



Squandered Opportunities and Misplaced Priorities: Why Small Business is Too Big to Fail

A report from the National Small Business Association on the myriad missed opportunities to fix some of the biggest problems facing small businesses in the U.S. over the last few years.

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Since 1937, NSBA has advocated on behalf of America's entrepreneurs. A staunchly nonpartisan organization, NSBA reaches more than 150,000 small businesses nationwide and is proud to be the nation's first small-business advocacy organization. For more information on any of the items in this report, please contact the NSBA press department at press@nsba.biz, or 202-552-2904.

Foreword

There are more than 70 million people in the U.S. who work for, or run a small business – that equals one-fourth of the overall U.S. population, one-half of the private U.S. workforce, and one-third of the voting population in the U.S. Two years ago, the National Small Business Association (NSBA), the nation’s longest-running small-business advocacy organization operating on a staunchly nonpartisan basis, launched a campaign, *Small Business: 70 Million Strong...And Voting*, to educate lawmakers, candidates and the public on the importance of small business.

Since that time, the U.S. has plummeted into the worst recession since The Great Depression and unemployment has hit double-digits. Every policymaker and thought-leader in the country has been reciting the mantra of small-business job creation and mentioning at nearly every opportunity, the important role small business plays in driving economic growth and prosperity.

Yet despite the growing profile of small business in the public discourse, little has been done to actually help small-business owners survive the economic downturn and get back to our all-important job: creating jobs. The members and leaders of NSBA, while on the one hand are pleased to see people paying more attention to small business, on the other hand, realize that talk without action is nothing but empty rhetoric. Rhetoric that is diverting our lawmakers from the real work that needs to be done.

Our elected officials have missed some major opportunities to fix some of the biggest problems facing small businesses in the U.S. over the last few years. Though certainly not a new phenomenon, NSBA has crafted this report to provide the many lawmakers who purport to be fighting for small business a short-list of fixes that could truly help small business. Unfortunately, each of these items is a fix they already could have acted on, but for some reason, chose not to.

In the following pages, we take a close look at some of the most significant missed opportunities which range from bills that just didn’t go far enough, to proposals that took a wrong turn altogether, to items that left us scratching our heads wondering, “What were they thinking?”

The key issues highlighted in the report include:

“Didn’t Go Far Enough”

- Congress’ failure to include language in the final health care reform bill to lift, for once and all, the restrictions on participation in SIMPLE cafeteria plans by the self-employed.
- The slow pace with which policymakers have moved to implement some kind of Small Business Lending Fund, initially proposed as using TARP funds, and only just now being debated in Congress.
- A refusal by Congress to enact a long-term extension of the U.S. Small Business Administration (SBA) lending provisions initially approved under the *American Recovery and Reinvestment Act (ARRA)*.
- Inaction on a bill that would enable credit unions to increase their allowable lending to small businesses, providing much-needed capital.

“Took a Wrong Turn”

- The failure of Congress to include true cost-containment in the recently-passed health care reform legislation.
- The refusal by the House to negotiate a reasonable, small-business friendly, long-term compromise reauthorization for the highly-successful Small Business Innovation and Research (SBIR) Program.
- The appointment of former SEIU labor lawyer Craig Becker to the National Labor Relations Board during a Congressional recess despite a Senate vote of disapproval for his nomination.

“What Were They Thinking?”

- Congress’ complete failure to act on a permanent reform of the estate tax has left small- and family-owned businesses hanging in the balance while threats of a retroactive tax are made by the very people who turned their backs on this key issue.
- Congress’ choice to walk away from health care reform without addressing the byzantine tax penalty which forces millions of self-employed individuals to pay an additional 15.3 percent tax on the cost of their health insurance.
- The refusal to explicitly include small-business credit cards in the protections enacted under the Credit CARD Act of 2009.

The cost of these provisions that could have helped small business is miniscule compared to the billions of dollars thrown at large financial institutions, quasi-governmental entities Fannie Mae and Freddie Mac, and numerous other special projects funded through ARRA. The targeted spending on small-business priorities in the last few years was \$110 billion, which sounds significant until you realize that just a handful of the largest bills passed by Congress tipped the scales at 2.83 trillion—25 times more than what has been spent to help small business.

To be sure, both Congress and the administration have taken steps to address some small-business issues, and there have been a handful of things they got right. From the expanded Section 179 expensing to a renewed commitment to enhance exporting opportunities for small business, policymakers have taken steps in the right direction. Unfortunately, there simply have not been enough of those steps.

Despite a justly-earned high level of frustration, NSBA’s small-business members are still committed to working with our elected officials to promote pro-small-business legislation. We realize that a missed opportunity does not equal a closed door.

We also realize that our leaders in Washington, D.C. can no longer operate just on platitudes and rhetoric. More must be done to ensure a thriving small-business community.

We hope you find this report useful.



Todd O. McCracken
President and CEO



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Background

After the contentious elections of 2008, the nation took a collective break from the madness of campaign season. For about two weeks. With the mid-term elections just a few short months away, the political rhetoric will once again dominate the airwaves, and become an insurmountable “elephant in the room” that no lawmaker can—or will—ignore. Unfortunately, this rhetoric is diverting our lawmakers from the real work that needs to be done.

Despite the fact that the general rhetoric about small business is positive, it can at times be just as damaging as negative rhetoric—and perhaps even more so through the false pretense of addressing an issue. Democrats and Republicans alike sing the praises of small businesses, and claim to be out there working for “us,” America’s small businesses. But are they really?

Too often, the glowing statements, the orchestrated press events, the casual references to the local restaurant down the street, are substitutes for real action. As any small business owner will tell you, it’s the bottom line that counts. Not the speeches, not the photo-ops, but the actions that make a difference in the lives of the 70 million people in the U.S. who work for or run a small business.

Though certainly not a new phenomenon, in the last few years, both ends of Pennsylvania Avenue have missed some major opportunities to address and fix some of the biggest problems facing small businesses in the U.S. These missed opportunities range from bills that just didn’t go far enough, to proposals that took a wrong turn altogether, to items under the “what were they thinking” category for those initiatives that were no-brainers.

Admittedly, both Congress and the administration have taken steps to address some small-business issues, and there have been a handful of things they got right. Unfortunately they have, more often than not, stopped short of really addressing the underlying problem. This inability to enact positive legislation for small business has far-reaching implications on the overall U.S. economy—it is not just a small-business problem.

Historically, small businesses have been the catalyst that brings the U.S. out of a recession, through the creation of millions of new, small firms and new jobs. According to SBA’s Small Business Economic Indicators for 2003, when the economy gained momentum after the previous downturn in the early 1990s, firms with fewer than 500 employees increased their net employment in the first year after the recession, while large firms continued to shrink. Following the 2001-2002 recession, between March 2000 to March 2001, small firms added 1.15 million net new jobs while large firms lost 0.15 million net new jobs. In 2003, there was an increase of 0.3 percent in small employer firms, and a 3.7 percent increase in self-employed.

Unfortunately, today’s entrepreneurs find themselves severely hampered by an inability to garner affordable financing, which could have disastrous long-term implications.

NSBA has been committed to working with our elected officials to promote pro-small-business legislation, and to highlight how fundamental small business is to the U.S. economy. Through our initiative *70 Million Strong and Voting*, NSBA also is bringing to light some of the key missed opportunities over the last few years. More must be done to ensure a thriving small-business community today and for years to come. “More” doesn’t mean it will be more difficult. What follows is a list of easily-doable proposals that, comparatively, are a drop in the bucket.

Didn't Go Far Enough

SIMPLE Cafeteria Plans

Small employers are not always able to offer the same employee benefits that larger employers can. One such benefit is a cafeteria plan. The recently-enacted health care law creates a new vehicle called the SIMPLE cafeteria plan, which would make it easier for small employers to provide tax-free benefits to employees.

Although supportive of the inclusion of the SIMPLE cafeteria plan language in the overall bill, it unfortunately didn't go far enough and failed to eliminate the requirement that cafeteria plan participants be "employees." As is the case under current law, self-employed individuals (including sole proprietors, sub-Chapter S corporations, LLCs and partnerships) will continue to be excluded from participating in these cafeteria plans. Since many small-business owners are self-employed, failure to lift this restriction severely limits the usefulness of SIMPLE cafeteria plans.

NSBA urges Congress to support legislation that lifts for once and all the restrictions on participation in SIMPLE cafeteria plans by the self-employed. Sen. Olympia Snowe has this legislation at the ready, and it should be enacted.

TARP Funds to Increase Small-Business Lending

Given the continued difficulty small businesses have faced in getting adequate financing, NSBA has been urging since early 2009 that TARP funds be used to stimulate small-business lending—rather than just bailing out big banks. Amid many announcements from the administration that they were working on a plan, it wasn't until mid-March 2010 that a more formal proposal emerged.

That proposal calls for the creation of a \$30 billion Small Business Lending Fund, which would be facilitated through the SBA and aimed at increasing community banks' small-business lending.

Despite the assertions by some that the credit crunch is over, according to the 2009 NSBA Year-End Economic Report, only 61 percent of small businesses were able to obtain adequate financing for their business. That number has dropped from 78 percent in August 2008. Furthermore, back in February 2008, 55 percent of small businesses said their business had been impacted by the credit crunch. That number skyrocketed to 78 percent according to the 2009 Year-End Economic Report.

Unfortunately, NSBA's continued calls for action on this proposal—and myriad other ideas for increasing small-business access to credit—have fallen upon deaf ears. The longer this, and other, similar lending proposals are left by the wayside, the more difficult the economic recovery will be. Despite the apparent wide-spread support of this kind of proposal, it has lingered for more than a year while small-business owners have suffered.

Long-term SBA Stimulus Extension

Despite several iterations of various "Jobs Bills," Congress has failed to include a long-term extension of the SBA provisions of *ARRA* which raised the guarantee on 7(a) loans to 90 percent and eliminated borrower fees on both 7(a) and 504 loans. These provisions have been granted a number of temporary extensions, but continue to run-out, forcing many small businesses into the Recovery Loan Queue and unable to access critical SBA loan funds.

Sens. Mary Landrieu (D-La.) and Olympia Snowe (R-Maine) and former Rep. Neil Abercrombie (D-Hawaii) and Rep. Nita Lowey (D-N.Y.) have been pushing for a more permanent extension of the small-business stimulus provisions throughout 2010, and also have lobbied for an increase in the SBA's loan limit. Their legislation, the *Small Business Job Creation and Access to Capital Act* (S. 2869, H.R. 4302) would make critical changes to ensure the current upswing in SBA lending continues through 2010.

According to the SBA, its average weekly dollar volume is more than 60 percent higher than it was in the weeks before the stimulus bill was enacted. The SBA also reports that its average number of loans approved per week has increased by more than 50 percent.

NSBA strongly urges Congress to enact the *Small Business Job Creation and Access to Capital Act* and ensure that SBA loans continue to be a viable source of capital for small business.

Increase Credit Union Business Lending Limit

With credit still tight, any means available to increase small-business owners' access to capital should be pursued. This includes expanding credit union's ability to lend to small firms. In early 2010, legislation was introduced to allow credit unions to increase their business lending cap from 12.25 percent up to 25 percent of their total assets.

Sen. Mark Udall (D-Colo.) introduced the *Small Business Lending Enhancement Act of 2009* (S. 2919) with broad support in the Senate, however no action has been taken. In the House, Reps. Paul Kanjorski (D-Penn.) and Ed Royce (R-Calif.) introduced similar legislation, the *Promoting Lending to America's Small Businesses Act* (H.R. 3380), also with broad support, but to no avail thus far.

The Credit Union National Association estimates that these reforms will increase small-business lending by \$10 billion within the first year of their enactment, producing more than 100,000 new jobs. It is inconceivable that Congress would stand idly by while two widely-supported, bipartisan bills flounder in Committees that have taken no action whatsoever—yet that is exactly what has happened.

NSBA urges Congress to act on this legislation that will improve the availability of credit for America's small-business owners. With minimal additional action from Congress, there could be a vast new avenue of financing available to small-business—something desperately needed in this economy.

Took a Wrong Turn

Comprehensive Health Care Reform

Despite having been an outspoken proponent of health care reform beginning in 1993 and re-issuing a broad reform proposal in 2004, NSBA believes Congress took a serious wrong turn when they failed to effectively address health care costs included in the recently-passed health care reform law, *Patient Protection and Affordable Care Act [P.L. 111-148]*.

Rather than making health care cost-containment and reduction initiatives a vital component of health care reform, Congress made access to health care more important—an imbalance that could prove unsustainable long-term.

NSBA is concerned that premiums for small business will continue to increase sharply, as even the Congressional Budget Office (CBO) has determined. The legislation does nothing to encourage cost-conscious consumer behavior, aside from the unnecessarily blunt “Cadillac tax,” which will not begin to have an effect until at least 2018, and which is insufficiently transparent and imposes unintended administrative burdens on small businesses.

Although the law does take a step forward to transform the delivery system incentives that have driven health care costs to unsustainable levels, they are too back-loaded, giving powerful vested interests years to water them down or remove them entirely. Moreover, the absence of any real medical malpractice reform was a significant oversight.

Additionally, the very large tax increases on both earned and unearned income could have a significant effect on many small-business owners and their ability to reinvest in their companies’ growth. These increases are in addition to the administration’s current budget proposal which calls for significant income tax increases on the same individuals. Restricting Flexible Spending Account contributions, removing over-the-counter medications as eligible medical expenses and lowering the levels of high-deductible policies will further burden a population that can’t afford to see their disposable income shrink any more.

NSBA urges Congress and the administration to continue seeking ways to make this new law more affordable, more sustainable, and less burdensome to small businesses.

SBIR Reauthorization

The SBIR program is a key means of access to capital for small R&D companies and the nation’s largest source of early-stage research and development (R&D) funding. Unfortunately, the program has been hijacked by special interests who have repeatedly tried to open-up this small-business program to large venture capital (VC) firms.

SBIR has provided more than 60,000 patents and now generates new patents at the astonishing pace of seven per day, on average—far more than all U.S. universities combined, at less than one-twelfth their level of federal R&D funding.

Today, small R&D companies employ 38 percent of all scientists and engineers in America and produce 20 times as many patents per-dollar as universities, yet they only receive 4.3 percent of the federal government’s R&D dollars. The SBIR program provides more than half of this amount.

Not only has the House taken a wrong turn, they insist on taking that turn over and over again. The SBIR program has been subject to seven different short-term continuing resolutions since 2008 due to unwillingness on the part of House negotiators to hammer-out a compromise with the Senate. The House bill, strongly opposed by NSBA and the Small Business Technology Council—the high-tech arm of NSBA—would open up the SBIR program to large VCs and universities.

The Senate, on the other hand, has crafted reasonable compromise legislation that will keep the “small” in the SBIR program.

The repeated short-term extensions have wreaked havoc on agencies’ ability to make strategic decisions in regard to the program and have failed to provide them with a sufficient level of stability. Even the Chairs for the Senate and House Committees on Armed Services, Rep. Ike Skelton (D-Mo.) Sen. Carl Levin (D-Mich.), saw this as a huge problem and enacted a two-year extension of the Department of Defense’s SBIR program.

NSBA and SBTC urge all Members of Congress to reject the House SBIR Reauthorization language introduced by Rep. Jason Altmire (D-Pa.) and supported by Small Business Committee Chair Nydia Velazquez (D-N.Y.), and instead seek long-term compromise reauthorizing legislation for the SBIR program in-line with language offered by Sens. Mary Landrieu and Olympia Snowe.

Ensuring Fair Labor Law Processes

President Barack Obama appointed former SEIU labor lawyer Craig Becker to the National Labor Relations Board during a Congressional recess despite a Senate vote of disapproval for his nomination. Becker’s appointment calls into question the NLRB’s ability to fairly adjudicate labor disputes.

With the ongoing offensive on the part of organized labor, NSBA urges Congress and the administration to do everything in their power to ensure a fair process. The Becker appointment sends a clear message to small businesses about the NLRB: they are there to advocate for big labor, NOT small business.

In a time when every policymaker in D.C. is clamoring to be a friend of small business, this appointment was a serious misdirection.

What Were They Thinking?

Permanent Estate Tax Relief

At the end of 2009, it appeared the Congress might, at long-last, enact a permanent fix for the estate tax. Unfortunately, they let it slip through their hands. Congress' failure to address the estate tax before the end of 2009 means that, for now, there is no estate tax in 2010, and the full brunt of the estate tax is scheduled to return in 2011 with a top rate of 55 percent and a meager exemption of only \$1 million.

The estate tax is yet another example of instability and uncertainty creating a massive headache for small-business owners. Of significant concern is the threat of a retroactive fix to the estate tax, which hasn't been ruled-out, but would surely be met with constitutional court challenges.

NSBA—in order to inject some level of sanity and stability—has been supportive of compromise measures that set a higher exemption level of at least \$3.5 million per individual and proposals which would tie the exemption level to inflation. Sens. Jon Kyl (R-Ariz.) and Blanche Lincoln (D-Ark.) have been leading the charge in the Senate to ensure a reasonable fix to the estate tax.

Despite eight years of notice, Congress still let the estate tax expire—knowing that this temporary expiration makes a long-term permanent resolution that much harder. Small-business owners deserve some kind of long-term fix that doesn't increase the burdens on their families during an already very difficult time. For NSBA's small-business members, many of whom already have very low expectations for Congress, this failure to act was a major disappointment.

Self-Employed Tax on Health Care

During debate of the health reform bill, Congress failed to include any immediate, bottom line savings on health care costs and affordability for the self-employed. America's self-employed individuals pay 15.3 percent more in taxes than any other business entity because they cannot deduct their health insurance premiums as a business expense. This puts them at a serious disadvantage to their larger counterparts and hinders entrepreneurship.

Although it ultimately was not offered, Sen. Mary Landrieu (D-La.) did move toward considering an amendment to provide tax equity for the self-employed. Her provision would have allowed the self-employed to deduct 50 percent of their health insurance costs which would have provided great financial benefit to the nation's 22 million self-employed.

This is a very simple fix that can make paying for health insurance more equitable and more affordable for millions of American small businesses. Congress' failure, time and again, to eliminate this byzantine disparity in the tax code, which penalizes the self-employed, is baffling.

Small-business credit card reform

Although NSBA supported the final bill, the *Credit CARD Act of 2009 (H.R. 627/S. 414)* failed to explicitly extend protections to the credit cards used by America's small-business owners.

Credit cards are one of the most common sources of financing for America's small-business owners—according to NSBA's 2009 Year-End Economic Report, 41 percent of small-business owners used credit cards in the previous 12 months. Furthermore, 68 percent reported that the rates and terms of their credit cards had deteriorated in the last five years, making these protections a must for small business.

Because the Credit CARD Act of 2009 amends the *Truth in Lending Act (TILA)*, the cards used mainly for business purposes aren't covered. While a small-business owner who opens a personal credit-card account and uses it occasionally for business should be covered under *TILA*, there is nothing proscriptive in the law that will protect those cards used primarily or exclusively for business purposes. Eighty-six percent of the respondents to NSBA's 2009 Small Business Credit-Card Survey reported using their consumer or business credit-cards primarily or exclusively for business purposes.

Despite the valiant efforts of Sens. Mary Landrieu (D-La.) and Olympia Snowe (R-Maine), and Former Rep. Neil Abercrombie (D-Hawaii) and Rep. Nita Lowey (D-N.Y.) to include an amendment which would protect small-business credit cards, both the Senate and House failed to include such language.

Recently, a handful of credit-card issuers have announced their intentions to voluntarily extend the protections enacted by the *Credit CARD Act* to their small-business cards. While a welcome step, it is far from perfect and could change at any time. Legislation is needed to ensure the long-term protection of the millions of small, American businesses who rely on credit cards for much-needed capital.

Congress should promptly enact the *Small Business Credit Card Act of 2009 (H.R. 3457)*, which would guarantee explicitly that the safeguards codified for consumers would protect the cards used by America's small-business owners.

Why Congress would willfully neglect such a huge swath of credit card consumers is unfathomable.

What Went Right

Although the focus of this report is to highlight the missed opportunities to aid America's small-business community, there have been a handful of items—either enacted or stalled—that stand to benefit small business.

No Action on the Employee Free Choice Act

Congress has failed to pass the *Employee Free Choice Act* (S. 560/H.R. 1409), also known as “card check,” or any iteration of the legislation. NSBA strongly opposes card check or any other form of ill-advised labor that disrupts small businesses employer-employee relationships.

Mandated Wage and Benefits Legislation Stalled

Several proposals to mandate wages and benefits have failed to pass muster thus far in the 111th Congress. NSBA continues to oppose these efforts, including the *Paycheck Fairness Act* (S. 182/H.R. 12) and the *Fair Pay Act* (S. 904/H.R. 2151).

No Change to Family Medical Leave Act

Congressional efforts to lower the thresholds for compliance for FMLA below 50 employees, add qualifying events, or mandate leave, paid or unpaid, are bad public policies for small businesses. Legislation, such as the *Healthy Families Act* (S. 910/H.R. 2460) or the *Family Leave Insurance Act* (H.R. 1733), aimed to accomplish these goals have been appropriately resisted.

Comprehensive Immigration Reform Efforts

Recent immigration reform models are moving away from placing the onus of policing the workforce on employers and toward individuals. Traditional models of workplace verification, such as E-verify, require small-businesses owners to accept an unfair and misappropriated liability that should rest on the individual or employee.

Export Initiatives/USTR Small Biz position

President Obama's recently announced National Export Initiative is a positive move toward growing exporting opportunities for small business with the aim of doubling U.S. exports over the next five years. Additionally, U.S. Trade Representative Ambassador Kirk designated a new position within his office to focus on small-business interests—a move NSBA and its' international trade arm, the Small Business Exporters Association, have been urging for decades.

Small-Business Tax Breaks

Included in ARRA were three NSBA-supported tax provisions which provided some assistance to certain small businesses. Those three provisions provided: a temporary increase of the exclusion on capital gains to 75 percent; a one-year extension on enhanced Section 179 expensing of up to \$250,000; and an extension allowing for accelerated bonus depreciation through 2010.

Why Does it Matter?

Small business holds a special place in the heart of every American. It provides the promise that hard work can equal success, and it offers the ability to control ones' own destiny. Anyone who has read a newspaper or watched any cable news program in the last year has heard at least once that small-business is the backbone of the economy. But what does that mean?

About Small Business in the U.S.

Small employers comprise 99.7 percent of all employer firms. Firms with fewer than 500 employees accounted for 64 percent of net new jobs between 1993 and the third quarter of 2008. Thirty-two percent of those gains came from the creation of new, small firms.

Small businesses export, collectively, \$375 billion every year and produce 13 times more patents per employee than large firms. Seven out of ten new employer firms last at least two years, and about half survive five years.

According to the Pew Research Center, small businesses are widely seen as having a positive impact on the country. Small business ranked number one with 71 percent of respondents having positive views. Large corporations, on the other hand, earned a 64 percent negative rating. Just 25 percent say the federal government has a positive effect on the way things are going in the country and banks and other financial institutions only earned a 22 percent positive rating.

In 2009, according to the NSBA 2009 Year-End Economic Report, only 12 percent of small-business owners hired new workers, while 44 percent decreased employee size while another 44 percent made no change in employee size. On a positive note, however, for the first time in a year, small-business owners are projecting a net increase in jobs—24 percent are projecting job growth while only 18 percent expect job cuts.

Despite the continued negative outlook on overall economy, and for the first time in two years, there was a slight increase (up from 58 percent to 61 percent) in small-business owners' confidence in their own business, according to the NSBA Economic Reports. This, however, means that more than one-third (39 percent) still have concerns about the viability of their business.

The Role of Small Business in a Downturned Economy

During the three years after the 2001-2002 recession, U.S. companies created a total of 3.9 million net new jobs. Seventy-nine percent (3.09 million) were created by companies with one to four employees. All small businesses, those with fewer than 500 employees, created 4.85 million small businesses, while large companies were still cutting jobs (946,574) between 2002 and 2005. The result: small business made up for large businesses' job cuts and actually created 124 percent of net new jobs.

In the three years following the 1990-1991 recession, companies with fewer than 20 employees created 89 percent of net new jobs. All small firms, those with fewer than 500 employees, were responsible for 96 percent of the net new jobs while large companies only created 4 percent of net new jobs.

Often, individuals laid-off during an economic downturn will look to entrepreneurship and self-employment as a less risky alternative, which leads to the creation of millions of new, small firms. The number of self-employed individuals took a hit in 2009, down from 15.88 million in

2008 to 15.3 million. Fortunately the first quarter of 2010 shows a very slight increase in self-employed. Given that 32 percent of job creation comes from the creation of new, small firms, the rate of, and accessibility to self-employment is critical.

Despite a decrease in the unemployment rate for the first three months of 2010, in April, it jumped to 9.9 percent—up from 9.7 percent. This continued high unemployment makes pro-small business policies all the more important in order to ensure that these individuals still view starting their own business as a viable option.

Small Business Financing

Contrary to various reports that the credit crunch has eased or is no longer a problem, NSBA's members are still struggling to garner financing, with only 61 percent of small businesses able to obtain adequate financing for their business. That number has dropped from 78 percent in August 2008, 67 percent in December 2008 and 62 percent in July 2009. More than one-third of small businesses (39 percent)—which amounts to more than 10 million—are not able to get adequate financing for their business.

In February 2008, 55 percent of small-business owners reported having been impacted by the credit crunch. In August 2008 that number jumped to 67 percent, continued to rise to 69 percent in December 2008 and hit a high of 80 percent in July 2009. Today, 78 percent of small businesses report that their company has been impacted by the credit crunch—a slight decrease from the previous six months.

Among small-business owners for whom capital availability has been a problem, 47 percent state that they have been unable to grow business or expand business, and 24 percent state that they have been forced to reduce their number of employees. As the economy rebounds, capital is the lifeblood for any small-business looking to grow and expand.

In the last six months, there has been a decrease in small-business use of all financing mechanisms, likely as a result to turmoil in the financial markets and the cost of capital. Today, 46 percent small-business owners today are using bank loans, down from 53 percent in July 2009.

Twenty-four percent of small businesses experienced worsening terms on their outstanding bank loans (up from 19 percent in July 2009) and 64 percent said the fees and terms on their credit cards had gotten worse in just the last six months. These findings are in-line with the most recent Survey of Senior Loan Officers by the Federal Reserve.

According to the April 2010 Senior Loan Officer Opinion Survey on Bank Lending Practices, despite a slight easing of lending standards on loans to large and medium-sized firms, there was no easing of loans to smaller companies. On the contrary, a small percentage actually continued to tighten terms on loans for smaller firms.

The April survey also asked domestic banks about credit card terms, and found that the majority of respondents have tighter credit card approval standards and have implemented tighter terms on credit cards for small businesses—both new and existing customers—in the last six months.

70 Million Strong

There are more than 70 million people in the U.S. who work for, or run a small business. Small business represents one-fourth of the overall U.S. population, one-half of the private workforce, and one-third of the voting population in the U.S.— numbers that cannot be ignored.

In an environment where every vote counts and political races are widely contested, it is unlikely that any elected official would not reach out to a captive and eager audience that comprises one-third of the general electorate such as small business does. But reaching-out to an audience is something altogether different from getting something done.

Nearly three years ago, a group of NSBA small-business members participated in a roundtable discussion with presidential policy experts, and were left with the sinking feeling that small business wasn't even near the top of politicians' priority list. We decided then and there that it was up to us—the small-business community—to make small business a priority.

What resulted is our campaign, *Small Business: 70 Million Strong...And Voting*, which sought to educate lawmakers, candidates and the public on the importance of small business. In the following two years, the U.S. plummeted into the worst recession since The Great Depression, and every policymaker and thought-leader in the country became all-too familiar with the phrase “too big to fail.”

The ensuing banking scandals brought with them a large distrust of big business, and a larger emphasis on the importance of small business. Yet despite the myriad polls citing high levels of confidence and trust in small business, and the increased profile of small business, little has been done to truly help small-business owners survive the economic downturn.

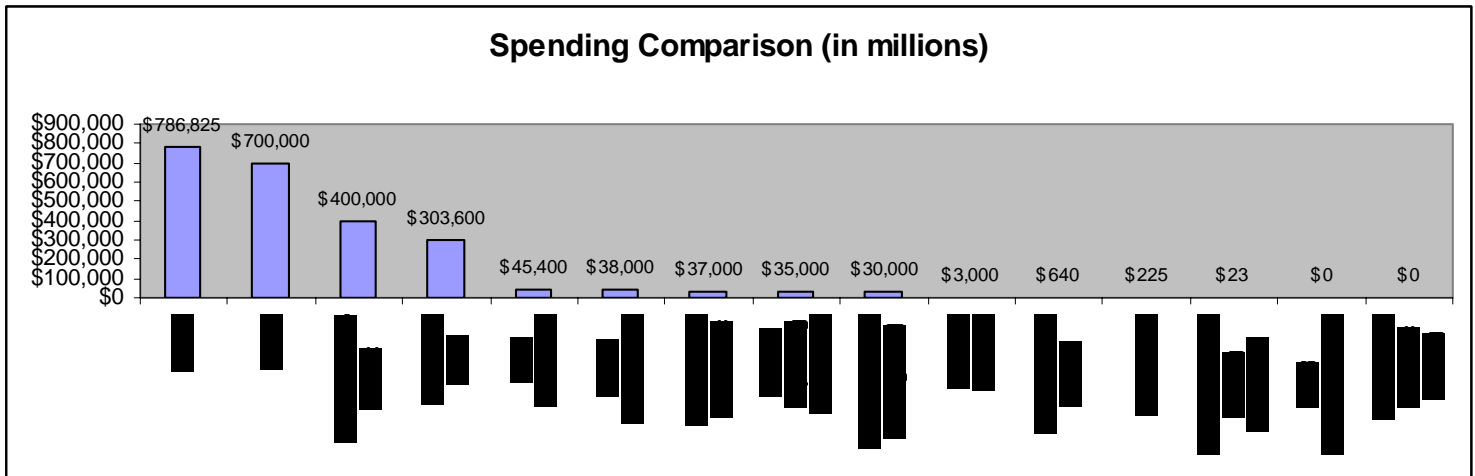
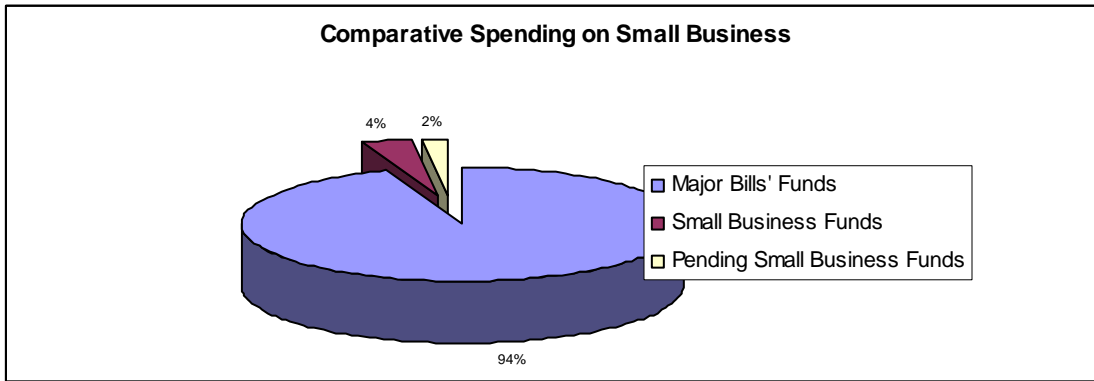
Instead, what has occurred time and again is spending with little to no true impact on small business. Despite the myriad proposals claiming to be small business-centered, oftentimes they are vehicles for lawmakers own initiatives which don't really impact most small businesses.

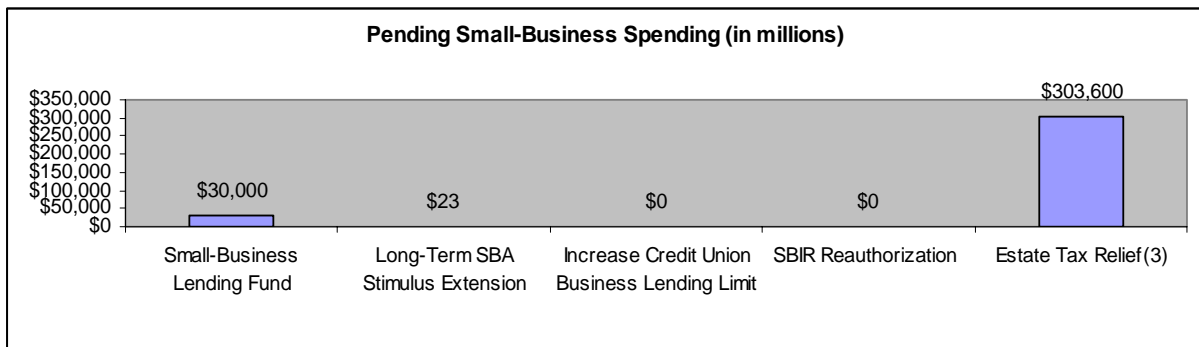
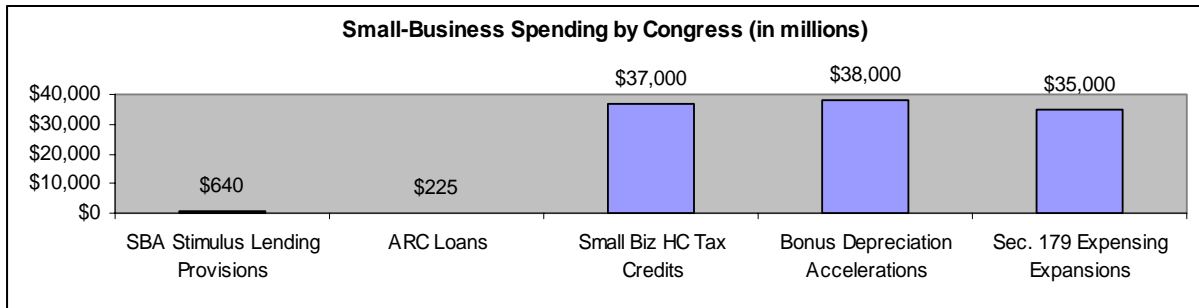
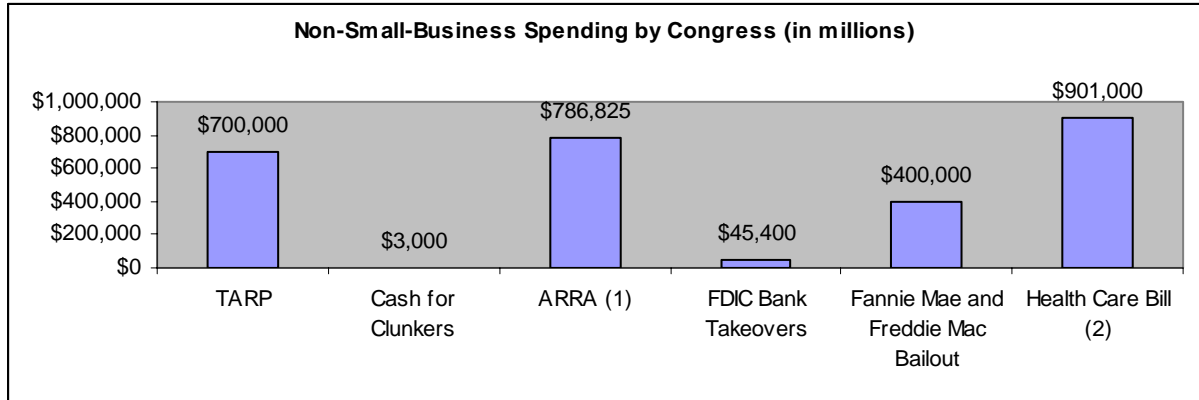
Congressional Spending on Small Business

NSBA identified six major legislative items where Congress approved the expenditure of a significant amount of money. Although some of these programs are operating under the assumption the money will be paid back (TARP specifically), a good argument also could be made that funding toward small-business initiatives will be paid back through new jobs, increased incomes and thus, increased taxes.

Collectively, the spending that has already occurred on small-business programs represents a mere 3.9 percent of the overall spending as identified by NSBA in this report. NSBA identified the following programs as major spending initiatives by Congress and the administration: TARP, Cash for Clunkers, ARRA, the various FDIC bank takeovers, the Fannie Mae and Freddie Mac bailout, and recently-passed health care legislation.

When considering the various missed opportunities detailed in this report, these key items represent only 12.6 percent of what has already spent on non-small-business programs.





1. Does not include SBA lending funds of \$375 million, 2. Does not include small-business tax credits of \$37 billion, 3. Based on estimated cost of Lincoln-Kyl proposal

While, on the one hand, increasing the profile and the importance lawmakers place on small business is a positive step, without action, it is a meaningless step. Congress and the administration could have quite easily done more for America's small businesses. The time to remedy these missed opportunities is now.

America's small-business community is listening, we are watching and we are taking notes. We are still 70 million strong, and we vote.

For more information on any of the items in this report, please contact the NSBA press department at press@nsba.biz, or 202-552-2904.