



STATEMENT FOR THE RECORD

**BEFORE THE HOUSE SUBCOMMITTEE ON TECHNOLOGY, INFORMATION
POLICY, INTERGOVERNMENTAL RELATIONS AND PROCUREMENT
REFORM ON UNFUNDED MANDATES AND REGULATORY OVERREACH
PART II**

MARCH 30, 2011

**JOHN ARENSMEYER
FOUNDER & CEO
SMALL BUSINESS MAJORITY**

REVISED

Good afternoon Chairman Lankford, Ranking Member Connolly and members of the Subcommittee. Thank you for the opportunity to testify before the Subcommittee on Technology, Information Policy, Intergovernmental Relations and Procurement Reform.

I'm John Arensmeyer, founder and CEO of Small Business Majority, a nonpartisan small business advocacy organization founded and run by small business owners and focused on solving the biggest problems facing small businesses today. We represent the 28 million Americans who are self-employed or own businesses of up to 100 employees. Our organization uses scientific opinion and economic research to understand and represent the interests of all small businesses.

I ran two small businesses for 15 years and have run a nonprofit organization for the past five. Other members of our senior team also have had long careers as entrepreneurs. As such, we are well aware there are times when small businesses are overburdened by government regulation, and that government regulation often affects small businesses more than big businesses. This is why Small Business Majority supports Executive Order 13563 "Improving Regulation and Regulatory Review," an initiative by President Obama to review government regulation on business. We also support the Small Business Administration Office of Advocacy's role in monitoring compliance with the Regulatory Flexibility Act, which requires federal agencies to analyze the impact of proposed regulations on small firms. We share the view that any regulations that impact small businesses should be carefully scrutinized and we support the requirements already in the Unfunded Mandates Reform Act that require government to analyze and report on the impacts of its new regulations.

That said, there is a legitimate role for government in passing laws that address private sector business activity. Business owners are pragmatic and bottom-line oriented, and preventing or delaying all regulation that might in some way affect small business would be short-sighted and could remove an important tool that can stimulate small business

innovation and contain costs. Indeed, our research has shown that small business supports government as a facilitator and an arbiter that sets rules of the road.

The effects of legislation on the private sector should be carefully considered as each bill is being debated; not addressed via a blanket one-size-fits-all approach. Research shows that the first things on small businesses' list of concerns are the need for markets and customers and finding ways to deal with burdensome expenses. In many case government can help.

I'm going to focus on two successful examples of this: The Patient Protection and Affordable Care Act and The Clean Air Act.

Benefits of the ACA for Small Business

The No. 1 problem we hear about from small business owners is the cost of healthcare. The Affordable Care Act is an example where government stepped in and offered benefits and financial relief to small business owners.

Small business owners want to offer health coverage, and our surveys show that most of them feel they have a responsibility to do so. We conducted surveys of small business owners in 19 states between December 2008 and August 2009.¹ Our key findings included the following:

- An average of 86% of small business owners who don't offer health coverage to their employees said they can't afford to provide it, and an average of 72% of those who do offer it said they are struggling to afford it;
- An average of 67% of respondents said reforming healthcare was urgently needed to fix the U.S. economy.

It should be noted that respondents to these surveys included an average of 15% more Republicans (39%) than Democrats (24%), while 27% identified as independent.

The exorbitant cost of insurance means that many small businesses are forced to drop coverage altogether. According to the Kaiser Family Foundation, 54% of businesses with fewer than 10 employees don't offer insurance.²

This makes small business employees a significant portion of the uninsured population. Of the 45 million Americans without health insurance in 2007, nearly 23 million were small business owners, employees or their dependents, according to Employee Benefit Research Institute estimates.³ And nearly one-third of the uninsured—13 million

¹ Small Business Majority, State Surveys Highlight Small Business Support for Healthcare Reform, August 2009, <http://www.smallbusinessmajority.org/small-business-research/opinion-research.php>.

² Kaiser Family Foundation/HRET, Employer Health Benefits Annual Survey, 2008, <http://ehbs.kff.org/2008.html>.

³ Employee Benefit Research Institute, Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2008 Current Population, http://www.ebri.org/publications/ib/index.cfm?fa=ibDisp&content_id=3975.

people—are employees of firms with less than 100 workers.⁴ Moreover, 28% of the 22 million self-employed Americans have no insurance at all.⁵

Not only a problem for the uninsured, the cost of healthcare was a metastasizing financial burden on small business. An economic analysis we released in June of 2009 and based on modeling by MIT economist Jonathan Gruber concluded that without reform, small employers would pay \$2.4 trillion to cover healthcare costs by 2018, and 178,000 small business jobs and \$52.1 billion in profits would be lost due to those costs.⁶

This crisis compelled Congress to take action – the status quo was just unacceptable. The Affordable Care Act addresses all these issues and more, while reducing the federal deficit by more than \$200 billion over the next 10 years and more than \$1 trillion over the 10 years after that.

Without reform, we would impede our overall economic growth. Small businesses with fewer than 100 employees employ 42% of American workers.⁷ Traditionally, small businesses lead the way out of recessions. Continuing to address the healthcare crisis by implementing the Affordable Care Act was and continues to be essential to our vitality as a nation. This is an excellent example of how government can clear obstacles that threaten small business success.

Our research also shows that small business owners are more likely to provide insurance to their employees because of the tax credits and exchanges provided through the new healthcare law. In January, we released a national survey of 619 small business owners. We gauged how entrepreneurs view two critical components of the Affordable Care Act: the small business tax credits—a provision allowing businesses with fewer than 25 employees that have average annual wages under \$50,000 to get a tax credit of up to 35% of their health insurance costs beginning in tax year 2010—and health insurance exchanges—competitive online marketplaces where small businesses and individuals can band together to purchase private insurance starting in 2014.⁸ The survey found that one-third of employers who don't offer health insurance said they would be more likely to do so because of the small business tax credits, and 33% of respondents who currently do not offer insurance also said the exchange would make them more likely to do so.

We believe that once the public, and small business owners in particular, become more familiar with the new law, they will understand the financial benefits and cost savings it provides. In fact, a Kaiser Family Foundation study conducted in January 2010 found that although the public was divided overall about reform, they became more supportive when told about key provisions. After hearing that tax credits would be available to help small businesses provide coverage to employees, 73% said it made them more

⁴ Center for American Progress, What Will Happen to Small Business if Health Care Is Repealed, July 23, 2010, http://www.americanprogress.org/issues/2010/07/small_biz_reform.html.

⁵ “*The Uninsured: A Primer*,” Kaiser Family Foundation, Oct. 2009, Page 11 (Table 9).

⁶ Small Business Majority, Economic Research: The Economic Impact of Healthcare Reform on Small Business, June 11, 2009, <http://www.smallbusinessmajority.org/small-business-research/economic-research.php>

⁷ U.S. Bureau of Census, 2006 County Business Patterns

¹⁰ Small Business Majority, Opinion Survey: Small Business Owners' Views on Key Provisions of the Patient Protection and Affordable Care Act, Jan. 4, 2011, <http://smallbusinessmajority.org/small-business-research/small-business-healthcare-survey.php>.

supportive, and 63% felt that way after learning that people could no longer be denied coverage because of preexisting conditions.⁹

The huge number of small businesses eligible for a credit on their 2010 tax returns shows how wide-ranging the benefits of the ACA are. Small Business Majority and Families USA's study on the number of small businesses eligible for a tax credit on their 2010 tax returns shows that more than 4 million small businesses are eligible.¹⁰ That equates to 83.7% of all small businesses in the country. Perhaps even more encouraging is that nearly 1.2 million small businesses nationally are eligible to receive the maximum credit.

Those tax credits are helping small business owners, and our economy, today. For example, Mark Hodesh, the owner of Downtown Home and Garden in Ann Arbor Michigan, qualified for a \$15,000 tax credit this year. Knowing he had that credit gave Mr. Hodesh, who covers 75% of his employees' health insurance premiums, the confidence he needed to add another person to his staff. His new employee, who was unemployed previously, now has a job and health coverage and is contributing to the economy by paying taxes and buying goods. That's an excellent example of how government can create opportunity for economic growth.

Along with small business tax credits and insurance exchanges, the ACA helps entrepreneurs by controlling costs and reining in administrative expenses for small businesses. Small businesses pay 18% more on average than large businesses for comparable health policies. This is largely due to high administrative costs, which can be up to 30% of premiums. The law includes administrative simplification programs, helping to put the country on a path to lower-cost, standardized administrative transactions, processes and forms. Additionally, it establishes insurer efficiency standards that require 80% of premium dollars be spent on care, not administrative overhead and executive compensation, for small group and individual plans. For large groups plans, the standard will be 85%. All of these measures will lower the time doctors have to spend on paperwork.

The ACA also includes numerous reforms in Medicare that will reward value of care, not the volume of care. It requires the Department of Health and Human Services (HHS) to adopt value-based purchasing and payment methods for Medicare reimbursements for both physicians and hospitals, and move away from the fee-for-service system that is so costly and inefficient. What's more, cost containment measures made to Medicare will have a ripple effect to other areas of the system, further reducing costs. In addition, a provision of the Affordable Care Act includes \$200 million for small businesses to establish health and wellness programs that will empower their employees to make healthy lifestyle choices and lower the cost of health insurance.

In short, the ACA is a big relief to small business, not a burden or a cost.

⁹ Kaiser Family Foundation, Americans Are Divided About Health Reform Proposals Overall, But the Public, Including Critics, Becomes More Supportive When Told About Key Provisions, Jan. 22, 2010, <http://www.kff.org/kaiserpolls/kaiserpolls012210nr.cfm>.

¹⁰ Families USA and Small Business Majority, A Helping Hand for Small Businesses: Health Insurance Tax Credits, July, 2010, <http://smallbusinessmajority.org/small-business-research/tax-credit-study.php>.

Benefits of the environmental standards to small business

But it's not just new changes to the healthcare system that are helping small businesses. Government support to the clean energy sector of the economy is also providing much-needed aid. Without a strong government role in setting goals and standards, we will never successfully compete in the interconnected 21st century global economy that is becoming more and more centered on innovative clean energy solutions.

Over the last 40 years, the Environmental Protection Agency has proven itself as much a protector of our economy as of the public's health, and we see new EPA standards under the Clean Air Act as a key component to progressing toward a clean energy economy and to creating jobs. Indeed, during the last two decades under the Clean Air Act, Gross Domestic Product has increased by 64% while emissions of the most common air pollutants have declined by 41%.¹¹

We know that small business owners support key strategies needed to reduce pollution and transition to a clean energy economy. A national bipartisan poll of small business owners we conducted (33% Republicans, 26% Democrats and 22% independents) found that 61% of respondents agree that moving the country to clean energy is a way to restart the economy and make their businesses more competitive in the global economy.¹² The same poll found that small business owners want the government to create incentives that will help them be part of the clean energy economy, such as interest-free loans for energy-efficiency upgrades and small businesses that switch to clean energy, grants or subsidies to help small businesses upgrade to more energy-efficient equipment and free training or consultation on how to profit from the emerging clean energy industry. Numerous small businesses are already taking steps to conserve energy and many are interested in doing even more.

Contrary to claims from opponents of clean energy and environmental safeguards, reducing pollution is good for business, and the Clean Air Act has proven to be a wise investment for long-term economic growth. Studies show that the economic benefits of the Act have far exceeded the costs to businesses. According to the Office of Management and Budget, the total economic benefits of the Clean Air Act are estimated at more than 4 to 8 times the costs of compliance.¹³ Additionally, between 2010 and 2015, capital investments in pollution controls and new generation will create an estimated 1.46 million jobs or almost 300,000 year-round jobs on average for each of those five years.

Interest in the Clean Air Act and regulating greenhouse gases helps Cody Metcalf, president of LED light distributor WinderLumen LED in Windermere, Florida. Cody says that "if someone is paying attention to greenhouse gases, then there's more demand for our product," which boosts his bottom line.

¹¹ Small Business Majority economic research: THE CLEAN AIR ACT'S ECONOMIC BENEFITS: PAST, PRESENT AND FUTURE, October, 2010, http://www.smallbusinessmajority.org/energy/index_national_economic.php

¹² Small Business Majority opinion research: SMALL BUSINESSES AND CLEAN ENERGY POLICY - NATIONAL SURVEY, June, 2010, http://www.smallbusinessmajority.org/energy/index_national.php

¹³ Small Business Majority economic research: THE CLEAN AIR ACT'S ECONOMIC BENEFITS: PAST, PRESENT AND FUTURE, October, 2010, http://www.smallbusinessmajority.org/energy/index_national_economic.php

Moreover, EPA's clean air standards for 2012-16 model automobiles are projected to save owners \$3,000 over the life of the car¹⁴; this will rise to \$7,400 for 2017-22 model vehicles—something that will have a substantial benefit for small business owners, especially for those whose business relies on transportation.

It should be noted that the EPA rules specifically exempt small businesses, so that there is virtually no cost offset to the tremendous innovation benefits and cost savings that environmental standards will generate.

Another example of government regulations creating opportunities for small business comes out of California. In 2006, California passed clean energy standards, commonly known as AB 32. A study that we released last October found the AB 32 will provide significant opportunities to small businesses throughout the state. Those opportunities include:

- Increased investment in energy efficiency. The legislation will fuel demand for and increase investment in energy efficiency goods and services, thus generating new prospects for small businesses that provide them.
- Incentives for companies to go green. AB 32 will create savings and boost profit margins for new and existing “Main Street” small businesses that successfully go green and employ brand differentiation strategies to grow their businesses.
- Increased spending on non-energy purchases. AB 32 will reduce spending on energy expenses and increase demand in many sectors for goods and services, which will in turn pad small businesses coffers.
- New innovation. AB 32 is already driving investment in and development of technological innovation, and will continue this trend through its implementation.

Through these opportunities, AB 32 has helped lay the foundation for significant growth throughout California's small business community. In fact, a report we released in October of 2010 found the law will help increase revenues to small service businesses—50% of all small businesses in the state—by \$4.6 billion by 2020, and more than 15,000 jobs will be added. Because of requirements in the law that spur greater fuel and energy efficiency, consumers will spend less on electricity and gasoline, freeing up cash to spend locally on services. The financial benefit translates to an extra \$1,115 per employee for California small service businesses.¹⁵

Conclusion

¹⁴ Environmental Protection Agency study: Light-Duty Vehicle Greenhouse Gas Emission Standards and Corporate Average Fuel Economy Standards, April 2010, page 1-20, www.federalregister.gov/articles/2010/05/07/2010-8159/light-duty-vehicle-greenhouse-gas-emission-standards-and-corporate-average-fuel-economy-standards.

¹⁵ Small Business Majority economic research: Economic Opportunities for Small Business Under AB 32, October, 2010, http://www.smallbusinessmajority.org/energy/index_CA_AB-32.php.

As these examples show, a constructive partnership between business and government can provide economic opportunity where none existed before and can help entrepreneurs cut some of the unnecessary and onerous costs of doing business.

A blanket solution to government regulation could damage our small businesses. Rather, each time government creates regulations it must examine how they will impact small business. That is why Small Business Majority supports the requirements already in the Unfunded Mandates Reform Act that require government to analyze and report on the impacts of its new regulations.

Wielding a legislative hammer rather than employing a judicious and precise scalpel risks quashing a role for government that is often a boon to small businesses.