

Office of Advocacy

Testimony

of

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before the

**Subcommittee on National Economic Growth,
Natural Resources, and Regulatory Affairs**

of the

Committee on Government Reform and Oversight

U. S. House of Representatives

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on

Small Business Paperwork Reduction Act Amendments of 1998

Good afternoon, Mr. Chairman and Members of the Subcommittee. My name is Jere W. Glover. I am Chief Counsel for Advocacy with the U. S. Small Business Administration. The Office of Advocacy was established by Congress 20 years ago as an independent entity to be a spokesperson for small business in the formulation of public policy. The Chief Counsel is, by law, appointed by the President from the private sector and confirmed by the Senate.

I am pleased to appear before this Subcommittee to discuss an issue of extreme significance to small business, namely, regulatory paperwork and reports, and the burdens such mandates impose on small business. Before proceeding, however, please note that my comments are my own and do not necessarily reflect the views of the Administration or the Small Business Administration.

First, let me say that I endorse the concepts incorporated in the legislative proposal sponsored by Chairman McIntosh and co-sponsored by Representative Kucinich. That proposal would require:

- annual publication of paperwork and reporting requirements imposed on small business;
- waiver of fines for first paperwork/reporting violations if corrected within a specified time period, except in cases where violations could result in imminent danger; and
- the formation of a task force to study the feasibility of streamlining information collection from small business.

Why do I endorse these concepts? Paperwork and reporting requirements remain a major cost problem for small businesses. Small companies do not have specially hired staff to complete the myriad of reports required by government. Very often it is the owner or the CEO who must take on this task, making it a very high cost activity for small business, diverting a valuable resource from running the business to an activity that does not generate revenue or contribute to the firm's output. And despite the reduction goals established for federal agencies by the Paperwork Reduction Act, the problem persists.

There is also a "perception" problem, as well as a real one. I think it is fair to say that small businesses live in fear that an inspector or auditor will walk through their doors and find them in violation of some law, imposing penalties that will bankrupt them and wipe out life savings invested in their businesses. Reality? I do not know. The fear, however, is real. This gives added importance to the penalty waiver provision in the proposal, which, if enacted, should go a long way toward mitigating that fear.

As for the balance of the proposal, let me review recent history which I believe will be helpful to the Subcommittee's deliberations.

Let me start with the 1995 White House Conference on Small Business. About 1600 small business people attended that conference and voted on 60 policy recommendations the delegates believed warranted administrative and/or legislative action. One of those recommendations, edited here in the interests of brevity, urged that Congress enact legislation that would require agencies to:

- simplify language and forms;
- sunset and reevaluate all regulations every five years with the goal of reducing the paperwork burden by at least 5 percent each year for the next five years;
- assemble information through a single source on all small business reporting; and
- eliminate duplicate regulations from multiple government agencies.

If I were permitted editorial license, I would substitute the word "reporting" for the word "regulations" in the last item, an issue I will address later in my testimony. Not surprisingly, paperwork burdens were also an issue addressed by the 1980 and 1986 White House Conferences on Small Business.

It is clear that the proposed legislation addresses almost all the concerns detailed in this recommendation of the White House Conference on Small Business.

In the Fall of 1995, the Office of Advocacy submitted to Congress: *The Changing Burden of Regulation, Paperwork and Tax Compliance on Small Business: A Report to Congress*. A major resource for that study was another report commissioned by Advocacy: *A Survey of Regulatory Burdens*, (Research Summary attached), authored by Thomas D. Hopkins, Rochester Institute of Technology, a leading researcher in quantifying the impacts of regulations on business, especially small business. In brief, Advocacy reported to Congress that the total regulatory cost projected for 1998 would be \$700 billion, with one third of this cost attributed to "process" costs - primarily paperwork. Advocacy further reported that the average annual cost of regulation, paperwork and tax compliance to small business is 50% higher than for large business - actual collar costs amounting to about \$5,000 per employee per year. Keep in mind, however, that this cost is for all regulations, not just paperwork and reporting.

Unlike capital costs, which involve a one-time expenditure, process costs (paperwork) do not go away. They never disappear from the books.

The significance of this annual 50% cost differential is that it produces an inequitable cost allocation between small and large firms. This gives larger firms a competitive advantage in the marketplace, a result at odds with the national interest in maintaining a viable, dynamic and progressive role for small business in the economy. The information in both of these studies should also put to rest the canard that efforts to lessen the burden on small business are tantamount to "special treatment" and, ergo, unfair. Not so. Such efforts merely level the playing field and are sound public policy.

The Paperwork Reduction Act, which in and of itself was good first start, did not focus on the disproportionate burdens that mandated reports impose on small business. The current proposal provides that focus and the additional costs to small business justify consideration of its provisions. Advocacy's research furnishes a rationale for mandating an analysis of how to simplify paperwork and reporting burdens on small business without sacrificing public policy objectives.

The first step toward simplification and the elimination of duplication is the compilation of the reports small businesses must file. I do not believe that this has ever been done. At least the information has never been published in one place and it is likely to be an eye-opener. The compilation should also help distinguish between requirements imposed by *regulation* and those imposed by *congressional*

mandate. As you know, this has been an issue in determining how well agencies are doing in achieving the paperwork reduction goals set by the Paperwork Reduction Act. The Administrator of OIRA has testified, as has the Government Accounting Office, that a factor contributing to the failure of agencies to reach goals has been added congressional requirements. Regardless, the compilation will be valuable fodder for the work of the proposed task force and help focus discussions on ways to simplify and reduce reporting requirements.

Another benefit likely to emerge from such a compilation is identifying where duplication occurs, and, given the right kind of analysis, where there is overlap with other reports. As you know, Advocacy reviews regulatory proposals to assess their impact on small business and to evaluate agency compliance with the [Regulatory Flexibility Act](#). One of its tasks is to comment on the value and usefulness of proposed recordkeeping and reports. We have raised questions about how records will be used either by firms or by the agencies, the frequency of agency review of the data reported, what decisions will be based on the information collected, etc. On this point, I would like to share with you a very specific example of how regulatory reporting can be "off the mark" in achieving a stated policy objective. I believe the following example will underscore the value of the effort you are considering.

Under the Emergency Planning and Community Right-to-Know Act, communities are entitled to information about the storage of hazardous materials in their communities. This is useful in the event of accidents, for example, so that local officials will know how to deal with such incidents, the nature of the hazards with which they may have to deal, what precautions to take, etc. The reports mandated by regulation under this law require gas stations with 10,000 pounds of gasoline in underground storage tanks to file reports that they, in fact, have gasoline on their premises. It has never been clear to me how these reports enhance the community's knowledge. Particularly ironic is the fact that the estimated 200,000 gas stations - almost all small businesses - have to submit similar reports to three other state and local entities - 800,000 pieces of paper annually, at a minimum, advising public officials that the gas stations have gasoline on their premises! And when they don't, they put out signs: "No gas today." It is clear that this regulation did not save any trees nor tell the public anything it did not already know.

Advocacy first sought repeal of this requirement in 1987. After 2.5 years of my personal involvement, I am pleased to be able to report that last week EPA sent a regulation to OMB repealing this reporting and paperwork requirement. Small businesses will save over 500,000 hours annually - that is significant paperwork reduction and cost savings - not counting the agency paperwork storage costs that will be saved!

The repeal applies to reports required from other industries. EPA is also proposing to eliminate reporting by small sand, gravel and rock salt operations

and the remaining reporting requirements applicable to storage of chemicals in excess of 10,000 pounds will be in plain English.

This is a major step forward. EPA's action eliminates duplicative reporting, helps small businesses and does not hurt the environment. It is one of the best proposals I have seen. *It has almost been worth the 2.5 year wait.*

This brings me to my final issue. It is a topic that I think the proposed task force will be able to address, particularly when it is armed with the information on the number and kind of reports small businesses must file. As the task force looks to the question of simplification and consolidation of reports, the compilation will demonstrate that some of the same information is repeatedly requested by federal agencies - whether it is IRS, Census, Labor, EPA or other agencies. Internet technology is making it easy to develop a simple form for small business that contains the basic information requested by each agency which can be used as a header, if you will, for each and every report that is required. The header could be on file in a consolidated data base, could be modified by the company as information about the business changes, could be pulled up, along with the core of any report mandated by an agency, completed and sent to the requesting agency electronically. This is an option that should be explored and is within the realm of feasibility, thanks to Internet technology and to the fact that more and more small businesses are converting their business processes to computers containing multi-purpose software. This is an idea I have had for some time and I am now convinced the time is ripe for its implementation - the technology is here - we just need the commitment to make it happen.

In closing I want to emphasize that the proposal you are considering is conceptually sound and "right on the money." I cannot address the difficulty or cost of compiling the annual list of reports. If it is difficult -- and -- if it is costly -- and -- if it is burdensome on agencies, this will be clear evidence of the need for this compilation and the benefits to be derived from this proposal. It gives you even more justification for determining exactly what reports small businesses must file with which agencies. However, this is not my expertise and I am sure others will address that issue. What I do know is that paperwork reduction is no one's priority except small business. Success will come when agencies fully realize how disproportionately small business is burdened by paperwork and reporting requirements, how anti-competitive the costs can be, and that there are often less burdensome alternatives to help agencies achieve their public policy objectives.

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