

SPEECH BY SENATOR ROBERT MORGAN
BUSINESS DEVELOPMENT CONFERENCE
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Many people these days treat the small business like it were a dying species in the American Economy. I for one believe strongly that small business continues to play a central role in our economic life. At a time when many young people are unsatisfied with working and living in institutions so large as to be unresponsive to individuals needs, small businesses should be making a come back. And in many areas of our nation's economic life they are. Small business hasn't reached its full potential yet in contributing to our national economic life, in large part because of federal policies that thoughtlessly put small businesses at a disadvantage. I would like, therefore, to make the focus of my remarks here today the relationship between the federal government and small business.

Without much doubt, the single greatest threat to the competitive health of small business are government regulations and requirements for paperwork that simply overwhelm the smaller firm. Many small firms don't have the expertise or the time to spend filling out the voluminous reports required by a growing number of federal agencies. Larger firms that have full-time legal and information staffs are able to comply with government regulations much more easily than small firms. If it takes roughly the same amount of time for a large firm and a small firm to comply with government regulations and requests for information, the bigger firm will clearly have a competitive advantage. A bigger firm simply has more assets and thus would be able to spread the cost of complying over a greater volume of business.

I think we've got to reform the federal regulatory process so that smaller firms aren't put at this type of disadvantage.

Legislation to require simplified forms for small firms is moving through Congress. I hope we can see such legislation enacted in the near future.

Aside from the crushing burden of federal regulatory activity, the greatest problem small businesses have is acquiring adequate money for expansion. Interest rates are becoming so high that only the largest firms are able to borrow money to expand. In my view the high interest rates of recent years can be traced to the excessive deficits we've been running in Washington.

I am co-sponsoring a Senate Resolution which would put a very important matter before the state legislatures. I am proposing

a Constitutional Amendment requiring the federal government to achieve a balanced budget within five years of enactment, and requiring the national debt to be reduced by five percent a year, until it is gone -- early in the next century. Reducing massive deficits will take the pressure off the private money markets, thereby ultimately reducing interest rates.

I might add that yesterday the Senate Banking Committee, of which I am a member, unanimously adopted my amendment to the Humphrey-Hawkins bill, requiring the President to make a balanced federal budget one of our economic goals.

Small businesses are being squeezed on both sides by federal spending policies; first by deficits that absorb private capital sources and push up interest rates, and second by high taxes that

sap the incentive of Americans to work and take risks.

Taxes are becoming so high that they are starting to stifle the incentive to produce. As the recent success of Proposition 13 makes clear, people want lower federal taxes, even if it means lower government services. This is a healthy trend that I hope will reduce government at all levels and not just at the local level.

As I see it, the supporters of Proposition 13 are trying to keep the chance of economic prosperity alive for the little guy. I believe that a fundamental American freedom is economic freedom -- the ability to choose your business and prosper by your labors. Millions of people have come to America looking for just that, and millions have found what they were looking for. I want to keep that chance alive, and, therefore, I oppose the argument of

higher taxes, more regulation, and more deficits are the best solution to our economic problems.

I believe the healthiest economy we could have is an economy based on small business and medium-sized business. This puts the economic decisions in the most hands possible, just as our political system is based on a lot of small decisions. This insulates the economic system from the mistakes of a few, and dilutes undue ...

→ p.7

economic power, in business and in labor. Such a system contains natural restraints on inflation, and maximum contact with the consuming public.

In addition to excessive regulation and irresponsible spending and taxing habits, the federal government impacts on the health of the small businessman in another important but often forgotten way: how we spend our research and development money. We fail to remember that the way we spend our research and development money creates the business opportunities of the future. Too often, our research and development efforts contribute to the development of technologies that can only be exploited by giant firms, employing many thousands of people. To some degree this is inevitable, but

I think we can do more to insure that federal research and development dollars are spent to develop technologies that small businesses can use and sell.

Let me give you an example of what I'm talking about.

In the energy area, we're spending some \$6 billion dollars this year for the development of new energy sources. This is a worthwhile investment, but it's important to realize that HOW we spend this money is as important as WHETHER we spend it. For instance, the Department of Energy is spending several million dollars building giant windmills that can supply energy for whole towns, while neglecting the development of smaller scale devices that can be produced by local small businesses using local labor and materials. Only a few

large companies are ever going to be able to build the types of windmills that the Department of Energy is experimenting with. If DOE were to put their resources into the development of simpler, cheaper, easier to maintain designs, that small businesses all over the country could construct, sell, and maintain, small businesses in every region of our nation would grow and prosper.

In short, we in Washington tend to spend the nation's research and development dollars exploring high technology solutions for which smaller simpler answers are available. This is something that won't be easy to change, but we've got to work harder at it than we're doing now.

Federal procurement is the fourth area where the health of small business is directly affected by federal policies.

I'd like to devote the rest of my remarks to the challenges we face in this area.

And there are two things which must be said about procurement. Too little of it is done by competitive bid, and too little is gotten by small business.

What this means to me is that too little government contracting is being done in the most economical way. I have considerable faith that the small businessman has every reason to be more competitive, and also more innovative in his proposals. I really don't believe the argument that only a big company can be innovative. Most of the great American inventions of this century were produced in laboratories in somebody's barn.

And yet, here was the GSA telling me, a couple of years ago, that three federal buildings had to be let as a single contract because they had to attract a big outfit, which they wanted to do because they believed only a big corporation could innovate. They wouldn't think that if they had seen, as I have, some of the truly inventive products Tar Heel companies have come up with lately. I have to think that every time smaller, competitive enterprises do the public's business, the public is likely to save money and get better service.

So I welcome your interest in federal contracting. I believe there is a great mutual benefit to be gained. But without being too negative, or scaring you away, I do want

to offer one caveat. The government often doesn't know its own strength, and when it changes its mind, the results can be disastrous for a small company.

Let me give you a couple of examples.

There is a small company in North Carolina which has been a defense contractor. Seeing a need, a chance for enterprise in an area long monopolized by a few giants, it developed a product which was superior to anything going.

The Navy brought them along with little contracts, and

they really thought they were ...

→ p. 13

home free when a major contract specified their product.

The prime contractor agreed to meet the specs, but once they had the prime contract, they said they were going to put the item out for bids.

Well, that's all right. If any company could meet the specifications, the public interest would be served.

But what happened was that the prime contractor just waived the specs, and got the Navy to go along with it. The North Carolina firm was suddenly out. We have protested, and perhaps they will have another shot at the business, but I am telling you, it has been very hard for them to survive. They got led out on a limb, and then had it sawed off.

Another case worked out a lot better. A North Carolina company was working under a contract from ERDA, with some help from the Department of Agriculture. But the results of their testing, on the product they were developing, indicated to somebody at ERDA that the equipment was more important to agriculture than it was from an energy standpoint. So their money was about to be cut off. Now, this company pursued it within the Agriculture Department, and I believe they have gotten USDA to fund the testing. We stood ready to help if we could, but they handled it within the agency, which is the better way. But what is more important, that company was not entirely dependent on the contract. They could survive if they lost the business.

These two stories are intended to illustrate a point. I say come on in. The federal government needs fresh ideas and strong competitors. It is always going to be a tremendous market. even if spending is kept to a proper and reasonable level.

The people need your services, and I hope you prosper. But don't let yourselves get overextended. Realize from the outset that you will need to have the capacity to survive if the government suddenly flip-flops, because of something a bureaucrat decided, or Congress did. Keep your options open, and don't become dependent on one contract, especially one you haven't got yet.

Now, I am not telling you to be frightened. But I am saying, be cautious. A lot of people make a good living in government

contracting, but they do not do so by taking untenable risks.

For the businessman willing to take a reasonable risk, for a reasonable profit, and who knows how to do both, government contracting can be very rewarding. And I appreciate the interest of anyone who sets out to serve the public interest, at the same time he serves his own.

protect liberty when the Government's purposes are beneficent

...The greatest dangers to liberty lurk in insidious en-

roachments by men of zeal, well-meaning but without under-

standing."

In America, during the period immediately after the Vietnam War, we began to go through a period of lowered self-confidence.

The revelations about actions by our government were part of the reason.

According to the Harris Poll, the people's confidence in their institutions went down hill to a spectacular degree. Every institution suffered -- the White House, the Congress, the military services, medicine, big business, and higher education. These and many more appeared in the polls to have lost the confidence of

the people.

In this mood, we ended our second century as a nation.

But sometime during the Bicentennial Year, America's opinion of herself began to turn around. The polls all showed it. I believe this means the crisis of self-respect is passing. We are on our way back. The two-hundredth Fourth of July probably was the turning point. We were forced to look back on our history, and see that we have had far more terrible times as a nation, and that we have come through. We may well have lived long enough as a nation to leave starry-eyed and fragil optimism behind us, and to take on a more resolute hopefulness.

I think a lot of people who had participated in our recent round of doubt and self-criticism suddenly realized they were

patriots at heart. Not the shallow, flag-waving kind of patriot, but believers in something much quieter -- and far more lasting.

I think we don't need to worry about America. We have our troubles, but our sense of values is sound. Our values are being refined by adversity. We are learning, although we are learning by making some bad mistakes.

But I believe we can accomplish much. We as a people have displayed such a genius for self-government, for solving great problems, that we are the wonder of the earth. Again and again, we have met and prevailed over the problems of mistaken direction and mistaken judgement, and we shall prevail again.

If there is anything which should be called American know-how, it is not the knack of building machines, but the knack of confronting

problems which have ruined government after government, and defeated nation after nation.

We should consider, here tonight, that the challenge of a government which thought itself above the law has been met. We had to go through great turmoil, but the Constitutional catastrophe which was Watergate is over, and the dangerous imbalance of power has been somewhat corrected. We have written a charter for the national intelligence agencies, which recongized the nature of their work, yet provides a framework of law under which its employees must operate.

Time and time again, America's legal and political system has responded to its own difficulties, corrected its own errors. This is due to the structure of government our founding fathers created, in one of the greatest strokes of genius the world has seen. It is also due to the work of men and women of good will, who appreciate what a legacy those men of the past left to us. During the time of the Watergate hearings, a great deal was made of the fact that those involved in burglary, perjury, bribery, and obstruction of justice were lawyers. But it should also be pointed out that those who corrected the situation were also lawyers, working within a sound and responsive legal system.

We are returning to faith in our institutions. To be sure, we will have to fight again and again to preserve the rights

our Constitution guarantees to the people, as against government.

But I have such confidence in the American people, her lawyers,

and her system of justice, that I have no doubt whatsoever

about the outcome: again and again, we shall prevail.