GROSSES UNDER \$100,000 IS TAXED AT 30%."

THESE FIGURES SEEM TO SHOUT THAT WE HAVE A REGRESSIVE IMPACT OF CUMULATIVE TAX POLICY AND THAT ALMOST NO ONE IN THIS COUNTRY KNOWS THAT THESE FIGURES EXIST OR WHAT THEY MEAN. MOST IMPORTANT, SMALL BUSINESSPEOPLE ARE INCLINED TO RATIONALIZE THIS CIRCUMSTANCE OR SIMPLY DO NOT SEE THE BIG PICTURE.

MILT STEWART FURTHER SAYS, "YOU CANNOT CONTINUE TO PASS OUT THE BENEFITS OF GOVERNMENT REGRESSIVELY AND NOT EXPECT BIG BUSINESS TO OUTGROW SMALL BUSINESS."

LET'S LOOK AT TAX CREDITS. A TAX CREDIT IS SOMETHING THE GOVERNMENT GIVES YOU AS AN INCENTIVE TO DO SOMETHING; WE NOW HAVE 40 OR 50 TAX CREDITS. TAKING THEM THROUGH THE SAME KIND OF PROGRESSION AS WITH TOTAL TAXES AGAINST RECEIPTS, MEASURE THE PERCENTAGE ^{THAT} THE TOTAL CREDIT IS TO FEDERAL INCOME TAX, BEFORE ANY CREDIT AND YOU WIND UP WITH THE SAME REGRESSIVE PATTERN. UNDER \$100,000 IN GROSS RECEIPTS, ~~CREDITS,~~ THE TOTAL CREDIT IS 5.8%. FOR \$1 TO \$5 MILLION - 6.5%; AND ON UP TO GROSS RECEIPTS OF OVER A BILLION AND YOU FIND 61.1% OF THE TAXES DUE ARE COVERED BY CREDITS! TWELVE TIMES AS MUCH TAX CREDITS ARE GIVEN TO BUSINESS TAXPAYERS WHO GROSS OVER \$1 BILLION A YEAR AS THOSE WHO GROSS ~~OVER~~ ^{UNDER} \$100,000.

BEFORE LEAVING THE SUBJECT OF INTERNAL CAPITAL FORMATION AND GOVERNMENT TAX POLICY, MAY I DIGRESS TO THE LARGER ISSUE OF PRODUCTIVITY IN THE U.S - AND THE INFLUENCE OF TAX POLICY.

ALMOST A YEAR AGO, I HAD THE OPPORTUNITY TO TESTIFY FOR THE SENATE COMMITTEE ON COMMERCE, SCIENCE AND TRANSPORTATION. SUBJECT TO THE HEARING WAS A RESPONSE TO THE PRESIDENT'S PROGRAM ON INDUSTRIAL TECHNOLOGY AND INNOVATION WHICH RESULTED FROM A YEAR-LONG STUDY ON THE PART OF ~~MANY~~¹⁰⁰ LEADERS OF AMERICAN BUSINESS. I WOULD LIKE TO QUOTE FROM THE TESTIMONY OF DALE JORGENSON, PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY, WHO, IN MY OPINION, HAS A BETTER HANDLE ON THE TOTAL INTER-RELATIONSHIP OF INFLATION, PRODUCTIVITY, INNOVATION, AND THE DECREASING GROWTH RATE IN OUR GNP.

I QUOTE FROM HIS VERBAL TESTIMONY: "FIRST OF ALL, THERE IS A MYTH PROPAGATED BY ECONOMISTS, I AM SORRY TO SAY, THAT INNOVATION IS THE MAIN PART OF THE STORY OF ECONOMIC GROWTH. RECENT RESEARCH SUGGESTS THAT THAT IS VERY FAR FROM THE TRUTH. IN FACT, THE MOST IMPORTANT SOURCE OF ECONOMIC GROWTH IN THE UNITED STATES IN THE POST-WAR PERIOD IS CAPITAL FORMATION, ACCOUNTING FOR APPROXIMATELY 40% OF THE GROWTH THAT HAS TAKEN PLACE.

PRODUCTIVITY CHANGE DUE TO INNOVATION IS A HEALTHY SECOND, AND ACCOUNTS FOR SOMEWHERE NEAR 30 TO 35% OF THE GROWTH THAT IS TAKING PLACE. AND GROWTH IN LABOR INPUT - THAT IS TO SAY, THE HOURS WORKED BY AMERICAN MEN AND WOMEN AND THE QUALITY OF THOSE HOURS WORKED - ACCOUNTS FOR THE REMAINDER (THIS WHICH WOULD BE 25 TO 30%)."

PROFESSOR JORGENSON GOES ON TO SAY THAT IF WE COMPARE THE EXPERIENCE OF THE RECENT PAST - SAY THE PERIOD FROM 1973, BEGINNING WITH THE ENERGY CRISIS - TO THE PRESENT BY COMPARISON TO THE REST OF THE POST-WAR PERIOD, WE NOTICE TWO THINGS: ONE, CAPITAL FORMATION HAS DECLINED DRASTICALLY. THE GROWTH OF CAPITAL STOCK IN THE UNITED STATES IS AT A LOW FOR THE POST-WAR PERIOD AND THIS HAS BEEN A VERY IMPORTANT SOURCE OF THE SLOWDOWN IN ECONOMIC GROWTH. IN ADDITION, HE CITES AN EVEN MORE DRASTIC DECLINE IN THE RATE OF PRODUCTIVITY GROWTH DUE TO CHANGES IN TECHNOLOGY AND THAT DECLINE IN MANY INDUSTRIES HAS REACHED CATASTROPHIC PROPORTIONS.

RECOGNIZING THAT SMALL BUSINESS CONTRIBUTES OVER HALF OF NEW TECHNOLOGY, BY GOVERNMENT STUDY, THE BURDEN OF TECHNOLOGY GROWTH FALLS HEAVILY ON THE SMALL BUSINESS COMMUNITY.

PROFESSOR JORGENSON SUMMARIZED HIS VIEWS ON INNOVATION AS FOLLOWS: "THIS IS THE MOST SERIOUS CRISIS FACING THE UNITED STATES. WE ARE IN A SITUATION WHERE THE RATE OF GROWTH OF OUR TECHNOLOGY HAS IN FACT BEEN NEGATIVE OVER THE PAST YEAR. AND IF YOU LOOK OVER THE PAST FIVE YEARS, WE HAVE A GROWTH RATE OF TECHNOLOGY WHICH IS FAR BELOW HISTORICAL STANDARDS OF THE POST-WAR PERIOD. THIS IS A PROBLEM WHICH HAS BECOME A SOCIAL CRISIS, AND IS SOMETHING THAT UNDERMINES THE WHOLE BASIS OF THE AMERICAN ECONOMY.

THE RESPONSE OF THE ADMINISTRATION TO THAT CRISIS HAS BEEN TO COME UP WITH A PROGRAM THAT BOGGLES THE MIND IN TERMS OF ITS INSIGNIFICANCE. IT'S SIMPLY NOT ADEQUATE TO THE PROBLEM AT HAND."

AS PRODUCTIVITY AND INNOVATION FLOW FROM ~~THE STIMULATION OF~~ CAPITAL FORMATION, PROFESSOR JORGENSEN QUOTES A PERIOD IN HISTORY THAT SHOULD ^{HAVE TAUGHT} ~~GIVE US~~ A LESSON. "IN THE EARLY 1960'S, THE CONGRESS IN ITS WISDOM ADOPTED A PROGRAM FOR CAPITAL RECOVERY THAT INVOLVED THE INVESTMENT TAX CREDIT, AND THE TREASURY ON ADMINISTRATIVE INITIATIVE, UNDERTOOK TO CHANGE THE LIFE TIMES THAT WERE AVAILABLE TO TAXPAYERS IN SUCH A WAY AS TO MAKE CAPITAL RECOVERY ALLOWANCES MUCH MORE GENEROUS. THOSE CHANGES IN FACT REDUCED THE EFFECTIVE TAX RATES ON DEPRECIABLE ASSETS AS MUCH AS 10 TO 15%. SO THEY WERE VERY DRAMATIC.

RESPONSE IN TERMS OF CAPITAL FORMATION WAS EQUALLY DRAMATIC. THERE WAS A 40% INCREASE IN THE RATE OF CAPITAL FORMATION IN THIS COUNTRY BETWEEN 1962 AND 1966, SOMETHING WE'VE NEVER SEEN THE LIKE OF BEFORE NOR SINCE, AND IT WAS ENTIRELY DUE TO THE INITIATIVES IN THE CAPITAL RECOVERY AREA, THE INVESTMENT TAX CREDIT, AND THE GUIDELINE LIFETIMES WHICH HAD THE EFFECT OF ESSENTIALLY REDUCING THE TAX BURDEN."

HE FURTHER GOES ON TO IDENTIFY THE EFFECT ON PRODUCTIVITY: "IF WE LOOK AT THE YEARS FROM 1948 TO 1976 AS A WHOLE, THE AVERAGE RATE OF PRODUCTIVITY CHANGE WAS ABOUT 1-1/2%. BUT NOW LET'S LOOK AT THAT PERIOD OF THE 1960'S AND ~~I'LL NOW READ YOU~~ THE RATES OF PRODUCTIVITY CHANGE FOR THE FOUR YEARS 1962 THROUGH 1966: 2.5, 2.15, 3%, 2-1/4% - IN OTHER WORDS, BY STIMULATING CAPITAL FORMATION, WE EFFECTIVELY DOUBLED THE RATE OF CHANGE OF TECHNOLOGY, THE RATE OF UNDERLYING PRODUCTIVITY GROWTH." HE THEREFORE CONCLUDES THE PROBLEM IS TO STIMULATE CAPITAL FORMATION AND STIMULATE INNOVATION. "WE'VE GOT TO THINK OF TAX POLICY AS A MAIN SET OF MEASURES TO ACHIEVE THAT OBJECTIVE."

JUST LEARNED YESTERDAY OF SEN RUSSELL LONG'S SWEEPING TAX REFORM AMENDMENT - PASSED FINANCE 19-1.

~~Now~~ LET'S ^{Now} ~~TAKE A~~ LOOK AT EXTERNAL CAPITAL FORMATION. IF YOU WANT TO PURCHASE OWNERSHIP OR EQUITY IN A MAJOR PUBLICLY-TRADED CORPORATION, YOU SIMPLY CALL YOUR BROKER AND PURCHASE STOCK WHOSE PRICE IS SET BY THE PUBLIC MARKET. SELLING IS JUST AS EASY.

ON THE OTHER HAND, SHOULD YOU WANT TO BUY OWNERSHIP OR EQUITY IN A SMALL COMPANY, YOU HAVE TO FIRST RECOGNIZE THAT THE INVESTMENT IS NOT LIQUID. YOU WILL BE AN OWNER OF THAT COMPANY AND YOUR MONEY WILL BE TIED UP FOR PERHAPS TWENTY YEARS, UNLESS IT IS HIGHLY ~~SUCCESSFUL AND~~ ^{SUCCESSFUL YOU ARE BOUGHT OUT OR IT} BECOMES A PUBLIC COMPANY. THERE ARE OBVIOUSLY MUCH HIGHER RISKS AND THE POTENTIAL FOR LOSING EVERYTHING IN THE SMALL COMPANY IS GREATER. SHOULD THERE BE A GROWTH IN EQUITY AND AN OPPORTUNITY TO SELL, IN BOTH CASES, OUR TAX POLICY SAYS THAT YOU RECEIVE EXACTLY THE SAME TREATMENT. IN OTHER WORDS, THERE IS NO ~~TAX~~ INCENTIVE FOR INVESTING IN SMALL BUSINESS TO COMPENSATE FOR THE HIGHER RISKS AND ILLIQUIDITY OF YOUR INVESTMENT.

FURTHER THE LARGEST POOL OF INVESTABLE MONIES IN THE UNITED STATES, SOME \$500 BILLION IN PENSION AND PROFIT-SHARING PLANS, ^{HAS BEEN} ~~IS~~ LITERALLY FORECLOSED FROM INVESTMENTS IN SMALL BUSINESS SINCE THE 1974 EMPLOYEE RETIREMENT INCOME SECURITY ACT (ERISA) AND ITS PRUDENT MAN RULE.

THE OTHER FORM OF EXTERNAL CAPITAL FORMATION IS DEBT. IF YOU'RE SATISFIED WITH A NO-GROWTH COMPANY, PERHAPS YOU DON'T NEED IT. IF YOU HAVE A GROWTH COMPANY, HOWEVER, WITH TAX POLICIES RESTRICTING INTERNAL CAPITAL ACCUMULATION AS OUTLINED ^{EARLIER} ~~ABOVE~~, IT IS VIRTUALLY IMPOSSIBLE TO GROW WITHOUT GOING OUTSIDE OF YOUR ORGANIZATION TO BORROW ADDITIONAL FUNDS. AND HERE'S WHERE INFLATION AND FEDERAL

RESERVE POLICIES HAVE TEAMED UP AGAINST YOU. MANY OF YOU MAY BE IN A CATCH-22 CIRCUMSTANCE WHERE, IF YOU DON'T BORROW MONEY, YOU'RE IN DEEP TROUBLE WITH YOUR CREDITORS. IF YOU DO MANAGE TO BORROW, THE COST OF CAPITAL IS SUCH THAT IT MAY CONTRIBUTE TO YOUR DEMISE. BECAUSE OF THE COST OF CAPITAL AND THE CREDIT RESTRAINTS IN THIS YEAR ALONE, THERE IS AN ESTIMATED 700 TO 800,000 SMALL BUSINESSES THAT WILL QUIT OR FILE BANKRUPTCY. IN A NORMAL YEAR, THIS FIGURE IS APPROXIMATELY 400,000.

IN TIMES SUCH AS THIS, WHEN WE'RE FACED WITH CAPITAL SHORTAGES, ~~AND~~ CREDIT RESTRAINTS, AND THE HIGH COST OF CAPITAL, MANY SMALL BUSINESSES LOOK TO SOURCES OF ~~LOANS~~ ^{FUNDS} OUTSIDE THEIR NORMAL BANKING RELATIONSHIPS. THE SMALL BUSINESS ADMINISTRATION'S 7 A PROGRAM, INVOLVING ~~A~~ 90% GUARANTEE ON BANK LOANS, IS A VIABLE ALTERNATIVE AND SHOULD BE USED IN TIMES SUCH AS WE HAVE NOW, MORE SO THAN IN NORMAL TIMES. YOU MAY HAVE NOTICED ^{HOWEVER} THE WALL STREET JOURNAL'S SMALL BUSINESS FEATURE ON MONDAY, WHICH QUOTES THE SBA AS SAYING THEIR GUARANTEED LOAN PROGRAM SHRANK BY 44% DURING THE PERIOD OF SEPTEMBER '79 TO FEBRUARY 1980. IT QUOTED AN SBA OFFICIAL WHO SAID THAT "LOANS DROP OFF IN TIMES OF TIGHT MONEY BECAUSE BANKS RATION THEIR FUNDS AND SERVE THEIR BEST CUSTOMERS FIRST, LEAVING LITTLE TO LEND TO SMALL COMPANIES. WE NEED A FEDERAL PROGRAM TO TRIGGER FUNDS FOR SMALL-BUSINESS LOANS IN BAD TIMES."

WHAT REALLY TICKS ME OFF, LATER ON IN THAT ARTICLE IS THE FOLLOWING: "TESTIFYING ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION, LAMAR SMITH, SENIOR VICE PRESIDENT, TEXAS COMMERCE BANK, HOUSTON, TOLD A HOUSE HEARING: "THERE IS NO REASON TO EXPECT SMALL BUSINESS TO BE

MORE ADVERSELY AFFECTED THAN OTHER SECTORS OF THE ECONOMY BY A RISE IN INTEREST RATES." I CAN ONLY HOPE THAT IS NOT THE OPINION OF THE MAJORITY OF RESPONSIBLE BANKERS.

A QUESTION HAS BEEN RAISED IN THE COLORADO SMALL BUSINESS COUNCIL ~~THAT THERE~~ ^{THERE} SHOULD BE MECHANISMS WITHIN OUR STATE GOVERNMENT TO PROVIDE A REVOLVING SOURCE OF FUNDS TO SMALL BUSINESS AS AN OFFSET TO THE CAPITAL SHORTAGES OCCURRING IN OUR STATE AS COMPARED WITH OTHER STATES, ~~IN THE COUNTRY~~. THIS CIRCUMSTANCE WILL BECOME MORE ACUTE AS WE ARE FURTHER IMPACTED BY ENERGY DEVELOPMENTS. COMPARED WITH SMALL BUSINESS SUPPORT PROGRAMS RANGING FROM ADVOCACY TO STATE-SUPPORTED SMALL BUSINESS LOAN PROGRAMS, COLORADO RANKS RATHER POORLY. WHEN WE LOOK AT THE STRUCTURE OF OUR STATE LEGISLATURE AS COMPARED WITH THE STRUCTURE OF OUR FEDERAL GOVERNMENT, OR WITH STATES WHO HAVE SIGNIFICANT SMALL BUSINESS SUPPORT PROGRAMS, WE FIND THAT SMALL BUSINESS ISSUES ^{IN COLORADO} MUST EMANATE THROUGH A BUSINESS AFFAIRS AND LABOR COMMITTEE OF EITHER THE HOUSE OR STATE SENATE. ALTHOUGH MEMBERS OF THESE COMMITTEES ARE VERY SYMPATHETIC TO SMALL BUSINESS PROGRAMS, THE VERY STRUCTURE OF THESE COMMITTEES PRECLUDE THEIR FOCUSING SIGNIFICANTLY ON SMALL BUSINESS ISSUES. FOLLOWING THE PATTERN OF THE SELECT COMMITTEES ON SMALL BUSINESS OF THE FEDERAL GOVERNMENT FROM WHICH THE BULK OF SMALL BUSINESS ISSUES ^{ORIGINATE} ~~EMANATE~~, IT SEEMS ONLY REASONABLE THAT WE SHOULD ENCOURAGE OUR STATE ASSEMBLY TO ESTABLISH A SELECT COMMITTEE ON SMALL BUSINESS TO ADDRESS SPECIFICALLY THE ISSUES AFFECTING 70% OR OUR WORKING POPULATION, ~~THAT IS,~~ ^{THAT IS, SMALL BUSINESS,}

IN MATTERS OF TAX POLICY AND OTHER ISSUES AFFECTING SMALL BUSINESS

OUR STATE LEGISLATURE HAS BEEN ONE OF THE BEST. MUCH OF THIS CREDIT GOES TO THE COLORADO ASSOCIATION OF COMMERCE AND INDUSTRY, AND LOBBYING SUPPORT FOR SMALL BUSINESS ISSUES ~~ALSO COME~~ FROM THE NATIONAL FEDERATION OF INDEPENDENT BUSINESS. I SHOULD NOT LEAVE OUT THE DENVER CHAMBER OF COMMERCE, OTHER METROPOLITAN CHAMBERS AND ~~SIGNIFICANT~~ ^{MANY ACTIVE} TRADE ASSOCIATIONS.

IN CONCLUSION, WE MUST LOOK AT WHAT HAS CAUSED SMALL BUSINESS TO BE THE VICTIM OF DISCRIMINATORY TAX POLICY AND LEGISLATION. ~~IN THE LAST FEW YEARS, I HAVE BECOME REASONABLY WELL-ACQUAINTED WITH THE LEGISLATIVE PROCESS IN WASHINGTON. AS YOU LOOK AT HOW BILLS ARE GENERATED AND HOW THE SUPPORT AND OPPOSITION FOR THESE BILLS FORMULATE IN THE PROCESS THROUGH THE CONGRESS, IT FIRST SEEMS LIKE A MIRACLE THAT ANYTHING EVER SURVIVES AND THEN WHEN IT DOES, YOU QUESTION HOW OUR COUNTRY WILL SURVIVE IN THE FACE OF SUCH DISASTROUS LEGISLATION.~~

BEGINNING IN '76 WHEN MY TRIPS TO WASHINGTON BECAME AS FREQUENT AS ONCE A MONTH, THERE WAS VERY LITTLE ACTIVITY IN THE LEGISLATURE ON SMALL BUSINESS. THE SELECT COMMITTEE ON SMALL BUSINESS IN THE SENATE WAS NOT CONSIDERED ONE OF THE MAJOR COMMITTEES AND EVEN LESS SO IN THE HOUSE. BUT THINGS BEGAN TO HAPPEN AS SMALL BUSINESS BEGAN TO ORGANIZE, MOSTLY AT A GRASSROOTS LEVEL, AND ITS IMPACT WAS REALLY ~~FELT~~ ^{DEMONSTRATED} ^{KEY} ON TWO ~~MAJOR~~ ^{KEY} ISSUES. FIRST, THE LABOR REFORM BILL WAS DEFEATED ESSENTIALLY BY SMALL BUSINESS, ^{THE LATE} GEORGE MEANY BRANDED US WHEN HE LOST THAT IMPORTANT PIECE OF LABOR LEGISLATION, WHEN HE SAID, "THOSE SMALL BUSINESS GUYS ARE A BUNCH OF LETTER-WRITING S.O.B.'s."

THE SECOND MAJOR EVENT TO DEMONSTRATE THIS GROWING COALITION WAS THE SUDDEN EXPANSION OF THE SENATE SELECT COMMITTEE ON SMALL BUSINESS AND THE HOUSE COMMITTEE. ^{ALMOST DOUBLING THE MEMBERSHIP} KEEP IN MIND, ~~THE EXPANSION IMMEDIATELY~~ ^{THE SENATE SELECT ON SMALL BUSINESS} ~~F THESE COMMITTEES~~ FOLLOWED A MOVE TO ABOLISH ~~BOTH~~ COMMITTEES. THIS CREATED A FUROR ^{"SOB" WRITING} IN THE SMALL BUSINESS COMMUNITY AND RESULTED IN MANY MORE ~~OF THESE~~ LETTERS. IN GENERAL, THE CREDIBILITY OF SMALL BUSINESS HAS NEVER BEEN HIGHER AND IT IS GROWING, THANKS TO THE EFFORTS OF ~~MOST~~ ORGANIZATIONS SUCH AS NFIB, THE U. S. CHAMBER'S SMALL BUSINESS COUNCIL, AND MOST IMPORTANT, A GROWING NUMBER OF GRASSROOTS ORGANIZATIONS OF SMALL BUSINESSES. ~~HERE IN THE WEST OUR OWN MOUNTAIN STATES ASSOCIATION.~~

THAT, IN ESSENCE, IS WHY MANY OF US HAVE HELPED TO ORGANIZE THE NEW MOUNTAIN STATES ASSOCIATION, AN 8-STATE ADVOCACY ORGANIZATION FOR SMALL BUSINESS. WITH 70% OF OUR STATE'S POPULATION EMPLOYED BY ^{SMALL BUSINESS} SMALL BUSINESS, ~~THIS~~ ^A IS MORE THAN A SPECIAL INTEREST - IT ~~INDEED~~ IS ~~THE HOPE OF THE FUTURE FOR~~ THE ECONOMIC STABILITY OF THE STATE OF COLORADO AND, I BELIEVE, ALSO THE NATION. IN MY VIEW, THE ECONOMIC FUTURE AND THE TECHNOLOGICAL FUTURE OF OUR COUNTRY IS VESTED IN SMALL BUSINESS. THE KEY IS ORGANIZING. THE ALTERNATIVES - A BUREAUCRACY TO REPRESENT SMALL BUSINESS IN WASHINGTON OR A GRASSROOTS EFFORT SUPPORTED BY TIMELY COMMUNICATIONS IN EACH CONGRESSIONAL DISTRICT. WE HAVE ^{CHOSEN} ~~FOR~~ THE SECOND APPROACH, ^{A GRASS ROOTS EFFORT} BECAUSE WE BELIEVE IT CAN BE MORE EFFECTIVE.

IT IS EXTREMELY IMPORTANT TO YOU, YOUR FUTURE, AND THE FUTURE OF YOUR CHILDREN, WHO MAY WANT TO OWN AND OPERATE THEIR OWN BUSINESSES, THAT WE COLLECTIVELY ORGANIZE BY CONTRIBUTING TIME, ENERGY, AND

MONEY, TO SUPPORT ~~YOUR~~ ^{OUR} TRADE ASSOCIATION, ~~YOUR~~ ^{OUR} CHAMBER OF COMMERCE,
OR ANY BUSINESS ASSOCIATION WHICH RECOGNIZES THE CHALLENGE. AS A
PERSONAL ~~PLUS~~ ^{REQUEST} ↑ I WOULD URGE YOU TO HAVE YOUR CHAMBER OR TRADE
ASSOCIATION JOIN THE MOUNTAIN STATES ASSOCIATION WHICH HAS THE
POTENTIAL OF NOT ONLY INFLUENCING FEDERAL LEGISLATION FOR THE BENEFIT
OF THE TOTAL SMALL BUSINESS COMMUNITY, BUT ALSO HAS THE ABILITY TO
ARTICULATE THE SPECIAL NEEDS OF THE WEST IN WASHINGTON.

AS AMERICA'S JOBS MAKER AND AS THE CREATIVE STRENGTH OF OUR COUNTRY,
IN TERMS OF NEW TECHNOLOGY AND PRESERVING THE ENTREPRENEURIAL STRENGTH
OF OUR FREE ENTERPRISE SYSTEM, SMALL BUSINESS, ITS SURVIVAL AND ITS
GROWTH IN THE 80'S IS INDEED THE FUTURE OF AMERICA.